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FAIRPHONE B.V.

(Amsterdam)

ANNUAL REPORT

31 DECEMBER 2022

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Director's report and general information

Board of directors	E. Gouwens N. Tillemans
Supervisory Board	J. de Zwaan (chair) E. Blok B. van Abel
Audit Committee	J. de Zwaan E. Blok
Account Bank	ABN AMRO Bank N.V.
Auditors	RSM Netherlands Accountants N.V. Toermalijnstraat 9, Postbus 366, 1800 AJ Alkmaar The Netherlands
Registered office	Van Diemenstraat 200 1013 CP Amsterdam The Netherlands

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Director's report and general information

The management of the company hereby presents its financial statements for the financial year ended 31 December 2022.

General information

The company's business objective

Fairphone is the phone that cares for people and planet. Our mission is: *"by establishing a viable market for ethical consumer electronics, we motivate the entire industry to act more responsibly".*

We want to change how products are made and used. We believe a fairer electronics industry is possible by changing the industry from the inside out.

The consumer electronics industry is characterized by a short term make-use-dispose attitude. Products are not designed with sustainability and longevity in mind. On average European consumers keep their smartphone less than approximately 2.5 years and only 20% of the discarded phones are recycled afterwards. Electronic waste (e-waste) is one of the world's fastest growing waste streams. Globally people generate over 50 million tonnes of e-waste yearly, with an annual growth rate of 5%.
From the mines to the factories, the entire electronics supply chain is tainted by unsafe and inhumane working conditions, and in some cases, even child labour. Fairphone is pioneering more sustainable ways to make smartphones and offers a great alternative to a growing group of conscious consumers.

Fairphone designs, produces and sells modular and repairable smartphones with fairly sourced and sustainable materials. We uncover the supply chain behind our products, raise awareness for the most urgent issues, and prove that it's possible to do things differently. We source materials in a way that is fair, traceable and responsible and that supports better conditions for mine workers, factory workers and their communities. We are dedicated to longevity, re-usability and recycling to utilize scarce resources to the fullest, to reduce our CO_2 footprint and to reduce e-waste.

It's our core purpose to make a sustainable impact and inspire more companies to do things differently. To achieve that, we need to show that we're financially sustainable and commercially successful. By building a healthy business, and playing an active role in the electronics industry, we can change it from the inside out.

We believe that care for the environment and people should be a natural part of doing business throughout our industry and we focus on four areas:

- Creating products that last
  We design for longevity, easy repair, and modular upgrades. Our goal is to make your phone's hardware last as long as possible, and to provide the support to keep its software up to date. The longer you can keep your phone, the smaller its environmental footprint.

- Choosing fairer materials
  Many practices in the mining industry are in desperate need of improvement. From pollution and dangerous working conditions to child labor, the materials in a smartphone are associated with serious challenges. We're mapping supply chains and creating demand for fairer materials, sourced in ways that are better for humans and the environment. We're using more recycled materials and building partnerships for responsible sourcing.

  We go straight to the source to make sure we're creating positive change. One material at a time, we're working to incorporate fairer, recycled, and responsibly mined materials in our phones – to increase industry and consumer awareness.

- Putting people first
  Most smartphones are manufactured in China, and the country's fast, affordable production comes at the cost of their workers. We're innovating ways to improve job satisfaction for workers in the industry. Together with our suppliers, we're listening to workers and creating better working conditions without forced labor or excessive working hours and with employee representation, living wage and growth opportunities for all. We work closely with selected suppliers to assess the current situation, uncover the underlying issues and take a collaborative approach to improvement.

Director's report and general information

- Reducing e-waste
  We want to make the most of the materials used in consumer electronics. We're moving one step closer to a circular economy by encouraging the reuse and repair of our phones, researching electronics recycling options and reducing electronic waste worldwide.

Core activities, products, geographies and sales channels

By making a smartphone, Fairphone has become part of the electronics industry, with the aim of challenging the status quo and changing it from the inside out.

Sustainability is increasingly becoming an important topic for mobile operators and electronics retailers, which has resulted in nearly all big operators and electronics retailers in our focus countries offering Fairphone in their portfolio.

We're happy to announce that in 2022 Fairphone sold a record-high of 115,681 devices (compared to 88,000 in 2021) and generated €58,847,733 in revenue (compared to €36,961,604 in 2021). This is the first time we've sold over 100,000 phones in a single year.

Although our sales volumes slowed down in the second half of 2022 due to the overall decline in the worldwide smartphone market, we're proud to have exceeded our budgeted sales margin percentage for the year. This can be attributed to a better channel mix - more sales via our own webshop - and some one-off corrections from the past that had a positive impact on our financials.

Our biggest market, Germany, accounted for 41% of our sales, while France followed behind at 15%. It's worth noting that sales in the Netherlands increased significantly, accounting for 14% of all sales compared to 9% in 2021.

Despite the lower sales trend, we kept our operating expenses lower than budget by scrutinizing our costs and delaying some hires. Our net result remained positive at €44,007, despite significantly increasing investments in marketing and hiring more staff. The net result of 2021 was €3,875,884, supported by a €3.5 million one-off contribution from a claim settlement. We have a solid cash position with €3,617,284.

In 2022 we made significant progress with our impact initiatives towards creating a fairer future for the electronics industry. We provide more details on our impact KPIs in the "Financial and non-Financial impact" section of this report.

Legal structure

Fairphone B.V. is a standalone entity, legally represented by two managing directors either individually or jointly as the Management Board (MB). In 2022, the Management Board consisted of Eva Gouwens as the CEO and managing director and Noud Tillemans as the CFO and managing director.

The non-executive Supervisory Board (SB) plays an important role in protecting the interests of the company and its social mission. It guides and monitors the company's performance towards the mission and helps provide continuity for the company. However, it typically does not represent the company externally and is not involved in the day-to-day business of running Fairphone. One exception is founder Bas van Abel, who actively functions as a Fairphone spokesperson in media and at events. The SB and MB met 8 times in 2022.

The SB members are today:
- Josephine de Zwaan (chair)
- Eelco Blok
- Bas van Abel

Furthermore Fairphone had 1 Extraordinary General Meeting (EGM) with shareholders in 2022 and 1 Annual General Meeting (AGM).

Director's report and general information

The internal organization and staffing

To work towards our goals, we need talented, motivated people, working together as a team. Our team is key to achieving our company's mission. We manage to attract intrinsically motivated people that feel aligned with our mission, enjoy challenging the global consumer electronics industry, appreciate the dynamics of a scale-up and bring the right level of expertise that is required to further professionalize the company.

Scaling up and professionalizing the company means we are constantly optimizing our workforce. Our overall FTE has been increasing: at the end of December 2022, our payroll FTE increased by 22.6 to 115.9, not including our 15 Asia based representatives (3 in China, 12 in Taiwan). In 2022, we hired 66 people, of which 7 roles were filled internally, and another 7 staff members were promoted. Overall, we have a diverse team of employees which includes people from 29 different nationalities, ranging from 23 to 69 years in age, with an average age of 35, while we have 55% female employees vs 45% male employees.

We have been working on keeping our sickness leave below 5% in 2022. On average, the sickness absence for 2022 was 4.95%. The turnover rate of personnel was 6.4% in 2022.

Linked to the annual performance cycle, employees' performance was evaluated with the company wide performance rating and staff members across all teams and hierarchy levels, who exceeded expectations, were granted stock options. This has been the third round of end-of-year performance evaluations since the implementation of performance management in 2020.

Our quarterly employee pulse survey showed overall positive results across different KPIs in 2022. The average employee engagement rate reached 91%, where 87% of staff members would recommend Fairphone as a great place to work. Leadership remained strong at 83%, personal development increased to 75%, and employee satisfaction improved by 8% reaching 78%. Two points of attention have been cross-team collaboration and work-life balance: several efforts, such as working with the 6 weeks cycle across the entire company to align on priorities, as well as providing access to external mindfulness coaches, were emphasized further to improve these. As a result, cross-team collaboration improved by 7% to 61%, and work-life balance increased by 13% to 65%.

Significant events

Misconduct in the company
After an internal investigation in Q4 2022, we initially discovered that two, and in the end three employees privately received commission payments from a third-party supplier and, with that, have disadvantaged Fairphone. An external whistleblower tipped us off, and our thorough investigation confirmed the allegations.
All our employees have been duly informed, our shareholders have been involved, and consequently changes have been and will be implemented in the company to prevent and detect future misconducts. The three employees involved have left the company and we terminated the relationship with the supplier.
In line with the company values including transparency, we also decided to go public with this information and shared more details via a blog post written by our CEO, Eva Gouwens, and published on December 22, 2022.

Investment round
In 2021 we shared that we were looking at refreshing our shareholders base and aimed for additional funding to accelerate our growth and that we were approaching potential investors. The process of finding the right investors and aligning on the conditions of the transaction took longer than expected but we are now thrilled to announce that a deal was signed by all parties on January 27, 2023 and we look forward to with our existing and new shareholders further grow our sales and our impact. We have more impact with every product we sell.

A consortium of impact investors, led by Invest-NL, ABN AMRO Sustainable Impact Fund, and existing shareholder Quadia, has invested €49 million in Fairphone.
This significant investment not only strengthens our financial position but also supports our unwavering commitment to making the electronics industry fairer and more sustainable.

Fairphone will use the growth capital to strengthen brand positioning and create further awareness around fairness and

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sustainability in the electronics industry. The funding will also be used to accelerate integration of fair and recycled materials in Fairphone's full product portfolio, for example by extending its mining value chain programs in Africa & South America, and fair wage programs in Asia. Moreover, Fairphone will invest in product development and improved customer service to ensure users enjoy keeping their Fairphone in use longer.

We are proud to be at the forefront of the movement for ethical electronics, and this investment is a testament to the growing demand for sustainable and profitable business models. We are confident that together with our investors, we will continue to drive positive change and make a meaningful impact in the industry.

Director's report and general information

Financial information and performance indicators

Development of income and expenses

As presented in the profit and loss account, the net result for 2022 amounted to a profit of € 44,007 (2021: € 3,875,884).

To provide insight in the development of the result for 2022, on the next page an outline has been prepared based on the profit and loss account of 2022 compared to the profit and loss account of 2021. Income and expenses are also presented as a percentage of the net turnover.

Note to the reader: we present here the profit and loss statement as used in our internal reporting. This differs from the presentation of the profit and loss statement in the "Statement of Income and Expenses for the year ended December 31, 2022" section where we present it following the legal requirements of the decree on annual accounts in the Netherlands.

		2022		**2021**	
		€	**%**	**€**	**%**
Net Turnover	11	58,834,042	100	36,961,604	100
Cost of goods sold	12	(41,231,471)	70	(25,234,337)	68
Gross operating result		17,602,572	30	11,727,267	32
Other operating income	15	63,537	0	3,495,308	9
Employee Cost	13	(6,554,957)	-11	(5,125,226)	14
Social security contributions		(884,716)	-2	(728,317)	2
Pension expenses		(234,920)	0	(226,372)	1
Amortisation and depreciation		(3,463,735)	-6	(2,357,359)	6
Other operating expenses	14	(5,507,613)	-9	(3,455,707)	9
Total costs		(16,645,940)	-28	(11,892,981)	32
Operating profit/ (loss)		1,020,168	2	3,329,593	9
Financial Income		0	0	0	0
Financial expenses	16	(663,316)	1	(592,752)	2
Result before tax		356,852	1	2,736,842	7
Tax on result		(312,845)	-1	1,139,042	3
Result after tax		44,007		3,875,884	

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Working capital

A statement of the working capital has been prepared based on the above summary. Working capital is defined as all current assets less current liabilities. The amount of working capital provides information on the liquidity position of the company.

Significant risks and uncertainties

The Company recognizes certain risks.

- Young, small company in a big & complex industry: Compared to the big global brands we are a small player in the electronics industry, in terms of size, sales volume and product portfolio. We need to scale our company to improve our business, to reach economies of scale, to increase our impact within this industry and to gain access to more players in the value chain. This is improving by our increasing sales volume. We remain vulnerable though, as we have limited negotiation power within the value chain and we are not always of strategic interest to our partners. We further expanded our portfolio with the launch of a new product: the earbuds. In 2022 we have strengthened our organization (people, systems and processes), amongst others by putting more focus on Quality assurance processes; we are better equipped to identify and address product issues. We onboarded additional and experienced people. In 2022 we migrated our accounting processes into the new ERP (called Odoo). We are still in a transition phase and we will further improve controls around stock keeping and ensure data reliability.

- Brand awareness: If consumers know us they like us. But brand awareness is relatively low. Therefore we will continue to invest in marketing, in order to optimize the traffic on our website and to boost sell-out at our partners.

- Working capital: We are constantly keeping our eyes on the working capital movements and are balancing investments and income. Our cash position decreased in 2022 with €6.4M, ending at €3.6M, driven by stock build-up mainly and some additional capital expenditures (FP4 further developments and first FP5 development milestones paid). Our cash position still includes €1.1M received as part of Covid-19 wage tax relief and €0.8M of NOW support, to be repaid as of 2023 as we turned out to not be eligible for the NOW support scheme as revenue went up during the period. The current payment terms towards our Fairphone 4 supplier T2Mobile is 45 days after shipment, with a 25% down payment. This gives us some room to maneuver. It is helpful that customers buying our products on the webshop pay directly. The remainder of the sales comes from sales partners who pay usually between 15 and 45 days after delivery of the products. To be able to receive our trade receivables earlier we have a factoring facility of € 5.0 million with ABN Amro Bank. As the Company sells in Euros, and has costs of goods in US Dollars, the company has worked with ABN Amro Bank to reduce its dollar exposure via forward rate contracts.

- Fraud risk: This risk is mainly related to the identified audit risks around overstated revenue recognition and management override of controls. To mitigate this risk the company has set specific controls and procedures. For revenue recognition, we prepare a reconciliation of stock movements with recognised revenue, to make sure that every invoice to customers corresponds to a delivered shipment. This reconciliation is prepared for year-end so far and we are planning to prepare it on a monthly basis as of 2023. For the management override of controls risk we also have internal controls in place. For example we have specific controls around payroll entries and payments or vendor bills booking and payments, with clear separation of duties. Audit procedures are in place to ensure that no material misstatement can be recognised in the financial statements.

Cash flow and financing requirements

We have a cash position of € 3,617,284 at the end 2022. For 2023 we plan a positive cash flow, with an important inflow coming from the closing of the investment round, which will be mostly re-invested into Brand awareness investments.

We have a letters of credit and bank guarantee facility of € 2,000,000 with ABN Amro Bank next to the factoring facility of € 5,000,000, from which we haven't drawn anything so far.

Director's report and general information

Financial and non-financial impact

It is Fairphone's goal to make a sustainable impact and, while doing so, show the industry that it is making economic sense to make fair and sustainable phones. Therefore, we want to prove that we are financially sustainable and commercially successful, as well as continue to be an example for achieving positive environmental and social impact.

For 2022, we had set the following company targets to drive our performance:

1) **Establish a market for ethical phones**, by selling 168.00 devices. We didn't meet this target, amongst others due to tough market conditions but also to a low brand awareness. However, we sold more than 100.000 phones for the first time in Fairphone's history, which is an important milestone for Fairphone.
2) **Longevity**: target of 4.5 years. Our Longevity Score for Q4/2022 was an impressive 5.5 years, exceeding our target and demonstrating the high value that our customers place on their devices.
3) **E-waste**: target of 100%. For every device sold, we take one back to be reused or recycled. Our e-waste take-back programs in Europe, including Reuse and Recycle, Module Take Back, and B2B take-back, as well as our purchase of phone compensations from Closing the Loop in Africa, have allowed us to reach the target of 100% and collect a total of 9.7 tons of e-waste in 2022.
4) **Fair materials:** target of 40% fair materials in our 14 focus materials. We were able to achieve our fair materials target of 40% for the Fairphone 4 by setting up a pilot with the Alliance for Responsible Mining. This allowed us to become the first company to purchase and support Fairmined Gold credits, compensating for non-certified gold used in the Fairphone 4 and True Wireless Earbuds sold that year. We also made important progress with the other 14 focus materials
5) **Fair factories**: we are pleased to report that we have achieved our 2022 targets, with five out of eight key strategic Fairphone 4 suppliers demonstrating noteworthy improvements in EHS, worker satisfaction, worker representation, and living wage. These improvements align with the impact plans we developed in partnership with them, showcasing our commitment to promoting fair working conditions throughout our supply chain.
6) **Industry Followers**: our progress is reflected in the fact that a total of 60 industry actors have formally joined or replicated our solutions since 2017, demonstrating the growing momentum towards a fairer and more sustainable electronics industry. We remain committed to driving positive change and look forward to continuing to make progress towards our goals.
7) **Financials** - Positive net result (€3.1M) - not achieved, due to less phones sold, but we secured a positive net result of €44,007.

The actual scores of our impact KPIs are annually audited by the company ERM CVS. Their last assurance report is dated June 2022 covering our 2021 impact KPIs impact KPIs. We will issue our audited 2022 Impact Report in Q2 2023.

The future

As an organization, we have achieved a lot already and are very proud of where we stand. In 2023 - the year of our tenth anniversary - we want to scale further and keep raising the bar for fairer electronics. We will focus on the following strategies:

1. Increase brand awareness by investing heavily in marketing both online and offline. A significant portion of the money invested by the consortium will be invested into brand awareness campaigns, to strengthen our customer base and extend our reach to new customers.
2. We expect that the marketing investments will support our growth ambitions, and we budgeted to sell 235.000 devices in 2023 by working even closer with distributors, resellers and operators to increase their sell-out, by closing new deals with B2B partners and improving our customer experience on the webshop.
3. Build brand and loyal customers - we will migrate our webshop to integrate it with our ERP and improve the customer journey. A team is also working on launching a new loyalty program, to retain customers and ensure they feel connected to our brand.
4. Thought leadership - we will also use the investment proceeds to keep innovating, implementing & communicating on scalable solutions that demonstrate Thought Leadership. In 2023 we will focus on fair materials, longevity and improving our re-use and recycle program. We aim to have even more industry players follow our example.
5. One team and an effective and efficient organization - Improve the way we work together, by building trusted leadership including strengthening the Management Team, cross functional relations and efficiency (IT backbone, project management).

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Director's report and general information

6. Plan our future propositions - Plan our future by establishing a cross-functional aligned product & business proposition roadmap, building the basis for future strategic partnership, and increasing our funding portfolio. We will launch new products, including over-the-ear headphones in Q2 2023.

Amsterdam, 18 April 2023

The Management Board,

Eva Gouwens

CEO & Managing Director

Eva Gouwens

CFO & Managing Director

Noud Tillemans

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Balance sheet as at December 31, 2022

(Before appropriation of result)	**Notes**	**31 December 2022**		**31 December 2021**	
Assets		**€**	**€**	**€**	**€**
Fixed assets					
Intangible fixed assets	1	5,606,221		6,638,032	
Tangible fixed assets	2	462,228		481,205	
Financial fixed asset	8	2,836,117		3,148,962	
Total fixed assets			**8,904,566**		**10,268,199**
Current assets					
Inventory	3	15,541,552		5,798,317	
Receivables	4	3,164,144		7,711,621	
Cash and cash equivalents	5	3,617,284		9,976,774	
Total current assets			**22,322,980**		**23,486,712**
Total assets			**31,227,546**		**33,754,911**
Shareholders' equity					
Share Capital		706		658	
Share Premium		22,322,216		22,322,264	
Other legal reserves		5,020,719		6,142,721	
Other reserves		(18,261,076)		(23,258,963)	
Undistributed result		44,007		3,875,884	
Total shareholders' equity	6		**9,126,571**		**9,082,564**
Provisions	10	3,685,064		3,158,871	
Non-Current liabilities		0		4,114,595	
Current liabilities	7	18,415,911		17,398,881	
Total shareholders' equity and liabilities			**31,227,546**		**33,754,911**

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Statement of Income and Expenses for the year ended December 31, 2022

	Notes	2022		2021	
		€	€	€	€
Net turnover	11	58,834,042		36,961,604	
other operating income	15	63,537		3,495,308	
Total operating income			58,897,579		40,456,912
raw materials and consumables	12	(34,645,277)		(20,969,067)	
other external charges	12	(6,586,194)		(4,265,270)	
wages and salaries	13	(6,789,877)		(5,577,970)	
social security costs		(884,716)		(728,317)	
amortisation/depreciation of intangible and tangible fixed assets		(3,463,735)		(2,357,359)	
other operating expenses	14	(5,507,613)		(3,455,707)	
Total operating expenses			(57,877,411)		(37,353,690)
interest expenses and similar charges	16	(663,316)		(592,752)	
Result before taxation			356,852		2,510,470
taxation	8	(312,845)		1,139,042	
Net result for the year			44,007		3,649,512

Fairphone B.V.
31 December 2022

FAIRPHONE

Cash Flow Statement for the year ended December 31, 2022

	2022		2021	
Cash flow from operating activities	€	€	€	€
Operating profit/ (loss)		1,020,168		3,329,593
Adjustments for:				
Depreciation, amortisation and other impairments	3,463,735		2,357,359	
Movement in provisions	526,194		801,335	
Movement in working capital:				3,158,694
Inventory	(9,743,235)		(2,667,644)	
Receivables	4,547,477		(4,826,976)	
Current liabilities (excluding borrowings)	(2,889,495)		10,418,771	
		(8,085,253)		2,924,152
Cash generated from operations		(4,095,324)		6,082,845
Interest received	0		0	
Corporate income tax paid	0		0	
Interest paid and bank charges	(663,316)		(592,752)	
		(663,316)		(592,752)
Net cash generated from operating activities		(3,738,472)		8,819,687
Cash flow from investment activities				
Investment in intangible fixed assets	(2,166,996)		(5,773,349)	
Investment in tangible fixed assets	(245,950)		(466,208)	
Divestment in tangible assets	0		0	
Net cash generated from investment activities		(2,412,946)		(6,239,557)
Cash flow from financing activities				
Receipts from issuance of share capital	0		0	
Share premium in financial year	0		0	
Liabilities converted to equity	(0)		0	
Receipts from short liabilities	(208,069)		683,185	
Net cash generated from financing activities		(208,069)		683,185
Net cash flows		(6,359,488)		3,263,315
Exchange gains/(losses) on cash and cash equivalents		0		0
Net increase/ decrease in cash and cash equivalents		(6,359,488)		3,263,315

The movement in cash and cash equivalents can be broken down as follows:

Balance as at 1 January	9,976,774	6,713,459
Movements during the financial year	(6,359,488)	3,263,315
Balance as at 31 December	3,617,284	9,976,774

Notes to the Financial Statements

A. General

Incorporation
The Company was incorporated on July 2, 2015, and has since 1 March 2021 its registered office at van Diemenstraat 200, 1013 CP Amsterdam, the Netherlands. The Company's Chamber of Commerce registration number is 55901964.

Structure of operations
The Company is a social enterprise that is building a movement for fairer electronics. The Company's activities consist mainly of the production of and trade in electronic goods and electronic components. Sales take place both domestically and internationally, whereby the countries of the European Union are the most important markets.

Going concern
There are no specific events or conditions that cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it should be unable to realise its assets and discharge its liabilities in the normal course of business.

In addition to a cash position of €3,617,284 at the end of 2022, we received in March 2023 a first payment of €12,000,000 of growth capital from the proceeds of the investment round, which will help us raise brand awareness and drive higher sales, in line with our ambitions. A second payment of €5,000,000 is foreseen in Q4 2023.
For 2023 we expect a positive cash flow, with additional marketing investments and product developments being financed by the growth capital and the margin generated by higher sales volume.

We have a factoring facility of up to € 5,000,000, from which we haven't drawn anything so far, and we also have a bank guarantee and letters of credit facility of € 2,000,000 with ABN Amro Bank.

Our current cash position, the positive cash flow outlook for 2023 and the bank facilities give us confidence that Fairphone is financed sufficiently for at least the coming 12 months.

Estimates
In applying the principles and policies for drawing up the financial statements, the directors of the Company make different estimates and judgments that may be essential to the amounts disclosed in the financial statements. If it is necessary to provide the transparency required under Book 2, article 362, paragraph 1, the nature of these estimates and judgments, including related assumptions, is disclosed in the notes to the relevant financial statement item.

B. Significant accounting policies

Financial Reporting period
These financial statements have been prepared for a reporting period of one year.

Basis of preparation
These financial statements have been prepared in accordance with Title 9, Book 2 of the Netherlands Civil Code and in accordance with Dutch Accounting Standards.

The assets, liabilities, equity and the determination of the results have been prepared on the historical cost basis unless otherwise stated.

Management has prepared the financial statements on April 18, 2023.

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Notes to the Financial Statements

Foreign currencies
The financial statements are denominated in Euro (EUR), which is the functional and presentation currency of the Company.

Foreign currency transactions in the reporting period are translated to the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary assets and liabilities, denominated in foreign currencies are translated into the functional currency at the rate of exchange prevailing at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and the translation at year-end exchange rates are recognised in the statement of income and expenses.

Non-monetary assets valued at historical cost in a foreign currency are converted at the exchange rate on the transaction date. Non-monetary assets valued at fair value in a foreign currency are converted on the date on which the fair value was determined.

The year-end closing exchange rates used for translation purposes are as follows:

	31/12/2022	31/12/2021
GBP	0.88693	0.8403
USD	1.0666	1.1326

Operating lease
The company may have lease contracts whereby a large part of the risks and rewards associated with ownership are not for the benefit of nor incurred by the company. The lease contracts are recognised as operational leasing. Lease payments are recorded on a straight-line basis, taking into account reimbursements received from the lessor, in the income statement for the duration of the contract.

Significant accounting policies in respect of the valuation of assets and liabilities

Intangible fixed assets

Research and development
Research expenditures are recognised as expenses as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique products controlled by the company are recognised as intangible assets when the following criteria are fulfilled:

- It is technically feasible to complete the intangible asset so that it will be available for use or sale.
- Management intends to complete the intangible asset and use or sell it.
- There is an ability to use or sell the intangible asset.
- It can be demonstrated how the intangible asset will generate probable future economic benefits.
- Adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available.

The expenditure attributable to the intangible asset during its development can be reliably measured. A legal reserve has been recognised within equity concerning the recognised development costs for the capitalised amount.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its estimated useful life (between two and three years, depending on the asset group). Intangible assets not ready for use are tested for impairment at least on an annual basis.

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Notes to the Financial Statements

Amortisation of development costs is included in depreciation, amortisation and impairment charge in the statement of income and expenses. All development costs arose from internal and external development excluding internal employee costs.

Computer software
Acquired computer software licenses are capitalised based on the costs incurred to acquire and use the specific software. These costs are amortised straight-line over their estimated useful lives of three years.

Costs associated with developing or maintaining computer software programmes are recognised as expenses as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company, that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets.

Impairment of fixed assets
On each balance sheet date, the Company assesses whether there are any indications that a fixed asset may be subject to impairment. If there are such indications, the realisable value of the asset is determined. If it is not possible to determine the realisable value of the individual asset, the realisable value of the cash-generating unit to which the asset belongs is determined.

Impairment occurs when the carrying amount of an asset is higher than the realisable value; the realisable value is the higher of the realisable value and the value in use. An impairment loss is directly recognised in the income statement while the carrying amount of the asset concerned is concurrently reduced.

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists, the impairment loss is determined and recognised in the income statement.

Tangible assets
Property, plant and equipment comprise mainly leasehold improvements, IT equipment and phone tooling. All property, plant and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditures that are directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance charges are expensed in the financial period in which they are incurred. Depreciation is calculated using the straight-line method to allocate their cost of the assets to their residual values over their estimated useful lives as follows:

-	Leasehold improvements	5 years
-	IT equipment	5 years
-	Phone tooling	2 years
-	Furniture and fittings	2 years

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. Gains and losses are included in the statement of income and expenses.

Financial fixed assets
Deferred taxes are stated at nominal value.

Notes to the Financial Statements

Inventories
Inventories (stocks) are valued at historical price or production cost based on the FIFO method (first-in, first-out) or lower realisable value.

The historical cost or production cost consists of all costs relating to the acquisition or production and the costs incurred to bring the inventories to their current location and current condition.

The realisable value is the estimated sales price less directly attributable sales costs. In determining the realisable value the obsolescence of the inventories is taken into account.

Receivables
Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less any provisions for doubtful debt. All receivables included under current assets are due in less than one year. The fair value and amortized cost equal the face value. Provisions deemed necessary for possible bad debt losses are deducted. These provisions are determined by individual assessment of the receivables.

Cash and cash equivalents
Cash and cash equivalents comprise of cash in hand, current balances with banks and deposits with terms of less than twelve months. Overdrafts at banks are recognised as part of debts to lending institutions under current liabilities. Cash at banks and in hand is carried at nominal value.

Provisions
General
Provisions are measured at the best estimate of the amount that is necessary to settle the obligation as per the balance sheet date. Pension provisions are valued based on actuarial principles. The other provisions are carried at the nominal value of the expenditure that is expected to be necessary to settle the obligation unless stated otherwise.

Provision for warranties
The provision for warranties is recorded based on the estimated expected cost to arise from the current warranties given on account of goods sold and services delivered. Warranty claims are deducted from this provision.

Provision for royalties
The provision for royalties is recorded based on the estimated expected cost to arise from the intellectual property royalties given on account of goods sold and services delivered. Royalty claims are deducted from this provision.

Software maintenance
We have recognized a provision to cover the expected cost of future software maintenance and security updates relating to Fairphone devices sold, in line with our sales promise on longevity, in which we will provide software support for 5 years representing a constructive obligation between the company and its clients.

Long-term liabilities

Loans from third parties
On initial recognition, long term debts are recognised at fair value. Transaction costs which can be directly attributed to the acquisition of the long-term debts are included in the initial recognition. After initial recognition long-term debts are recognised at the amortised cost price, being the amount received taking into account premiums or discounts and minus transaction costs.

The difference between stated book value and the mature redemption value is accounted for as interest cost in the income statement based on the effective interest rate during the estimated term of the long-term debts.

Current Liabilities
On initial recognition, current liabilities are recognised at fair value. After initial recognition, current liabilities are recognised at the amortised cost. All current liabilities fall due in less than one year. The fair value of the current liabilities approximates the book value due to its short term character.

Notes to the Financial Statements

Significant accounting policies in respect of result determination

Result
Profits and losses on transactions are recognised in the year they relate to. Expenses are recognised when obligations are incurred.

Revenue recognition
General
Net turnover comprises the income from the supply of goods and services after deduction of discounts and such like and of taxes levied on the turnover.

Sales of goods
Revenues from the goods supplied are recognised when all significant risks and rewards in respect of the goods have been transferred to the buyer.

Other operating income
Other operating income results are recognized which are not directly linked to the supply of goods or services as part of the normal, non-incidental operations.

Operating expenses
In line with legal requirements around the presentation of the statement of income and expenses, the operating expenses contain the costs of raw materials and consumables, wages, salaries and social security costs, amortisation of fixed assets and other external and operating charges. All these costs are chargeable in the year they occur.

Employee benefits
Short-term employee cost
Salaries, wages and social security contributions are charged to the income statement based on the terms of employment, where they are due to employees and the tax authorities respectively.

Pensions
Fairphone B.V. operates a defined contribution pension scheme for its managing directors and employees. The premium payable during the financial year is charged to the result. The coverage of this pension scheme includes old-age pension, partner and orphans pension. The coverage also included continuous payment of premium in case of disability.

Share-based payment
The company operates a share-based compensation plan for its employees, which consists of an Employee Stock Option Plan (ESOP) as approved during the AGM 2020 and is classified as an equity-settled share option plan.

Share options granted to employees are measured at the net asset value of the equity instruments granted.

Since the company is not publicly listed, there is no active trading, and an actual share price derived from sales and demand is not available, management judges that the most appropriate valuation method is to use the equity value of the company per share in the most recent financing or investment round less the exercise price to determine the net asset value of the share options. The value is determined at the grant date, and recognised employee services received in exchange for the grant recognised as an expense.

For share-based payments, the company recognises an expense over the vesting period.

At each balance sheet date, the Company revises its estimates of the number of awards that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the statement of income and expenses and for the equity-settled plan a corresponding adjustment to equity.

Government grants

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Notes to the Financial Statements

Grants from the government are recognised at their fair value when there is a reasonable assurance that the grant will be received, and the company will comply with all attached conditions.

Operating grants:
Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate for.

Investment grants:
Government grants relating to intangible assets are included in non-current liabilities as deferred government grants and are credited to the income statement on a straight-line basis over the expected lives of the related assets

Financial income and expense
Interest income and interest expenses
Interest income and expenses are recognised on a pro-rata basis, taking account of the effective interest rate of the assets and liabilities to which they relate. In accounting for interest expenses, the recognised transaction expenses for loans received are taken into consideration.

Currency translation differences
Currency translation differences arising upon the settlement or conversion of monetary items are recognised in the income statement in the period that they are realized unless hedge accounting is applied.

Income tax
Tax on the result is calculated based on the result before tax in the income statement, taking account of the losses available for set-off from previous financial years (to the extent that they have not already been included in the deferred tax assets) and exempt profit components and after the addition of non-deductible costs. A due account is also taken of changes which occur in the deferred tax assets and deferred tax liabilities in respect of changes in the applicable tax rate.

Related parties
All legal entities that can be controlled, jointly controlled or significantly influenced are considered to be a related party. Also, entities which can control the Company are considered to be a related party. Also, statutory directors, other key management of Fairphone B.V. or the ultimate parent company and close relatives are regarded as related parties.

Transactions with related parties are disclosed in the notes insofar as they are not transacted under normal market conditions. Nature, extent and other information are disclosed if this is necessary to provide the required insight.

Accounting policies for the cash flow statement
The cash flow statement has been prepared using the indirect method. The cash items disclosed in the cash flow statement comprise cash at banks and in hand except for deposits with a maturity longer than three months. Cash flows denominated in foreign currencies have been translated at average estimated exchange rates.

Exchange differences affecting cash items are shown separately in the cash flow statement. Interest paid and received, dividends received and income taxes are included in cash from operating activities. Dividends paid are recognised as cash used in financing activities. Transactions not resulting in inflow or outflow of cash are not recognised in the cash flow statement.

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Notes to the Financial Statements

C. Financial instruments, risk management and hedging

General

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk, and price risk), credit risk and liquidity risk.

Risk management is carried out by the Finance team under policies approved by the Management Board. The Finance team evaluates and covers financial risks in close cooperation with the Company's operations teams. The board provides principles for overall risk management, as well as written policies covering specific areas such as foreign-exchange risk, interest rate risk and credit risk.

Currency risk
The group operates internationally and is exposed to foreign exchange risk primarily to the US dollar and Great British Pounds. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities. As far as possible commercial contracts are closed in Euros. There are a limited number of non-euro denominated contracts, with the most significant being the design and development service agreement with the company's product manufacturer, being denominated in US dollars. Foreign exchange risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

2022	**GBP**	**USD**
Cash and cash equivalents	226,498	1,934,053
Trade receivables	-	83,155
Trade payables	19,276	5,346,033

Credit risk
The Company is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when they fall due. The Company does not have any significant concentrations of credit risk and is limited to outstanding trade receivables, cash and cash equivalents. On 31 December 2022, the largest single client exposure consisted of 28% of the outstanding trade receivables, but we don't foresee any risk to recover these outstanding items. Sales are subject to payment conditions varying between payments in advance and 0 to 45 days after the invoice date. Management does not expect any losses from non-performance by its clients nor from the concentration of this risk.

(c) Liquidity risk
Liquidity risk is the risk that the Company will be unable to meet its payment obligations towards the creditors as they become due. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

As at the end of 2022, the Company has a committed banking facility with ABN Amro of letter of credit up to €2.0 million and a factoring facility of up to €5.0 million. All assets, excluding the intangible assets, are pledged to ABN Amro. Management monitors monthly rolling forecasts of the group's cash and cash equivalents based on actual results and expected cash flow. As per 31 December 2022, the factoring was not drawn yet.

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Notes to the Financial Statements

D. Critical accounting estimates and judgements

Application of the accounting policies in the preparation of the financial statements requires the management of the Company to exercise Judgment involving assumptions and estimates concerning future results or other developments, including the likelihood, timing or amount of future transactions or events. There can be no assurance that actual results will not differ materially from those estimates. Accounting policies that are critical to the financial statement presentation and that require complex estimates or significant Judgment is described below.

Share-based payments
Since the company is not publicly listed, there is no active trading, and an actual share price derived from sales and demand is not available, management judges that the most appropriate valuation method is to use the equity value of the company per share in the most recent financing or investment round less the excise price to determine the net asset value of the share options. The value is determined at the grant date, and recognised employee services received in exchange for the grant recognised as an expense. For share-based payments, the company recognises an expense over the vesting period.

At each balance sheet date, the Company revises its estimates of the number of awards that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the statement of income and expenses and for the equity-settled plan a corresponding adjustment to equity.

Impairment estimate of financial assets
The Company applies the method allowed under RJ290 537a Under this method the Company recognises an impairment loss which equals the difference between the amortised costs and the lower market value. For the estimates and Judgment for the fair values reference is made to the above paragraph 'fair value' estimation of financial instruments' If, in a subsequent period, the fair value increases, the previously recognised impairment loss is reversed. The reversal shall not result in a carrying amount of the financial assets that exceed what the amortised cost would have been had the impairment not been recognised.

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Notes to the Financial Statements

1. Intangible assets

Intangible assets consist of:

Total intangible assets	**Research and Development**	**Software**	**Total**
Costs as at 31.12.21	10,713,118	514,931	11,228,049
Accumulated amortisation	(4,570,399)	(19,619)	(4,590,018)
Book value 31.12.21	6,142,721	495,311	6,638,032
Additions	1,915,787	251,209	2,166,996
Amortisation	(3,037,788)	(161,018)	(3,198,807)
Balance	5,020,719	585,502	5,606,222
Costs as at 31.12.22	12,628,905	766,140	13,395,045
Accumulated amortisation	(7,608,187)	(180,638)	(7,788,824)
Book value 31.12.22	5,020,718	585,502	5,606,221

Research and Development	**FP3**	**FP3+**	**FP4**	**FP5**	**Acc.**	**Total**
Costs as at 31.12.21	3,933,087	366,475	6,413,557	0		10,713,118
Accumulated amortisation	(3,916,546)	(227,957)	(425,896)			(4,570,399)
Book value 31.12.21	16,542	138,517	5,987,662	0	0	6,142,721
Additions	0	11,047	943,931	754,367	206,442	1,915,787
Amortisation	(16,542)	(138,998)	(2,874,427)	0	(7,822)	(3,037,788)
Balance	0	10,567	4,057,166	754,367	198,620	5,020,719
Costs as at 31.12.22	3,933,087	377,522	7,357,488	754,367	206,442	12,628,905
Accumulated amortisation	(3,933,087)	(366,955)	(3,300,322)	0	(7,822)	(7,608,187)
Book value 31.12.22	0	10,567	4,057,165	754,367	198,620	5,020,718

Development cost
All development costs relating to Fairphone 1 and 2 have been fully amortized. The Fairphone 3 and 3+ are also almost fully amortised at the end of 2022. Fairphone 4 capitalised costs are being amortised since November 2021, when the first products were delivered and the revenue recognised. Management did not identify any triggers for impairment.

Software
Software costs relate to the cost of licenses for acquired software and development work required to implement these software systems. Management has reviewed the costs and believes that these costs meet the requirements to be capitalized. Management did not identify any triggers for impairment.

Notes to the Financial Statements

2. Tangible fixed assets

Tangible fixed assets consist of:

	Leasehold improvements	ICT Equipment	Furniture and fittings	Phone tooling	Total
Costs as at 31.12.21	105,321	236,377	76,375	1,687,988	2,106,062
Accumulated amortisation	(12,868)	(158,918)	(68,548)	(1,384,522)	(1,624,855)
Book value 31.12.21	92,453	77,459	7,827	303,467	481,205
Additions	4,683	73,989	1,417	165,861	245,950
Amortisation	(21,721)	(30,697)	(2,788)	(209,723)	(264,929)
Balance	75,415	120,751	6,456	259,605	462,228
Costs as at 31.12.22	110,004	310,366	77,792	1,853,850	2,352,012
Accumulated amortisation	(34,588)	(189,615)	(71,336)	(1,594,244)	(1,889,784)
Book value 31.12.22	75,415	120,751	6,456	259,605	462,228

Securities
Fairphone B.V. has signed a financing agreement on 21 December 2018 for financing of the receivables (factoring) and a contingent liability facility to issue letters of credit and bank guarantees. The financing agreement includes rights of pledge on the receivables, inventory and intellectual property. As per 31 December 2022 the financing was not drawn.

3. Inventory

Inventory consists of:

	2022 €	2021 €
Finished products and goods for resale	15,071,819	6,247,252
Prepayments on inventory	202,484	0
Packing materials	570	570
Goods in transit	3,130,466	2,198,644
Less: Provision of obsolete stock	(2,863,787)	(2,648,150)
	15,541,552	5,798,317

The addition to the provision for obsolete stock is included in the cost of sales in the profit and loss statement.

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Notes to the Financial Statements

4. Receivables

Receivables consist of the following:

	2022	2021
	€	€
Trade receivables	1,984,499	6,844,504
Value added tax	489,795	271,389
Other receivables	689,850	959,721
Less: Provision for bad debt	0	(363,993)
	3,164,144	7,711,621

The fair value of the current assets approximates the book value due to its short term character.

5. Cash and cash equivalents

Cash and cash equivalents consist of:

	2022	2021
	€	€
Abn Amro - current accounts	2,498,583	8,532,140
Payment service providers - current account	325,390	391,658
Payment service providers - short term deposit accounts	793,312	1,052,977
	3,617,284	9,976,774

Cash and cash equivalents are at the Company's free disposal.

The amount of Cash and cash equivalents at the company's free disposal is reduced by any letters of credit issued exceeding the €2 million ABN Amro credit facility, and an amount of €1,1 million is restricted as either short-term deposits (€0.8 million) and guarantees (€0.25 million).

On 31.12.2022, the company has 3 forward contracts opened with ABN Amro, with an effective date in 2023, and a total value of USD 9,000,000 or €8,595,911. The fair value of these contracts on 31.12.2022 with an exchange rate of 1,0666 is €8,438,027, which would give a negative impact of €157,884.

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Notes to the Financial Statements

6. Shareholders equity

	Share Capital	Share Premium	Other legal reserves	Other reserves	Undistributed result	Total
Balance as at 01.01.21	658	22,322,264	2,758,915	(22,635,072)	2,759,915	5,206,680
Movements						
Result appropriation	-	-	-	2,759,915	(2,759,915)	-
Shares restructuring	-	-	-	-	3,875,884	3,875,884
Result for financial year	-	-	-	-	-	-
Conversion of shares	-	-	-	-	-	-
Other movements	-	-	3,383,806	(3,383,806)	-	-
Balance as at 01.01.22	658	22,322,264	6,142,721	(23,258,963)	3,875,884	9,082,564
Movements						
Result appropriation	-	-	-	3,875,884	(3,875,884)	-
Shares restructuring	-	-	-	-	-	-
Result for financial year	-	-	-	-	44,007	44,007
Conversion of shares	-	-	-	-	-	-
Other movements	48	(48)	(1,122,002)	1,122,002	-	(0)
Balance as at 31.12.22	706	22,322,216	5,020,719	(18,261,077)	44,007	9,126,571

The authorised share capital of Fairphone B.V. amounts to € 706, divided into 74,617 class A shares of € 0.01 and 598 class D shares of € 0.01.

The financial statements of 2022 include a correction of a transaction that should have taken place in 2020 after the milestone dilution of January 8th, 2020, when 4,832 shares were issued to existing shareholders. This correction is presented in Other movements.

The movement in number of shares can be specified as follows:

	A Shares	D Shares	Total
Balance as at 01.01.2022	74,617	598	75,215
Movements	-	-	-
Issue of ordinary shares	-	-	-
Adjustment of nominal value	-	-	-
Conversion of ordinary shares	-	-	-
Conversion of preference shares	-	-	-
Balance as at 31.12.2022	74,617	598	75,215

Legal reserve
The legal reserves are recognised in connection with capitalised development costs of € 5,020,719 (2021: € 6,142,721).

Appropriation of Result
During the period under review, no dividends were distributed out of the Company's retained earnings. The managing directors propose to allocate the net profit for the year 2022 to the retained earnings. This proposed appropriation of profit has been reflected in the Company's balance sheet per December 31, 2022.

Notes to the Financial Statements

Employee Stock option plan
During 2022, management offered employee stock options to the value of € 131,025 (2020: € 91,758). The management board received options for a value of € 37,436, and other employees received options for a value of € 93,589.

7. Liabilities

	2022	Remaining term > 1 year	2021	Remaining term > 1 year
	€	€	€	€
Subordinated loans	4,320,000	0	414,445	4,000,000
Convertible loan	115,565	0	114,594	114,594
	4,435,565	0	529,040	4,114,595

The subordinated loan is a shareholder loan, with no securities attached to it.

Repayment obligations failing due within 12 months from the end of the financial year, as set out above, are included in current liabilities.

	2022	2021
	€	€
Short term debt	4,435,565	529,040
Trade payables	6,948,978	7,950,788
Taxes and other social security charges	2,240,129	1,461,574
Value added tax	1,138,419	709,062
Other payables	2,996,337	6,145,229
Co-op reserve	725,123	545,233
Living wage bonus	(68,640)	57,955
	18,415,911	17,398,881

The fair value of the current liabilities approximates the book value due to its short term character. The company has selected to defer the amount due to the tax authorities (*Belastingdienst*), as part of a relief given by the Dutch authorities as a result of COVID-19. The total amount of wage tax due at year end amounted to € 1,319,018 (2021: € 1,215,539).

The living wage bonus balance is showing negative, because we pay the bonus based on produced phones, but we accrue an amount per phone upon sales of the phones. Therefore the balance looks temporarily negative until all the stock of produced phones is sold.

Co-op reserve
The Co-Op reserve was created as a marketing mechanism to facilitate commercial transactions with sales partners, and mentioned in the agreements signed by both parties. The activities relate to in-store advertisement, online activities or campaigns, and any other marketing activity promoting Fairphone. Based on contractual terms, the Company's sales partners are entitled to an agreed amount of "trade margin" calculated as a percentage of the list price.
The difference between the front margin agreed with the sales partner, and the maximum trade margin is accrued to create the co-op reserve per device sold. Sales partners will issue an invoice to Fairphone, after confirmation that the approved activity took place as agreed.
The Co-Op reserve accumulated for one Fairphone model can be used to fund the pre-launch activities of the next model.
Management reviews the Co-op reserve on an annual basis, to determine whether accrual is sufficient based on the agreed marketing activities with sales partners.

Notes to the Financial Statements

Living wage bonus
Most smartphones are manufactured in China, and the country's fast, affordable production comes at the cost of their workers. As a social enterprise, we wanted to improve job satisfaction and working conditions at the heart of the electronics sector, including health and safety, worker representation, income, working hours and growth opportunities. We believe that long-term relationships are the foundation for good working conditions. We work closely with selected suppliers to assess the current situation, uncover the underlying issues and take a collaborative approach to improvement.

We implemented a living wage program with our manufacturer to close the gap between the workers' current wage and a sufficient living wage. Based on contractual terms the manufacturer will invoice Fairphone B.V. an amount equal to USD 1,85 per employee working on our production line of FP3/3+, and USD 1,99 per employee working on our production line of FP4. This amount is accrued per device sold and reviewed annually to determine whether the accrual is sufficient based on the number of devices sold.

8. Taxes and social insurance premiums

	2022	2021
Current Income tax	€	€
Income tax	312,845	1,049,099
Deferred income tax asset	0	(2,188,141)
Total	312,845	(1,139,042)

Income tax is calculated using the result before tax including any fiscal adjustments. Fiscal adjustments are the result of using a different fiscal amortisation and depreciation rate when calculating the result before tax. The fiscal result before tax amounted to € 1,358,292.

Deferred tax asset	2022 €	2021 €
Balance as at 01.01.2022	3,148,962	2,009,920
Income tax	(312,845)	(1,049,099)
Increase	0	2,188,141
Balance as at 31.12.2022	2,836,117	3,148,962

Deferred income tax
A deferred tax asset is recognised for unused tax losses. Management's financial projections support the assumption that it is probable that the Company will generate sufficient future taxable income to utilize these losses.

FAIRPHONE

Notes to the Financial Statements

9. Assets and liabilities not recognised in the balance sheet (Contingent liabilities and assets)

Rental obligations
Fairphone B.V. has a tenancy agreement with the new landlord for the location Van Diemenstraat 200, Amsterdam 1013CP. This tenancy agreement is made for the period from December 31, 2020 until June 30, 2026. The annual rent obligation till December 31, 2022 is € 311,443 and will be indexed annually.

Obligations to pay:	**2022** **€**
Within one year	311,443
Between one and five years	991,519
	1,302,962

Contingent Assets
No contingent assets are known as of the issuance date of the Annual Report.

Liabilities not recognised
The Company may have lease contracts whereby a large part of the risks and rewards associated with ownership are not for the benefit of nor incurred by the company. The lease contracts are recognised as operational leasing. Lease payments are recorded on a straight-line basis, taking into account reimbursements received from the lessor, in the income statement for the duration of the contract.

Securities
Fairphone B.V. has signed an amendment to the original financing agreement on April 1st, 2022 for financing of the receivables and a contingent liability facility to issue letters of credit and bank guarantees. The financing agreement includes rights of pledge on the receivables, inventory and intellectual property. As per 31 December 2022 the financing was not drawn yet.

10. Provisions

Provisions consist of:

	2022 **€**	**Remaining term > 1 year** **€**	**2021** **€**	**Remaining term > 1 year** **€**
Warranty	973,287	528,825	1,005,772	0
Royalties	1,599,947	1,599,947	1,386,425	1,386,425
Software maintenance	1,111,831	625,405	766,674	766,674
	3,685,064	2,754,177	3,158,871	2,153,099

	Warranty	**Royalties**	**Software maintenance**	**Total**
Balance as at 01.01.2022	1,005,772	1,386,425	766,674	3,158,871
Additions	1,142,945	797,338	1,027,934	2,968,217
Release	(102,982)	(329,716)		(432,698)
Utilization	(1,072,448)	(254,100)	(682,777)	(2,009,325)
Balance as at 31.12.2022	973,287	1,599,947	1,111,831	3,685,065

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Notes to the Financial Statements

11. Net turnover

Net turnover consist of:

	2022	2021
	€	€
Fairphones	52,224,198	32,727,223
Spare parts and accessories	5,942,682	3,727,903
Shipping fees	631,585	555,035
Other revenue	35,577	(48,557)
	58,834,042	36,961,604

12. Raw materials, consumables and other external charges

These costs consist of:

	2022	2021
	€	€
Fairphones	31,662,525	18,215,539
Spare parts and accessories	2,982,751	2,753,528
Logistics and payment fees	2,533,991	2,281,491
Costs of non-quality	862,081	965,834
Provision for impairment - Stock	215,654	(741,169)
Royalty provision	201,582	66,756
Other costs	2,772,887	1,692,358
	41,231,471	25,234,337

13. Wages and salaries

Wages and salaries costs consist of:

	2022	2021
	€	€
Salaries and wages	5,230,913	4,593,831
Costs of work contracted out	1,331,656	969,294
Wages tax reduction	(111,248)	(551,919)
Employee Stock Option Plan (ESOP)	103,636	114,020
Pension expenses	234,920	226,372
	6,789,877	5,351,598

Number of employees
At the end of 2022 we had 119 employees in Amsterdam, representing 115,9 FTE. Of these employees, 1 was employed outside the Netherlands, in Germany (2021: 1).

Notes to the Financial Statements

FTE per department 2022 vs 2021

Department	2022	2021	var.
Management team	3,9	3,9	-
Finance	2,0	3,0	-1,0
Product Operations	7,0	6,0	1,0
Quality	2,9	1,9	1,0
IT & Software longevity	10,8	8,8	2,0
Operations	1,0	1,0	-
Supply Chain	4,0	4,0	-
After sales	4,8	2,8	2,0
Customer Support	25,6	26,0	-0,4
Business Operations	3,0	-	3,0
Project Management	2,0	-	2,0
Legal	2,0	3,9	-1,9
Commercial B2B	11,0	8,0	3,0
Commercial B2C	6,8	2,8	4,0
Marketing	6,0	3,0	3,0
People	7,8	6,8	1,0
Brand	9,5	6,5	3,0
Impact Innovation	5,8	4,9	0,9
Total	**115,9**	**93,3**	**22,6**

Government subsidies
Subsidy with regard to research and development (‘WBSO’) for the amount of € 111,248. The subsidy has been deducted from wages and salaries.

14. Other operating expenses

Other operating expenses consist of:

	2022	2021
	€	€
Marketing expenses	3,005,630	1,316,069
Personnel expenses	344,876	229,477
General and Administrative Expense	1,966,220	1,699,922
Research and development	190,888	210,240
	5,507,613	3,455,707

15. Other operating income

Other operating income consists of:

	2022	2021
	€	€
Other Operating Income	63,537	3,495,308
	63,537	3,495,308

The 2021 other operating income included claim settlement proceeds of €3,495,000.

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Notes to the Financial Statements

16. Financial income and expenses

Financial income and expenses consist of:

	2022	2021
	€	€
Interest and similar expenses	663,316	592,752
	663,316	592,752

17. Other disclosure

Related party and Supervisory Board remuneration
The non-executive Supervisory Board (SB) plays an important role in protecting the interests of the company and its social mission. It guides and monitors the company's performance towards the mission and helps provide continuity for the company. However, it does not represent the company externally and is not involved in the day-to-day business of running Fairphone. Bas van Abel, founder of Fariphone, is a member of the SB and is additionally actively externally representing Fairphone in PR activities. Eelco Blok has a success fee arrangement directly with a majority of the shareholders when they materialise a certain return on their investment. The company takes no direct or indirect part in this arrangement. During the period under review the remuneration for all supervisory Board members together amounted to € 26,333 (2021: € 73,437). This remuneration has been recorded under Employee costs.

Directors remuneration
The Company has a managing board consisting of two managing directors. During the period under review the directors remuneration amounted to € 262,836 (2021: € 229,827). This remuneration has been recorded under Employee costs *(Directors remuneration)*.

Subsequent events
On 27 January it was announced that a consortium of impact investors had invested €48,873,981 in the Company. The investment transaction completed on 7 March 2023. The use of the proceeds includes settlement of existing loans, partial exit of current shareholders and growth capital. Further details of the investors and the intended use of the growth capital are included in the Director's report.

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Notes to the Financial Statements

Amsterdam
April 18, 2023

Board of Directors

Eva Gouwens

Eva Gouwens
CEO & Managing Director

Noud Tillemans
CFO & Managing Director

Supervisory Board

Josephine de Zwaan

J. de Zwaan (chair)

Eelco Blok

E. Blok

Bas van Abel

B. van Abel

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Other information

Independent Audit report
The independent auditor's report is included on the next pages.

Statutory provision regarding appropriation of Result

Article 29 Reserves

29.1 The Company shall maintain:
- (a) a share premium reserve exclusively attached to the D Shares, to which any amounts or values in excess of the nominal value paid up in respect of, or contributed on, the D Shares shall be added;
- (b) a profit reserve exclusively attached to the D Shares, to which any amounts determined by the General Meeting shall be added;
- (c) a share premium reserve exclusively attached to the A Shares, to which any amounts or values in excess of the nominal value paid up in respect of, or contributed on, the A Shares shall be added; and
- (d) a profit reserve exclusively attached to the A Shares, to which any amounts determined by the General Meeting shall be added and such other reserves attached to the A Shares and/or the D Shares as the General Meeting considers appropriate.

29.2 The General Meeting is authorised to resolve to make a distribution from the Company's reserves.
29.3 Distributions from the reserve referred in 29.1 shall be made exclusively to the holders of the class or classes of shares to which such reserves are attached, in proportion to the aggregate nominal value of their shares of relevant class(es).

Article 30 Distribution on Shares

30.1 The profits as determined through the adoption of the annual accounts shall be at the disposal of the General Meeting. The General Meeting may decide to make a distribution, to the extent that the shareholders' equity exceeds the reserves that must be maintained by law.

30.2 A resolution to make a distribution shall not take effect as long as the Management Board has not given its approval. The Management Board may only withhold such approval if it knows or should reasonably foresee that, following the distribution, the Company will be unable to continue paying its dues and payable debts.

30.3 For the purpose of calculating any distribution, shares held by the Company in its own capital shall not be included.

30.4 For the purposes of calculating the amount to be distributed on each share, only the nominal value of the shares shall be taken into account. The preceding sentence may be derogated from with the consent of all Shareholders.

30.5 Unless the Management Board determines otherwise, distributions shall be payable immediately following approval by the Management Board of the resolution to make the relevant distribution.

30.6 A Shareholders' claim under Article 30 shall lapse after five years.

The articles of association show that the annual profit obtained is at the free disposal of the general meeting.

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INDEPENDENT AUDITOR'S REPORT

To: The shareholders of Fairphone B.V.

Report on the audit of the financial statements 2022 included in the annual report
Our opinion
We have audited the financial statements 2022 of Fairphone B.V. based in Amsterdam.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Fairphone B.V. as at 31 December 2022 and of its result for 2022 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The financial statements comprise:

1. the balance sheet as at 31 December 2022;
2. the profit and loss account for 2022; and
3. the notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion
We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.
We are independent of Fairphone B.V. in accordance with the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information in support of our opinion
We designed our audit procedures in the context of our audit of the financial statements as a whole and in forming our opinion thereon. The following information in support of our opinion was addressed in this context, and we do not provide a separate opinion or conclusion on these matters.

Audit approach fraud risks
Although we are not responsible for preventing fraud, it is our responsibility to obtain reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether caused by fraud or error. 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 control.

We identified and assessed the risk of material misstatement to the financial statements due to fraud. As part of our process of identifying fraud risks, we evaluated fraud risk factors with respect to financial reporting fraud, misappropriation of assets and bribery and corruption. We evaluated whether these factors indicate that a risk of material misstatement due to fraud is present.

As described in the auditing standards, management override of controls and risk of fraud in revenue recognition are presumed risks of fraud. The company purchases products from third-party suppliers located in countries with a lower score on the CPI index which triggers fraud risks related to bribery and corruption.

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We incorporated elements of unpredictability in our audit. During the entire audit we remained alert to indications of fraud and considered the impact on our audit, if any. We also considered the outcome of our other audit procedures and evaluated whether any findings were indicative of fraud or non-compliance.

Management of a company is in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. The audit procedures to respond to the assessed risks of management bias include, among others, evaluation of the design and the implementation of internal controls that intend to mitigate fraud risks, and retrospective review of prior year's estimates. Further we performed the following audit procedures: evaluating journal entries, transactions outside the normal course of business and whether there was evidence of potential bias by management when making assumptions and estimates that may represent a risk of material misstatement due to fraud.

The risk is related to the occurrence of revenue transactions, specifically the risk that revenue is overstated due to incorrect cut-off at year end. We addressed the risk of revenue recognition, including evaluation of the design and implementation of relevant internal controls, tracing a sample of revenue transactions recorded close to year end to supporting documents, goods movement reconciliation and assess the correct allocation to the periods.

We addressed the risk of purchases from third-party suppliers located in countries with a lower score on the CPI index resulting in kickbacks as described in the paragraph misconduct in the company included in the director's report, including evaluation of the design and implementation of relevant internal controls, enquiries of relevant executives, directors and those charged with governance and tracing a sample of purchase transactions to supporting documents.

Audit approach going concern

As mentioned in the going concern paragraph in the notes to the financial statements, management has evaluated a period of twelve months from the date of the annual report. Management prepared the financial statements based on the assumption that the Company is a going concern and that it will continue its operations for the foreseeable future. Our procedures to evaluate management's going concern assessment include, amongst others:

- considerations whether management's going concern assessment includes all relevant information of which we are aware as a result of our audit, inquiry with management and whether management has identified any events or conditions that may cast a significant doubt on the Company's ability to continue as a going concern;
- evaluating management's current operating plan including cash flows in comparison with last year, capital proceeds from the investment round and all relevant information of which we are aware as a result of our audit;
- analyzing current finances and whether they are sufficient for the going concern of the company;
- inquiry with management as to their knowledge of going concern risks beyond the period of management's assessment.

Report on the other information included in the annual report

The annual report contains other information, in addition to the financial statements and our auditor's report thereon.

Based on the following procedures performed, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains all the information regarding the management report and the other information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the management report in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information as required by Part 9 of Book 2 of the Dutch Civil Code.

Description of responsibilities regarding the financial statements
Responsibilities of management for the financial statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting framework mentioned, management should prepare the financial statements using the going concern basis of accounting, unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The supervisory board is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the financial statements
Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

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 financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

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We have exercised professional judgement and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included among others:

- identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. 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 control;
- obtaining an understanding of internal control relevant to the audit 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 the entity's internal control;
- evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- concluding 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 company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. 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 a company to cease to continue as a going concern.
- evaluating the overall presentation, structure and content of the financial statements, including the disclosures; and
- evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.

Alkmaar, April 24, 2023

RSM Netherlands Accountants N.V.

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