FAIRPHONE

FAIRPHONE B.V.

(Amsterdam)

ANNUAL REPORT

31 DECEMBER 2021

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Director’s report and general information

Board of directors	E. Gouwens N. Tillemans
Supervisory Board	J. de Zwaan (chair) A.S. Tabatznik R. Pieterse B. van Abel E. Meijer 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

Director's report and general information

The management of the company hereby presents its financial statements for the financial year ended 31 December 2021.

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 yearly over 50 million tonnes of e-waste, 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 labour 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.

- 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.

In September 2021 we launched the modulair Fairphone 4 5G, enabling repairs and upgrades. With the Fairphone 4, we provide a more premium phone compared to the Fairphone 3. This means that the quality is higher, and people will find it easier to keep it longer. We deliver up-to-date specs including 5G and gave the phone a more high-end look, like the frame with responsibly-sourced aluminum. And we pair this with clear benefits for the user, via for example a 5-year warranty.

Also:

- The Fairphone 4 is the first modular phone with an IP rating. We applied nano-coating on both the interior as well as the exterior of the device. The rating is IP54, which means that the device is water resistant. A modular device to resist water sprays from any direction is quite an achievement and demonstrates that we are raising the bar in terms of longevity.
- The Fairphone 4 is e-waste neutral. We guarantee that for every Fairphone 4 we sell, we take-back at least one other phone, or a comparable amount of other small e-waste inheriting the same issues, from Fairphone's market or a country lacking adequate recycling infrastructure.
- The Fairphone 4 is the only smartphone Blue Angel certified for sustainability by the German Eco Label.
- In 2021 we received the EcoVadis Platinum award for outstanding social responsibility achievement, putting us in the top 1% in our industry.

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.

With the launch of the Fairphone 4, we introduced a strong offer for the b2b market where we see clear traction of companies that want to alternatively offer the most sustainable smartphone in the world to their staff.

In 2021 in total 61% of our sales came via partners and 39% via our website. Although seriously challenged by covid-19 related and global supply limitations, our revenue has increased further with €1M which, mainly driven by the higher sales price of the FP4 and expanding our accessory portfolio, which now also contains True Wireless Stereo earbuds.

Our presence in Europe via sales partners increased to 16 countries, where we deliberately did not expand further in Eastern and Southern Europe, to have more focus on growing sales in key countries. Our biggest market remained Germany, responsible for 44 percent of our sales (+3% vs 2020), followed by France at 20 percent (+0% vs 2020) and Switzerland and Netherlands, both 9%.

We have further expanded our retail visibility in Europe; from nearly 2.000 to almost 4.000 shops, which is important to further support consumers in their buying journey. To improve the online part of the buying journey, we constantly optimise the user experience at fairphone.com through research and testing. The introduction of the Fairphone 4 was supported by strong PR and a media campaign with our first Out of Home campaign in both Germany and the Netherlands. In the same period, we ran a TV and radio campaign with partner Belsimpel in the Netherlands.

<u>Legal structure</u>

Fairphone B.V. is a standalone entity, legally represented by 2 managing directors either individually or jointly as the Management Board. In 2021, 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 (virtually) 7 times in 2021.

The SB members are:

- Josephine de Zwaan (chair)
- Anthony S. Tabatznik
- Rogier Pieterse
- Bas van Abel
- Erik Meijer
- Eelco Blok

Furthermore Fairphone had 2 Extraordinary General Meetings (EGM) with shareholders in October and December 2021 and an Annual General Meeting (AGM) in April 2021. In April 2021 Ted van der Put left the SB, as per the expiry of his term.

<u>The internal organization and staffing</u>

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 2021, our payroll FTE stood at 94.7 (101 employees), not including our 10 Asia based representatives (3 in China, 7 in Taiwan). In 2021 we hired 34 people (30% more than in 2020). In addition, 7 internal applicants were promoted after a successful recruitment process. Overall, we have a diverse team of employees which includes people from 24 different nationalities, ranging from 22 to 62 years in age, giving us an average age of 35, while we have 53% female employees vs 47% male employees.

In March 2021, Fairphone moved to a new office building in the Van Diemenstraat 200 in Amsterdam. Employees were offered a variety of staff benefits at this new location, including a gym and yoga room, a bouldering wall and an office set-up designed to facilitate healthy work habits. Staff are encouraged to take sustainable commute options to the office and commuting costs are taken over by Fairphone.

We have been working on keeping our sickness leave below 5% throughout the second year of the pandemic. On average, the sickness absence for 2021 was 4.2%. Next to this, three staff members successfully reintegrated back from a long-term absence. The turnover rate of personnel was 4.8% in 2021.

Director's report and general information

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 second 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 2021. Anticipating a future without the restrictions of the pandemic and taking in the learnings from working from home, a new Remote Working Policy was introduced: Fairphone is an office-led, remote-friendly company, meaning that we offer our employees the flexibility to work remotely up to 60% of their time per month. The goal has been to stimulate our staff to stay connected with each other and engaged with Fairphone, while also having the freedom and trust to work remotely.

To further strengthen our culture and way of working, the new Fairphone core values were introduced, which are Care, Collaboration, Transparency, and Challenging. These guide our behaviors and decision making.

We recertified our B Corp status: our total score increased from 106 (in 2017) to 122, making Fairphone an outstanding B Corp and validating our positive social and environmental impact. Subscores have also improved across all categories (governance, workers, community, environment, customers).

Together with certain shareholders we are exploring refreshing the shareholder base. Our shareholder base mainly consists of founders, individuals, crowdfunders and impact investors. Some of our investors joined Fairphone 5-8 years ago and are considering a (partial) exit. Besides the interest of our shareholders we believe Fairphone would benefit from refreshing this shareholder base by attracting one or more new investors with a strategic or longer term interest and/or able to invest in growth. We believe we can accelerate growth. For example when additionally investing in marketing and brand awareness or expanding regionally or our product portfolio.

FAIRPHONE

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 2021 amounted to a profit of € 3.875.884 (2020: € 2.759.915).

To provide insight in the development of the result for 2021, on the next page an outline has been prepared based on the profit and loss account of 2021 compared to the profit and loss account of 2020. Income and expenses a percentage of the net turnover.

	2021		**2020**	
	€	**%**	**€**	**%**
Net Turnover	36,961,604	100	35,930,371	100
Cost of goods sold	(25,234,337)	67	(22,065,384)	60
Gross operating result	12,727,267	33	13,864,987	40
Other operating income	3,495,308	9	-	-
Employee Cost	5,125,226	14	5,046.208	14
Social security contributions	728,317	2	661,543	2
Pension expenses	226,372	1	192,148	1
Amortisation and depreciation	2,357,359	6	2,229,181	6
Other operating expenses	3,455,707	9	4,232,192	13
Total costs	11,892,981	32	12,361,272	36
Operating profit/ (loss)	3,329,593	10	1,503,715	4
Financial result	(592,752)	2	(753,720)	2
Result before tax	2,736,842	9	749,996	2
Tax on result	1,139,042	3	2,009,920	4
Result after tax	3,875,884	12	2,759,915	6

Director's report and general information

2021 was an eventful year. Initially we worked with a budget geared around 154.000 devices. Mainly due to the impact of COVID-19 and shops being closed throughout Europe, sales was slow in the first quarter. We issued a revised budget in April 2021 including selling 125.000 devices, which was approved during an AGM. In the summer of 2021 we faced supply issues with our manufacturing partner Arima, which was in financial distress. Furthermore, we had devices stuck for months on the Ever Given, the containership that blocked the Suez Canal. For the Fairphone 4 development and manufacturing we switched to a new partner, T2Mobile. This is a subsidiary of TCL, who are also providing the factory for production. This should enable us to scale-up volume, and further improve quality. In the second part of 2021 we were seeing an impact of the global shortage for chipsets and other components. As a result Fairphone 4 sales was hampered by limited supply. We envisage to resolve this in the first half of 2022. In the end we managed to recognize 87.936 devices as sales in 2021, versus 94.985 in 2020 and 53.844 in 2019.

Despite tough market circumstances we managed to be profitable in 2021. We recognized €36.961.604 of revenue, versus €35.930.371 in 2020 and we end 2021 with a record high positive net result of €3.875.884. This is driven by an EBITDA of €5.686.729 from our ordinary business, supported by €3.495.308 of net proceeds from a claim settlement.

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.

	December 31, 2021	**December 31, 2020**	**Movement**
Inventories	5,798,317	3,130,673	2,667,644
Receivables	7,711,621	2,884,645	4,826,976
Cash and cash equivalents	9,976,774	6,713,461	3,263,313
Total current assets	23,486,712	12,728,779	10,757,933
Less: current liabilities	(17,398,883)	(6,682,333)	-10,716,550
Working capital	6,087,829	6,046,446	41,383

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. 2021 demonstrated that with one key component missing (chipsets), supply is hampered. We are happy to have moved from Arima to T2Mobile and TCL as manufacturing partners. At the end of 2021 and early 2022 we are for the first time selling 2 devices in parallel, the FP3+ and the FP4. We further expanded our portfolio with the launch of a new product: the earbuds. In 2021 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 2021 we progressed with implementing an ERP (called Odoo), but are not satisfied yet. 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 increased during 2021 with €3.3M, ending at €10M, despite investing approximately €6M in developing the Fairphone 4. Our cash position includes €1.1M received as part of Covid-19 wage tax relief (to be repaid in 2022-2023) and €0.8M of NOW support, to be repaid as of 2022 as we turned out to not be eligible for the NOW support scheme. The current payment terms towards our Fairphone 4 supplier T2Mobile is 45 days after shipment, except 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. For receiving 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.

Cash flow and financing requirements

We have a cash position of € 10.0 million at the end 2021. For 2022 we expect a positive cash flow, especially as we have funded the development of the new Fairphone 4 in 2021, and will harvest this in 2022 by selling this new device throughout 2022 without investing in a next device. For LCs we have a € 2.0 million facility with ABN Amro Bank. We also have a factoring facility of € 5.0 million, from which we haven't drawn anything so far.

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 possible to make phones differently. 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 2021, we had set the following company targets to drive our performance:

1) **Establish a market for ethical phones**: to sell 125.000 Fairphones in 2021, which we did not meet due to COVID-19 effects and global chipset and other component shortages.
2) **Longevity**: we met the target as our customers indicated to expect using their FP3/+ and FP4 for over 5 years. A 2021 longevity highlight is launching Android 9 for our FP2 users, 6 years after launch date. And we continue to provide FP2 support in 2022.
3) **E-waste**: we met our target to take back electronic end-of-use products from the market 100% vs. the new FP4s sold. Mainly via our partnership with Closing the Loop. We however aim to bring more devices back from the European market via our newly launched reuse and recycle program.
4) **Fair materials:** to have 14 focus materials in our product sustainably sourced (recycled, fair or conflict-free). We aim for 70% by 2023, and are on track, but did not meet our 55% target for 2021 a.o. due to 1) suppliers deprioritizing fair materials due to global market shortages, 2) political landscape changes in the DRC and Cobalt industry, 3) certified lithium properties not matching our product needs.
5) **Fair factories**: currently 55 % (6 out of 11) strategic suppliers of FP4 are engaged in worker voice and/or living wage programs with Fairphone, meeting our target of >50% of strategic suppliers engaged by end of 2021. The engaged suppliers include the following: TCL (final assembly), Baolong (vibration motor), Concraft (speaker), Polight (camera), Kayo (battery) and Woodstone (wireless earbuds).
6) **Industry Followers**: we scored 16 points (versus target of 15) on key industry players participating in and/or following Fairphone initiatives (points are allocated and measured by market share).
7) **Financials** - Positive net result (€) - achieved.

The actual scores of our impact KPIs are annually reviewed by the company Sustainalize. Their last report is dated June 2021 covering our 2020 impact KPIs.

Director's report and general information

The future

As an organization, we have achieved a lot already and are very proud of where we stand. However, our ambitions reach so much further and we will keep striving to achieve more. We are confident about what the future holds and will focus on the following strategies in 2022:

1. Drive sales volumes - Increase sales volume to 168.000 by working with distributors, resellers and operators to increase their sell-outs, seizing the B2B opportunity, piloting Product As A Service and building a strategic accessories portfolio and additional products.
2. Manage the supply chain - Secure stable, required supply of quality & fair phones, by leveraging the position and qualities of stronger partners. Further optimize the implementation of the new manufacturing partner, with keeping control over the old manufacturing partner for FP3+ supply, and establishing additional strategic partnerships.
3. Build brand & loyal customers - To deepen the relationship with our customers by providing a great customer journey on website and app and nurturing our community. Our customers love to keep their phone longer and become ambassadors. We will significantly increase our marketing investments focusing on the top 5 sales countries.
4. Thought leadership - By innovating, implementing & communicating on scalable solutions that demonstrate Thought Leadership, we raise the bar for the industry. In 2022 we focus on fair materials, longevity and improving our re-use and recycle program. We aim to have more industry players follow our example.
5. One team & an effective and efficient organization - Improve the way we work together, by building trusted leadership, cross functional relations and efficiency (IT backbone, project management)
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 significantly increase our marketing efforts and further professionalise the organisation. In Q1 2022 we aim to hire ~20 additional FTE.

Looking back, we would like to thank all of our staff, customers, suppliers and partners for their cooperation and support throughout another challenging year, dominated by global component shortages in addition to COVID-19. Without you, we wouldn't be able to accomplish our mission and achieve our targets. Change is in our hands! Together, we make a difference.

Amsterdam, 21 April 2022

The Management Board,

CEO & Managing Director	CFO & Managing Director
Eva Gouwens	Noud Tillemans

Balance sheet as at December 31, 2021

(Before appropriation of result)	***Notes***	**31 December 2021**		**31 December 2020**	
Assets		**€**	**€**	**€**	**€**
Fixed assets					
Intangible fixed assets	**1**	6,638,032		2,997,338	
Tangible fixed assets	**2**	481,205		239,701	
Financial fixed asset	**8**	3,148,962		2,009,920	
Total fixed assets			**10,268,199**		**5,246,958**
Current assets					
Inventory	**3**	5,798,317		3,130,673	
Receivables	**4**	7,711,621		2,884,645	
Cash and cash equivalents	**5**	9,976,774		6,713,461	
Total current assets			23,486,712		**12,728,779**
Total assets			**33,754,911**		**17,975,737**
Shareholders' equity					
Share Capital		658		658	
Share Premium		22,322,264		22,322,265	
Other legal reserves		6,142,721		2,758,915	
Other reserves		(23,258,963)		(22,635,073)	
Undistributed result		3,875,884		2,759,915	
Total shareholders' equity	**6**		**9,082,564**		**5,206,679**
Provisions	**10**	3,158,871			2,357,536
Non-Current liabilities	**7**	4,114,595			3,729,188
Current liabilities	**7**	17,398,881			6,682,333
Total shareholders' equity and liabilities			**33,754,911**		**17,975,737**

Statement of Income and Expenses for the year ended December 31, 2021

	Notes	2021		2020	
		€	€	€	€
Net Turnover	**11**	36,961,604			35,930,371
Cost of goods sold	**12**	(25,234,337)			(22,065,384)
Gross operating result			11,727,267		13,864,987
Other operating income	**15**		3,495,308		-
Employee Cost	**13**	5,125,226		5,046,208	
Social security contributions		728,317		661,543	
Pension expenses		226,372		192,148	
Amortisation and depreciation		2,357,359		2,229,181	
Other operating expenses	**14**	3,455,707		4,232,192	
Total costs			(11,892,981)		(12,361,272)
Operating profit/ (loss)			3,329,594		1,503,715
Financial Income	**16**	-		13	
Financial expenses	**16**	(592,752)		(753,733)	
			(592,752)		(753,720)
Result before tax			2,736,842		749,996
Tax on result			1,139,042		2,009,920
Result after tax			3,875,884		2,759,915

Cash Flow Statement for the year ended December 31, 2021

	Notes		2021		2020
Cash flow from operating activities		**€**	**€**	**€**	**€**
Operating profit/ (loss)			3,329,594		1,503,715
Adjustments for:					
Depreciation, amortisation and other impairments		2,357,359		2,229,181	
Movement in provisions		801,335		(80,946)	
Movement in working capital:			3,158,694		2,148,235
Inventory		(2,667,644)		(243,605)	
Receivables		(4,826,976)		661,452	
Current liabilities (excluding borrowings)		10,418,7712		(2,108,817)	
			2,924,152		1,690,970
Cash generated from operations			6,082,845		457,266
Interest received		-		13	
Corporate income tax paid		-		-	
Interest paid		(592,752)		(390,367)	
			(592,752)		(390,354)
Net cash generated from operating activities			8,819,687		(1,570,628)
Cash flow from investment activities					
Investment in intangible fixed assets		(5,773,349)		(1,629,624)	
Investment in tangible fixed assets		(466,208)		(103,467)	
Divestment in tangible assets		-		-	
Net cash generated from investment activities			(6,239,557)		(1,733,091)

Cash Flow Statement for the year ended December 31, 2021

	Notes		2021		2020
Cash flow from financing activities		**€**	**€**	**€**	**€**
Receipts from issuance of share capital		-		-	
Share premium in financial year		-		-	
Liabilities converted to equity		-		-	
Receipts from long-term liabilities		683,185		(129,178)	
Net cash generated from financing activities			683,185		(129,178)
Net cash flows			3,263,315		(291,641)
Exchange gains/(losses) on cash and cash equivalents			-		(363,366)
Net increase/ decrease in cash and cash equivalents			3,263,315		(655,007)
The movement in cash and cash equivalents can be broken down as follows:					
Balance as at 1 January			6,713,459		7,368,468
Movements during the financial year			3,263,315		(655,009)
Balance as at 31 December			9,976,774		6,713,459

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 and it has an authorized share capital of 652 Class A shares and 6 Class D shares.

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.

Currently we project selling 168.000 devices in 2022, and are on track as of Q1 2022. Cashwise we are flexible and prepared also for potentially any lower sales volumes. We have a factoring facility of up to € 5.000.000, from which we haven't drawn anything so far. We have a cash position of €9.976.774 at the end 2021. For 2022 we expect a positive cash flow, especially as we have funded the development of the new Fairphone 4 in 2021, and will harvest this in 2022 by selling this new device throughout 2022 without investing in a next device. With less than €10.000.000 of operational expenditures in 2021 we have shown to be well able to scrutinize our expenditures and ringfence certain investments, meaning we only commit these when our sales is on track.
We had no Letters of Credit (LC) outstanding at the end of 2021. For LCs we have a € 2.000.000 facility with ABN Amro Bank. Our current cash position, the positive outlook for 2022, the flexibility in our 2022 budget and the LC and factoring 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 and the firm pronouncements in the Dutch Accounting Standards, as published by the Dutch Accounting Standards Board ('Raad voor de Jaarverslaggeving').

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 21, 2022.

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.

Notes to the Financial Statements

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:

	31/12/2021	31/12/2020
GBP	0.8403	0.850
USD	1.1326	1.123

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 of two years. Intangible assets not ready for use are tested for impairment at least on an annual basis.

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.

Notes to the Financial Statements

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.

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.

Notes to the Financial Statements

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.

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.

Notes to the Financial Statements

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.

Cost of goods sold

Cost of goods sold represents the direct expenses attributable to revenue, this includes purchase expenses related to the goods sold and the costs incurred to bring the goods sold to the customer.

Selling expenses and general and administrative expenses

Selling expenses and general and administrative expenses comprise costs chargeable to the year.

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.

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 comprehensive income and for the equity-settled plan a corresponding adjustment to equity.

Notes to the Financial Statements

Government grants
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.

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. The group's risk-management programme focuses on the unpredictable nature of financial markets and seeks to limit any potential adverse effects on financial performance.

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.

2021	**GBP**	**USD**
Cash and cash equivalents	550,308	4,285,221
Trade receivables	-	838,000
Trade payables	3,235	5,689,633

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 2021, the largest single client exposure consisted of 13% of the outstanding trade receivables. The company's clients are subject to creditworthiness tests. 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 2020, the Company has a committed banking facility with ABN Amro of letter of credit up to €1.0 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 (note 12) based on actual results and expected cash flow. As per 31 December 2021, the factoring was not drawn yet.

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 comprehensive income 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.

Notes to the Financial Statements

1. Intangible assets

Intangible assets consist of:

Total intangible assets	**Research and Development**	**Software**	**Total**
Costs as at 01.01.20	8,818,493	238,422	9,056,915
Accumulated amortisation	(6,059,577)	-	(6,059,577)
Book value 31.12.20	2,758,915	238,422	2,997,338
Additions	5,496,841	276,508	5,773,349
Amortisation	(2,113,036)	(19,619)	(2,132,655)
Balance	3,383,805	495,311	3,640,694
Costs as at 31.12.21	14.315.334	514,930	14,830,265
Accumulated amortisation	(8,172,613)	(19,619)	(8,192,232)
Book value 31.12.21	6,142,721	495,311	6,638,032

Research and Development	**Fairphone 1 & 2**	**Fairphone 3**	**Fairphone 3+**	**Fairphone 4**	**Total**
Costs as at 31.12.20	3,602,216	3,933,087	366,475	916,715	8,818,493
Accumulated amortisation	(3,602,216)	(2,412,140)	(45,222)	-	(6,059,578)
Book value 31.12.20	-	1,520,947	321,253	916,715	2,758,915
Additions	-	-	-	5,496,842	5,496,842
Amortisation	-	(1,504,405)	(182,735)	(425,896)	(2,113,036)
Balance	-	(1,504,405)	(182,738)	5,070,946	3,383,806
Costs as at 31.12.21	3,602,216	3,933,087	366,475	6,413,558	14,315,335
Accumulated amortisation	(3,602,216)	(3,916,545)	(227,957)	(425,896)	(8.172.614)
Book value 31.12.21	0	16,542	138,517	5,987,662	6,142,721

Notes to the Financial Statements

Development cost
All development costs relating to Fairphone 1 and 2 have been fully amortized. The Fairphone 3 and 3+, were ready respectively in September 2019 and in September 2020, at which time we started amortizing the asset on a straight-line over its estimated useful life of two years. 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**	**Total**
Costs at 31.12.20	238,422	238,422
Accumulated amortisation	-	-
Book value 31.12.20	238.422	238.422
Additions	276,508	276,508
Amortisation	(19,619)	(19,619)
Balance	256,889	256,889
Costs at 31.12.21	514,930	514,930
Accumulated amortisation	(19,619)	(19,619)
Book value 31.12.21	495,311	495,311

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.

2. Tangible fixed assets

Tangible fixed assets consist of:

Property, Plant and equipment	**Leasehold improvements**	**ICT Equipment**	**Furniture and fittings**	**Phone tooling**	**Totals**
Costs at 01.01.20	258,609	195,225	71,305	1,373,323	1,898,462
Accumulated amortisation	(236,422)	(130,844)	(64,578)	(1,226,917)	(1,658,761)
Book value 31.12.20	22,187	64,381	6,727	146,406	239,701

FAIRPHONE

Notes to the Financial Statements

Additions	105,321	41,152	5,070	314,665	466,208
Amortisation	(35,055)	(28,074)	(3,970)	(157,605)	(224,704)
Disposals	(258.609)				
Amortisation on disposals	258.609				
Book value 31.12.21	92,453	77,459	7,827	303,467	481,205
Costs at 31.12.21	363,930	236,377	76,375	1,687,988	2,364,670
Accumulated amortisation	(271,477)	(158,918)	(68,548)	(1,384,522)	(1,883,465)
Book value 31.12.21	92,453	77,459	7,827	303,467	481,205

Securities
Fairphone B.V. has signed a financing agreement on 21 December 2018 for financing of the receivables and a contingent liability facility to issue letters of credit. The financing agreement includes rights of pledge on the receivables, inventory and intellectual property. As per 31 December 2021 the financing was not drawn yet.

Notes to the Financial Statements

3. Inventory

Inventory consists of:

	2021 €	2020 €
Finished products and goods for resale	6,247,252	4,934,953
Packing materials	570	540
Goods in transit	2,198,644	102,160
Less: Provision of obsolete stock	(2,648,150)	(1,906,981)
	5,798,317	3,130,673

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

4. Receivables

Receivables consist of the following:

	2021 €	2020 €
Trade receivables	6,844,504	2,743,632
Value added tax	271,389	56,874
Other receivables	959,721	448,132
Less: Provision for bad debt	(363,993)	(363,993)
	7,711,621	2,884,645

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

Notes to the Financial Statements

5. Cash and cash equivalents

Cash and cash equivalents consist of:

	2021 €	2020 €
Abn Amro - current accounts	8,532,140	5,526,005
Payment service providers - current account	391,658	236,487
Abn Amro - short term deposit accounts and savings accounts	-	200,008
Payment service providers - short term deposit accounts	1,052,977	750,961
	9,976,774	6,713,461

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

The amount of Cash and cash equivalents at the company's free disposal are reduced by any letters of credit issued exceeding the €1,0 million Abn Amro credit facility, and an amount of €1,1 million is restricted as either short-term deposits (€1,00 million) and guarantees (€0.15 million).

On 31.12.2021, the company has 15 forward contracts opened with ABN Amro, with an effective date in 2022, and a total value of USD 37.000.000 or €31.428.637. The fair value of these contracts on 31.12.2021 with an exchange rate of 1,1326 is €32.668.197, which would give a negative impact of €1.239.560.

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	-	-	-	-	-	,
Result for financial year	-	-	-	-	3,875,884	3,875,884
Conversion of shares	-	-	-	-	-	-
Other movements	-	-	3,383,806	(3,383,806)	-	-
Balance as at 31.12.21	658	22,322,264	6,142,721	(23,258,963)	3,875,884	9,082,564

Notes to the Financial Statements

The authorised share capital of Fairphone B.V. amounts to € 658, divided into 65,158 class A shares of € 0.01 and 598 class D shares of € 0.01. Issued share capital is € 658.

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

	A Shares	D Shares	Total
Balance as at 01.01.2021	65,158	598	65,756
Movements	-	-	-
Issue of ordinary shares	-	-	-
Adjustment of nominal value	-	-	-
Conversion of ordinary shares	-	-	-
Conversion of preference shares	-	-	-
Balance as at 31.12.2021	65,756	598	65,756

Legal reserve
The legal reserves are recognised in connection with capitalised development costs of € 6,142,721 (2020: € 2,758,915).

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 2021 to the retained earnings. This proposed appropriation of profit has been reflected in the Company's balance sheet per December 31, 2021.

Employee Stock option plan
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, it is management's judgment 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 comprehensive income and for the equity settled plan a corresponding adjustment to equity.

During 2021, management offered employee stock options to the value of € 91,758 (2020: € 241,266). The management board received options for a value of € 65,289, and the employees received options for a value of € 26,469.

7. Liabilities

Non-current liabilities

	2021 Current	Remaining term > 1 year	2020 Current	Remaining term > 1 year
	€	€	€	€
Subordinated loans	414,445	4,000,000	116,667	3,500,000
Convertible loan	114,594	114,594	114,594	229,188
	529,040	4,114,595	231,261	3,729,188

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.

The (average) contractual dates for resetting interest or repayment dates (if earlier) and effective interest rates of the aforementioned non-current liabilities are as follows:

	Interest reset date	Repayment date	Effective Interest rate
Convertible loan	01.10.2023	01.10.2023	5%

Notes to the Financial Statements

Current liabilities

Payables consist of the following:

	2021 €	2020 €
Short-term debt	529,040	231,261
Trade and other payables	7,950,788	2,580,773
Taxes and other social security charges	1,461,574	1,330,081
Value added tax	709,062	425,120
Other payables	6,145,229	1,080,487
Co-op reserve	545,233	1,027,542
Living wage bonus	57,955	7,069
	17,398,881	6,682,333

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 due at year end amounted to € 1,215,539 (2020: € 1,571,347).

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.

Living wage bonus

Notes to the Financial Statements

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

Current Income tax	**2021** **€**	**2020** **€**
Income tax	1,049,099	389,464
Deferred income tax asset	(2.188.141)	(2,399,384)
Total	(1,139,042)	(2,009,920

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 € 4,294,395.

Deferred tax asset

Deferred tax asset	3,148,962	2,009,920
Specification:		
Balance as at 1 January	2,009,920	0
Income tax	(1,049,099)	(389,464)
Increase	2,188,141	2,399,384
Balance as at 31 December	3,148,962	2,009,920

Notes to the Financial Statements

Deferred income tax
During 2021, we recognised the rest of the remaining deductible losses (€ 12,708,000), based on financial projections until 2025, which show increasing profits year on year. We increased the deferred tax asset by a net amount of €1,139,042.

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, 2021 is €293,565 and will be indexed annually.

Obligations to pay:	**2021** **€**
Within one year	293,565
Between one and five years	1,027,478
	1,321,043

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 a financing agreement on 21 December 2018 for financing of the receivables and a contingent liability facility to issue letters of credit. The financing agreement includes rights of pledge on the receivables, inventory and intellectual property. As per 31 December 2021 the financing was not drawn yet.

Notes to the Financial Statements

10. Provisions

Provisions consist of:

	2021 €	2021 Remaining term > 1 year €	2020 €	2020 Remaining term > 1 year €
Warranty	1,005,772	-	574,644	-
Royalties	1,386,425	1,386,425	1,226,020	1,226,020
Software maintenance	766,674	766,674	556,871	556,871
	3,158,871	2,153,099	2,357,536	1,782,891

	Warranty	Royalties	Software maintenance
Balance as at 1 January 2021	574,644	1,226,020	556,871
Additions	1,002,938	454,417	577,667
Release	-	(202,025)	(84,592)
Utilization	(571,810)	(91,987)	(283,272)
Balance as 31 December 2021	1,005,772	1,386,425	766,674

11. Net turnover

Net turnover consist of:

	2021 €	2020 €
Fairphones	32,727,223	32,628,312
Spare parts and accessories	3,727,903	2,702,363
Logistics fees	555,035	550,104
Payment fees	-	4,883
Repair fees	-	-
Other	(48,557)	44,709
	36,961,604	35,930,371

Notes to the Financial Statements

12. Cost of goods sold

Cost of goods sold consist of:

	2021 €	2020 €
Fairphones	18,215,539	17,706,421
Spare parts and accessories	2,753,528	1,626,055
Logistics fees	2,281,491	1,615,813
Cost of non-quality	965,834	(404,879)
Provision for impairment - Stock	(741,169)	(271,344)
Royalty provision	66,756	492,027
Other costs	1,692,358	1,301,289
	25,234,337	22,065,384

13. Employee cost

Employee cost consist of:

	2021 €	2020 €
Salaries and wages	4,593,831	5,054,361
Costs of work contracted out	969,294	-
Wages tax reduction	(551,919)	(186,497)
Employee Stock Option Plan (ESOP)	114,020	241,266
Sickness benefit payment	-	(62,922)
	5,125,226	5,046,208

Notes to the Financial Statements

Average number of employees
During 2021, we had 99 employees in Amsterdam, representing 93 FTE in Amsterdam. Of these employees, 1 was employed outside the Netherlands, in Germany (2020: 0).

FTE per department 2021 vs 2020

Department	**2021**	**2020**	***var.***
MT	3,9	3,9	*0,0*
Finance	3,0	3,0	*0,0*
Product Operations	6,0	4,0	*2,0*
Quality	1,9	1,0	*0,9*
IT & Software Longevity	8,8	9,6	*-0,8*
Operations	1,0	3,0	*-2,0*
Supply Chain	4,0	4,0	*0,0*
Aftersales	2,8	2,8	*0,0*
Customer Support	26,0	17,9	*8,1*
Legal	3,9	2,9	*1,0*
Commercial B2B	8,0	6,0	*2,0*
Commercial B2C	2,8	3,0	*-0,2*
Marketing	3,0	2,0	*1,0*
People	6,8	5,0	*1,8*
Brand	6,5	6,4	*0,1*
Impact Innovation	4,9	4,9	*0,0*
Total	**93,3**	**79,4**	***13,9***

Government subsidies
Subsidy with regard to research and development (‘WBSO’) for the amount of € 551,919. The subsidy has been deducted from wages and salaries.

Notes to the Financial Statements

14. Other operating expenses

Other operating expenses consist of:

	2021 €	2020 €
Marketing expenses	1,316,068	2,151,827
Other personnel expenses	229,477	208,221
General and administrative expense	1,699,922	1,483,913
Research cost	210,240	388,231
	3,455,707	4,232,192

15. Other operating income

Other operating income consists of:

	2021 €	2020 €
Net proceeds from claim settlement	3,495,308	-
	3,495,308	-

16. Financial income and expenses

Financial income and expenses consist of:

	2021 €	2020 €
Interest and similar income	-	(13)
Interest and similar expenses	592,752	390,367
Exchange differences	-	363,366
	592,752	753,720

Notes to the Financial Statements

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 € 73,437 (2020: € 75,832). 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 € 229,827 (2020: €255,295). This remuneration has been recorded under Employee costs *(Directors remuneration)*.

Notes to the Financial Statements

Subsequent events
The company has not identified any events after year-end which have not already been disclosed.

Amsterdam
April 21, 2021

Board of Directors

Eva Gouwens CEO & Managing Director	Noud Tillemans CFO & Managing Director

Supervisory Board

J. de Zwaan (chair)	A.S. Tabatznik
R. Pieterse	T. van der Put
B. van Abel	E. Blok
E. Meijer	

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 and supervisory board of FairPhone B.V.

A. Report on the audit of the financial statements 2021 included in the annual report

Our opinion
We have audited the financial statements 2021 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 2021, and of its result for 2021 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The financial statements comprise:
1 the company balance sheet as at 31 December 2021;
2 the company profit and loss account for 2021; 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.

B. 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 director's 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.

The board of directors is responsible for the preparation of the director’s 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.

C. Description of responsibilities regarding the financial statements

Responsibilities of the board of directors and the supervisory board for the financial statements
The board of directors 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, the board of directors is responsible for such internal control as the board of directors 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, the board of directors is responsible for assessing the company’s ability to continue as a going concern. Based on the financial reporting framework mentioned, the board of Directors should prepare the financial statements using the going concern basis of accounting unless the board of Directors either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

The board of directors 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.

We have exercised professional judgement and have maintained professional scepticism 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 company’s internal control;
- evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors;

- concluding on the appropriateness of the board of directors' 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 21, 2022

RSM Netherlands Accountants N.V.

Was signed

drs. J.W.A. van der Ham RA