Gigaset

ANNUAL REPORT

Creating best in class communications solutions for your life!

KEY FIGURES

€ millions	2013	2014	2015	2016	2017
Consolidated revenues	377.1	326.1	305.3	281.9	293.3
Earnings from core business before depreciation and amortization (EBITDA)	7.5[1]	17.5[1]	7.5	25.0	25.3
Operating result	-16.7[2]	-10.5[2]	-16.3	12.8	12.2
Consolidated net income/net loss for the financial year	-36.1	-16.6	-22.0	4.3	7.9
Free cash flow	-42.3	-12.1	-9.7	7.2	2.0
Earnings per share (diluted) in EUR	-0.61	-0.15	-0.17	0.03	0.06
Earnings per share in continuing operations	-0.59	-0.15	-0.17	0.03	0.06
Total assets	267.1	251.2	221.1	221.7	226.9
Consolidated equity	38.7	41.2	17.9	17.8	24.1
Equity ratio (in%)	14.5	16.4	8.1	8.0	10.6
Employees	1,429	1,366	1,270	1,061	930

1 Earnings before interest, taxes, depreciation and amortization (EBITDA)

2 earnings before interest, taxes and depreciation (EBIT)

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LETTER TO THE SHAREHOLDERS

Dear Shareholders,

We are very pleased to present you with good news right from the start: Gigaset AG successfully navigated the major sea change in 2016. After the change in leadership in the Executive Board, the initial lack of clarity regarding the orientation of the Company, and the start of a new and comprehensive restructuring program, Gigaset met all expectations with respect to all important figures in fiscal year 2017. That confirms impressively that the operating strategy developed by us centered on diversification and concentrating on new product fields was the right choice.

Gigaset increased its total revenue last year by 4.0% or EUR 11.4 million to EUR 293.3 million (2016: EUR 281.9 million), thereby achieving the sales goal of an increase in the lower double-digit millions of euros. While the operating environment in the core business with cordless telephones remained challenging, the Mobile Devices and Business Customers segments in particular contributed to the increase in sales revenue.

We have fundamentally repositioned the Company over the past two years and are now reaping the fruits of our labor. Gigaset is growing again for the first time in years – including noticeably with respect to earnings. For example, the result from the core business before depreciation and amortization (EBITDA) in fiscal year 2017 increased by 1.2% to EUR 25.3 million and thus slightly exceeded our own target of EUR 15 million to EUR 25 million.

Unfortunately, the share price has not yet reflected this positive performance. The Gigaset share started the year at EUR 0.835, reached its high for the year of EUR 0.846 already on January 4, 2017, and then trended sideways for a good half of the year. Beginning around mid-August, the price slid gradually to the

Stephan Mathys

Klaus Weßing

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low for the year of EUR 0.565 on November 28 and closed the year 2017 on December 29 at a price of EUR 0.572. After announcing solid business figures for the full year 2017, the price of the Gigaset share shot up to around EUR 0.74 at the beginning of 2018.

Now that the Company has been successfully reorganized and its operating structures have been adapted, we must pave the way in the next five years for Gigaset AG to have a successful and profitable future. With the help of a comprehensive investment program, we will confront the expected challenges and prepare the way into the third decade of the 21st century.

Our goal is to generate consistently rising annual revenue in the next five years and also to improve our return on sales as well as pre-tax profits. The set objectives are to be realized with the following operating strategy:

- Optimizing the Consumer Products segment by crowding out competitors and addressing new technologies and services in the IP segment for private customers.
- Expanding the Business Customers segment by developing, manufacturing, and distributing tailored telephony services for SME and enterprise customers.
- Expanding the Home Networks segment by continuously expanding our portfolio in the Smart Home Security segment and entering into new solution areas such as Smart Care.
- Expanding our Mobile Devices category through a growing product portfolio with optimum cost-effectiveness while simultaneously focusing on marketing and advertising activities in this area in order to rejuvenate the brand.
- Short to medium-term supplementation of the existing product ranges through new developments in the area of speech recognition, home networks, and an integrated solution portfolio between all products.

We rely on our qualified and highly motivated employees in order to achieve these demanding goals. We must also thank them for the successful implementation of the reorganization of the Company and what we have already achieved. We would like to express our gratitude for the commitment they have shown. We would also like to thank you, our shareholders, for your trust, and hope that we may continue to count on your support.

Sincerely,

Klaus Weßing, CEO   Stephan Mathys, CFO

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THE VISION & MISSION OF GIGASET AG

After its successful reorganization and adaptation of the operating strategy and/or structures and mechanisms in the Company, Gigaset AG has emerged from 2016 and 2017 stronger than before. However, in addition to the necessary adjustments in the operating business, the Executive Board considered it essential to use the momentum of the transformation that characterized the past two years to give the Company a new guiding principle for the future. Gigaset AG's new Vision & Mission, which is meant to underpin and guide the standard for the day-to-day activities of all of the Company's employees, was formulated accordingly.

Vision

"We create excellent communication solutions for your life!"

The Company's self-image has always been based on concentrating fully on customers and providing them with products and services of excellent quality. Realizing that the communications market is becoming increasingly integrated and undergoing processes of digitalization, and thereby creating more competition, the Company set the goal of establishing "best in class" as the standard for all actions within the Company in order to remain successful in the long term. This is how Gigaset AG intends to be the market leader in Europe and one of the leading international players.

Mission

The best employees: The Company focuses on the wishes of its customers; that is the basis of all activities. Our success is based on the expertise and passion of all the employees. Their commitment and enthusiasm makes it possible to create excellent products and services that simplify and enrich the lives of the customers.

The best collaboration: The perfect interlocking of all business functions along the value chain is what makes our products possible. In order to meet the Company's standards, it continually sets the highest goals for innovative development, design, functionality, sustainability, and smooth logistical interaction.

The best partner: Gigaset AG's objective is not simply to sell a product, but to be the best counterpart for its customers and partners. The Company strives for genuine customer loyalty. The customers' loyalty is earned not only with the product itself, but by working for it anew every day with excellent service and support.

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Gigaset AG's value model

Technical advances in the past few decades have dramatically changed many areas of communication, work and leisure time. This process did not leave Gigaset AG unaffected. The current Company evolved from the former corporate group into a medium-sized, all-in provider of communications solutions. The Company is geared toward developing and offering new solutions, focusing in particular on expanding its existing product offerings through new innovations, with a view to becoming a comprehensive provider of solutions and simplifying the lives of many people. Six core values that govern how we interact with one another and with third parties form the basis for this vision.

Transparency

The Company communicates central issues promptly and openly, internally as well as externally. This is the cornerstone for collaboration based on trust among one another as well as with the corporation's stakeholders.

Forward-looking approach

The Company focuses on targeted and planned actions, thereby securing the corporation's future while simultaneously creating a long-term perspective for stakeholders.

Entrepreneurial spirit

The Company considers its entrepreneurial responsibility to include always acting on its own initiative and pursuing goals in a structured manner, based on target groups and with a view to profitability.

Innovative capacity

The Company strives to actively shape the future. This is accomplished by always looking ahead, constantly evolving, and promoting a spirit of innovation within the Company.

Responsibility

Acting responsibly in the interest of the Company means acting responsibly in equal measure vis-à-vis colleagues, partners, customers, society as a whole, and the environment.

Credibility

The Company always conducts itself with respect for others and with a critical view of its own actions. Commitments are regarded as obligations, and agreed goals are pursued consistently and persistently.

INSIGHT INTO THE PRODUCT CENTER

Consumer Products

Consumer Products is the best revenue-generating product area within the Company. Compared with the competition, Gigaset offers a considerably broader portfolio of analog and digital telephony solutions with which it services a wide variety of target groups and implementation scenarios. More than 90% of the products are “Made in Germany”. Processing, material quality, and design are the benchmark for all other manufacturers.

The current strategy consists of gaining market share from other manufacturers in a hotly contested and shrinking market. Gigaset concentrates not only on individual market segments, such as designer telephones, but instead attempts to address all market segments with a comprehensive portfolio.

The HX handset portfolio in particular counts as one of the current product highlights that offers consumers the assurance of a future-proof design. No matter which DECT/CAT-iq basis or router is used, HX products are compatible. Product highlights also include the telephone solutions in the Elderly segment, where Gigaset offers a balanced portfolio with products for every need. For three years, growing unit figures in sales have documented that the standard C430 and A415 product families also count as important pillars of the portfolio.

In the future, the offering in this segment will evolve from purely hardware to solutions (hardware and services). The goal is to create a Gigaset ecosystem with a fully interconnected Gigaset product world, together with the Company’s other segments.

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Business Customers

Business Customers designs and develops communications products and solutions for the Business Customers segment. The current offering is characterized by a sharp focus on business customer products for the SME market, but is being expanded through partnerships with third parties to include major customers. Corded IP telephony and IP-based DECT systems for mobile telephoning at the workplace represent the portfolio's key pillars. Thus, Gigaset is positioning itself as a manufacturer that can offer corded and cordless consumer devices as well as systems for the provision of a mobile in-house network from one source. The offering is based largely on the same software, which represents a substantial added value for technology partners and dealers. Gigaset can also differentiate itself from the competition in this segment thanks to its customer focus, local support and the "Made in Germany" label.

At a strategic level, the further expansion of the market share in the segment for IP desk telephones will be based on the Maxwell series (various desk telephones at different price points) as well as focused on the area of on-site cordless telephony. As a consequence, the Maxwell series was rounded out with additional devices in 2017 and will also be further expanded in 2018 in order to offer business customers a portfolio for different types of users and scenarios. At the same time, the entire portfolio is being further developed so that it may be integrated into the widest variety of communication systems possible (for example, telephone systems and unified communication systems) in order to expand the range of potential uses – and therefore the number of potential customers. With respect to cordless telephony for companies, Gigaset is focused on increasing the scalability and performance of its multi-cell systems so that it can also place more solutions in the segment of major customers.

In the area of IP telephony, the Maxwell series is a key pillar of the product portfolio. Corded consumer devices are available for a variety of needs with the models Maxwell Basic, Maxwell 2, Maxwell 3, the Maxwell expansion module, and the Maxwell 10S as an Android-based high-end table device. This series from Gigaset addresses the growing market for IP telephones in the corporate customer segment, driven by the technology transformation taking place in the direction of IP, including more and more cloud-based communications systems. The sustained trend toward IP-based communication also forms the basis for the continuous demand for IP-based systems for on-site cordless telephony. This development is serviced by Gigaset IP-DECT systems of the N-series (N510, N720) for small and medium-sized enterprises. Thus, IP-DECT systems represent another area of focus in the product portfolio. With the further development in 2017 in the direction of increased scalability and performance, it will be possible to address additional market segments in the future.

Strategically, the business customers portfolio will focus on office communications in the future, which feature corded as well as cordless consumer devices and systems that can be used to communicate with other devices on-site as well as anywhere off-site. Gigaset will also address the SoHo segment in the future and in this context is striving for further evolution in the area of all-in-one solutions.

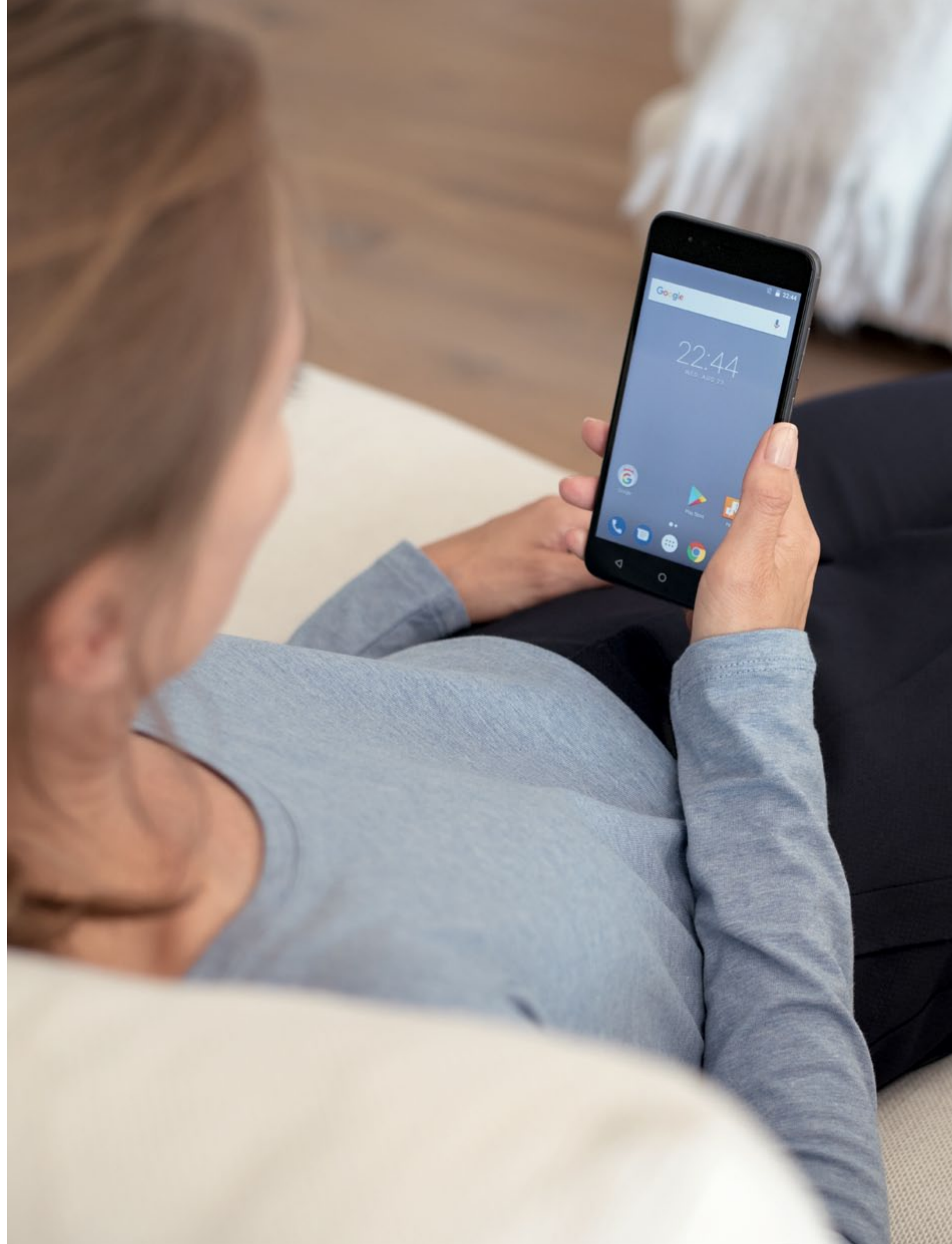
Mobile Devices

Mobile Devices was reestablished in 2016 and concerns itself with the provision of competitive smartphone products. Currently, the smartphones are made available for the classic retail channels as well as in online shops.

The portfolio was expanded in 2017 from the entry-level class up to the mid-range with a conservative approach. The Gigaset brand's good reputation as well as the high standard of quality from the DECT core business is being transferred to the smartphone segment. With respect to the product definition, particular attention is paid to meeting the customers' needs from the German and European market. Therefore, high value was placed on a long-lasting battery with sufficient processor performance and a high degree of data security. In addition to a good cost-benefit ratio, Gigaset sets itself apart with a two-year manufacturers' warranty that also includes built-in batteries. With a view to ecological sustainability, defective devices are repaired to the extent possible instead of exchanging them for new ones and disposing of the old devices. This repair service is provided at the German Gigaset location in Bocholt. Short throughput times are achieved in this manner so that the customer receives his repaired device within a few days. In many cases, the complete refurbishment of an exchanged smartphone can be avoided this way.

In mid-2017, the GS170 – a follow-on product to the GS160 from 2016 that is improved in many aspects – was presented in the entry-level segment. The entry into the mid-range was then completed in September 2017 with the GS270 and GS270 plus. These products satisfy with a large battery in conjunction with a premium display and a high-performance processor. The mid-price segment was further expanded later in the year with the GS370 and GS370 plus. Gigaset bet for the first time on a panorama display as well as on a dual camera in order to introduce exciting new features.

With growing relevance in the smartphone segment, Gigaset plans to concentrate specifically on special customer needs and to service these needs with new products and production concepts. Integration into the Gigaset ECO system will be another driver for profitable sales growth.



Home Networks

The Home Networks Product Center is responsible for Smart Home products from Gigaset. Known under the brand name Gigaset elements, a comprehensive security solution was developed here for the modern home over the past year. The approach is based on a modular and flexible hardware concept comprising various sensors that can be combined as desired by the customer. The data from the sensors is managed through the Gigaset Cloud, from where the customer is also informed about various security-relevant events in his home.

One of the most comprehensive and at the same time most flexible Smart Home offerings on the entire market was created with Gigaset elements. The system impresses in particular because it is easy to install, the menu is easy to navigate, and there are no associated ongoing costs for the customers, while the software is continuously further developed, enticing the customers to make further purchases.

The Smart Home market is driven by the market acceptance of various virtual personal assistants (VPA) such as Amazon Echo and Google Assistant, while customers develop the need for comfort functions that will ensure further sales both in home automation as well as in home entertainment.

Gigaset will therefore present itself increasingly as an integrator and connectivity platform with a product portfolio for security and cross-system controls in home automation. Gigaset is also planning to enter the market segment for Ambient Assisted Living Systems, for which an annual rate of growth of 55.62% is forecast by 2021 according to Statista Digital Market Outlook 2016[1]. The foundation for this step was laid in 2017.

1. Statista 2016 – Digital Market Outlook (Page: 20)

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CAPITAL MARKET AND SHARE

The trend in the financial markets in the first half of 2017 was again characterized by the decisions made by central banks, whereby geopolitical issues also moved the stock markets. In the first half of the year, the focus was on the presidential election in France and the implementation of the political goals of U.S. President Donald Trump as well as the parliamentary elections in the UK. The nascent conflict between the U.S.A. and North Korea and the crisis in Qatar only unsettled investors temporarily. The economic data in Europe and the U.S.A. turned out to be satisfactory on the whole and ensured that investors were in a good mood. In particular technology stocks as well as small caps experienced above-average cash inflows in the first six months of the year and performed much better than blue chips. A lack of investment alternatives due to the European Central Bank's persistent policy of low interest rates continued to steer money toward equities and provided for new record levels on the part of indices. The SDAX climbed to a new high mark of 11,337 points at the beginning of June, while the DAX did not reach its new record of 12,951 points until well into the month. As the U.S. Federal Reserve subsequently raised its key interest rate as expected for the second time over the course of the year, it presented a surprisingly ambitious outlook, which created uncertainty on the part of investors, who began selling off their shares. Technology stocks were among the biggest losers, but small and mid-caps outside of the tech sector were also beset by hefty profit-taking. Stock markets recovered over the further course of the year and again posted clear price gains. Satisfactory quarterly reports by companies as well as solid economic data on both sides of the Atlantic supported the trend and provided for investor confidence. The conflict with North Korea and the extremely dangerous hurricane Irma created temporary insecurity, but only had a brief negative impact on share prices. Central banks only had a limited influence on stock markets as there were no major changes in their monetary policies. The increase in the growth forecast for the eurozone by the European Central Bank ECB convinced investors that the economy was healthy. The U.S. Fed's signal for another interest rate hike in December and the reduction of monthly bond purchases were evaluated as evidence of its economic optimism. After the conflict with North Korea slipped more and more into the background and the German Bundestag elections also generated no additional momentum, the outlook for tax reform in the near future in the U.S.A. propelled stock markets to new records. Based on the above-average positive performance of global stock markets, companies had meanwhile reached very ambitious valuations. The DAX hit its highest mark of 13,525 points at the beginning of November and the MDAX, SDAX and TecDAX also reached new record levels. Disappointing corporate earnings and renewed doubts about the success of the U.S. tax reform brought an end to the enthusiasm and provided for hefty profit-taking in the final quarter of the year. Nevertheless, the U.S. stock markets at least recovered quickly and reached new record levels at the beginning of December. Solid economic data on both sides of the Atlantic satisfied investors and signaled a recovery. Only technology stocks did not fully recover and remained among the losers. In contrast, the upturn in equity prices in Europe was held back by the strength of the euro, which appreciated in value again at the end of the year, closing 2017 with a plus of 14.15 percent at 1.2005. The DAX only increased by 12.51%, whereas the SDAX rose by 24.87%. The MDAX gained 18.08% in 2017 and the TecDAX took the lead with a gain of 39.59%. On Wall Street, technology stocks were also ahead and the Nasdaq Composite gained 28.24%, while the Dow Jones rose by 25.08% and the S&P 500 Index posted a gain of 19.42%.

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Gigaset share price negatively impacted by profit-taking

After the Gigaset share's record-breaking run in 2016, the share price consolidated in 2017 and distanced itself from its record levels over the course of the year. In the first few months, the share performed moderately with a slightly downward trend. Due to the solid price performance in the previous year, profits were now being taken and the share price declined to EUR 0.70 by the end of April. The introduction of the new Gigaset smartphone at the beginning of May increased the confidence of the investors and the share posted clear price gains. By mid-May it had climbed again to EUR 0.85, but the trend was inconsistent for the rest of the year. In a declining stock market environment, the share price of Gigaset AG also fell and had slid to EUR 0.69 in July. Positive corporate reports helped boost the share in August and it was quoted again near its peak price for the year. Despite the satisfactory business trend, the share was unable to defend this level and was increasingly exposed to profit-taking. The German stock markets, which were also trending downward at the end of the year, did not provide any support. Thus, the Gigaset share closed the year at EUR 0.609.

Dividends

For fiscal year 2017, a decision was made not to pay out any dividends.

Shareholder structure

As defined by Deutsche Börse AG, 73.5% of shares of Gigaset AG continue to be held by an institutional investor, Goldin Fund Pte. Ltd. from Singapore. Transactions entered into by managers of Gigaset AG are published on the Company's website in compliance with the German Securities Trading Act (Wertpapierhandelsgesetz, WpHG). Detailed information regarding the shares and options held by the Executive Board and Supervisory Board as well as the securities transactions on the part of members of the Company's governing bodies requiring disclosure can be found in the Section on Corporate Governance in this annual report.

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CORPORATE GOVERNANCE REPORT

Gigaset AG understands corporate governance as a process that is continuously developed and improved. With only a few exceptions, Gigaset AG complies with the German Corporate Governance Code (the "Code"), which was adopted in 2002 and most recently revised on February 7, 2017.

Management and control structure – Supervisory Board

As a German stock corporation, Gigaset AG is bound by laws governing German stock corporations and therefore has a two-tiered management and control structure.

The Supervisory Board appoints the members of the Executive Board and determines the allocation of duties. It monitors the Executive Board's management of the business. The Supervisory Board discusses the planning and business development as well as the strategy and its implementation. In addition to dealing with the quarterly reports, Gigaset AG's annual financial statements and the consolidated financial statements are discussed and approved under consideration of the auditor's long-form audit reports and results of the review conducted by the Audit Committee. The Supervisory Board formed an Audit Committee for this purpose.

The Supervisory Board set up a Personnel Committee tasked with assisting and advising the Supervisory Board in its duties related to the legal relationships of the Executive Board members (including remuneration and bonuses).

Management and control structure – Executive Board

The Executive Board is the Group's managing body and is obligated to act in the Company's best interest. Its decisions are oriented on permanently increasing the value of the Company. It bears responsibility for the Company's strategic orientation and planning and establishing its budget. The Executive Board's responsibilities include preparing the quarterly financial statements, the annual financial statements, and the consolidated financial statements. The Executive Board works closely together with the Supervisory Board, which it regularly and comprehensively informs of all relevant questions regarding the Company's cash flows and financial performance, strategic planning and business development, and entrepreneurial risks.

Securities transactions by the Executive Board and Supervisory Board requiring disclosure

Members of the Executive Board and the Supervisory Board as well as their related parties are obligated in accordance with Art. 19 of the Market Abuse Regulation (EU) No. 596/2014 (MAR), to report to Gigaset AG and the German Federal Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht, BaFin) transactions involving shares or debt instruments of Gigaset AG or other associated financial instruments conducted by persons discharging managerial responsibilities ("managers' transactions"), if the value of the transactions carried out within a calendar year reaches or exceeds the sum of EUR 5,000.00 ("Directors' Dealings").

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The Company did not receive any notifications regarding Directors Dealings in accordance with Art. 19 of the Market Abuse Regulation (EU) No. 596/2014 before the balance sheet was prepared on March 29, 2018.

Declaration of conformity

The Executive Board and Supervisory Board of Gigaset AG submitted the declaration of conformity with the German Corporate Governance Code on February 27 / March 8, 2018, in the version dated February 7, 2017, as required under section 161 of the German Stock Corporation Act (Aktiengesetz, AktG) and then made it permanently and publicly available to the shareholders on the Company's website (http://www.gigaset.com/de_de/cms/gigaset-ag/investor-relations/unternehmen/corporate-governance.html) on March 14, 2018. The Executive Board and Supervisory Board of Gigaset AG declare their past and future compliance – with few exceptions – with the recommendations of the Regierungskommission Deutscher Corporate Governance Kodex ("The Commission") in the version dated February 7, 2017, published by the Federal Ministry of Justice and Consumer Protection in the official section of the Federal Gazette on April 24, 2017 (correction of the publication on May 19, 2017). The Declaration of Conformity itself and the statements on the exceptions are reproduced verbatim at the specified location.

Remuneration of the Executive Board

The duties and contribution of the respective Executive Board member are taken into account when determining their remuneration. Their compensation in fiscal year 2017 comprises a fixed annual salary as well as success-related components (bonuses, variable compensation). The separate components are:

- The fixed remuneration is paid out monthly in 12 equal payments as a salary.
- The variable remuneration for the Executive Board members is based on company agreements and/or personal goals defined in bonus agreements
- Personally-defined goals and objectives have also been agreed with Executive Board members based on qualitative milestones

Thus, there are variable remuneration agreements for the members of the Executive Board based on company and/or performance-based bonus agreements and in some cases also based on personal goals with qualitative milestones. The goals were discussed with the Chairman of the Company's Supervisory Board and with the Executive Board members at the beginning of the fiscal year or at the beginning of work as an Executive Board member. The Chairman of the Supervisory Board decides on the achievement of the respective goals based on the individual agreements.

Remuneration of the Supervisory Board

As a result of a resolution adopted by the Extraordinary General Meeting held on December 19, 2013, the remuneration scheme below, which was amended in a resolution adopted by the Annual General Meeting on August 17, 2017, regarding the remuneration of the Supervisory Board members in Section 1 "Base remuneration" as well as with respect to its period of validity, is applied retroactively as of August 15, 2013. The entire remuneration scheme is as follows:

"In accordance with section 113 of the German Stock Corporation Act (Aktiengesetz, AktG) and article 12(2) of the Company's Articles of Association, the Annual General Meeting approves the following remuneration for the members of Gigaset AG's Supervisory Board:

1. *Base remuneration. Every member of the Supervisory Board receives a fixed salary of EUR 5,000.00 ("base remuneration") for every month or partial month of their term of office ("accounting month"). The beginning and end of every accounting month are determined based on sections 187(1), 188(2) of the German Civil Code (Bürgerliches Gesetzbuch, BGB). The claim to base remuneration arises at the end of the accounting month.*

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2. *Remuneration for participating in meetings. Every member of the Supervisory Board receives a payment of EUR 1,000.00 for participating in a Supervisory Board or committee meeting convened in accordance with the Articles of Association. Telephonic participation in the meeting as well as submission of a vote in writing in accordance with article 9(3) sentence 2 of the Articles of Association is equivalent to participating in the meeting. Multiple meetings of the same body on the same day are compensated as one meeting. The claim to compensation for attending a meeting arises when the minutes of the meeting are signed by the Chairman or Committee Chairman. The basis for the claims can only be proven by the minutes of the meeting in accordance with section 107(2) AktG.*

3. *Remuneration for adopting a resolution outside of meetings. Every member of the Supervisory Board receives a salary of EUR 1,000.00 for submitting their vote during the adoption of a resolution in writing, by fax, by telephone, by e-mail, or by other means of telecommunication or data transmission outside of a meeting in accordance with article 9(4) of the Articles of Association ordered in any particular case by the Chairman. Multiple resolutions adopted outside of a meeting on the same day will be compensated as a single claim. The claim to compensation for adopting a resolution arises when the minutes of the resolution are signed by the Chairman or Committee Chairman. The basis for the claims can only be proven by the minutes of the resolution.*

4. *Remuneration of the Chairman. The Chairman of the Supervisory Board receives an additional 100% and the Vice Chairman of the Supervisory Board receives an additional 50% of all remuneration specified in articles 1 to 3.*

5. *Reimbursement of expenses. The Company reimburses the Supervisory Board members for expenses and any value added tax on remuneration or expenses incurred while performing the duties of their office. The claim to reimbursement of expenses arises when the expenses are personally paid by the Supervisory Board member.*

6. *Origination of claim and due date. All payment claims are due 21 days after the Company receives an invoice satisfying the requirements of a proper invoice. If a claim is asserted for the reimbursement of expenses, copies of receipts for the expenses must be attached to the invoice. The Company is authorized to make payments in advance of the due date.*

7. *Insurance. The Company must take out a D&O insurance policy for the benefit of Supervisory Board members that covers the statutory liability relating to their activities on the Supervisory Board.*

8. *Duration. This remuneration scheme takes effect retroactively as of August 15, 2013, and remains in force until replaced by an Annual General Meeting. This remuneration scheme replaces the remuneration scheme resolved by the Annual General Meeting on August 14, 2013, which is at the same time retroactively annulled. If compensation has already been paid based on the annulled remuneration scheme, it is to be applied against claims to payment under the new scheme.*

   The resolved amendment of the base remuneration takes effect on August 18, 2017, and applies for the first time for accounting months beginning after August 18, 2017. It remains in effect until the Annual General Meeting adopts a new resolution."

Shareholdings of the Executive Board and Supervisory Board

The Company asked the members of its Executive and Supervisory Boards how many shares of Gigaset AG they hold.

According to their own statements, the members of the Executive Board did not hold any shares of Gigaset AG at the balance sheet date or on the date of their retirement. According to their own admission, the current members of the Supervisory Board hold 13,264 shares of Gigaset AG as of the balance sheet

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date. This corresponds to a share of approximately 0.1 per thousand of the issued shares.

The shareholdings of the Executive Board and Supervisory Board can be broken down to the individual members of the Executive and Supervisory Boards as follows:

Executive board	Number of shares on December 31, 2017, or on the date of their retirement	Number of shares as of the date on which the balance sheet was prepared
Klaus Weßing (Chairman of the Executive Board, since December 15, 2015)	0	0
Hans-Henning Doerr (Executive Board, from December 15, 2015, to July 24, 2017)	0	0
Guoyu Du (Executive Board, since June 1, 2015)	0	0
Supervisory Board		
Bernhard Riedel	3,264	3,264
Ulrich Burkhard	0	0
Paolo Vittorio Di Fraia	10,000	10,000
Hau Yan Helvin Wong	0	0
Prof. Xiaojian Huang	0	0
Flora Ka Yan Shiu	0	0
Hau Yan Helvin Wong	0	0
Prof. Xiaojian Huang	0	0
Flora Ka Yan Shiu	0	0

Other information regarding corporate governance at Gigaset AG

Detailed information regarding the activities of the Supervisory Board and the collaboration between the Supervisory Board and Executive Board can be found in the report of the Supervisory Board in this annual report.

Current developments and important information such as ad hoc and press releases, annual and interim reports, the financial calendar with important dates for Gigaset AG, securities transactions requiring disclosure ("Directors' Dealings") and information regarding the annual shareholders' meeting are always made available in due course on our homepage www.gigaset.com.

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REPORT OF THE SUPERVISORY BOARD

The Supervisory Board closely followed the Company and its Executive Board in all significant transactions in 2017. This can also be seen in the high number of meetings held every four to six weeks, which exceeds the minimum requirements set forth under section 110(3) of the German Stock Corporation Act (Aktiengesetz, AktG).

The past fiscal year was once again eventful for Gigaset AG. A successful restructuring project was resolved at the end of 2015 that should lead to cost-savings across the entire organization, not least in personnel costs. This restructuring program continued to be implemented in the past fiscal year. As of December 31, 2017, a substantial amount of further savings was recorded. Despite further reductions in the number of personnel, the Company successfully continued its activities. In addition, new forward-looking projects were begun as part of the operating strategy resolved in 2016. The mostimportant example is the successful establishment of a smartphone portfolio in the EUR 150.00 – EUR 300.00 price segment, which not only addressed new customer groups, but also made a significant contribution to sales revenue.

Collaboration with the Executive Board

The Supervisory Board collaborated constructively with the members of the Executive Board over the entire course of the 2017 fiscal year. The Supervisory Board discharged all its duties as required by law and the Articles of Association and monitored and also advised the Executive Board in its work.

In particular, the Management regularly provides the Supervisory Board with a comprehensive overview of the development of the business, in particular sales revenue and the position of the Company since the last report, in the form of reports on the course of business as stipulated under section 90(1) no. 3 AktG. The Supervisory Board required the Executive Board to provide precise and clear presentations detailing the Company's performance, the current situation, and the reasons for this, including an appropriate analysis and the associated figures. The Supervisory Board also discussed and scrutinized the budgets in order to evaluate the transactions, the financial situation, the Company's financial performance and liquidity, the market situation and the specifics regarding business performance as well as the significant risks to future development. To the extent necessary, the Executive Board reported on important occasions directly to the Chairman of the Supervisory Board outside of the regular meetings,

whereby the Supervisory Board was able to rely on the excellent expertise of some of its members, in particular in the areas of telecommunications, M&A, and financing.

Other regular topics of discussion included compliance, the risk position and risk management, the early risk identification system, the development of liquidity and the budget, and basic questions regarding corporate policy and strategy.

Activity of the Supervisory Board

The Supervisory Board discharged its duties as part of meetings that took place every four to six weeks. In these meetings, the Supervisory Board routinely deals with the reports of the Executive Board on finance and investment and human resource planning, as well as the implementation of corporate strategies, including the resulting intermediate and long-term opportunities for growth. In addition, the Supervisory Board also provided advice on the financing of the Company and its growth in 2017. Special emphasis was placed on the Company's liquidity situation as well as the nature and scope of contingent liabilities. Furthermore, the Supervisory Board also dealt intensively with the

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Company's internal organization. Furthermore, as in previous years, the Supervisory Board continued to address the clarification and elimination risks from the Company's past.

The Supervisory Board questioned the Executive Board critically regarding its reports, current developments, and pending decisions. The documents presented by the Executive Board were reviewed and scrutinized. Moreover, periodic meetings were held between the Chairman of the Supervisory Board and the members of the Executive Board. In these meetings, the Management was questioned about current developments, pending decisions were discussed in detail, and resolutions of the Supervisory Board were prepared.

Supervisory Board meetings in 2017

The Supervisory Board convened for a total of twelve meetings in fiscal year 2017, namely on January 26, 2017, February 21, 2017, March 31, 2017, April 20, 2017, May 18, 2017, June 8, 2017, July 24, 2017, August 16, 2017, August 17, 2017, September 28, 2017, and November 16, 2017, as well as December 6, 2017.

The auditor selected by the Annual General Meeting, PricewaterhouseCoopers GmbH WPG, was also present at the meeting to adopt the financial statements for the 2016 fiscal year held on April 20, 2017.

The Supervisory Board formed an Audit Committee and a Personnel Committee.

Activity of the Audit Committee

The Audit Committee convened in preparation of the Supervisory Board meeting to adopt the financial statements held on April 20, 2017, as well as on May 18, 2017, August 16, 2017, and November 16, 2017. It received reports from both the Executive Board and the auditor and critically reviewed the Company's interim and quarterly financial reports. In general, the Audit Committee dealt in particular with the monitoring of the accounting process, the effectiveness of the internal control system, the risk management system, and the internal auditing system, as well as the audit of the financial statements – in particular with the additional services rendered by the auditor. The activities of the Audit Committee in connection with the audit comprised in particular the interim audit of the annual financial statements (and the consolidated financial statements) as well as the management report (and the Group management report), including the validity and usefulness of the annual, half-yearly, and quarterly financial reports. Furthermore, the Audit Committee also addressed the accounting process per se, including the principles and methods of accounting and the relevant precautionary measures. With regard to the monitoring of the internal control system and the risk management system, the Audit Committee monitored these systems and inspected whether the Executive Board had installed corresponding systems, whether the nature and concept of the systems set up by the Executive Board were adequate, and whether these systems were in fact completed in such manner that they meet their intended requirements. The Audit Committee presented the Supervisory Board with a recommendation for the auditor to be elected by the Annual General Meeting. Furthermore, the Audit Committee monitored the auditor with respect to his independence and also discussed the areas of audit emphasis and major audit topics. In this context, the Audit Committee worked toward the submission of the auditor's statement of independence and reviewed the accuracy of these statements in the run-up to the proposal to the Annual General Meeting.

Activity of the Personnel Committee

The Personnel Committee convened on May 16, 2017, June 27, 2017, November 15, 2017, November 16, 2017, and on December 4, 2017.

The Personnel Committee's responsibilities included the preparation of personnel decisions, insofar as they are reserved for plenary meetings due to the prohibition on the delegation of duties, in particular the submission of recom-

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mendations regarding the appointment and dismissal of members of the Executive Board and regarding the remuneration components of the employment contracts to be formed with the Executive Board members. In addition, the Personnel Committee prepared the proposals on the respective appointments. In fiscal year 2017, it focused on the search for as well as the selection and appointment of a new CFO.

Corporate Governance

The Supervisory Board, together with the Executive Board, was responsible for the application and further development of the standards for sound and responsible management in accordance with the German Stock Corporation Act (Aktiengesetz) and the German Corporate Governance Code.

On February 27 / March 8, 2018, the Executive Board and Supervisory Board of Gigaset AG submitted the annual declaration of conformity with the German Corporate Governance Code in the version dated February 7, 2017, as required under section 2018 of the German Stock Corporation Act and made it permanently available to the shareholders on the Company's website (www.gigaset.ag).

The Executive Board and Supervisory Board of Gigaset AG thereby declare that, with few exceptions, they have complied and will comply in the future with the Code Commission's recommendations regarding the management and supervision of the enterprise published in the electronic Federal Gazette in the current version.

Corresponding to the recommendations of the Code, the Supervisory Board received a declaration of independence from the auditor on June 27, 2017, stating that there are no professional, financial, or other relationships between the auditor and the Company that could justify doubts regarding the auditor's independence.

Separate non-financial Group report pursuant to section 315b HGB

The Executive Board submitted the non-financial report prepared by the company in accordance with section 315b HGB to the Supervisory Board in due time and the Supervisory Board reviewed it. In preparation for the review and resolution by the Supervisory Board, the Audit Committee first dealt extensively with the aforementioned documents. The Executive Board explained the separate non-financial Group report pursuant to section 315b HGB to the Audit Committee in detail at the Supervisory Board meeting of April 26, 2018. The Executive Board also answered the questions of the Audit Committee members. The Audit Committee assured itself that the separate non-financial report was properly prepared. It concluded that this report fulfills the legal requirements. The Audit Committee recommended to the Supervisory Board not to raise any objections to the separate non-financial Group report pursuant to section 315b HGB.

The Supervisory Board performed its final review at its meeting of April 26, 2018, with due regard to the resolution and recommendation of the Audit Committee. The Executive Board also attended this meeting, explained the separate non-financial Group report and answered the questions of the Supervisory Board members. Based on this review and the report presented by the Audit Committee, the Supervisory Board assured itself that the separate non-financial Group report pursuant to section 315b HGB was properly prepared and reviewed. In particular, it concluded that the report fulfills the legal requirements. The Supervisory Board checked the separate non-financial Group report particularly for completeness and accuracy. No reasons for objections were found in this review. Based on the recommendation of the Audit Committee and the final result of the review conducted by the Supervisory Board, no objections are to be raised against the separate non-financial Group report pursuant to section 315b HGB.

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Risk management

The Supervisory Board dealt with the issue of risk in detail in 2017, in particular with the risk management system. The Executive Board reported extensively on the risk situation and key individual risks. The structure and function of Gigaset AG's risk management system were reviewed in accordance with section 317(4) of the German Commercial Code (Handelsgesetzbuch, HGB) and confirmed by the auditor and the result was discussed with the Supervisory Board.

Personnel matters of the Executive Board

Hans-Henning Doerr resigned from the Company's Executive Board for personal reasons effective immediately with a letter dated July 24, 2017. In its meeting held on the same date, the Supervisory Board approved a termination agreement with Mr. Doerr as well as an immediate release from the duties of his employment.

In its meeting held on December 6, 2017, the Supervisory Board resolved not to extend the executive employment contract with Mr. Guoyou ("David") Du expiring on December 31, 2017, as well as to not extend his appointment to the Executive Board; consequently, Mr. Du retired from the Company upon the expiration of December 31, 2017.

The Supervisory Board appointed Stephan Mathys as a member of the Company's Executive Board as well as the new Chief Financial Officer (CFO) for a period of three years effective February 1, 2018, with a circular resolution dated December 18 / 20, 2017.

As a consequence of these changes, the Executive Board comprised Klaus Weßing (Chairman of the Executive Board) and David Du on December 31, 2017. All sitting members of the Executive Board represent the Company in accordance with the Articles of Association; in addition, Mr. Weßing is authorized to carry out legal transactions in the name of the Company with themselves as the representative of a third party.

Personnel matters of the Supervisory Board

As in the previous year, the members of the Supervisory Board in the reporting period were: Bernhard Riedel (Chairman), Helvin (Hau Yan) Wong (Vice Chairman), Ulrich Burkhardt, Paolo Vittorio Di Fraia, Prof. Xiaojian Huang, and Flora (Ka Yan) Shiu. All aforementioned Supervisory Board members joined the Supervisory Board in the years 2013 or 2014 and were active members of the Supervisory Board until the Annual General Meeting and their appointments were confirmed by the Company's Annual General Meeting on August 17, 2017. Consequently, the Supervisory Board continued to comprise Bernhard Riedel (Chairman), Helvin (Hau Yan) Wong (Vice Chairman), Ulrich Burkhardt, Paolo Vittorio Di Fraia, Prof. Xiaojian Huang, and Flora (Ka Yan) Shiu at the time of this report.

Comments on the management report

With respect to the comments regarding the management report in accordance with section 171 AktG, please refer to the disclosures in the management report regarding sections 289(4), 315(4) HGB. Information related to the Company's subscribed capital, the provisions governing the appointment and removal of members of the Executive Board, the amendment of the Articles of Association, the authorizations of the Executive Board, and shares to be issued or redeemed can be found in the combined management report of the Company.

Audit of the annual and consolidated financial statements

The Executive Board presented the Supervisory Board with the prepared annual financial statements, the consolidated financial statements, and the group management report combined with the management report as well as its proposal on the appropriation of the unappropriated surplus on April 11, 2018.

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PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, which was appointed as the auditor and Group auditor ("auditor") by the Annual General Meeting for fiscal year 2017 upon recommendation by the Audit Committee and in accordance with the election proposal of the entire Supervisory Board, audited the annual financial statements as of December 31, 2017, as well as the consolidated financial statements as of December 31, 2017, including the respective management reports and issued an unqualified auditors' report in each case.

The Audit Committee and the Supervisory Board both reviewed the annual financial statements at length and provided advice in their respective meetings to adopt the financial statements held on April 26, 2018.

Prior to the adoption of a resolution by the Audit Committee regarding its recommendation to the Supervisory Board with respect to the election proposal to the Annual General Meeting, the auditor declared there are no business, financial, personal, or other relationships between the auditor and his governing bodies and chief auditors on the one hand and the Company and the members of its governing bodies on the other hand that could justify doubts regarding his independence. This declaration also included a statement regarding the extent of other services rendered for the Company in the preceding fiscal year as well as the extent of such services contractually agreed at that time for the following year. In connection with this, the Audit Committee examined and confirmed the existence of the requisite independence. The Supervisory Board was informed of the result of this examination before it adopted its resolution regarding the election proposal to the Annual General Meeting. The auditor also confirmed to the Audit Committee as well as to the Supervisory Board in their meetings to adopt the financial statements held on April 26, 2018, that there are no circumstances that would arouse concerns of a lack of impartiality on his part. In this context, he also presented information regarding services rendered in addition to the audit services. The Audit Committee reported to the Supervisory Board in its meeting held on April 26, 2018, on its monitoring of the auditor's independence in consideration of the non-audit-related services rendered and its assessment that the auditor continues to possess the requisite independence.

The auditor presented the Supervisory Board with his report regarding the nature and scope as well as the result of his audit (long-form audit report). The aforementioned financial statement documents, the auditor's long-form audit report, and the Executive Board's proposal on the utilization of the net profit for the year were all promptly provided to the Supervisory Board members.

The Supervisory Board for its part reviewed the documents presented by the Executive Board and the auditor's long-form audit report.

In preparation for the review and decision on the part of the Supervisory Board, the Audit Committee first studied the aforementioned documents in detail.

In its meeting held on April 26, 2018, the Audit Committee heard detailed comments by the Executive Board regarding the annual financial statements, the consolidated financial statements, and the combined management report and group management report as well as its proposal on the utilization of the net profit for the year. Furthermore, the Audit Committee members' questions were answered. In addition, the auditor, who also participated in the meeting, reported on his audit, in particular the areas of audit emphasis defined in consultation with the Audit Committee and the Supervisory Board and the primary results of the audit and commented on his long-form audit report. No material weaknesses of the internal control system, the risk management system, or the accounting process were identified by the auditor. The members of the Audit Committee acknowledged the long-form audit report and the auditors' report, critically reviewed them, and also discussed them with the auditor as with the audit, which included questions regarding the nature and scope of the audit as well as the results of the audit, whereby the Audit Committee satisfied itself of the propriety of the audit and the long-form audit report. It was satisfied in particular that the audit report – as also the audit performed by the auditor – complied with the legal requirements. The Audit Committee shares the auditor's assessment that the internal controls and the risk management system, in particular also with respect to the accounting process, do not exhibit any material weaknesses. The Audit Committee recommended that the Supervisory Board approve the results of the auditor's audit and – since in his opinion there are no objections to be

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raised against the documents presented by the Executive Board – also endorse the annual financial statements, the consolidated financial statements, and the combined management report and group management report and endorse the Executive Board's proposal on the utilization of the net profit for the year.

The Supervisory Board's final review of the annual financial statements, consolidated financial statements, and the combined management report and group management report as well as the Executive Board's proposal on the utilization of the net profit for the year was conducted during the Supervisory Board meeting held on April 26, 2018, under consideration of the Audit Committee's report and recommendations as well as the auditor's long-form audit report. The Executive Board participated in this meeting, commented on the documents it presented and answered the Supervisory Board members' questions. The auditor also participated in this meeting and reported on his audit as well as the significant results of the audit and answered the Supervisory Board members's questions, in particular regarding the nature and scope of the audit and the audit results. Through this and on the basis of the report issued by the Audit Committee, the Supervisory Board satisfied itself of the propriety of the audit and the long-form audit report. Following the recommendation of the Audit Committee, the Supervisory Board approved the results of the auditor's audit.

Based on the final result of the review conducted by the Supervisory Board of the annual financial statements, consolidated financial statements, and the combined management report and group management report as well as the Executive Board's proposal on the utilization of the net profit for the year, there are no objections to be raised; that also pertains to the declaration of conformity and indeed also insofar as it is not to be audited by the auditor. Following the recommendation of the Audit Committee, the Supervisory Board approved the annual financial statements and the consolidated financial statements.

The annual financial statements are deemed to be adopted with the Supervisory Board's endorsement.

In its assessment of the position of the Company and the Group, the Supervisory Board concurs with the Executive Board's assessment in its combined management report and group management report and, following the Audit Committee's recommendation, also endorsed these reports.

As a result of the review of the Executive Board's proposal on the utilization of the net profit for the year conducted in the Audit Committee meeting and in the Supervisory Board meeting held on April 26, 2018, which included a discussion with the auditor in both meetings, the Supervisory Board – following the recommendation of the Audit Committee – approved and endorsed the Executive Board's proposal on the utilization of the net profit for the year. The proposal includes:

The net loss for fiscal year 2017 amounts to EUR 37,740,879.62. Including the losses carried forward in the amount of EUR 101,042,172.40, this results in a net accumulated loss of EUR 138,783,052.02, which will be carried forward to a new account.

Report of the Executive Board on relationships with affiliated companies.

The Executive Board presented the report it prepared on relationships with affiliated companies in fiscal year 2017 (dependent company report) to the Supervisory Board in a timely manner.

The auditor audited the dependent company report and issued the following auditors' report:

"Based on our mandatory audit and assessment, we confirm that

1. *the report's factual statements are accurate,*
2. *the consideration paid by the Company with respect to the transactions listed in the report was not inappropriately high."*

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The auditor presented the audit report to the Supervisory Board. The dependent company report and the audit report were promptly provided to all members of the Supervisory Board.

For its part, the Supervisory Board reviewed the Executive Board's dependent company report and the auditor's audit report.

In preparation for the review and decision on the part of the Supervisory Board, the Audit Committee first studied the aforementioned documents in detail. In its meeting held on April 26, 2018, the Audit Committee heard comments from the Executive Board on its dependent company report. Furthermore, the Audit Committee members' questions were answered. In addition, the auditor, who also participated in the meeting, reported on his audit, in particular the areas of audit emphasis and the significant results of the audit and commented on his long-form audit report. The members of the Audit Committee acknowledged the long-form audit report and the auditors' report, critically reviewed them, and also discussed them with the auditor as with the audit, which included questions regarding the nature and scope of the audit as well as the results of the audit, whereby the Audit Committee satisfied itself of the propriety of the audit and the long-form audit report. It was satisfied in particular that the audit report – as also the audit performed by the auditor – complied with the legal requirements. The Audit Committee recommended that the Supervisory Board approve the results of the auditor's audit and – since in his opinion there are no objections to be raised against the Executive Board's explanation of the dependent company report – adopt a resolution on a corresponding opinion.

The Supervisory Board's final review was conducted during the Supervisory Board meeting held on April 26, 2018, in consideration of the resolution and the Audit Committee's recommendation as well as the auditor's long-form audit report. The Executive Board also participated in this meeting, commented on dependent company report and answered the Supervisory Board members' questions. The auditor also participated in this meeting, reported his audit of the dependent company report and the significant results of the audit, commented on his audit report, and answered questions placed by the Supervisory Board members, in particular regarding the nature and scope of the audit of the dependent company report and the audit results. Through this and on the basis of the report issued by the Audit Committee, the Supervisory Board satisfied itself of the propriety of the audit of the dependent company report and the long-form audit report. It was satisfied in particular that the audit report – as also the audit performed by the auditor – complied with the legal requirements. The Supervisory Board reviewed the dependent company report in particular with respect to its completeness and accuracy, whereby it satisfied itself that the group of affiliated companies had been determined with the requisite diligence and that the precautions necessary for the identification of reportable transactions and measures had been taken. No indications suggesting a reason to object to the dependent company report became apparent in this audit. Following the recommendation of the Audit Committee, the Supervisory Board approved the results of the auditor's audit of the dependent company report. Based on the final result of the review conducted by the Supervisory Board of the report on relationships with affiliated companies (dependent company report), there are no objections to be raised against the Executive Board's explanation at the end of the report on relationships with affiliated companies (dependent company report).

The Supervisory Board would like to express its thanks to the Executive Board and to all the employees for their outstanding commitment in fiscal year 2017.

Munich, April 2018

Bernhard Riedel

Chairman of the Supervisory Board

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COMBINED MANAGEMENT REPORT OF GIGASET AG FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2017

1 FUNDAMENTAL INFORMATION ABOUT THE GROUP

1.1 Business model

Gigaset AG is a corporate group that operates internationally in the area of telecommunications. The Company's largest line of business is the development and production of cordless telephones based on the Digital Enhanced Cordless Telecommunications standard (DECT). The Company, with its headquarters in Munich and its main production site in Bocholt, is one of the leading brands in Europe.

As a premium vendor, the Company commands an extensive market presence in just under 70 countries with 930 employees at the end of financial year 2017. The Company's operating business can be broken down into the following areas: Consumer Products, Business Customers, Home Networks, and Mobile Devices. Across all business segments, the Gigaset brand stands for high quality and innovative products in the area of telecommunications.

At a global level, the Gigaset Group is divided into regional segments. Europe is the most important market with respect to sales revenue. Most of the revenue is generated in Germany and France, whereby most of the total revenue can be attributed to the Consumer Products segment and therefore to the DECT Cordless Voice Telecommunications business.

1.1.1 Consumer Products

Gigaset is one of the European market and technology leaders in DECT telephony. The Company has defended its position as a premium vendor in the European market and as a technology leader in DECT telephony since the 1990s. The Company's distribution success is characterized by a particularly high level of market penetration and intensive contact with retailers. The Company's products are manufactured in the highly automated Bocholt plant. Thus, Gigaset can rightly label its products in the Consumer Products segment as "Made in Germany".

1.1.2 Business Customers

The Company offers an extensive range of corded desk telephones, telephone systems, professional DECT systems and mobile components for small and medium-sized enterprises (SME). The level of consultation in the commercial product line requires the Company to distribute the pro line exclusively over systems vendors (value-added resellers, VaR), currently with a focus on European markets, whereby Germany, France, Italy, and the Netherlands represent the most important distribution and sales areas. In this growth market, which is characterized by small and medium-sized enterprises, the segment has developed into the Company's second-largest pillar and delivers a significant contribution to revenue.

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1.1.3 Home Networks

In the Home Networks segment, the Company markets smart security solutions for condominiums and houses. Conceived as a modular system, sensors on windows and doors, motion detectors, or a camera show break-in attempts as well as movements and processes in condominiums and houses. The system is set up and operated via smartphone. If anything should happen, the end customers receive a message over their smartphone. The system is continuously expanded and broadened by additional security scenarios. For example, the system meanwhile also includes protection from natural hazards such as fire and water. In addition to the development of original products, the focus in this interconnected product environment is on cooperation with partners. The Company has already entered into partnerships with Amazon, Google, and Philips in order to further increase product value and comfort for customers with respect to interaction with other products.

1.1.4 Mobile Devices

The Mobile Devices segment focuses on the distribution of smartphones. Smartphones expand the trusted and familiar Gigaset experience beyond one's own four walls, home or the office, and therefore support the Company's holistic eco-system concept. Based on the current trend, the product focus lies in the lower and mid-price segments. A portfolio of devices was successfully established at different recommended retail prices (MSRP) ranging between 150 and 300 euros that is consistently further developed.

1.2 Goals and strategy

The consumer goods industry in the information and communication environment (ICE) in Europe continues to present a highly dynamic environment in 2017. This also applies to the market for cordless telephones. On the other hand, this market is characterized by erosion in the core region of Europe, even though it weakened in the past year compared with previous years. The market as a whole for cordless telephones in Western Europe declined by just under 8.6% in 2017 based on revenue in the markets observed by Gigaset.[1] In this difficult market environment, Gigaset secured its strong position in the cordless telephone market in Europe and expanded it in important core markets without giving up its premium positioning.

1.2.1 Continuation of the new operating strategy

Gigaset used 2016 and 2017 to reorganize the Company holistically and adapt to the prevailing market conditions. The change in operating strategy initiated in 2016 was consolidated in 2017 and expanded through numerous measures. The operating strategy forms the basis for bringing the Company back on course for the market and competitive challenges in a changing market. The efforts paid off already in the middle of 2016, when Gigaset announced that it was once again operating in the black. This success was continued in 2017.

In addition to the stabilization of the core business by increasing its share of the market in important core markets in Europe, Gigaset has further diversified its product range and given it a broader basis. The Company took a step in the right direction with Mobile Devices at the end of 2016. Further strategic decisions were made in 2017 that should become reality in new segments in 2018. On the one hand, this envisages expanded activities in the Home Networks segment as well as new solutions, on the other hand, that are currently subsumed under the working title "Future Communications".

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1.3 Control systems

The development of the Group was analyzed and managed by the management on a monthly basis in 2017 using various key indicators. The Gigaset Group is oriented worldwide based on regional segments. The observation of revenue and the earnings of the core business before depreciation and amortization (EBITDA) by region as well as free cash flow at the Group level played an important role in monitoring the operating business. The core business includes the Consumer Products, Business Customers, Home Networks, and Mobile Devices segments. Transactions unrelated to the core business are accounted for separately. Operating costs were analyzed and managed in detail based on cost categories and the department in which the costs are incurred. Integrated financial planning (income statement, balance sheet, financial plan) is implemented group-wide for the reliable analysis of changes in liquidity. In addition, risk management is an integral part of business processes and decisions. Gigaset AG was managed as a separate company in 2017 based on the result under German generally accepted accounting principles.

The primary non-financial performance indicators for Gigaset remain

- Research and development
- Environment
- Employees

Due to the high priority of these factors for the Gigaset Group, they are presented in detail in Sections 1.4, 3.2.5, and 3.2.6.

1.4 Research and development

Gigaset's research and development program focuses in particular on the further development and improvement of the products and services for the various business segments. Research and development take on a key role in the area of product innovation, whereby the focus is placed on technical aspects. Online services (cloud solutions) are becoming increasingly important in the Gigaset portfolio and underscore the shift in the Company's operating orientation from a pure hardware manufacturer to a provider of integrated solutions for home, work and on-the-go.

In financial year 2017, the Group incurred expenses for research and development in the amount of EUR 17.7 million and capitalized a total of EUR 10.2 million in development costs, EUR 9.2 million of which under other intangible assets and EUR 1.0 million under property, plant and equipment. The resulting capitalization rate amounts to 57.6%. Amortization of capitalized development costs amounted to EUR 8.6 million in the financial year. Gigaset AG itself does not report any research and development expenses in the financial year.

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2 SIGNIFICANT EVENTS IN FINANCIAL YEAR 2017

July 2017: Hans-Henning Doerr leaves Gigaset AG

Gigaset AG announced on July 24 that Hans-Henning Doerr, Chief Financial Officer of Gigaset AG, decided not to extend his management contract expiring on December 31, 2017, for personal reasons. Mr. Doerr was released from his duties effective immediately.

December 2017: Gigaset AG appoints Stephan Mathys as Chief Financial Officer

Gigaset AG announced on December 20, 2017, that the Supervisory Board of Gigaset AG appointed Stephan Mathys (49) as the new Chief Financial Officer (CFO) and as a member of the Company's Executive Board for three years effective February 1, 2018, with a resolution dated December 20, 2017.

December 2017: Guoyu David Du

The employment contract and appointment to the Executive Board of Guoyu David Du, the CMO of Gigaset AG since December 1, 2015, ended as agreed on December 31, 2017.

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3 REPORT ON ECONOMIC POSITION

3.1 General economic and industry-specific operating environment

3.1.1 General economic environment

Driven by strong internal demand, the European economy grew more robustly in 2017 than initially assumed by many experts. According to the experts at the International Monetary Fund (IMF), real gross domestic product rose by 2.4% and thus grew considerably year-on-year (+1.8%). At 3.7%, the global economy likewise expanded robustly in this period (2016: 3.2%). France's gross domestic product increased by 1.8% (2016: 1.2%).[2]

The two most important sales markets for Gigaset, Germany and France, benefited from the global upswing in 2017. In Germany, the signs continued to point to further growth. According to an estimate by the IMF, German gross domestic product increased by 2.5% in 2017 after increasing 1.9% in the previous year. German consumers were in the mood to spend money for much of 2017 in light of the robust economic upturn and rising employment figures. Supported by record-level income expectations, the consumer climate reported monthly by the market research institute GfK manifested itself robustly in the face of various risk factors in Germany and abroad. Minor headwinds had little impact on the positive overall trend. In total, GfK forecast an increase of 1.5% in private consumer spending for 2017.[3]

In the expanded observation of the four most important European markets for Gigaset (EU 4), Italy and the Netherlands also generated growth in addition to France.[4]

3.1.2 Telecommunications market

3.1.2.1 Consumer Products market

The European market for cordless telephones (Germany, France, Italy, the Netherlands, Spain) shrank by 6.7% in volume and 5.6% in revenue in 2017 compared with 2016.[5]

This process is characterized primarily by the fact that smartphones are increasing in significance for the end customers compared with cordless home telephones. Positive market stimulus comes from two areas: Through the topic of IP telephony, driven by the conversion of networks to ALL-IP on the one hand, as well as by a rising need for devices that are easy to use for people in the second half of their lives on the other hand, triggered by the demographic change in industrial nations.

In the market for cordless telephones, there are only two relevant market participants in addition to Gigaset, whereby Gigaset is the market leader in Germany, France, and the Netherlands and the second-most important vendor in Italy and Spain in the observed market in 2017.[5]

Gigaset continues to focus its innovations on the growth segments of IP telephony and ergonomic telephones for the elderly. Niches and services continue to be addressed, but without neglecting standard telephony. The alternative decision on the part of customers for smartphones and in the future possibly also for voice-controlled assistants as are known from various Virtual Private Assistants (VPAs) is the most important challenge facing the Company in this area.

2 IMF 2018 – World Economic Outlook (http://www.imf.org/en/Publications/WEO/Issues/2018/01/11/world-economic-outlook-update-january-2018))

3 GfK 2017 – Konsumklima_Hochstimmung hält an (http://www.gfk.com/de/insights/press-release/konsumklima-hochstimmung-haelt-an)

4 Rijksoverheid 2017 (https://www.rijksoverheid.nl/ministeries/ministerie-van-financien/nieuws/2017/09/19/miljoenennota-2018-nederlandse-overheidsfinancien-kerngezond)

5 GfK 2018 – Report EU5

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3.1.2.2 Business Customer market

The telecommunications market for business customers in Europe also continues to be characterized by a persistent trend in favor of IP-based communications and telephony, given a simultaneous increase in cloud-based communications systems.

Forecasts with respect to the further development of the installed basis show that 59% of all terminals (user licenses/consumer devices) are already operated via IP-based or cloud-based systems in 2018 with a total volume of around 128 million terminals across all business customer segments. In the long term, it is expected that further successive crowding out of traditional transmission technologies will take place by 2022 and the use of IP-based or cloud-based systems will increase to approximately 72% based on a total volume of around 130 million terminals.[6]

Non-proprietary, SIP-based consumer devices and multi-cell-based telephony on a DECT-basis are particularly relevant for Gigaset for the future. These markets are addressed by two pillars of the business customer portfolio, namely corded IP telephones of the Maxwell series and multi-cell systems of the N-series.

IP-based communication for non-proprietary SIP-based consumer devices in Europe shows continuously positive growth. The expectation for 2018 is approximately 4.3 million SIP-based consumer devices. By the year 2022, this market should grow to approximately 6.2 million terminals. This corresponds to a manufacturer-based market value of approximately EUR 228 million in 2018 and EUR 312 million in 2022.[7]

In this market, Gigaset is positioning the IP desk telephones of the Maxwell series with a broadened portfolio aimed primarily at small and medium-sized enterprises by means of a two-stage distribution network. Larger companies are addressed over suitable partnerships. In addition, there are OEM partnerships with providers of on-premise and/or cloud-based communications systems for businesses of all sizes.

In contrast, the European market for multi-cell DECT systems (base stations, systems, handsets) shows a slightly declining trend. According to forecasts, the market will reach a manufacturer-based value of around EUR 289 million in 2018. By the year 2022, the market value should fluctuate in a range of around EUR 247 million.[8] Thus, despite a declining trend, the market for multi-cell DECT systems will continue to fluctuate at a high level for the foreseeable future.

With the N-series and handsets for professional use, Gigaset will also offer a portfolio based on the established IP-DECT technology in the future. Greater scalability should increasingly open possibilities for additional unit sales also in the area of major customers by means of strategic partnerships, thereby facilitating further growth for Gigaset.

In this context, the market for multi-cell communications systems on the basis of VoWLAN (Voice over Wireless LAN) is of special interest. This market still exhibits a comparatively small market share in Europe compared with DECT-based systems. In 2018, the forecast market volume for VoWLAN-based systems and handsets is approximately EUR 26 million. Over time, an anticipated market value of EUR 34 million will be reached in 2022.[9] This positive development also opens up opportunities for Gigaset to increase the range of implementation possibilities of the developed portfolio with future product offerings based on WLAN.

3.1.2.3 Home Networks

The global market for Smart Home systems and services showed total revenue of just under EUR 23 billion in 2017. Global annual revenue grew by 33%, so that total global revenue is forecast to be EUR 71 billion for 2021.[10] According to Statista Digital Market Outlook 2017, European Smart Home revenue amounted to EUR 6.3 billion and will increase to EUR 22 billion in 2022, whereby the European countries driving the Smart Home market will be Germany, the UK, Norway, Estonia, and the Netherlands. The Smart Home market breaks down into the various categories of Home Automation, Home Entertainment, Ambient Assisted Living (this describes the market for assistive systems to help people lead

6 MZA 2017 - Hosted Cloud Telephony (Excel Table 2/Chart 2)
7 MZA 2017 - Business Terminals Forecast (Excel Table1/Chart 1, Table4/Chart 4)
8 MZA 2017 - Onsite Business Voice Mobility Forecast (Excel Table1/Chart 1)
9 MZA 2017 - Onsite Business Voice Mobility Forecast (Excel Table1/Chart 1)
10 mm1 2017 - Trendpapier

healthy and independent lives in supportive surroundings as they grow older), Energy Management and Building Security.

Currently, the Company participates in these categories in particular in the Building Security segment. Gigaset's portfolio currently includes a dedicated alarm solution as well as other solutions for protection from natural hazards such as fire and water.

The Smart Home market has been additionally invigorated by the introduction of numerous virtual private assistants (VPA) to the market, for example Amazon Echo and Google Home. The users are increasingly developing a need for comfort functions that will ensure additional sales volume both in Home Automation as well as in Home Entertainment.

Perspectively, Gigaset also sees itself as an integrator and connectivity platform for and with third parties, in addition to its own product portfolio for security and cross-control scenarios in home automation.

Furthermore, the Company is working on entering the market for Ambient Assisted Living with a pilot program in Germany. According to a current study, an annual growth rate exceeding 56% is forecast in Germany by 2021, whereby worldwide revenue of EUR 858 million in 2017 should increase to around EUR 5.0 billion in 2021.[11]

3.1.2.4 Mobile Devices

More than five billion people are mobile – hence, two-thirds of the global population uses smartphones and cellphones. Alone in China, more than a billion people are connected with cellular networks.[12]

Demand is uninterrupted ten years after the first smartphones were introduced: 24.1 million devices were sold in Germany in 2017. Thus, the sales volume of 24.2 million devices is practically unchanged compared with 2016. Revenue even increased by 4% from EUR 9.4 billion to EUR 9.8 billion. The reason for the positive revenue trend was rising demand for larger smartphones – so-called phablets. These devices are larger than 5.5 inches and, as a rule, are more powerful and more expensive. The sales figures for phablets increased disproportionately above average by 8% to around 5 million units. Thus, every fifth smartphone sold is a phablet. At EUR 615, their average sales price clearly exceeds the price of EUR 352 for smaller smartphones.[13]

The successful sales in past years are also reflected in the market penetration. Eight out of ten Germans age 14 and over (81%) used a smartphone in 2017. That corresponds to around 56 million people. In 2016 it was 76%, and in 2012 only 36%. Practically everyone under the age of 50 uses a smartphone. Among 14- to 29-year-olds, it is 95% and among 30- to 49-year-olds 97%. Among 50- to 64-year-olds, it is 88% and already four out of ten (41%) Germans in the 65+ generation are smartphone users. Smartphones are even more widespread among children and teenagers than before as a three-year comparison shows. Just under seven out of ten (67%) of 10- to 11-year-olds use a smartphone; in 2014 it was 57%. Starting at the age of 12, smartphones are standard equipment for nearly all teenagers. At this age, 87% of teens have their own smartphone and the older they are the more they use their smartphone. Thus, the media and internet consumption of children and teenagers is becoming more and more mobile. Most frequently, voice control is used to make telephone calls. Just over three-quarters (76%) use this function to call contacts. More than half (54%) use voice recognition to write text messages and just under one-third (31%) use it for queries or internet searches. Every fifth (20%) uses voice recognition for translations, while just over one-sixth (18%) use it for navigation or for route planning and every tenth (10%) to start programs or apps.[14]

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11 Statista October 2016 – Digital Market Outlook (page: 20)

12 Statista 2017 – GSMA Intelligence: Number of cellphone users worldwide

13 Bitkom 2017 – 24 million smartphones were sold in this year

14 Bitkom 2017 – The future of Consumer Technology 2017 – page: 15

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3.2 Group performance

3.2.1 Consumer Products

In total, the business with cordless telephones shrank by 3% in terms of unit volume in 2017 compared with 2016. Compared with the observed market and the previous year, that is a positive development. The Company considers the extremely customer-oriented design of the product offering, which is rooted in the new operating strategy, to be one of the key reasons for this development.

The largest unit-volume growth was posted by the Latin American market (+30%), primarily with a cordless telephone of the A-class. General growth areas for cordless telephones are IP telephones due to the conversion of the telephone networks to IP and large-button telephones due to the demographic change – keyword "aging society".

3.2.2 Business Customers

In the Business Customers segment, total revenue increased by a total of 26.5% compared with the previous year. The business in Western Europe constitutes 96% of the generated revenue and was expanded in all regions. Moreover, the share of revenue with customer-specific products was again considerably increased. Compared with the previous year, revenue with customer-specific products recorded growth of 13.3%.

Germany made the greatest contribution to revenue, followed by France, Italy, and the Netherlands. Percentage-wise, revenue grew the most in the regions of Austria and Italy.

IP-based multi-cell and single-cell DECT systems continue to represent an area of focus with respect to products for business customers. Compared with the previous year, the contribution of Gigaset's N-series to revenue recorded growth of 22.2%. In particular, an increase of 24.9% in revenue was also generated with handsets of the C-class for professional use.

The IP telephone portfolio of the Maxwell series, which was enhanced with a keyboard expansion module in 2017, is becoming increasingly popular in the market, whereby growth of 359.3% was recorded compared with the previous year's still very low revenue level.

3.2.3 Home Networks

The Gigaset elements solution shows growth of 11% compared with the previous year. The Smart Home market is still driven by early adaptors and innovators; consequently, market penetration with respect to the consumer market is progressing very slowly.

With the Gigaset smart camera and the water sensor, two new sensors were integrated into the Gigaset elements system in 2017. With its compact dimensions and better performance, the new smart camera replaces its predecessor, the Gigaset camera. With the water sensor, Gigaset is expanding its product offering with regard to protection from natural hazards (fire and water). In addition to new hardware, the further development of the software and opening the system for third parties in particular played an important role. In 2017, Gigaset elements became compatible with the important platforms Amazon Echo, Google Assistant, and Philips Hue. Over a combination of these platforms, users can logically link multiple systems together in order to cover individual user scenarios and increase the overall utility. The introduction of the virtual personal assistants described above, such as Google and Alexa, will further increase the acceptability of Smart Home products in the consumer market.

More and more, the market expects a customized individual solution that augments a complete system in all areas of the Smart Home and which can be easily installed and configured. Therefore, Gigaset's goal is to consolidate and further expand its market position by means of tailored application packages and partnerships.

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3.2.4 Mobile Devices

For Gigaset, the step in the direction of marketing mobile consumer devices has proven to be the right decision. Step by step, new marketing channels were gained in 2017, while at the same time the awareness of the smartphone portfolio on the part of both trade partners and end customers was increased. Following the successive expansion of the smartphone portfolio in the entry-level and mid-level segments, Gigaset considers itself to be well-positioned in a highly competitive environment.

Thanks to the highly competitive product portfolio and intensive marketing activities, revenue grew by more than 500% compared with the previous year. A more intensive expansion of the entry-level segment and plans to produce variations of individual products at the location in Bocholt are reasons to be confident about financial year 2018.

3.2.5 Environment

Gigaset AG observes the principles of sustainable conservation of the environment and the natural resources on which mankind depends. Gigaset's products are manufactured according to the highest environmental protection and quality standards in the production site in Bocholt. Our commitment to protecting the environment is reflected both in the development and production of the energy-efficient Gigaset ECO DECT cordless telephone as well as in the consumption of energy at the production site in Bocholt.

Gigaset has helped to reduce waste by continuing to apply the HTV®-Life strategy. The HTV®-Life mark of excellence manifests a product that does not contain measures for the intentional reduction of product lifetime (planned obsolescence) and thus is durable.

With respect to economy, the Company ensures compliance with the environmentally-based (ISO 14001) standards in the value chain with the corresponding selection of suppliers based on the required qualifications.

3.2.6 Employees

The number of people employed by Gigaset in Germany further decreased in 2017 compared with the previous year, in particular due to the restructuring measures. 177 employees left Gigaset in 2017 as part of the restructuring measures. 15 employees also left the Company as a result of early retirements, termination agreements, termination of employment due to occupational disability payments, and the expiration of limited duration contracts. In addition, 26 employees retired in connection with an individual retirement agreement. An additional 27 employees left the Company of their own volition and three employees died. Thus, a total of 248 employees left Gigaset over the course of 2017. The number of employees in the subsidiaries was increased from 241 to 252 employees as of the reporting date December 31, 2017, in particular due to the hiring of software developers at our location in Wroclaw (Poland). Gigaset had a total of 930 employees at the end of financial year 2017.

Gigaset is positioning itself in the market as an international communications company with clear strengths in the area of technology and products. The international orientation of all its locations puts Gigaset in a very good position in the competition for the best employees. As a result of the restructuring initiated in 2015, for which a reconciliation of interests was agreed in the spring of 2016 in the form of a legally valid resolution, the turnover rate in the German Group companies increased to 34.4% in 2017. Taking into account only those leavers that cannot be traced back to the restructuring program or terminations by the employer, other termination agreements or the death of employees results in a turnover rate of 4.7% for the year 2017.

The increase in budgeted revenue compared with the previous year based on the expansion of business activities in the product centers Business and Connectivity Solutions, Mobile Phones and Smart Solutions results in different labor force requirements. These needs can only be covered in individual cases by the Company's own employees (key talents, apprentices/trainees, persons excluded from restructuring). Therefore, additional personnel must be attracted by

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means of external recruitment (in particular through job exchanges and recruitment agencies). The Company also relied on temporary workers primarily for semi-skilled activities to provide the Company with the necessary operational flexibility in a highly seasonal sales market.

3.3 Financial performance, cash flows and financial position of the Group

3.3.1 Financial performance

The Gigaset Group generated total revenue in the amount of EUR 293.3 million (prior year: EUR 281.9 million) in its market environment in the 2017 financial year just ended. Revenue from the core business was subject to the usual seasonal fluctuations in the consumer business. The increase in revenue of 4.0% or EUR 11.4 million compared with the previous year can be explained in particular by revenue growth of EUR 17.4 million in the Mobile Devices segment.

Revenue is reported by country as part of internal segment reporting based both on the receiving units as well as on the registered office of the respective companies (i.e. country of domicile).

Revenue based on receiving units represent the revenue invoiced in the respective regions – independent of the registered office of the invoicing unit. For example, if a German company issues an invoice in the Netherlands, such revenue is allocated to the region of "Europe" in the presentation based on receiving units. Revenue based on receiving units can be broken down as follows for the individual regions:

Revenue in EUR millions	2017	2016	Change
Germany	124.6	117.3	6.2%
Europe (excluding Germany)	150.3	143.4	4.8%
Rest of World	18.4	21.2	-13.2%
Gigaset Total	**293.3**	**281.9**	**4.0%**

Germany recorded an increase of EUR 7.3 million (around 6.2%) and the region of Europe recorded an increase of EUR 6.9 million (around 4.8%). In the "Rest of World" there was a decrease of EUR 2.8 million or around -13.2% in 2017.

The allocation to the individual geographical areas for the current segment reporting in the Group is also still based on the country in which the respective legal unit is domiciled. For example, if a German company issues an invoice in the Netherlands, this revenue is allocated to the region of Germany in the presentation based on country of domicile. Revenue based on country of domicile can be broken down as follows for the individual regions:

Revenue in EUR millions	2017	2016	Change
Germany	156.1	145.7	7.1%
Europe (excluding Germany)	106.2	105.8	0.4%
Rest of World	31.0	30.4	2.0%
Gigaset Total	**293.3**	**281.9**	**4.0%**

The sharpest absolute increase related to Germany in the amount of EUR 10.4 million (around 7.1%), followed by Europe in the amount of EUR 0.4 million (around 0.4%), and the remaining countries in the amount of EUR 0.6 million (around 2.0%).

In financial year 2017, revenue grew in the Business Customers, Mobile Devices and Home Networks segments. In the Business Customer business, revenue increased from EUR 43.7 million to EUR 55.3 million. With respect to Mobile De-

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vices, revenue increased by EUR 17.4 million to now EUR 20.6 million. Revenue from the Home Networks segment increased by EUR 0.2 million or around 10.5%. In the Consumer Products business, revenue fell by EUR 17.8 million to now EUR 215.3 million.

Revenue in EUR millions	2017	2016	Change
Consumer Products	215.3	233.1	-7.6%
Business Customers	55.3	43.7	26.5%
Mobile Devices	20.6	3.2	543.8%
Home Networks	2.1	1.9	10.5%
Gigaset Total	**293.3**	**281.9**	**4.0%**

The **cost of materials** for raw materials, merchandise, finished goods and purchased services was EUR 146.8 million – an increase of EUR 10.1 million from EUR 136.7 million in the previous year. The cost of materials rate increased from 48.7% to 50.6%, including changes in inventories. This is due primarily to the product mix (increase in revenue in the Mobile Devices segment) and higher purchase prices.

Gross profits, comprising revenue less the cost of materials and including the 0.3% change in inventories of finished goods and work in progress increased to EUR 145.0 million in the reporting period.

Other own work capitalized in the amount of EUR 10.2 million (prior year: EUR 9.9 million) mainly includes costs related to the development of new products. In financial year 2017, the Company invested in particular in the further development of the Gigaset pro telephone system, Gigaset Maxwell, as well as in the further development of the HX series. In the Gigaset elements segment, costs were capitalized in particular for the camera and the water alarm ("water"). Capital expenditures were made at a relatively high level.

Other income from the core business amounted to EUR 3.3 million and was therefore down EUR 0.7 million year-on-year. The main item includes rental income in the amount of EUR 1.2 million (prior year: EUR 0.5 million) and cafeteria income in the amount of EUR 0.6 million (prior year: EUR 0.7 million). In the financial year just ended, no costs were recharged to the Gigaset Mobile Group. In the previous year, costs recharged to Gigaset Mobile were presented under this item in the amount of EUR 0.2 million.

Personnel expenses before restructuring for wages, salaries, social security contributions and old age pensions amounted to EUR 66.0 million, representing a year-over-year decrease of EUR 10.4 million. The decrease reflects in particular the lower number of employees due to the restructuring program. Compared with the previous year, the number of employees decreased by 131 persons.

Other expenses from the core business were incurred in the reporting period in the amount of EUR 67.2 million (prior year: EUR 57.1 million). These include in particular marketing expenses (EUR 25.6 million; prior year: EUR 17.9 million), general administrative expenses (EUR 11.1 million; prior year: EUR 9.9 million), and transport costs (EUR 6.8 million; prior year: EUR 6.7 million). In addition, this item still includes expenses for the loaning of employees (EUR 6.5 million; prior year: EUR 5.5 million), advisory fees (EUR 3.1 million; prior year: EUR 2.4 million), expenses for land and buildings (EUR 3.0 million; prior year: EUR 2.9 million), patent and license fees (EUR 3.1 million; prior year: EUR 1.9 million) and impairment losses on receivables (EUR 0.3 million; prior year: EUR 3.2 million). The increase in marketing costs in the financial year compared with the previous year was characterized primarily by the new Mobile Devices segment.

Earnings of the core business before depreciation and amortization thus amounted to EUR 25.3 million (prior year: EUR 25.0 million). Taking into account depreciation and amortization in the amount of EUR -15.2 million (prior year: EUR -17.5 million), earnings of the core business after depreciation and amortization amounted to EUR 10.2 million (prior year: EUR 7.5 million).

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The **additional ordinary result** in the amount of EUR 2.1 million (prior year: EUR 5.4 million) includes the profit and loss items that do not necessarily result from the core business. The development of the additional ordinary result is characterized by additional ordinary income and additional ordinary expenses, restructuring expenses and the exchange rate trend as well as impairment losses.

The increase of EUR 2.6 million in **additional ordinary income** to EUR 8.3 million results mainly from the reversal of provisions for restructuring expenses in the amount of EUR 4.7 million.

Additional ordinary expenses increased by EUR 1.5 million to EUR 1.7 million. EUR 0.8 million from subsequent credits on trade receivables and EUR 0.8 million in expenses for taxes are presented under this item.

As before in the previous year, **personnel expenses from restructuring** include the restructuring costs incurred in this year and the allocation to provisions for restructuring expenses.

Compared with the previous year, **exchange rate effects** decreased by EUR 0.2 million. On a net basis, the exchange rate gains and exchange rate losses for financial year 2017 result in a negative contribution to earnings of EUR -0.3 million (prior year: negative contribution to earnings of EUR -0.1 million).

Taking an additional ordinary result of EUR 2.1 million into account (prior year: EUR 5.4 million) leads to an **operating result** of EUR 12.2 million (prior year: EUR 12.8 million). Taking into account the **financial result** in the amount of EUR -1.1 million (prior year: EUR -1.1 million) leads to a **result from ordinary activities** in the amount of EUR 11.1 million (prior year: EUR 11.8 million).

Consolidated net profit for the financial year amounts to EUR 7.9 million for financial year 2017 (prior year: consolidated net profit for the financial year of EUR 4.3 million).

This results in **earnings per share** of EUR 0.06 (basic/diluted) (prior year: EUR 0.03 (basic/diluted)).

3.3.2 Cash flows

Cash flow

Cash flow can be broken down as follows:

Cashflow in EUR millions	2017	2016
Cash flow from operating activities	14.4	18.5
Cash flow from investing activities	-12.5	-11.3
Free cash flow	2.0	7.2
Cash flow from financing activities	0	-0.4

In financial year 2017, the Gigaset Group recorded a **cash inflow from continuing operations** in the amount of EUR 14.4 million (prior year: EUR 18.5 million). Cash flow from operating activities, which was down compared with the previous year, results primarily from the increase in trade receivables.

Cash outflow from investing activities amounts to EUR -12.5 million after EUR -11.3 million in the previous financial year. At EUR 10.2 million (prior year: EUR 9.9 million), the majority of capital expenditures relate to the decrease in cash resources resulting from own work capitalized for the development of innovative products and solutions.

The **free cash flow** in the amount of EUR 2.0 million decreased considerably compared with the previous year's positive free cash flow in the amount of EUR 7.2 million as a result of the cash flow from continuing operations, which was down compared with the previous year, whereby the cash flow from investing activities was around the previous year's level.

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In the current financial year, there was no **cash inflow or outflow from financing activities**. The cash outflow from the previous year amounted to EUR -0.4 million and included interest payments from the converted mandatory convertible bonds.

Cash and cash equivalents amounted to EUR 49.1 million at December 31, 2017 (prior year: EUR 47.5 million).

The cash flow includes changes in exchange rates in the amount of EUR -0.3 million (prior year: EUR -0.2 million).

Please refer to the cash flow statement presented in the Notes to the consolidated financial statements for a detailed presentation of changes in **cash and cash equivalents.**

3.3.3 Financial position

The **total assets** of the Gigaset Group amounted to around EUR 226.9 million at December 31, 2017, and fluctuated roughly at the previous year's level of EUR 221.7 million.

Noncurrent assets decreased by EUR 5.7 million to EUR 84.9 million compared with December 31, 2016. Depreciation and amortization and disposals exceeded capital expenditures in intangible assets and property, plant and equipment; consequently, intangible assets decreased by EUR 3.7 million to EUR 30.1 million and property, plant and equipment by EUR 2.0 million to EUR 23.3 million.

Current assets constituted 62.6% of total assets. These assets increased by EUR 10.8 million compared with the previous year and amounted to EUR 141.9 million. At EUR 26.7 million (prior year: EUR 23.5 million), inventories exceeded the previous year's amount. Whereas the portfolio of finished goods and merchandise increased by EUR 0.4 million compared with the previous year, raw materials, consumables and supplies as well as services in progress increased by EUR 0.5 million and advance payments increased by EUR 2.3 million. Trade receivables clearly exceeded the previous year's level and increased by EUR 9.5 million to EUR 39.9 million. Furthermore, the portfolio of cash and cash equivalents increased year-on-year from EUR 47.5 million to EUR 49.1 million. Please refer to the statement of cash flows in the notes for a breakdown of changes in cash and cash equivalents.

Total liabilities amounted to EUR 202.8 million (prior year: EUR 203.9 million), 56.3% of which were current. Following a considerable decrease in liabilities in the preceding financial years, total debt hardly changed in 2017 compared with the previous year; however, there were shifts within individual items with respect to noncurrent and current liabilities.

The Gigaset Group's **equity** amounted to around EUR 24.1 million at December 31, 2017, and was EUR 6.2 million higher than at the beginning of the year. This corresponds to an equity ratio of 10.6% compared with 8.0% at December 31, 2016. Taking into account deferred taxes, actuarial gains were recognized in the amount of EUR 1.3 million in equity. Furthermore, changes in exchange rates were recognized directly in equity in the amount of EUR -0.6 million. Taking into account deferred taxes, cash flow hedging led to a negative effect of EUR 2.3 million recognized directly in equity. Consolidated net profit for the financial year amounted to EUR 7.9 million and led to a corresponding positive effect in consolidated equity.

Noncurrent liabilities mainly include pension obligations, provisions for restructuring, and deferred tax liabilities as well as noncurrent provisions for personnel expenses and provisions for guarantees. The decrease in noncurrent liabilities amounted to EUR 5.9 million year-on-year; consequently, these liabilities now amount to EUR 88.7 million as of the reporting date. The decrease resulted from a reduction in deferred tax liabilities in the amount of EUR 1.2 million as well as a decrease in noncurrent provisions in the amount of EUR 5.5 million, which can be attributed primarily to the decrease in noncurrent restructuring provisions.

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At EUR 114.1 million, **current liabilities** were around 4.4% higher than reported as of the prior-year reporting date. **Current provisions** were around EUR 6.3 million lower than in the previous year, whereby the decrease was characterized primarily by the reduction in current restructuring provisions in the amount of EUR 8.3 million. Trade liabilities increased year-on-year by EUR 5.1 million. The increase in tax liabilities in the amount of EUR 2.1 million to EUR 17.2 million related exclusively to income tax liabilities and mainly resulted from Gigaset Communications GmbH and its subsidiaries. The increase in other financial liabilities in the amount of EUR 14.6 million to EUR 18.5 million was mainly due to an increase in liabilities for taxes in the amount of EUR 2.4 million as well as the presentation of derivatives with a negative fair value of EUR 2.1 million.

3.3.4 General assessment of the Group's economic situation

As in the previous year, financial year 2017 was characterized by a declining telecommunications market. The implementation of the restructuring program initiated in 2015 and partly already implemented in 2016 was consistently continued in financial year 2017. Personnel costs were clearly further reduced as a result of this program and the other cost-savings measures begun in previous years were continued. The Group's liquidity position remains secure and the Group is free of bank debt as in the previous year.

Gigaset would like to continue countering the declining revenue in the overall market, which fluctuated in financial year 2017 in line with the forecast from the last annual report, in particular by gaining market share in the Consumer Products segment, increasing revenue in the Business Customer segment as well as improving the market position of the Home Networks segment and further expanding the Mobile Devices segment. New business segments such as Smart Care should likewise contribute to increasing revenue in the coming years beginning in 2018.

As a consequence of the restructuring program and the cost reduction program, earnings of the core business before depreciation and amortization in the amount of EUR 25.3 million as of the end of the year compared with the previous year (EUR 25.0 million) were confirmed, despite a substantial increase in marketing expenses.

Annual revenue for 2017 in the amount of EUR 293.3 million in the Group exceeded the previous year's amount by EUR 11.4 million and corresponded to the forecast from the previous year. Earnings of the core business before depreciation and amortization were likewise realized in the amount of EUR 25.3 million and therefore slightly exceeded the forecast from 2016. The updated forecast of EUR 26.1 million presented at the end of January 2018 was based on provisional figures that were ultimately not realized. The free cash flow in the amount of EUR 2.0 million likewise considerably exceeded the amounted forecast in the annual report for 2016. The fact that free cash flow exceeded the forecast can be mainly attributed to shifts in the timing of potential payments of tax liabilities for previous years, which could have a correspondingly negative impact in financial year 2018.

Please refer to our comments in Section 8 (Forecast report and outlook) for more information on the course of business in 2018.

3.3.5 Key indicators of financial performance, cash flows and the financial position

Key indicators in %	2017	2016
Equity ratio	10.6	8.0
Ratio of noncurrent assets to total assets[15]	31.6	34.9
Debt capital structure[16]	56.3	53.6
Return on sales	2.7	1.5
Return on equity	32.7	24.2
Return on investment[17]	4.0	2.5

15 Ratio of noncurrent assets to total assets = (intangible assets + property, plant and equipment + financial assets)/total assets

16 Debt capital structure = current liabilities/total liabilities

17 Return on investment = (Consolidated net profit for the financial year + interest and similar expenses)/total assets

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3.4 Financial performance, cash flows and financial position of Gigaset AG

3.4.1 Financial performance

Revenue in the amount of EUR 4.0 million (prior year: EUR 3.3 million) comprised almost exclusively services rendered for associated companies in Germany.

Other operating income decreased from EUR 2.5 million to EUR 0.7 million. This item mainly includes reversals of provisions in the amount of EUR 0.6 million. The majority of this item constituted reversals of provisions for unpaid claims for damages in the amount of EUR 0.3 million as well as reversals of unclaimed termination benefits related to the restructuring in the amount of EUR 0.2 million.

Personnel expenses decreased year-on-year from EUR 3.0 million to EUR 2.6 million. This can mainly be attributed to the restructuring measures initiated and implemented at the end of financial year 2015 with the associated reduction in personnel.

Other operating expenses were incurred in financial 2017 in the amount of EUR 3.1 million (prior year: EUR 3.2 million). This can be essentially attributed to cost allocations from Gigaset Communications GmbH in the amount of EUR 0.9 million (prior year: EUR 1.0 million) as well as legal and advisory costs in the amount of EUR 0.7 million (prior year: EUR 0.8 million). Furthermore, expenses for Supervisory Board remuneration in the amount of EUR 0.6 million (prior year: EUR 0.5 million) and expenses for business consulting costs in the amount of EUR 0.5 million (prior year: EUR 0.2 million) were recorded. In addition, expenses were incurred for insurance policies in the amount of EUR 0.2 million (prior year: EUR 0.2 million).

The line item **other interest and similar income** included only interest income from interest charged on loans to associates in the amount of EUR 0.2 million (prior year: EUR 0.6 million).

Impairment losses on noncurrent financial assets related mainly to an impairment loss on the interest in GIG Holding GmbH, Munich, in the amount of EUR 29.4 million, as well as an impairment loss on the interest in Gigaset Industries GmbH, Austria, in the amount of EUR 5.2 million.

Interest and similar expenses amounted to EUR 0.6 million and included primarily interest effects from internal clearing transactions in the amount of EUR 0.3 million, interest expenses in connection with tax audits for value added tax, trade tax, and corporate income tax paid in arrears in the amount of EUR 0.2 million and the addition of interest in connection with the allocation to provisions in the amount of EUR 0.1 million.

Based on the hierarchical structure of the income statement, net profit after tax amounted to EUR -37.8 million (prior year: EUR -4.1 million).

In financial year 2017, a **net loss for the financial year** was incurred in the amount of EUR 37.7 million (prior year: EUR 4.2 million).

3.4.2 Cash flows

Cash flow can be broken down as follows:

Cashflow in EUR millions	2017	2016
Cash flow from operating activities	-4.4	-4.7
Cash flow from investing activities	5.8	5.1
Free cash flow	1.4	0.4
Cash flow from financing activities	0	-0.4

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In financial year 2017, Gigaset AG recorded a **cash outflow from continuing operations** in the amount of EUR -4.4 million (prior year: EUR -4.7 million). This can be explained primarily by Gigaset AG's currently payable expenses comprising personnel expenses and the remuneration of Supervisory Board members, legal and advisory fees, and cost allocations for services rendered by Group companies. In addition to these current effects, there was a significant cash inflow of EUR 1.5 million from existing receivables related to internal clearing transactions with regard to a subsidiary. This is to be seen alongside significant cash outflows from restructuring costs in the amount of EUR 0.3 million.

Cash flows from investing activities amounted to EUR 5.8 million after EUR 5.1 million in the previous year. As in the previous year, investing activities in the current financial year mainly included financing extended to subsidiaries and/or the repayment of financing and/or the provision of funds as part of the short-term financial management of subsidiaries.

Thus, **free cash flow** amounted to EUR 1.4 million compared with EUR 0.4 million in the previous year.

In the current financial year, there was no **cash outflow from financing activities.** The cash outflow from the previous year amounted to EUR 0.4 million and can be attributed to payments in connection with the conversion of mandatory convertible bonds.

Cash and cash equivalents amounted to EUR 1.9 million (prior year: EUR 0.4 million) at December 31, 2017.

3.4.3 Financial position

Gigaset AG's **total assets** amounted to EUR 172.6 million at December 31, 2017 (prior year: EUR 207.4 million), and therefore decreased by 16.8% year-on-year. This can be attributed mainly to an impairment loss on the interest in GIG Holding GmbH, Munich, and the reduction in receivables from associated companies. This was offset by an increase in deposits at banks.

Noncurrent assets decreased by EUR 34.6 million to EUR 154.6 million (prior year: EUR 189.2 million). The decrease in noncurrent assets can be attributed mainly to the impairment loss on the interest in GIG Holding GmbH, Munich, in the amount of EUR 29.4 million as well as the impairment loss on the interest in Gigaset Industries GmbH, Austria, in the amount of EUR 5.2 million.

Current assets amounted to EUR 18.0 million (prior year: EUR 18.2 million) and constituted 10.8% of total assets. They included mainly receivables from associated companies, other assets, and bank deposits. Receivables from associated companies decreased year-on-year by EUR 1.1 million to EUR 14.4 million. The reduction resulted mainly from the payment of a pension obligation assumed in the amount of EUR 0.8 million from Gigaset Communications GmbH, Bocholt, as well as the payment of EUR 1.2 million in receivables from internal clearing transactions related to Gigaset elements GmbH, Bocholt. This was offset by an increase in deposits at banks in the amount of EUR 1.5 million.

On the liabilities side, the decrease in **total equity and liabilities** can be seen primarily in the reduction of equity in the amount of the net loss for the period of EUR 37.7 million. This is to be seen alongside the increase of EUR 2.9 million in current liabilities.

The EUR 37.7 million decrease in Gigaset AG's **equity** can be attributed exclusively to the net loss for the period. The equity ratio decreased from 91.2% to 87.7% due to the decrease in total equity and liability.

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In the financial year just ended, Gigaset AG's **noncurrent provisions** increased from EUR 1.1 million to EUR 1.2 million and included primarily pension provisions in the amount of EUR 1.1 million (prior year: EUR 1.0 million) and other provisions in the amount of EUR 0.1 the (prior year: EUR 0.1 million).

Current liabilities, provisions and deferred income increased to EUR 20.0 million (prior year: EUR 17.1 million). Current liabilities included liabilities to associated companies in the amount of EUR 15.0 million (prior year: EUR 11.2 million). Current provisions included other provisions in the amount of EUR 4.3 million (prior year: EUR 5.0 million). Other provisions were recognized in particular for additional value added tax payments, bonus payments, and legal disputes. Furthermore, other liabilities were recognized in the amount of EUR 0.3 million (prior year: EUR 0.6 million) and trade payables in the amount of EUR 0.2 million (prior year: EUR 0.2 million).

3.4.4 General assessment of the Group's economic situation

Gigaset AG's net loss for the financial year before impairment losses on noncurrent financial assets amounted to EUR 3.1 million. The Company's net loss for the financial year amounted to EUR 37.7 million. Due to impairment losses on noncurrent financial assets in the amount of EUR 34.6 million, the forecast from the previous year was not met.

3.4.5 Key indicators of financial performance, cash flows and the financial position

Key figures of Gigaset AG in EUR million	2017	2016
Noncurrent assets	154.6	189.2
Current assets	18.0	18.2
Equity	151.4	189.2
Noncurrent provisions	1.2	1.1
Current liabilities, provisions and deferred income	20.0	17.1
Equity ratio	87.7 %	91.2 %
Return on equity	negative	negative
Return on investment	**negative**	**negative**

4 OPPORTUNITIES AND RISK REPORT FOR THE YEAR ENDED DECEMBER 31, 2017

As a general rule, all entrepreneurial activities involve risk. This includes the risk that corporate goals will not be achieved due to external or internal events as well as a result of actions and decisions; in extreme cases, a company's ability to continue as a going concern can be jeopardized. Gigaset's risk management system aims to identify and measure risks and opportunities as early as possible as well as to take advantage of opportunities through appropriate actions.

Risk is measured quantitatively for the factors 'probability of occurring' and 'severity of loss'. These factors are multiplied to produce an expected value.

Potential impact on earnings based on expected values	Risk measurement
≤ EUR 1.0 million	*
> EUR 1.0 million ≤ EUR 5.0 million	**
> EUR 5.0 million	***

Gigaset AG is exposed to legal risks in the category of up to EUR 1.0 million. The risks to the Group that can also have an indirect impact on Gigaset AG are described below.

The possible short-term effect on earnings for the Gigaset Group is shown below in the individual risk categories:

Category/Sub-category	Risk measurement
Market risk	
Products | Patents | Certificates	*
Legal operating environment	*
Customers	*
Business and litigation risks	
Research and development	*
Procurement	*
Information technology	*
Personnel	**
Financial risk	
Liquidity	*
Taxes	**
Contingent liabilities	
Guarantees | Contingent liabilities	**
Legal disputes	*

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4.1 Market risk

The general economic development in Germany, the EU, and around the world has many and varied influences on the Company's business development. For instance, demand for Gigaset's products depends heavily on the general economic situation.

Industry risk is risk that affects a certain market or a certain manufacturing sector. As a result of the concentration on the area of telecommunications and accessories, there is a special dependency on the development in this industry, whereby Gigaset is exposed to intense competition. Generally, there are also dependencies here on the development of commodities prices and the risk of the entry of new, aggressive competitors. Furthermore Gigaset is subject to the influence of a change in consumer behavior in the area of telecommunications and information.

These general market and industry risks do not represent a specific risk for Gigaset.

More and more landlines are being replaced by cell phone connections, depending on the rate plans offered by network operators. The increased use of multifunctional smartphones is also leading to a change in consumer behavior. With Gigaset's entry into the business with mobile consumer devices, the Company is undertaking the marketing of new product groups. This market entry is fraught with risk, as Gigaset is a new competitor in an existing market. With Gigaset's entry into the business with products for home networking, the Company is undertaking the marketing of new product groups. This entry is fraught with risk, as this is a new market for Gigaset and its future development is fraught with substantial uncertainties.

The products of the Gigaset Group are widely distributed and are valued by their retailer, operator/internet service provider (ISP), and distributor customers due to the strong brand name, high quality, and the innovative product portfolio. The excellent market position reflects not lastly this high degree of product acceptance. Since, as a rule, these are continuous, long-term partnerships, the dependency on individual retailers, operators/ISPs, and distributors is generally low. However, there can be a greater dependency on individual customers when entering into new markets, in particular in the beginning. The entry into the segment for mobile devices is fraught with the same risk that is always associated with entry into a new market. In particular, there is a risk that the new products will not achieve the desired level of acceptance on the market, that the new market participant is no match for the competitive pressure of established market participants, or that the existing sales organization is not capable of launching the product on the market as expected.

New products such as smartphones also require an additional and principally new distribution structure. In connection with this, new distribution channels, collaborative partners, and sales models must be established and correspondingly serviced.

Due to the falling market trend of DECT telephones in some target markets, there is a basic risk of general price decline for the product range as well as decreasing market volume. These risks are being countered with consistent cost management, the crowding out of smaller competitors by means of an innovative product portfolio in a repeatedly distinguished product design, and the further development of existing segments such as Gigaset Pro.

Waning consumer trust in the technical quality and security (safety from wiretapping, radiation) of Gigaset's products could have a negative impact on the development of the business. The DECT standard used by Gigaset in its products could be superseded by other technologies for speech or data transmission. As a result of the integration of functions from DECT telephones in other devices, demand for DECT telephones could fall.

Due to potential import restrictions as well as inflation and exchange rate risks, Gigaset is reviewing its market development strategies in overseas countries as

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well as in Russia and the bordering Commonwealth of Independent States and is undertaking corresponding preparations. From the Company's perspective, political developments such as in Turkey lead to the destabilitization of established markets.

4.2 Entrepreneurial opportunities

From the Company's point of view, there are entrepreneurial opportunities in the Business Customers segment and with the Gigaset Pro product portfolio. In addition to the traditional Consumer segment, the Company is addressing an additional customer segment, "Small Offices and Home Offices" (in short: SOHO) as well as SME customers (small and medium-sized enterprises), with Gigaset Pro and is developing the corresponding revenue potential.

With its Home Networks segment, Gigaset introduced a modular, intelligent system named Gigaset elements to the market. The products and services will initially cover the area of security solutions in the domestic environment and are to be further expanded in the future to address topics such as Home Automation, independent living for senior citizens, and other areas.

In addition, the Company sees further opportunities in the introduction of universal mobile components from the so-called HX series to the market, which can be operated not only on the Gigaset base stations, but also on routers with integrated DECT or CAT-iq technology. Such routers are being brought to the market in particular by network operators such as Deutsche Telekom and Swisscom, but also by the market leader in retail, AVM. Furthermore, the HX mobile components can also be operated on base stations from other manufacturers, whereby they can take advantage of additional market opportunities. Thus, with the new HX series, Gigaset can participate in the trend of so-called All-IP connections and the disconnection of the ISDN network as well as in the operation behind third-party systems.

Parallel to the universal mobile components, there are various base stations with a LAN connection, so-called IP bases. These base stations are connected to routers (with and without integrated telephone functionality) as modern VoIP bases after the customer switches to IP. They then enable up to two simultaneously conducted conversations with a total of up to six possible telephone numbers. In addition, services are still offered such as the local weather report as a screen saver, up to three answering machines, public telephone books, notification of missed calls on the smartphone, synchronization of the telephone book with the smartphone's telephone book, and much more. Thus, IP telephones present a clear functional expansion compared with currently expiring ISDN products.

Within the consumer telephone business, the business with large button telephones is growing. Gigaset will optimize its existing portfolio for this business and expand it in the direction of Smart Care. This includes a telephone for visually impaired persons and one for people with hearing impairment. Furthermore, a device with an additional pendant is already on the market. This product is marketed, among other things, over medical supply stores.

The establishment and expansion of the smartphone business likewise presents an opportunity. The Company is trying to establish a foothold in the smartphone segment with a low-risk approach and slowly build on the business from the ground up. The high brand awareness and trust in the brand name as well as distribution access to the most important target markets are a good foundation. Following the commencement of sales in December 2016 with selected sales partners and in the Gigaset online shop, the Gigaset smartphone portfolio was successively expanded into the mid-price segment in 2017 with the introduction of five additional models to the market. A further expansion of the smartphone portfolio is planned for 2018. Gigaset is confident that it will have a logistical advantage over the competition thanks to the possible future generation of product variants from its business location in Bocholt.

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4.3 Business and litigation risks

4.3.1 Information systems and reporting structure

Reliable and consistent information systems and reporting structures capable of providing useful information are necessary in order to monitor and manage the Group and the development of subsidiaries. Gigaset has a professional bookkeeping, controlling, information, and risk management system at its disposal and has established a company-wide, regular controlling and risk management system. The technical ability to function is ensured by means of corresponding IT support, supported by and depending on corresponding service providers. The Executive Board is periodically and promptly informed of long-term developments in the countries and regions.

Nevertheless, it cannot be ruled out that the information system can fail in individual cases or that it may not be operated correctly by the relevant employees and therefore negative economic developments in a region are not reported promptly.

A distinct integration of the processes as well as Gigaset's global orientation require a high degree of digitalization in all business segments. The constant professionalization of cybercrime is leading to a steadily worsening threat situation for IT security with potential consequences for relevant corporate processes.

We are countering this risk by implementing group-wide security guidelines and current information security technology, which is in turn constantly further developed. Nevertheless, as a general rule, unauthorized access to data or systems resulting in the reduction or loss of confidentiality, integrity, or readiness cannot be ruled out even in our Company.

4.3.2 Other entrepreneurial risks

The economic, legal, and political operating environment in Germany and the markets served by Gigaset have direct effects on Gigaset's business. The planned entry of Gigaset into new markets is fraught with special risks. This applies in particular to the entry into the smartphone market – which has already been achieved – where Gigaset as an importer of the devices is obligated to pay copyright fees in diverse regional markets depending on local laws. Gigaset has recognized corresponding provisions for this risk at the level of its subsidiaries where necessary based on case-by-case legal assessments.

Gigaset could be exposed to additional risks in the Home Networks segment, in particular liability risk.

Gigaset could process someone's data in an unauthorized manner or otherwise violate specifications regarding data protection and therefore be exposed to risk associated with laws governing data protection.

The expansion of operations in collaboration with business partners, for example in the Mobile Devices segment, is fraught with special entrepreneurial risks that arise for cultural or linguistic reasons or due to differing business practices and could negatively impact the development of the business segment and therefore also the development of Gigaset.

Gigaset might not be in a position to continue developing innovative products or to react promptly to technical advances and the resulting changes in requirements.

Gigaset could be unable to sufficiently protect its own intellectual property and know-how.

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Even if Gigaset has industrial property rights – including in the area of cell phones – a violation of third-party intellectual property on the part of Gigaset or the necessity of paying for the use of third-party intellectual property cannot be ruled out. This applies in particular in the area of smartphones, where important market participants are involved in major legal disputes.

Defects in Gigaset's products can lead to warranty and product liability claims as well as the loss of revenue, which could impact Gigaset's results. Gigaset purchases commodities and materials predominantly from at least two suppliers. The Company tries to avoid dependency on specific suppliers with respect to prices, volumes, and innovations through a wide-ranging collaboration. With respect to products purchased from third parties, such as smartphones, there is a latent risk as a result of the platform-related concentration of purchasing each given product from a single supplier. In order to put the smartphone business on safer footing, now at least one additional supplier will be established that can take over the business if the primary supplier falls through. Regular control mechanisms will nevertheless be continued; for example, the observation of the markets, key financial figures, and the tracking of deliveries to avoid an interruption of supply.

Outside of the spectrum of third-party products, there is a latent risk as a result of the concentration of production at a single production site in Bocholt. A loss of production at that site could have a significant negative impact on the Company's operations. The normally small order backlog of just a few weeks, which is typical for the industry, makes it more difficult to plan revenue and can result in Gigaset not being able to meet an increased demand for specific products on short notice and, vice-versa, manufacturing too many of certain products. Gigaset could be forced to recognize impairment losses on inventories. Obligations as a result of environmental regulations or the causation or discovery of any soil or land contamination could lead to significant costs.

The Company counters the risk of default on receivables by purchasing trade credit insurance policies, strict management of receivables, and consistent dunning. The risk of default on receivables can be regarded as low on the basis of historical data.

Individual Gigaset companies are exposed to default risks with respect to existing receivables from Group companies if the debtor company cannot repay the debt. With the exception of important facts and circumstances listed under "Risks from contingent liabilities and legal disputes" in Section 4.6, there are no identifiable facts or circumstances that could lead to Gigaset AG having to pay for liabilities on the part of subsidiaries.

The future success of Gigaset depends on qualified managers and employees. The development of the Gigaset Group could be negatively impacted if it cannot attract or hold onto sufficiently qualified managers and employees.

The implementation of the restructuring program in effect since the end of 2015 has so far been carried out as planned; as a result, a negative impact on customers, suppliers, and the workforce is no longer expected. The last wave of layoffs took place on December 31, 2017; the last transitional company ends on December 31, 2018.

Nevertheless, the worldwide reorientation of the Group has not yet been fully completed.

The Gigaset Group's existing insurance policies could prove insufficient for various risks associated with the Company's activities. Gigaset may also not be able to purchase sufficient insurance coverage at reasonable prices in the future.

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4.4 Financial risk

The management of liquidity risk and the review of liquidity planning and the financing structure is carried out locally in coordination with the subsidiaries by the central Finance department.

4.4.1 Liquidity of the Gigaset Group

The operations are financed with the Company's own funds. The Group has been completely free of bank debt since repaying the syndicated loan liabilities in July 2014.

The Group is fully financed for financial year 2018 and the following financial year 2019 and not dependent on additional liquidity. Due to consistent cost-savings, one-time-only payments of tax liabilities from past tax audits can be settled in 2018.

4.4.2 Debt and liquidity of Gigaset AG

Gigaset AG has been free of bank debt since repaying the syndicated loan in July 2014. For financial year 2018 as well as for financial year 2019, the Company has sufficient liquid funds at its disposal based on its internal budgeting.

4.4.3 Liquidity risk

The Group constantly optimizes its group financing and limits its financial risk with the goal of ensuring the security of its financial independence. Financial risk is a part of the risk management system and is also monitored as part of liquidity management.

In the Gigaset Group, income arises and expenses are also incurred in foreign currencies, e.g. for the procurement of numerous components for production that are paid for in U.S. dollars. As a rule, the associated currency risk is hedged by financing international activities in matching currencies or by using derivative financial instruments to hedge foreign currency exposures and thus does not present a specific risk for the Group.

Changes in capital market rates can result in changes in plan assets to cover pension obligations. In individual cases, Gigaset enters into typical banking transactions to hedge interest rate risk. There is no specific risk in the Group also in this regard.

The Group uses various instruments to refinance and hedge its receivables portfolio, such as factoring or loan default insurance, in order to hedge cash flow risks and to ensure the liquidity of the Group.

4.5 Tax risk

4.5.1 Tax risk in Gigaset AG

Gigaset AG receives tax advise on an ongoing basis in order to identify any risks in advance. The Company received an audit order in the preceding 2016 financial year for the area of revenue and income taxes for the financial years 2010 to 2013 and the tax audit officially started on December 13, 2016. However, the actual audit did not begin until the first quarter of 2017 and therefore at this time either no additional risks can be inferred or corresponding provisions have already been set aside for known risks.

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As a result of the change in control (change of control clause) due to the investment made by Goldin Fund Pte. Ltd., Singapore, the tax loss incurred at this time on the part of Gigaset AG – and thus the possibility of offsetting future profits with losses – was completely forfeited. Thus, the full amount of Gigaset AG's future taxable profits will lead to a tax expense. There is a certain risk arising from the acquisition of the Gigaset Group from Siemens in 2008 that can trigger the subsequent payment of substantial taxes. Gigaset is currently discussing this risk with the tax administration auditing this period. The basis for a decision by the Company is expected by the end of 2018.

4.5.2 Other risks in the Gigaset Group

Like all other operating risks at the level of the individual companies, tax risk is isolated and is not, for example, accumulated at the level of the parent company by means of a consolidated tax group or group taxation scheme.

As a general rule, transfer pricing documentation is prepared annually together with a tax consulting firm in order to limit any potential tax risk arising from intragroup clearing transactions with and between foreign companies.

Other potential tax risks at the level of subsidiaries result from the business acquisition of Gigaset Communications Group in 2008.

4.6 Risks from contingent liabilities and legal disputes

4.6.1 Guarantees on the part of the parent company

In the past, Gigaset AG issued various guarantees and warranties in connection with business purchases and disposals. The group parent also assumed financial guarantees for subsidiaries in the past. The latent risks from these warranties and guarantees were further reduced in the past financial year, not lastly due to their expiration. The Executive Board estimates that the likelihood of Gigaset AG being required to make payments based on such guarantees or warranties is getting smaller and smaller.

4.6.2 Legal disputes involving Gigaset AG

Gigaset AG is involved in various legal disputes in connection with its general operations, in particular processes and arbitration proceedings, as well as official administrative proceedings, or such proceedings could be initiated or claims asserted against the Company in the future. Even if the outcome of individual proceedings cannot be predicted with certainty due to the imponderabilities with which legal disputes are always fraught, there will not be any significant negative impacts on the Group's financial performance in excess of the risks reflected in the financial statements as liabilities or provisions according to current assessments. The following legal disputes involving Gigaset AG are currently pending:

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Cartel cases involving SKW

In July 2009, the European Commission imposed a total administrative fine of EUR 61.1 million on various European companies in the calcium carbide sector in connection with an investigation under anti-trust laws. An administrative fine totaling EUR 13.3 million was imposed jointly and severally against SKW Stahl-Metallurgie GmbH, which was directly involved in the cartel, as well as its parent company SKW Stahl-Metallurgie Holding AG (hereinafter both together "SKW"). As the group parent company at the time, Gigaset AG is now also jointly and severally liable for this administrative fine by order of the European Commission because it formed an "entrepreneurial unit" with SKW. By virtue of the administrative order assessing the fine, Gigaset AG paid an amount of EUR 6.7 million in 2009 and 2010 on a preliminary basis (e.g. for the duration of the appeal) to the European Commission. Gigaset also filed an appeal against the assessment of the Commission. In its decision handed down on January 23, 2014, the European court of first instance (European General Court) partially upheld the action brought by Gigaset AG (formerly: ARQUES Industries AG) against the administrative order of the EU Commission imposing a fine in the SKW cartel case and reduced Gigaset AG's administrative fine by EUR 1.0 million. In all other respects, the action against the fine was dismissed. The judgment is final and enforceable against Gigaset AG. The action brought by SKW was refused, i.e. the administrative fine imposed on it was not reduced. SKW has filed an appeal against this judgment, which was dismissed by the European Court of Justice in a decision handed down on June 16, 2016. Thus, the fine imposed on both SKW companies is final. Parallel to the legal dispute that has been decided, Gigaset AG filed a suit against SKW in a civil court for reimbursement of the antitrust fine paid by Gigaset on the grounds that SKW alone should bear the administrative fine as the originator of the cartel and consequently should reimburse Gigaset AG for the administrative fine it has already proportionally paid. Gigaset continues to hold the view that, as a direct participant in the cartel, SKW alone should bear the cost of the fine internally. In the litigation on this matter between Gigaset and SKW, Gigaset considers its position to have been affirmed by the judgment of the Federal Court of Justice dated November 18, 2014, which has remanded the case to the lower court for renewed arguments and decision. The Higher Regional Court that is now hearing the case again suspended Gigaset's legal dispute against SKW at the beginning of 2015 until the European Court of Justice's decision regarding the validity (or non-validity) of the fine imposed on SKW. The reimbursement by means of recourse to parties jointly and severally liable pursued by Gigaset depends on the logical prior question of whether (and to what extent) SKW and Gigaset are at all jointly and severally liable debtors, and consequently on whether the administrative fine imposed on Gigaset and SKW becomes final and enforceable. This prior question was decided in favor of Gigaset by the judgment of the European Court of Justice on June 16, 2016 (see above). The Higher Regional Court of Munich has already resumed the proceedings. By a decision dated September 28, 2017, the Local Court of Munich (Amtsgericht) initially ordered preliminary self-administration with a protective shield proceeding pursuant to section 270a(1) of the German Insolvency Code (Insolvenzordnung, InsO) with respect to SKW Stahl-Metallurgie Holding AG and commenced insolvency proceedings with another resolution dated December 1, 2017. This led to a suspension of these civil proceedings in accordance with section 240 sentence 1 of the Code of Civil Procedure (Zivilprozessordnung, ZPO) with respect to SKW Stahl-Metallurgie Holding AG, but not with respect to SKW Stahl-Metallurgie GmbH. In the meantime, Gigaset AG has resumed the legal dispute suspended in accordance with section 240 ZPO in relation to SKW Stahl-Metallurgie Holding AG. The next appearance before the Higher Regional Court of Munich (Oberlandesgericht) for oral arguments is expected to occur in April 2018; the court is not expected to hand down a decision until the second half of 2018. Gigaset continues to expect that the fine that has already been paid will be fully or partially reimbursed by SKW.

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Evonik in the matter of Oxxynova

In the legal dispute with Evonik Degussa GmbH over a contractual penalty in the amount of EUR 12.0 million, a court of arbitration had ordered Gigaset AG to pay EUR 3.5 million plus interest to Evonik in November 2013 while dismissing the rest of the suit. On March 4, 2015, Gigaset paid the principal amount of EUR 3.5 million plus interest to Evonik. Since adequate provisions had been recognized for this expense in previous years, the outflow of cash resources did not impact earnings for 2015. Due to the amounts paid under the guarantee, Gigaset now has taken recourse against the principal debtor, OXY Holding GmbH and the additional indemnification debtor, StS Equity Holding UG. After failing to reach an agreement out of court, Gigaset filed a lawsuit against the principal debtor OXY Holding GmbH as well as StS Equity Holding UG as the indemnifying party for reimbursement of this amount in a request for arbitration and payment order dated June 29, 2015. Insolvency proceedings were subsequently opened against the assets of both OXY Holding GmbH as well as StS Equity Holding UG. Gigaset is the principal creditor in both proceedings. In the meantime, the distribution of the insolvency assets has been largely completed; Gigaset expects – not least based on an agreement with the insolvency administrator regarding the matter – to receive up to EUR 3.5 million from the insolvency estate, EUR 2.0 million of which has already flowed to Gigaset in the second quarter of 2016 as an advance distribution to the Company; the Company expects an additional EUR 1.5 million as part of the final distribution. In the final result, the Company will incur a net loss of EUR 1.3 million, primarily representing the interest paid to Evonik from the principal amount.

4.7 Overall statement regarding the report on opportunities and risks

Gigaset's significant opportunities lie in the further development of the Business Customer, Gigaset elements, and Mobile Devices segments.

If the realization of entrepreneurial opportunities cannot be achieved to the desired degree, there will be an earnings risk of weaker sales figures.

The cost-savings program was already successfully implemented in 2016 in order to react to declining revenue in the core business. This has already led to considerable cost-savings. A positive free cash flow was already generated in the operating business in 2016. The Company has confirmed this also for 2017 despite expenses for restructuring measures. However, the free cash flow is only positive in 2017 because it was not yet necessary to pay tax liabilities from past tax audits. If the Company's total revenue in the core business excluding the restructured smartphone business should continue to decline, it would nevertheless be sufficiently prepared for a decrease in revenue in the lower double-digit millions thanks to the consistent cost-savings.

The planned revenue from the newly structured smartphone business increased the Group's revenue in 2017. The majority of the components in production but also merchandise are paid in U.S. dollars. Consequently, Gigaset remains dependent on the dollar trend. The current weakening of the U.S. dollar lowers material costs considerably compared with the previous year. In order to benefit from this trend, the Group sufficiently hedged the development of the U.S. dollar for 2018 and does not expect any extraordinary charges.

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5 DESCRIPTION OF THE MAIN FEATURES OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

WITH RESPECT TO THE ACCOUNTING PROCESS OF GIGASET AG AND THE GIGASET GROUP (SECTION 289(2) NO. 1A AND (4) AND SECTION 315(2) NO. 1A AND (4) HGB)

5.1 Internal control and management through the group-wide planning and reporting process

The internal control system in the Gigaset Group includes all principles, processes, and measures that were implemented with the goal of safeguarding the profitability, compliance, and effectiveness of the accounting and ensuring compliance with all legal provisions.

As the group parent, it is particularly important for Gigaset AG to continuously and consistently monitor and manage the development and risks in the individual Group companies. This takes place within the scope of a regular planning and reporting process as well as on the basis of group-wide, uniform accounting guidelines (Gigaset accounting manual).

The basis for this is the prompt availability of reliable and consistent information. Safeguarding the data base is the responsibility of the Finance and Controlling departments of the holding company as well as the individual Group companies.

Corresponding processes and monitoring measures both integrated and independent from the processes are adapted and implemented as necessary depending on the situation and industry affiliation of the respective company. Quick access to the information needed to manage the Group is ensured through this process.

The preparation and analysis of information from the Group companies takes place at Gigaset primarily in the Accounting, Global Controlling and Treasury Departments of Gigaset Communications GmbH and in Corporate Risk Management. The completeness and accuracy of accounting data are periodically reviewed. The company's other governing bodies, including the Supervisory Board, are also integrated into the control environment of the Gigaset Group by reason of the activities prescribed for their functions.

The Supervisory Board of Gigaset AG, in particular the Audit Committee, is also integrated into Gigaset's internal monitoring system with process-independent audit activities.

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5.2 Structural information

The accounting is carried out in the Gigaset Group both locally in the subsidiaries as well as centrally in the Financial Shared Service Center in Bocholt. The separate financial statements are prepared in accordance with local accounting regulations and adjusted to the specifications of International Financial Reporting Standards (IFRS) as they are applied in the EU as well as to the supplementary commercial law provisions under section 315e(1) of the German Commercial Code (Handelsgesetzbuch, HGB) as necessary for the group accounting.

The uniformity of the accounting and measurement in the Group is ensured on the one hand through the Gigaset accounting manual as well as on the other hand through the financial accounting and preparation of final accounts carried out in part centrally.

Accounting processes are recorded using individually selected professional accounting systems that are adapted as needed, such as SAP or DATEV.

5.3 Process and controlling information

The implemented processes and related controlling instruments include the following key aspects, among other things:

- Central and local duties and responsibilities are defined.
- Accounting control mechanisms, such as the principle of review by a “second set of eyes”, validation by the systems, manual inspections, and documentation of changes are implemented.
- Deadline and process plans for separate and consolidated financial statements are prepared and distributed or are made generally accessible.
- Analysis and – if necessary – adjustment of the reporting packages presented by the Group companies.
- Plausibility check of the systems at the Group level.
- Single-step consolidation process with a professional consolidation system.
- Use of standardized and complete sets of forms.
- Use of experienced, trained employees.
- The auditor performs a check function as a process-independent instrument within the scope of their statutory audit engagement.

Special evaluations and ad hoc analyses are prepared promptly as needed. The Executive Board can always directly approach employees from the Controlling and Finance departments as well as the respective local management.

The Gigaset planning and reporting process is based on a professional, standardized consolidation and reporting system in which the data are entered manually or over automatic interfaces. A qualitative analysis and means of supervision are ensured by internal reports and a user-friendly interface.

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5.4 Group-wide, systematic risk management

Risk management at Gigaset is an integral part of corporate management and corporate planning.

The task of risk management is to achieve the goals set under a business strategy such that risks at all levels and in all units are identified, recorded, reported, and managed systematically at an early stage in order to avoid developments that threaten the Company's existence and be in a position to best take advantage of entrepreneurial opportunities.

The overall approach to risk management and the risk management process are specified, coordinated, and monitored at the Group level and in the holding company and implemented in the individual operating units. Risks are identified, systematically recorded, and measured and measures are defined wherever the greatest expertise and potential for assessment prevail.

Uniform standards for risk identification, documentation, and monitoring are summarized for the entire Group in the Gigaset risk management handbook. The central risk manager monitors compliance with the specifications.

R2C_risk_to_chance provides Gigaset with a systematic, web-based risk management system with which all risks can be recorded group-wide and presented in consolidated form for each company or from the perspective of the Group.

The individual risks can be efficiently managed at the company level on this basis and a current and complete view of the risk situation in the Group can be supplied at the same time. The compliance and monitoring of the risk strategies established by the Executive Board for the Gigaset Group are thereby optimally ensured.

The central risk manager is tasked with continually further developing and improving the system, as well as with monitoring and coordinating group-wide risk management and reporting to corporate management.

In addition to instructions, checklists and a so-called "risk atlas" are provided for the systematic identification of risks. The risk atlas shows the areas to which risks can be typically assigned at Gigaset according to the following structure.

- Market risk (economy/industry/competition, products/patents/certificates, legal environment, customers)
- Company/process risks (research/development, procurement, production, sales/marketing, delivery/after sales, accounting/finance/controlling, organization/auditing/IT, personnel, insurance, unanticipated events, acquisition/operations/exit)
- Financial risks (result, liquidity, debt/financing, equity, taxes, other financial risks)
- Contingent liabilities (guarantees/contingent liabilities, other financial obligations, legal disputes, D&O liability)

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Risk assessment is carried out quantitatively on the basis of a 4x4 matrix for the factors probability of occurrence and severity of loss and is related to the potential impact of a negative event on results along a 12 month time horizon. In addition to substantiating the assessment, suitable measures to mitigate or avoid the risk as well as the person responsible for the risk are to be indicated for every individual risk. The severity of loss is measured after steps have been taken, but before planned measures are implemented. The results of the classification are presented in tabular form in a so-called 'risk map' or visualized in a portfolio.

The Executive Board is presented with regular reports on the current situation for all major Group companies.

Risks are fully updated on a quarterly basis; in addition, new significant risks or the occurrence of existing significant risks are recorded immediately and reported to the Executive Board independent from the normal reporting interval. The Executive Board in turn regularly informs the Supervisory Board of the risk situation and risk management.

Business responsibility for the risk management process resides at the operational units at the subsidiary level and/or the Group parent company's staff positions. Operational risk management is correspondingly anchored in these units. In addition, every employee is responsible for identifying and managing risks in their immediate area of responsibility. The management of each subsidiary is responsible for coordinating and recording risk. Risks and information to be regarded as significant from a risk perspective must be reported to management immediately, as well as the Group Executive Board and the central risk manager if necessary.

Further measures under risk management include the Executive Board's regular visits to the subsidiaries to gather information about their current developments as well as the integration of risk assessment in the annual planning discussions.

Monthly target/actual comparisons are conducted by Global Controlling to supplement the risk process and the current forecast is promptly adjusted if necessary. Liquidity management is based on weekly observation periods. Necessary measures can be prepared and implemented on short notice by providing the Executive Board with up-to-date information.

In certain cases, Gigaset hedges against currency risk arising as a result of transactions with third parties denominated in foreign currency using derivative financial instruments with a hedging horizon of up to 12 months, for which purpose Gigaset employs in particular forward exchange deals and currency options and records this by means of corresponding hedge accounting.

5.5 Disclaimer

The internal control and risk management system enables the complete identification, preparation, and evaluation of facts and circumstances related to the Company as well as their presentation in group accounting. However, personal discretionary decisions, flawed controls, and other mistakes or circumstances cannot normally be entirely ruled out; their occurrence can limit the effectiveness of the implemented control and risk management system.

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6 SUPPLEMENTARY DISCLOSURES PURSUANT TO SECTIONS 289A(1) AND 315A(1) HGB (ACQUISITION-RELEVANT INFORMATION)

Sections 289a(1) no. 1 HGB, 315a(1) no. 1 HGB: The subscribed capital of Gigaset AG at December 31, 2017 amounts to EUR 132,455,896 and is divided into 132,455,896 no-par value bearer shares with a notional value of EUR 1.00 per share. Each share grants the same rights and one vote.

Sections 289a(1) no. 2, 315a(1) no. 2 HGB: As a general rule, the shares can be freely transferred in accordance with the law. The voting rights of the shares can be limited under the provisions of the German Stock Corporation Act (Aktiengesetz, AktG) and other laws. For instance, shareholders are barred from voting under certain conditions (section 136 AktG). In addition, the Company is not entitled to any rights from treasury shares, including voting rights (section 71b AktG). The Executive Board is not aware of any contractual limitations with respect to voting rights or the transfer of shares of the Company. However, please note that the Executive Board, employees and other people who have access to insider information are restricted by the Company's insider policy.

Sections 289a(1) no. 3, 315a(1) no. 3 HGB: At the date of this report, the Company has received the following notifications regarding shareholdings in excess of ten percent of the voting rights:

On January 15, 2016, Goldin Fund Pte. Ltd., Singapore, notified the Company on behalf of Mr. Pan Sutong, Hong Kong, in a notification of existing voting rights pursuant to Section 127(10) German Securities Trading Act (WpHG) that the voting rights share of Mr. Sutong represented 79.16% of the total quantity of 122,979,286 voting rights on November 26, 2015. Of these voting rights, 71.57% (88,019,854 voting rights) originated from shares (DE0005156004). Another 7.59% (9,337,935 voting rights) resulted from instruments within the meaning of Section 38(1) no. 2 WpHG (mandatory convertible bond, maturing on January 23, 2016). To aid in understanding this information, the Company points out that the instruments which when exercised will create new voting rights are not yet included in the total quantity of voting rights. When the instruments are exercised, new voting rights will be created, thereby increasing the total quantity of voting rights and necessitating a recalculation of voting rights shares.

On January 23, 2016, the final maturity of the aforementioned mandatory convertible bond increased the total quantity of voting rights to 132,455,896, of which Mr. Sutong now held 73.50% (97,357,789 voting rights). The conversion of instruments (Section 38 (1) WpHG) into voting rights (Sections 33, 34 WpHG) caused a shift within the shareholder's reportable voting rights according to Section 39 WpHG, accompanied by a concurrent increase in the total quantity of voting rights, which caused the holdings of one shareholder to fall below a threshold without action on his part. On this subject, the Company received a notification pursuant to Section 40 WpHG on January 27, 2016 and a corrected notification pursuant to Section 40 WpHG on January 28, 2016.

Sections 289a(1) no. 4, 315a(1) no. 4 HGB: At the date of this report, there are no shares that confer special control rights.

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Sections 289a(1) no. 5, 315a(1) no. 5 HGB: There are no rules related to the coordinated exercise of voting rights on the part of employees invested in the Company.

Sections 289a(1) no. 6, 315a(1) no. 6 HGB: Rules governing the appointment and dismissal of members of the Executive Board are set forth under sections 84 et seq. AktG. In accordance with Art. 5(1) of the Articles of Incorporation, the Supervisory Board only determines the exact number of Executive Board members. The responsibility and requirements to alter the Articles of Incorporation are oriented on sections 179-181 AktG. Additional rules in the Company's Articles of Incorporation that go beyond these provisions are currently not considered necessary. Other statutory rules and regulations can be found in the German Stock Corporation Act; the relevant provisions under the Articles of Incorporation can be found in part II (Executive Board) and part III (Supervisory Board) and Art. 16 of the Articles of Incorporation. No changes were made to the Articles of Incorporation in the reporting period.

Sections 289a(1) no. 7, 315a(1) no. 7 HGB

- Authorized Capital 2016 (Art. 4 para. 5 of Articles of Incorporation)

  The Authorized Capital 2014 currently included in Art. 4(6) of the Articles of Incorporation only takes advantage of some of the legal possibilities for authorized capital. In order to provide the Company with the greatest possible flexibility with respect to financing, the annual shareholders' meeting resolved on August 12, 2016, to create an additional newly Authorized Capital 2016 with the possibility of disapplying pre-emption rights and to correspondingly amend the Articles of Incorporation.

  In light of this, the annual shareholders' meeting resolved to insert the following new paragraph 5 into Art. 4 of the Articles of Incorporation:

"5. The Executive Board is authorized to increase the share capital, with the consent of the Supervisory Board, by up to a total of EUR 44,200,000.00, once or in partial amounts, by issuing new no-par value bearer shares qualifying for dividends as of the beginning of the financial year in which they are issued, in exchange for cash contributions, in the time until August 11, 2021 (Authorized Capital 2016). The shareholders are generally entitled to a subscription right.

The new shares can also be underwritten by one or more credit institutions with the requirement that they be offered to the shareholders (indirect subscription right).

The Executive Board is authorized with the approval of the Supervisory Board to decide on the contents of the share rights and the terms under which the shares are issued as well as the details of the execution of the capital increase.

Furthermore, the Executive Board is authorized, with the consent of the Supervisory Board, to exclude the subscription right of the shareholders in the following cases:

a) In the case of capital increases in exchange for cash contributions, provided that the issue price of the new shares is not significantly less than the stock exchange price at the time of the final determination of the issue price, and provided that the shares issued by virtue of letter a) of this authorization under disapplication of pre-emption rights in exchange for cash contributions do not exceed a total of 10% of the share capital either on August 12, 2016, or at the time when the present authorization takes effect, or when it is exercised;

b) To the extent that it is necessary in order to grant to the holders or creditors of convertible bonds or option bonds issued by the Company or by subordinated Group companies a subscription right for new shares for an amount to which they would be entitled after exercising the option right or conversion right or after fulfilling the conversion obligation;

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c) In order to eliminate fractional amounts from the subscription right.

The share of the share capital of all shares issued based on this authorization under disapplication of pre-emption rights may not exceed 20% of the share capital either on August 12, 2016, or when the present authorization takes effect, or when this authorization is exercised. In each case, the proportional amount of share capital attributable to shares that are issued in the period from August 12, 2016, to the end of the term of the authorization under disapplication of pre-emption rights by direct or analogous application of section 186(3) sentence 4 of the German Stock Corporation Act (Aktiengesetz, AktG) is to be applied against this limit of 20% as well as to the limit of 10% of the share capital in accordance with letter a) of this authorization. Furthermore, the proportional amount of the share capital attributable to shares that were or may still be issued for the purpose of servicing conversion or option rights or conversion obligations is to be applied against these limits, insofar as the underlying bond was issued during the term of the present authorization under disapplication of pre-emption rights in accordance with section 186(3) sentence 4 AktG. Finally, the proportional amount of the share capital of the shares that are issued beginning on August 12, 2016, based on an authorization to utilize treasury shares in accordance with sections 71(1) no. 8 sentence 5, 186(3) sentence 4 AktG under disapplication of pre-emption rights is to be applied to the aforementioned limits."

This authorization has so far not been utilized.

- Authorized Capital 2014 (Art. 4 para. 6 of Articles of Incorporation)

In the annual shareholders' meeting held on August 12, 2014, the Executive Board was authorized under a new Art. 4 para. 6 of the Articles of Incorporation to increase the subscribed capital in the period until August 11, 2019, with the approval of the Supervisory Board one time or in partial amounts by up to a total of EUR 22,000,000.00 by issuing up to 22,000,000 new no-par value bearer shares entitled to receive a share of the profits beginning with the financial year in which they are issued in exchange for cash contributions (Authorized Capital 2014). The shareholders are entitled to subscription rights. The new shares can also be underwritten by one or more credit institutions with the requirement that they be offered to the shareholders (indirect subscription right). The Executive Board is authorized with the approval of the Supervisory Board to decide on the contents of the share rights and the terms under which the shares are issued as well as the details of the execution of the capital increase.

This authorization has so far not been utilized.

- Contingent Capital 2014 (Art. 4 para. 8 of the Articles of Incorporation)

The annual shareholders' meeting held on August 12, 2014 resolved a new, additional authorization to issue option bonds and/or convertible bonds, and a new Contingent Capital 2014 for this purpose, and amended the Articles of Incorporation accordingly.

Accordingly, the annual shareholders' meeting resolved to add a new Art. 4 para. 8 to the Articles of Incorporation, which reads as follows:

"8. The share capital is conditionally increased by up to EUR 35,000,000.00 through the issuance of up to 35,000,000 new bearer shares qualifying for dividends from the beginning of the financial year in which they were issued. The contingent capital increase serves the purpose of issuing shares to the holders or creditors of option bonds and/or convertible bonds that were issued by the Company or a subordinate Group company in exchange for cash payment in the time until August 11, 2019, by virtue of the authorization of the annual shareholders' meeting held on August 12, 2014. New shares are issued respectively at the option or conversion price specified under the aforementioned authorization. The contingent increase in capital may only be carried out to the extent that option rights and/or conversion rights arising from the debt securities are exercised and/

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or conversion requirements from the debt securities are met and to the extent that cash compensation is not paid or treasury shares are not offered for subscription. The Executive Board is authorized with the consent of the Supervisory Board to establish the further details applicable to the conduct of the contingent capital increase (Contingent Capital 2014)."

The main points of the authorization to issue option bonds and/or convertible bonds are as follows:

a) Authorization period, nominal amount, number of shares

The Executive Board is authorized with the consent of the Supervisory Board on one or more occasions until August 11, 2019,

- to issue no-par value bearer or registered option bonds and/or convertible bonds with or without a maturity cap in the total nominal value of up to EUR 150,000,000.00 ("debt securities") by the Company or companies in which the Company holds a direct or indirect majority interest ("subordinate Group companies"), and

- to furnish the guarantee for such debt securities issued by subordinate Group companies of the Company, and

- to grant the bearers and/or creditors of debt securities option rights and/or conversion privileges for a total of up to 35,000,000 no-par value bearer shares of the Company with a proportionate share in the share capital of up to EUR 35,000,000.00 in accordance with the specific terms of the respective debt securities.

The individual issues can be divided into bonds with equal rights for all bond holders and are to be issued in exchange for cash payment.

In the event that option bonds are issued, one or more options will be attached to each bond that entitles the bearer or creditor to subscribe to shares of Gigaset based on the terms of the bond or option.

The affected options can be separated from the respective bonds. The terms of the bond or option can specify that the option price can also be paid through the transfer of bonds with an additional cash payment if necessary. The proportionate share in the share capital of the shares to be subscribed for each bond may not exceed the nominal value and/or the issue price of the option bond, which lies below the nominal value.

In the event that convertible bonds are issued, the bearers or creditors receive the right and/or are obligated to convert their convertible bonds into shares of Gigaset based on the terms of the convertible bonds. The conversion ratio is derived by dividing a bond's nominal value or lower issue price by the specified conversion price for a no-par value bearer share of the Company. The conversion ratio is rounded to four decimal places. The bond terms can provide for an additional cash payment and specify that fractional amounts that cannot be converted be consolidated and/or settled in cash. The bond terms can also specify a conversion requirement. The proportionate share in the share capital of the shares to be subscribed for each bond may not exceed the nominal value and/or the issue price of the convertible bond, which lies below the nominal value.

b) Pre-emptive subscription right

As a general rule, the shareholders are entitled to pre-emptive subscription rights for the bonds; the bonds may also be underwritten by a bank or bank consortium with the requirement that they be offered to the shareholders for subscription.

c) Option or conversion price, protection from dilution

aa) The option or conversion price may not be less than 80% of the stock exchange price of Gigaset stock in the Xetra trading system (or in a comparable successor system). This price is to be determined as the average closing price on the ten trading days before the Executive Board's final decision to publish an offer for the subscription of bonds or to declare the Company's acceptance after a public invitation to tender offers. In the case of trading of subscription rights, the price is to be determined on the basis of the trading days for subscription rights excluding the last two trading days for the subscription rights, if the Executive Board has not already set a final option or conversion price before trading in the subscription rights begins.

bb) Without prejudice to section 9(1) AktG, the option or conversion price may be reduced under an antidilution clause as provided for in further detail in the bond terms and conditions, or cash components may be amended, or subscription rights may be granted if the Company increases the share capital before the expiration of the option or conversion term while granting pre-emptive subscription rights to its shareholders, or if it issues or guarantees additional bonds without granting the bearers of option rights and/or the creditors of convertible bonds a subscription right equivalent to the right to which they would be entitled after exercising their option or conversion rights or conversion requirements. The same will also apply to other measures that may result in a dilution of the value of the option and/or conversion rights or conversion requirements. In any case, however, the proportionate amount of the share capital for the shares to be subscribed for each bond may not exceed the nominal amount of the bond or the lower issue price.

Sections 9(1) and 199 AktG remain unaffected.

d) Further structuring alternatives

The Executive Board is authorized with the consent of the Supervisory Board and subject to the above requirements to establish the other details regarding the issuance and features of the bonds and their terms and conditions, either itself or in agreement with the governing bodies of the subordinate Group company issuing the bonds, as the case may be, particularly including the option or conversion price, the interest rate, the issue price, the term and denomination, the basis for an option or conversion requirement, the establishment of an additional cash payment, settlement or pooling of fractional amounts, cash payment in lieu of delivery of shares, delivery of existing shares in lieu of issuing new shares, anti-dilution protection and the option or conversion period."

The Company has not yet utilized the authorization granted in Art. 4 para. 8 of the Articles of Incorporation.

- Contingent Capital 2016 (Art. 4 para. 9 of the Articles of Incorporation)

Since the existing authorization of the Executive Board to issue option bonds and/or convertible bonds from August 12, 2014, with Contingent Capital 2014 in the amount of EUR 35,000,000.00 in accordance with Art. 4.8 of the Articles of Incorporation only takes advantage of some of the legal possibilities for contingent capital, the annual shareholders' meeting on August 12, 2016, resolved a new additional authorization to issue option bonds and/or convertible bonds as well as a new Contingent Capital 2016 and amended the Articles of Incorporation accordingly. The Executive Board was also authorized, with the consent of the Supervisory Board, to disapply the pre-emption rights of the shareholders to the option and/or convertible bonds.

Accordingly, the annual shareholders' meeting resolved to add a new Art. 4 para. 9 to the Articles of Incorporation, which reads as follows:

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"9. The share capital is contingently increased by up to EUR 29,700,000.00 through the issuance of up to 29,700,000 new bearer shares qualifying for dividends from the beginning of the financial year in which they were issued. The contingent capital increase serves the purpose of issuing shares to the holders or creditors of option bonds and/or convertible bonds that were issued by the Company or a subordinate Group company in exchange for cash payment in the time until August 11, 2021, by virtue of the authorization of the annual shareholders' meeting held on August 12, 2016. New shares are issued respectively at the option or conversion price specified under the aforementioned authorization. The contingent increase in capital may only be carried out to the extent that option rights and/or conversion rights arising from the debt securities are exercised and/or conversion requirements from the debt securities are met and to the extent that cash compensation is not paid or treasury shares are not offered for subscription. The Executive Board is authorized with the consent of the Supervisory Board to establish the further details applicable to the conduct of the contingent capital increase (Contingent Capital 2016)."

The main points of the authorization to issue option bonds and/or convertible bonds are as follows:

a) Authorization period, nominal amount, number of shares

The Executive Board is authorized with the consent of the Supervisory Board on one or more occasions until August 11, 2021,

- to issue no-par value bearer or registered option bonds and/or convertible bonds with or without a maturity cap in the total nominal value of up to EUR 150,000,000.00 ("debt securities") by the Company or companies in which the Company holds a direct or indirect majority interest ("subordinate Group companies"), and
- to furnish the guarantee for such debt securities issued by subordinate Group companies of the Company, and
- to grant option rights and/or conversion rights to the holders or creditors of bonds for a total of up to 29,700,000 no-par value bearer shares of the Company with a proportional share in the share capital of up to EUR 29,700,000.00 after further specification of the individual terms and conditions of the bonds.

The individual issues can be divided into bonds with equal rights for all bond holders and are to be issued in exchange for cash payment.

If option bonds are issued, each bond will include one or more options that entitle the bearer or creditor to purchase Gigaset shares in accordance with the terms of the bond or option.

The affected options can be separated from the respective bonds. The terms of the bond or option can specify that the option price can also be paid through the transfer of bonds with an additional cash payment if necessary. The proportionate share in the share capital of the shares to be subscribed for each bond may not exceed the nominal value and/or the issue price of the option bond, which lies below the nominal value.

In the event that convertible bonds are issued, the bearers or creditors receive the right and/or are obligated to convert their convertible bonds into shares of Gigaset based on the terms of the convertible bonds. The conversion ratio is derived by dividing a bond's nominal value or lower issue price by the specified conversion price for a no-par value bearer share of the Company. The conversion ratio is rounded to four decimal places. The bond terms can provide for an additional cash payment and specify that fractional amounts that cannot be converted be consolidated and/or settled in cash. The bond terms can also specify a conversion requirement. The proportional amount of the share capital of the shares to be purchased for each bond shall be, at a maximum, the nominal amount of the bond or the issue price lower than the nominal amount.

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b) Subscription rights, disapplication of pre-emption rights

The shareholders are generally entitled to a subscription right to the bonds; the bonds can also be accepted by one or more banks with the obligation to offer them to the shareholders for purchase (indirect subscription right). However, the Executive Board is authorized with the consent of the Supervisory Board to disapply shareholders' pre-emptive right to subscribe the bonds,

- when bonds are issued in exchange for cash payment, insofar as the issue price is not significantly lower than the theoretical market value of the bonds as determined by generally accepted mathematical methods; this shall apply, however, only insofar as the proportional amount of the share capital of the shares to be issued to satisfy the option and/or conversion rights or conversion requirements thus established upon issue of the bonds does not exceed a total of 10% of the share capital, either at August 12, 2016, or at the effective date, or at the date of exercise of this authorization,
- in order to remove fractional amounts resulting from the subscription ratio from the shareholders' pre-emption rights, or
- in order to grant to the bearers or creditors of options or conversion rights or conversion requirements subscription rights, so as to compensate for dilution, to the extent to which they would be entitled after the exercise of those rights or the satisfaction of those obligations.

The proportional amount of the share capital of all shares to be issued to service the option and/or conversion rights and/or conversion obligations when bonds are issued while disapplying pre-emption rights on the basis of this authorization may not exceed a total of 20% of this share capital either on August 12, 2016, or when this authorization takes effect, or when this authorization is exercised. In each case, the proportional amount of share capital attributable to shares that are issued or sold in the time from August 12, 2016, to the end of the term of the authorization under disapplication of pre-emption rights by direct or analogous application of section 186(3) sentence 4 AktG is to be applied against this limit of 20% as well as to the aforementioned limit of 10% of the share capital. Furthermore, the proportional amount of the share capital attributable to shares that were or may still be issued for the purpose of servicing conversion or option rights or conversion obligations is to be applied against these limits, insofar as the underlying bond was issued during the term of the present authorization under disapplication of pre-emption rights in accordance with section 186(3) sentence 4 AktG. Finally, the proportional amount of the share capital of the shares that are issued beginning on August 12, 2016, based on an authorization to utilize treasury shares in accordance with sections 71(1) no. 8 sentence 5, 186(3) sentence 4 AktG under disapplication of pre-emption rights is to be applied to the aforementioned limits.

c) Option or conversion price, protection from dilution

aa) The option or conversion price may not be less than 80% of the stock exchange price of Gigaset stock in the Xetra trading system (or in a comparable successor system). The average closing price on the ten stock exchange trading days prior to the final decision of the Executive Board on the submission of an offer to subscribe bonds or on the statement of acceptance by the Company following a public request to issue subscription offers shall prevail. In the case of trading of subscription rights, the price is to be determined on the basis of the trading days for subscription rights excluding the last two trading days for the subscription rights, if the Executive Board has not already set a final option or conversion price before trading in the subscription rights begins.

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bb) Without prejudice to section 9(1) AktG, the option or conversion price may be reduced under an antidilution clause as provided for in further detail in the bond terms and conditions, or cash components may be amended, or subscription rights may be granted if the Company increases the share capital before the expiration of the option or conversion term while granting pre-emptive subscription rights to its shareholders, or if it issues or guarantees additional bonds without granting the bearers of option rights and/or the creditors of convertible bonds a subscription right equivalent to the right to which they would be entitled after exercising their option or conversion rights or conversion requirements. The same will also apply to other measures that may result in a dilution of the value of the option and/or conversion rights or conversion requirements. In any case, however, the proportionate amount of the share capital for the shares to be subscribed for each bond may not exceed the nominal amount of the bond or the lower issue price.

Section 9(1) and section 199 AktG shall remain unaffected thereby.

d) Further structuring alternatives

The Executive Board is authorized, with the consent of the Supervisory Board, to independently establish the further details of the issuance and features of the bonds and their terms while complying with the foregoing requirements, or to establish them by mutual consent with the governing bodies of the subordinate Group company issuing the bonds, in particular the option premium or conversion price, interest rate, issue price, maturity period and trading units, establishment of an option or conversion requirement, setting an additional cash payment, compensation for or pooling of fractional shares, cash payment in lieu of the delivery of shares, delivery of treasury shares in lieu of issuing new shares, anti-dilution protection provisions, and the option and/or conversion period.

The Company has not yet utilized the authorization granted in Art. 4 para. 9 of the Articles of Incorporation.

Sections 289a (1) No. 8, 315a (1) No. 8 HGB: There are no material agreements with the parent company at December 31, 2017, subject to the condition of a change in control as a consequence of a takeover offer.

Sections 289a (1) No. 9, 315a (1) No. 9 HGB: No compensation agreements have been entered into between the Company and the members of the Executive Board or employees in the event of a takeover offer.

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7 GERMAN CORPORATE GOVERNANCE CODE

7.1 Statement on corporate governance at Gigaset AG & the Group

7.1.1 Declaration of conformity

Corporate governance is an issue that Gigaset AG takes very seriously. The Executive Board and Supervisory Board understand corporate governance to be a process that is continuously further developed and improved.

With only a few exceptions, Gigaset AG complies with the German Corporate Governance Code (the "Code"), which was issued in 2002 and most recently revised on February 7, 2017.

The Executive Board and Supervisory Board of Gigaset AG submitted the declaration of conformity with the German Corporate Governance Code on February 27/March 8, 2018 in the version dated February 7, 2017 as required under section 161 of the German Stock Corporation Act (Aktiengesetz, AktG) and then made it permanently and publicly available to the shareholders on the Company's website (http://www.Gigaset.com/de_de/cms/Gigaset-ag/investor-relations/unternehmen/corporate-governance.html) on March 14, 2018. The Executive Board and Supervisory Board of Gigaset AG thereby declare that, with few exceptions, they have complied and will comply in the future with the Code Commission's recommendations regarding the management and supervision of the enterprise published in the electronic Federal Gazette in the current version.

7.1.2 Report on corporate governance

7.1.2.1 Functioning of the Executive Board

The Executive Board manages the Company under its own responsibility with the goal of permanently increasing the Company's value and achieving the corporate objectives that have been defined. It conducts business in accordance with the relevant statutory provisions, the Company's Articles of Incorporation, and the Executive Board's by-laws, and collaborates with the other governing bodies in a relationship based on trust.

The Executive Board defines the goals and strategies for the Group, its subgroups, and subsidiaries and sets the guidelines and principles for the corporate policy derived therefrom. It coordinates and controls the activities, specifies the portfolio, develops and deploys managers, distributes the resources, and decides upon the Group's financial management and reporting.

Since more than one person is appointed to the Executive Board, the members of the Executive Board have joint responsibility for the overall management of the Company. Irrespective of the overall responsibility of all members of the Executive Board, the individual members each have personal responsibility for managing the areas assigned to them under the relevant Executive Board resolutions. The Executive Board in its entirety decides upon all matters of fundamental and essential significance and upon all cases specified by law or other means. Executive Board meetings are held at regular intervals and are convened by the Chairman of the Executive Board. In addition, any member may call for a meeting to be convened. Where the law does not require unanimity, the Executive Board adopts resolutions upon a simple majority of the

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votes cast. The Executive Board represents the Company and the Group vis-a-vis third parties and the workforce in matters that affect more than just parts of the Company or the Group. In addition, it has special responsibility for certain Corporate Center units and their areas of activity.

7.1.2.2 Functioning of the Supervisory Board

The Supervisory Board is tasked with supervising and advising the Executive Board. It comprises six members. The Supervisory Board is directly involved in decisions of fundamental importance for the Company; it also agrees on the Company's strategic orientation with the Executive Board and discusses the progress achieved on implementing the business strategy with the Executive Board. The Chairman of the Supervisory Board coordinates the board's work and chairs its meetings. The Executive Board keeps the Supervisory Board informed at all times about the Company's policies, planning and strategy as part of a regular exchange of views. The Supervisory Board approves the annual plan and the financial framework, and adopts the separate financial statements of Gigaset AG and the consolidated financial statements of the Gigaset Group, together with the Combined Management Report, taking into account the reports submitted by the independent auditors. As in the prior year, the Supervisory Board also reviewed the dependent company report, which the Executive Board – together with the report by the auditors – will present to the Supervisory Board together with the auditors' report on the dependent company report after it is signed. As in the prior year, the Supervisory Board reviewed the dependent company report insofar independently and comprehensively just as it reviewed the completeness of the statements made therein.

7.1.2.3 Supervisory Board committees

Audit Committee: Since September 23, 2015, the Audit Committee has comprised Mr. Riedel, Mr. di Fraia, Mr. Burkhardt (Chairman), and Ms. Shiu.

The members of the Supervisory Board who also served on the Audit Committee in the financial year meet the statutory requirements of independence and expertise in the areas of accounting or auditing that members of the Supervisory Board and Audit Committee must fulfill.

Among other things, the Audit Committee's duties include reviewing the Company's accounts, the separate and consolidated financial statements prepared by the Executive Board, the Combined Management Report, the proposal for the utilization of Gigaset AG's unappropriated net profit, and the Gigaset Group's quarterly reports and interim management reports. The Audit Committee draws up proposals for the approval of the annual financial statements by the Supervisory Board on the basis of the independent auditors' report on the audit of Gigaset AG's separate financial statements and the Gigaset Group's consolidated financial statements and Combined Management Report. The Audit Committee is also responsible for the Company's relations with the independent auditors. The committee submits to the Supervisory Board a proposal regarding the election of the independent auditors, prepares the engagement of the independent auditors elected by the annual shareholders' meeting, suggests areas of audit emphasis and sets the fees paid to the auditors. Furthermore, the committee monitors the independence, qualification, rotation, and efficiency of the auditors of the annual financial statements. In addition, the Audit Committee addresses the Company's internal control system, the procedures used to record, control and manage risk, and the internal audit system.

Personnel Committee: The Personnel Committee is directly responsible for dealing with all personnel matters of the Executive Board to the extent permitted under the law. The Personnel Committee has comprised Mr. Riedel, Mr. di Fraia, and Mr. Wong since September 23, 2015.

The Report of the Supervisory Board provides details on the activities of the Supervisory Board and its committees.

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7.1.2.4 Disclosures regarding the share of women and the diversity concept

On July 24, 2017, the Supervisory Board established targets for the share of women – namely 16.66% by June 30, 2022, on the Supervisory Board and 0% by June 30, 2022, on the Executive Board. On August 9, 2017, the Executive Board also established targets for the share of women in the two management levels below the Executive Board – namely, 10% for the first management level and 30% for the second management level by June 30, 2022.

Gigaset AG does not pursue a diversity concept. Gigaset is of the opinion that appointments to the company's Executive Board should be based primarily on knowledge, capabilities and professional experience. The Supervisory Board is elected by the annual shareholders' meeting. The election proposals made to the annual shareholders' meeting are likewise based primarily on the knowledge, capabilities and professional experience of each candidate. Gigaset AG believes that only the company's shareholders should decide on the suitability of candidates.

7.1.2.5 Share transactions involving members of the Executive Board and Supervisory Board

Members of the Executive Board and the Supervisory Board as well as their related parties are obligated in accordance with Art. 19 of the Market Abuse Regulation (EU) No. 596/2014 (MAR), to report to Gigaset AG and the German Federal Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht, BaFin) transactions involving shares or debt instruments of Gigaset AG or other associated financial instruments, if the value of the transactions reaches or exceeds EUR 5,000 in a calendar year. Gigaset AG publishes information regarding such transactions immediately on its webpage and notifies the BaFin in writing accordingly; the information is communicated to the commercial register for archiving.

The Company did not receive any notifications in accordance with Art. 19 of the Market Abuse Regulation (EU) No. 596/2014 (MAR) in financial year 2017.

7.1.2.6 Relevant information on corporate governance practices

Our commercial activities are oriented on the legal systems of various countries and regions, which give rise to diverse obligations and duties for the Gigaset Group and its employees at home and abroad. Gigaset always conducts its operations responsibly and in compliance with the statutory provisions and official regulations applicable in the countries where Group companies operate. Gigaset expects all of its employees to demonstrate proper legal and ethical behavior in their day-to-day activities. Indeed, every single employee influences the Company's reputation with his or her professional behavior. A constant dialog and close monitoring lay the foundation for conducting our business activities responsibly and in compliance with the applicable laws.

The Gigaset Business Conduct Guidelines are the core rules and standards of Gigaset AG's compliance system. In addition, a Compliance Committee comprising three members who meet regularly advises and supports the Executive Board in all questions related to the lawful governance of the Company, compliance with statutory provisions and official instructions, and adherence to associated internal guidelines. The Compliance Committee's responsibilities include, among other things, continuously monitoring compliance and conducting training courses for the employees, clarifying suspicious cases and formulating recommended actions for the Executive Board as well as managing an information and reporting center for compliance violations ("whistleblower hotline"). Employees and third parties can direct information regarding potential compliance violations by telephone using the whistleblower hotline, by email, or anonymously by submitting a report form to the Compliance Committee.

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7.1.2.7 Extensive reporting

In order to ensure a high level of transparency, we notify our shareholders, financial analysts, media and other interested parties at regular intervals regarding the position of the Company and key commercial developments. Gigaset AG regularly informs its shareholders about the development of its business and the Company's financial position, financial performance and cash flows together with the associated risks. The members of the Company's Executive Board affirm that to the best of their knowledge, and in accordance with the applicable reporting principles, the consolidated and separate financial statements give a true and fair view of the financial position, financial performance and cash flows of the Group and of the Company, and the Combined Management Report provides a true and fair view of the development of the business, including the results of operations and the position of the Group and of the Company as well as a description of the significant opportunities and risks associated with the expected development of the Group and of the Company. The separate financial statements of Gigaset AG, the consolidated financial statements of the Gigaset Group, and the Combined Management Report will be prepared within three months of the end of the respective financial year and subsequently published. Shareholders and third parties are also informed during the course of the year by means of a half-yearly financial report and quarterly financial reports after the end of the first and third quarters. In addition, Gigaset AG releases information in press and analyst conferences. Gigaset AG also uses the Internet as a means of publishing current information. This provides access to timetables for the key publications and events, including the annual reports, quarterly and half-yearly financial reports, and the annual shareholders' meeting. In line with the principle of fair disclosure, we treat all shareholders and key target groups alike when providing information. We use appropriate media channels to make information about important new circumstances promptly available to the general public. In addition to the regular reports, we release ad hoc reports regarding relevant facts and circumstances that could significantly affect the price of the Gigaset share were they to be disclosed.

7.2 Main features of the compensation system for Gigaset AG's governing bodies (Compensation report)

7.2.1 Compensation paid to members of the Executive Board

The duties and contribution of the respective Executive Board member are taken into account when determining their compensation. The compensation granted in financial year 2017 comprised both fixed annual salary and variable compensation agreements. There are variable compensation agreements for the members of the Executive Board based on company and/or performance-based bonus agreements and in some cases also based on personal goals with qualitative milestones. The goals were discussed with the Chairman of the Company's Supervisory Board and with the Executive Board members at the beginning of the financial year or at the beginning of work as an Executive Board member. The Chairman of the Supervisory Board decides on the achievement of the respective goals based on the individual agreements.

Based on a resolution of the annual shareholders' meeting held on August 11, 2015, in accordance with sections 286(5) and 314(3) HGB, the required disclosures under section 285 no. 9a sentences 5 to 8 and section 314(1) no. 6a sentences 5 to 8 HGB will not be provided when preparing the separate financial statements of Gigaset AG and the consolidated financial statements. This resolution applies to the preparation of the separate financial statements of Gigaset AG and the consolidated financial statements for the financial years commencing January 1, 2015, and the next four financial years, but ends no later than August 10, 2020. Therefore, the disclosures regarding the compensation paid to members of the Executive Board in the following paragraphs of the Compensation Report are each provided in aggregate without any names.

The possible or granted total compensation of the members of the Executive Board for financial year 2017 breaks down as follows analogous to the require-

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ments of the German Corporate Governance Code (version dated February 2017), Sample Table 1 for Number 4.2.5 Paragraph 3 (first indent):

Payments granted to Executive Board members, in EUR	2016 (100 %)	2017 (100 %)	2017 (Min)	2017 (Max)
Fixed compensation	703,113	646,126		
Fringe benefits	26,068	34,433		
Total of fixed compensation components	729,181	680,559		
One-year variable compensation	150,000	50,000	0	450,000
Multi-year variable compensation	0	0	0	0
Total of fixed and variable compensation	879,181	730,559	680,559	1,130,559
Service cost	20,995	13,786	13,786	13,786
Total compensation	**900,136**	**744,345**	**694,345**	**1,144,345**

The income accruing to the members of the Executive Board for financial year 2017 breaks down as follows in accordance with the requirements of the German Corporate Governance Code (version dated February 2017), Sample Table 2 for Number 4.2.5 Paragraph 3 (second indent):

Allocation to Executive Board members collectively, in EUR	2017	2016
Fixed compensation	669,460	679,779
Fringe benefits	37,233	23,268
Total of fixed compensation components	706,693	703,047
One-year variable compensation	125,000	0
Total of fixed and variable compensation	831,693	703,047
Service cost	13,786	20,955
Total compensation	**845,479**	**724,002**

No further compensation was granted to the Executive Board members for their work in subsidiaries or associated companies. The allocations from the total compensation of the Executive Board amounted to EUR 845 thousand in the financial year (prior year: EUR 724 thousand).

7.2.2 Compensation of the Supervisory Board

Based on the resolution of the Extraordinary General Meeting held on December 19, 2013, the compensation scheme below, which was amended in Section 1 „Base compensation“ and with respect to the period of validity by resolution of the annual shareholders' meeting of August 17, 2017 on the compensation of Supervisory Board members, is applied retroactively at August 15, 2013. All clauses relevant to compensation are presented below:

"In accordance with section 113 of the German Stock Corporation Act (Aktiengesetz, AktG) and Art. 12(2) of the Company's Articles of Incorporation, the annual shareholders' meeting approves the following compensation for the members of Gigaset AG's Supervisory Board:

1. Base compensation. Every member of the Supervisory Board receives a fixed salary of EUR 5,000.00 ("base compensation*") for every month or partial month of their term of office ("accounting month"). The beginning and end of every accounting month are determined based on sections 187(1), 188(2) of the German Civil Code (Bürgerliches Gesetzbuch, BGB). The claim to base compensation arises at the end of the accounting month.*

2. *Compensation for participating in meetings. Every member of the Supervisory Board receives a salary of EUR 1,000.00 for participating in a Supervisory Board or committee meeting convened in accordance with the Articles of Incorporation. Telephonic participation in the meeting as well as submission of a vote in writing in accordance with Art. 9(3) sentence 2 of the Articles of Incorporation is equivalent to participating in the meeting. Multiple meetings of the same body on the same day are compensated as one meeting. The claim to compensation*

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for attending a meeting arises when the minutes of the meeting are signed by the Chairman or Committee Chairman. The basis for the claims can only be proven by the minutes of the meeting in accordance with section 107(2) AktG.

3. *Compensation for adopting a resolution outside of meetings. Every member of the Supervisory Board receives a salary of EUR 1,000.00 ("compensation") for submitting their vote during the adoption of a resolution in writing, by fax, by telephone, by e-mail, or by other means of telecommunication or data transmission outside of a meeting ("adaptation of a resolution outside of meetings") in accordance with Art. 9(4) of the Articles of Incorporation ordered in any particular case by the Chairman. Multiple resolutions adopted outside of a meeting on the same day will be compensated as a single claim. The claim to compensation for adopting a resolution arises when the minutes of the resolution are signed by the Chairman or Committee Chairman. The basis for the claims can only be proven by the minutes of the resolution.*

4. *Compensation of the Chairman. The Chairman of the Supervisory Board receives an additional 100% and the Vice Chairman of the Supervisory Board receives an additional 50% of all compensation specified in Articles 1 to 3.*

5. *Reimbursement of expenses. The Company reimburses the Supervisory Board members for expenses and any value added tax on compensation or expenses incurred while performing the duties of their office. The claim to reimbursement of expenses arises when the expenses are personally paid by the Supervisory Board member.*

6. *Origination of claim and due date. All payment claims are due 21 days after the Company receives an invoice satisfying the requirements of a proper invoice. If a claim is asserted for the reimbursement of expenses, copies of receipts for the expenses must be attached to the invoice. The Company is authorized to make payments in advance of the due date.*

7. *Insurance. The Company must take out a D&O insurance policy for the benefit of Supervisory Board members that covers the statutory liability relating to their activities on the Supervisory Board.*

8. *Duration. This compensation scheme takes effect retroactively as of August 15, 2013, and remains in force until replaced by an annual shareholders' meeting. This compensation scheme replaces the compensation scheme resolved by the annual shareholders' meeting on August 14, 2013, which is at the same time retroactively annulled. If compensation has already been paid based on the annulled compensation scheme, it is to offset claims to payment under the new scheme."*

The am*endment of the base compensation resolved in Section 1 takes effect as of August 18, 2017 and applies for the first time in payroll months beginning after August 18, 2017. It will remain in effect until the annual shareholders' meeting revolves a new compensation scheme."*

These resolutions are being implemented by the Company.

For the detailed break-down of the compensation of the Supervisory Board, please refer to our comments in the Notes to the consolidated financial statements.

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8 FORECAST REPORT AND OUTLOOK

8.1 General economic development

In its current forecast from January 2018, the IMF expects global economic growth of 3.9% for 2018 (2017: 3.7%). For industrial nations, the IMF expects unchanged growth of 2.3% (2017: 2.3%), but a slight plus of 4.9% (2017: 4.7%) for emerging economies. Slightly weaker growth of 2.2% is expected for euro zone countries (2017: 2.4%).[18]

In the view of the experts at the IMF, Germany should grow by 2.3% in 2018 (2017: 2.5%).[18] However, German consumers are starting the year 2018 with great optimism in particular due to the very good situation on the labor market. For example, the market research institute GfK expects that internal demand will continue to be an important pillar of economic development in Germany.[19] According to the IMF, the French economy – Gigaset's second-most important market in Europe next to Germany – should grow by 1.9% in 2018 (2017: 1.8%). For Italy, slightly weaker growth of 1.4% is expected (2017: 1.6%).[18] The Dutch government expects an increase of 2.5% (2017: 3.3%).[20]

The IMF considers growing protectionism in individual economies, an increase in inflation in developed economies, an unexpected downturn in China, and non-economic risks such as the intensification of geopolitical risks to be risk factors for the development of the global economy.[21]

8.2 Development of the industry

Consumer Products

The Group expects that the market for fixed-line telephony will also decline worldwide in the future due to increased competition and as a result of the growing share of mobile communication. Gigaset expects the price level of the market for cordless fixed-line telephony to decline overall.

Business Customers

In the area of business customer telephony, the Group expects the significance of IP telephony to increase, in particular in Europe. With its business customer solutions, Gigaset specializes in small and medium-sized enterprises (SME). Analogous to the growth of the industry as a whole, this market segment has the potential for growth.

Home Networks

The Group expects Smart Home applications overall to develop more modestly than forecast, also in the foreseeable future. Nevertheless, individual studies and forecasts impart confidence. Current statistics from Statista show a forecast for revenue in the Smart Home Building Security segment in Germany until 2022. According to these statistics, revenue in this segment, which represents the majority of the portfolio of Gigaset's solutions, will be around EUR 474 million in Germany in 2018 and increase to around EUR 904 million by 2022.[22]

18 World Economic Outlook (Update January 2018) Brighter Prospects, Optimistic Markets, Challenges Ahead

19 http://www.gfk.com/de/insights/press-release/konsumklima-hochstimmung-haelt-an/

20 https://www.welt.de/newsticker/dpa_nt/infoline_nt/wirtschaft_nt/article168801497/Niederlande-erwarten-hohes-Wirtschaftswachstum.html

21 World Economic Outlook (Update January 2018) Brighter Prospects, Optimistic Markets, Challenges Ahead

22 Statista 2018 – Digital Market Outlook: Forecast for revenue in the Building Security segment in Germany in the years 2016 to 2022 (in millions of euros)

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Mobile Devices

The Group expects sales volume to further increase in the segment with smartphones. This is also indicated in a current study of expected smartphone revenue until 2021 by Statista. The statistics depict worldwide revenue from smartphones in the years 2010 to 2016 and give a forecast until 2021. According to these statistics, sales volume should amount to around 1.71 billion devices in the year 2021 after leveling off between 2015 and 2017.[23] The development of the average sales price of smartphones is likewise expected to be favorable. This trend has been declining since 2010 and was quoted in 2016 at USD 283.[24] Given rising numbers of users, the strategy pursued by Gigaset of offering devices in the price range of EUR 150 to EUR 300 (MSRP) is to be classified as correspondingly promising.

8.3 Development of the Gigaset Group

8.3.1 Financial performance

In financial year 2017, the market as a whole for cordless telephones in Western Europe declined by around 9% based on sales in the markets observed by Gigaset.[25] This trend is also expected to continue in the market in 2018. The Business Customer and Home Networks segments will not be able to offset the loss in sales. However, Gigaset is further expanding its young Mobile Devices segment. For this purpose, additional new segments such as Smart Care should ensure additional revenue growth compared with 2017.

Gigaset also expects its gross profit to improve in line with the increase in the share of sales of the Business Customer segment.

Gigaset will also consistently continue its cost-savings program in 2018. This will lead to a further decrease in personnel costs, even if Gigaset continues to promote and hire new talent. On the other hand, Gigaset will expand the costs for development and marketing in order to expedite a series of products; as a result, Gigaset expects an overall slight increase in personnel expenses and other expenses from the core business.

Gigaset hedged a large part of the U.S. dollar risk for 2018. In addition, the forecast is based on a USD/EUR exchange rate of 1.17. This forecast is based on the described general economic and industry-specific trends.

8.3.2 Cash flows

The Company currently finances itself essentially from its operating business. At December 31, 2017, Gigaset is free from liabilities to banks. The plan is for the payments under the restructuring program in 2018 to be financed by the savings in personnel expenses. We will continue to focus on managing liquidity in the coming two financial years. The Company's strategy with respect to securing financial stability remains conservative in order to preserve the Group's operational and strategic flexibility. As of the end of 2017, Gigaset had a portfolio of cash funds in the amount of EUR 49.1 million at its disposal. In addition to the operational requirements, this cash portfolio is to cover payment obligations from previous years, mainly for remaining severance payments under the social compensation plan as well as tax payments resulting from tax audits in previous years in the amount of up to EUR 15 million. According to its planning, Gigaset expects that a sizable, positive portfolio of cash and cash equivalents will be available, even taking into account all outstanding payment obligations.

The Group's strategy with respect to securing financial stability remains conservative in order to preserve its operational and strategic flexibility. Gigaset will continue to invest in established markets as part of its investment planning in order to secure market shares as well as to secure and expand competitive advantages.

23 Statista 2018 – IDC: Forecast regarding the sale of smartphones worldwide from 2010 to 2021 (in millions of units)
24 Statista 2018 – GfK: Average sales price of smartphones worldwide from 2010 to 2015 and forecast for 2016 (in U.S. dollars)
25 GfK Presentation Gigaset 2017 – page: 6

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8.4 Development of Gigaset AG

8.4.1 Financial performance

As the holding company of the Gigaset Group, Gigaset AG generates revenue from services provided to associated companies. Gigaset AG's earnings are also determined primarily based on impairment losses on noncurrent financial assets, personnel costs and other expenses for the management, the Legal and Tax department, Audit, Corporate Communications, Group Brand Communications, Business Development, and Investor Relations. Since the revenue from the group allocations is not expected to cover all expenses, Gigaset AG is expected to generate a net loss for the financial year in the mid-to-high single-digit millions.

As a holding company, Gigaset AG's performance is heavily influenced by the development of its subsidiaries, particularly the operating Gigaset Communications Group. For financial year 2018, no dividend income is planned at Gigaset AG.

8.4.2 Cash flows

Gigaset AG has access to the subsidiaries' liquid funds as a result of its integration into the Group. In addition, the Company will continue to finance itself by charging Group subsidiaries for services.

8.5 General assessment of the Group's expected performance

Gigaset is placing its focus on the reorientation of the Company also in 2018. This means gaining market share in the consumer business, expanding revenue in the Business Customer segment, further expanding the Company's own smartphone business in the Mobile Devices segment and expanding Home Networks as well as additional new business segments such as Smart Care and Future Communications. Expenditures in the area of marketing and for capital expenditures will play a key role again also in 2018. The Group therefore expects the following for the financial year:

- An increase in revenue compared with 2017 in the lower single-digit millions through the smartphone business and the expansion of the new business segments, whereby the expectation is for an increase in revenue in the mid-to-high millions in the Germany segment, declining revenue in the mid-millions in Europe, and an increase in the mid-to-high millions in the 'Rest of World' segment.

- The Company expects earnings of the core business before depreciation and amortization of between EUR 20 million and EUR 28 million. The operating performance is characterized by further declining gross profits in the Consumer Products segment, rising gross profits in the Business Customer and Home Networks segments, and an expansion of expenses for development and marketing.

- Due to the substantial capital expenditures and subsequent expenditures for the social compensation plan and amounts set aside for risks arising from prior-year tax audits, the Company expects a negative free cash flow in the mid-single-digit millions.

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9 PUBLICATION OF THE NON-FINANCIAL GROUP REPORT PURSUANT TO SECTION 315B(3) HGB

In accordance with section 315b(1) in conjunction with (3) HGB, Gigaset AG is exempt from the obligation to include a non-financial Group declaration with the Group management report because Gigaset AG has prepared a separate non-financial Group report for financial year 2017 outside of the Combined Management Report. In accordance with section 315b(3) No. 2 b) HGB, Gigaset AG will make the separate non-financial Group report publically accessible and publish it on the website of Gigaset AG: http://www.Gigaset.com/de_de/cms/Gigaset-ag/investor-relations/unternehmen/dnk.html.

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10 DEPENDENT COMPANY REPORT

Goldin Fund Pte. Ltd., Singapore, holds a majority interest. In accordance with section 312 AktG, we prepared a report on March 29, 2018, regarding our relationships with associates that closes with the following statement: "We declare that the Company received appropriate consideration for every transaction in financial year 2017 listed in the report on relationships with related parties based on the circumstances that were known to us at the time in which the transactions were executed."

Munich, March 29, 2018

The Executive Board of Gigaset AG

Klaus Weßing   Stephan Mathys

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INCOME STATEMENT FOR THE PERIOD FROM JANUARY 1 - DECEMBER 31, 2017

EUR'000	Note	01/01 - 12/31/2017	01/01 - 12/31/2016
Revenue	1	293,296	281,932
Change in inventories of finished and unfinished goods		-1,502	-739
Purchased goods and services	2	-146,796	-136,695
Gross profit		**144,998**	**144,498**
Other internal production capitalized	3	10,183	9,858
Other income from core business[1]	4	3,294	4,031
Personnel expenses before restructuring[1]	5	-65,962	-76,320
Other expenses from core business[1]	6	-67,200	-57,056
Earnings from core business before depreciation and amortization[2]	**8**	**25,313**	**25,011**
Depreciation and amortization[1]	7	-15,160	-17,531
Earnings from core business after scheduled depreciation and amortization[2]	**8**	**10,153**	**7,480**
Additional ordinary income[1]	4	8,333	5,781
Additional ordinary expenses[1]	6	-1,677	-186
Personnel expenses from restructuring[1]	5	-1,347	-154
Exchange rate gains[1]	4	4,381	5,851
Exchange rate losses[1]	6	-4,638	-5,940
Impairment losses[1]	7	-2,984	0
Additional ordinary result[2]	**8**	**2,068**	**5,352**
Operating result		**12,221**	**12,832**

1 The line items of Personnel expenses, Other operating income/expenses and Depreciation, amortization and impairments are explained with their full amounts in the notes to the consolidated financial statements.

2 The income statement includes key figures that are not defined under IFRS.

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INCOME STATEMENT FOR THE PERIOD FROM JANUARY 1 - DECEMBER 31, 2017

EUR'000	Note	01/01 - 12/31/2017	01/01 - 12/31/2016
Other interest and similar income	9	54	163
Interest and similar expenses	10	-1,150	-1,244
Financial result		**-1,096**	**-1,081**
Income/expenses from ordinary activities		**11,125**	**11,751**
Income taxes	11	-3,247	-7,434
Consolidated net income for the year		**7,878**	**4,317**
Earnings per share	**12**		
- Undiluted (Basic) in EUR		0.06	0.03
- Diluted in EUR		0.06	0.03

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD FROM JANUARY 1 - DECEMBER 31, 2017

EUR'000	01/01 - 12/31/2017	01/01 - 12/31/2016
Consolidated profit/loss for the year	**7,878**	**4,317**
Items that may possibly be reclassified to profit or loss at a later time		
Currency changes	-562	-477
Cash flow hedges	-3,391	1,384
Income taxes recognized on these items	1,051	-379
Items that will not be reclassified to profit or loss at a later time		
Revaluation effect, net liability of defined benefit pension plans	1,630	-7,744
Income taxes recognized on this item	-360	2,885
Total changes not recognized in profit or loss	-1,632	-4,331
Total income and expenses recognized	**6,246**	**-14**

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT DECEMBER 31, 2017

EUR'000	Note	12/31/2017	12/31/2016
ASSETS			
Non-current assets			
Intangible assets	14	30,083	33,757
Property, plant and equipment	15	23,313	25,267
Financial assets	16	18,386	18,386
Deferred tax assets	25	13,137	13,204
Total non-current assets		**84,919**	**90,614**
Current assets			
Inventories	17	26,733	23,529
Trade receivables	18	39,921	30,384
Other assets	19	25,678	29,032
Tax refund claims	20	513	696
Cash and cash equivalents	21	49,097	47,490
Total current assets		**141,942**	**131,131**
Total assets		**226,861**	**221,745**

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT DECEMBER 31, 2017

EUR'000	Note	12/31/2017	12/31/2016
EQUITY AND LIABILITIES			
Equity	22		
Subscribed capital		132,456	132,456
Additional paid-in capital		86,076	86,076
Retained earnings		68,979	68,979
Accumulated other comprehensive income		-263,423	-269,669
Total equity		**24,088**	**17,842**
Non-current liabilities			
Pension obligations	23	81,432	80,743
Provisions	24	5,609	11,068
Other liabilities		9	0
Deferred tax liabilities	25	1,663	2,833
Total non-current liabilities		**88,713**	**94,644**
Current liabilities			
Provisions	24	22,291	28,571
Trade payables	26	56,114	51,026
Tax liabilities	27	17,166	15,093
Other liabilities	28	18,489	14,569
Total current liabilities		**114,060**	**109,259**
Total equity and liabilities		**226,861**	**221,745**

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AT DECEMBER 31, 2017

	EUR'000	Subscribed capital	Additional paid-in capital	Retained earnings	Accumulated other comprehensive equity	Consolidated equity
	January 1, 2016	132,456	86,076	68,979	-269,655	17,856
1	Consolidated net income 2016	0	0	0	4,317	4,317
2	Currency translation differences	0	0	0	-477	-477
3	Cash flow hedges	0	0	0	1,005	1,005
4	Revaluation effects from defined benefit pension plans	0	0	0	-4,859	-4,859
5	Total changes not recognized in profit or loss	0	0	0	-4,331	-4,331
6	**Total net income (1+5)**	**0**	**0**	**0**	**-14**	**-14**
	December 31, 2016	**132,456**	**86,076**	**68,979**	**-269,669**	**17,842**
1	Consolidated net income 2017	0	0	0	7,878	7,878
2	Currency translation differences	0	0	0	-562	-562
3	Cash flow hedges	0	0	0	-2,340	-2,340
4	Revaluation effects from defined benefit pension plans	0	0	0	1,270	1,270
5	Total changes not recognized in profit or loss	0	0	0	-1,632	-1,632
6	**Total net income (1+5)**	**0**	**0**	**0**	**6,246**	**6,246**
	December 31, 2017	**132,456**	**86,076**	**68,979**	**-263,423**	**24,088**

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CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD FROM JANUARY 1 - DECEMBER 31, 2017

EUR'000	01/01 - 12/31/2017	01/01 - 12/31/2016
Result from ordinary activities	11,125	11,751
Depreciation and amortization of property, plant and equipment and intangible assets	15,160	17,531
Unplanned depreciation	2,984	0
Increase (+)/decrease (-) in pension provisions	2,319	2,979
Gain (-)/loss (+) on the sale of non-current assets	-46	-45
Gain (-)/loss (+) from currency translation	915	-472
Net interest income	1,096	1,081
Interest received	33	31
Interest paid	-432	-553
Income taxes paid	-2,186	-1,927
Increase (-)/ decrease (+) in inventories	-3,204	770
Increase (-)/ decrease (+) in trade receivables and other assets	-9,574	29
Increase (+)/ decrease (-) in trade payables, other liabilities and other provisions	-3,419	-13,513
Increase (+)/ decrease (-) in other items of the statement of financial position	-348	802
Cash inflow (+)/ outflow (-) from operating activities (net cash flow)	**14,423**	**18,464**
Proceeds from the sale of non-current assets	46	45
Payments of investments in non-current assets	-12,516	-11,336
Cash inflow (+)/ outflow (-) from investing activities	**-12,470**	**-11,291**

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CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD FROM JANUARY 1 - DECEMBER 31, 2017

EUR'000	01/01 - 12/31/2017	01/01 - 12/31/2016
Free cash flow	**1,953**	**7,173**
Mandatory convertible bond	0	-428
Cash inflow (+)/ outflow (-) from financing activities	**0**	**-428**
Cash and cash equivalents at beginning of period	39,795	35,273
Changes due to exchange rate differences	-346	-218
Cash and cash equivalents at beginning of period, measured at prior-year closing exchange rate	40,141	35,491
Increase (-)/ decrease (+) in restricted cash	2,898	-1,877
Change in cash and cash equivalents	1,953	6,745
Cash and cash equivalents at end of period	**44,646**	**40,141**
Restricted cash	4,451	7,349
Cash and cash equivalents per statement of financial position	**49,097**	**47,490**

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2017

A. GENERAL INFORMATION AND PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

Business activities

Gigaset AG (or the "Company") is a stock corporation under German law, has its head office and principal place of business in Munich as set forth in its Articles of Incorporation, and is filed in the Commercial Register kept by Munich Local Court under entry no. HRB 146911. The Company's offices are located at Bernhard-Wicki-Strasse 5, in 80636 Munich.

Gigaset AG is a corporate group active worldwide in the area of telecommunications. With the cordless telephones that it develops and manufactures based on the "Digital Enhanced Cordless Telecommunications" ("DECT") standard, the Company is a leading brand in western Europe. Its headquarters are located in Munich and its primary production site is in Bocholt. A premium supplier, Gigaset has a generally strong market presence in about 70 countries and had 930 employees at the end of 2017.

The worldwide Gigaset Group is divided into regional segments for internal controlling purposes. Germany is by far the largest individual market. Gigaset sells its products using a direct and an indirect sales structure.

Please see the combined management report for further details on Gigaset's business activities.

The Company's shares are traded on the Regulated Market (Prime Standard) of the Frankfurt Stock Exchange.

Presentation of the consolidated financial statements

The consolidated financial statements are denominated in euros (EUR), the functional currency of the parent company, Gigaset AG. To enhance clarity, figures are shown in thousands of euros (EUR'000), unless stated otherwise.

The presentation of the consolidated financial statements complies with the regulations of IAS 1 Presentation of Financial Statements. The consolidated statement of comprehensive income is prepared in accordance with the cost summary method.

The Consolidated Statement of Financial Position is organized in accordance with the maturity structure of the constituent items. Assets and liabilities are considered current if they are payable within one year. Accordingly, assets and liabilities are considered non-current if they remain within the Group for more than one year. Trade payables, trade receivables, and inventories are presented as current items as they are all payable within one year. Deferred tax assets and liabilities are presented as non-current items. Non-controlling interests held by shareholders outside the Group are presented as a separate item within equity.

The consolidated financial statements of Gigaset are prepared on the assumption of a going concern.

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Hereinafter, "Gigaset", "Group" or "Gigaset Group" always refers to the entire corporate group. The name "Gigaset Group" always refers to the operations of the division with the same name. When the separate financial statements of "Gigaset AG" are meant, this is explicitly stated in the text.

Accounting principles

The consolidated financial statements of Gigaset for financial year 2017 and the prior-year figures presented have been prepared in accordance with the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) adopted and published by the International Accounting Standards Board (IASB) and the interpretations of the Standard Interpretations Committee (SIC) and the International Financial Reporting Standards Interpretations Committee (IFRS IC), as applicable in the European Union.

Furthermore, the German commercial regulations to be applied additionally in accordance with Section 315e (1) of the German Commercial Code (HGB) have been observed. All the Standards in effect and applicable in financial year 2017 have been observed.

In addition, application of the following amended and newly issued Standards and Interpretations of the IASB was mandatory starting with financial year 2017:

- IAS 12, Income Taxes
  The adjustment of IAS 12 includes additional guidelines for the recognition of deferred tax assets for deductible temporary differences resulting from unrealized losses from available-for-sale financial assets in the form of debt instruments when the company has the ability and intent to hold the securities until their value is recovered (possibly until final maturity). It is further clarified that the decision on the usability of the deferred tax assets must be based on a positive taxable income before reversal of the deductible temporary differences unless sufficiently adequate deferred tax liabilities exist. It is also conceivable to realize a value greater than the IFRS carrying amount in order to estimate future taxable income insofar as there is sufficient supporting documentation showing that it is probable. The new provisions apply for financial years beginning on or after January 1, 2017. The amendments have no effect on the consolidated financial statements.

- IAS 7, Statement of Cash Flows
  The adjustment of IAS 7 includes amendments regarding additional disclosures in case of changes in liabilities arising from financing activities. The disclosures relate to those changes in liabilities arising from financing activities for which cash flows will be classified in the statement of cash flows as cash flows from financing activities. Related financial assets must likewise be included in the disclosures (e.g., assets from hedging transactions). The following must be disclosed:
  - Changes affecting cash flows
  - Changes from the acquisition or sales of companies
  - Changes due to exchange rates
  - Changes in fair values
  - Other changes

The new provisions apply for financial years beginning on or after January 1, 2017. The amendments have no effect on the consolidated financial statements.

- Annual Improvements Cycle for International Financial Reporting Standards (2014-2016 cycle) – IFRS 12, Disclosure of Interests in Other Entities

  The clarification in IFRS 12 states that the disclosures required in IFRS 12 (with the exception of the summarized financial information to be specified in IFRS 12 B10 to IFRS 12 B16) also apply to interests in other entities (subsidiaries, joint ventures) that are classified and presented as held for sale. The new provisions apply for financial years beginning on or after January 1, 2017. The amendments have no effect on the consolidated financial statements.

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Application of the following revised and newly issued Standards and Interpretations already adopted by the IASB was not yet mandatory in financial year 2017:

Standards		Application mandatory for Gigaset from	Adopted by the EU Commission
Various	Annual Improvements Cycle for International Financial Reporting Standards (2014-2016 cycle) (Amendments to IFRS 1, First-time Adoption of International Financial Reporting Standards, and IAS 28, Investments in Associates and Joint Ventures)	1/1/2018	Yes
IFRS 15	Revenue from Contracts with Customers	1/1/2018	Yes
IFRS 15	Clarifications to IFRS 15, Revenue from Contracts With Customers	1/1/2018	Yes
IFRS 9	Financial Instruments	1/1/2018	Yes
IFRS 4	IFRS 4 Insurance Contracts – Application of IFRS 9 with IFRS 4	1/1/2018	Yes
IFRS 2	IFRS 2 Share-based Payment - Classification and Measurement of Share-Based Payment Transactions	1/1/2018	Yes
IAS 40	IAS 40 Investment Property – Transfers of Investment Property	1/1/2018	Yes
Various	Annual Improvements Cycle for International Financial Reporting Standards (2015-2017 cycle) (Amendments to IFRS 3, Business Combinations, IFRS 11, Joint Arrangements, IAS 12, Income Taxes, and IAS 23, Borrowing Costs)	1/1/2019	No
IFRS 16	Leasing	1/1/2019	Yes
IFRS 9	Financial Instruments – Prepayment Features with Negative Compensation	1/1/2019	No
IAS 28	Investments in Associates and Joint Ventures	1/1/2019	No
IAS 19	IAS 19 Employee Benefits, - Plan Amendment, Curtailment or Settlement	1/1/2019	No
IFRS 17	Insurance Contracts	1/1/2021	No
IFRS 10 / IAS 28	Sale of an investor's assets to or contribution to his affiliated company or joint venture company	unspecified	No
Interpretations			
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1/1/2018	No
IFRIC 23	Uncertainty over Income Tax Treatments	1/1/2019	No

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In October 2015, the EFRAG (European Financial Reporting Advisory Group) announced that the European Commission will not recommend adoption of IFRS 14 Regulatory Accrual Items into EU law. The reason for the non-adoption is the very limited group of companies that would apply this interim standard. Compliance with IFRS 14 as of January 1, 2016, would have had no effects on Gigaset's accounting policies.

Due to an ongoing research project, the required initial application of the amendments to IFRS 10 and IAS 28 regarding the sale or contribution of an investor's assets to its associated company or joint venture was postponed by the standard setter for an indefinite period of time. Therefore, adoption has also been postponed for an indefinite period.

The EU adopted IFRS 9 Financial Instruments into European law in November 2016. IFRS 9 includes extensive new rules on the recognition, presentation and measurement of financial instruments and the corresponding disclosures. It replaces the currently applicable IAS 39 starting January 1, 2018. IFRS 9 introduces amendments pertaining to the classification of financial assets and financial liabilities. With respect to impairments, moreover, the incurred loss model will be changed to the expected loss model and new hedge accounting rules are introduced.

Gigaset will apply this Standard for the first time for the financial year starting on January 1, 2018. The Group intends to make use of the exception to not adjust the comparison information for previous periods with respect to changes in classification and measurement (including impairments).

The initial application of this Standard will have effects on the consolidated financial statements. For Group companies that use factoring, the unsold trade accounts receivable will be assigned to the category of fair value through profit or loss (FVTPL) since most of the receivables in these partial stocks are sold and thus it is not possible to assume either a pure intention to hold or a hybrid hold-and-sell business model. This does not result in any effects from the fair value measurement since they are short-term receivables and it can be assumed that the market value and the nominal value are generally the same. Material changes in value caused by defaults would certainly reduce the market value, but are already recognized in profit or loss as impairments. Therefore, no effect from initial application results from the assignment to the fair value category. The trade accounts receivable not subject to factoring are measured at amortized cost. The impairments are determined on the basis of an impairment model using the simplified approach that can be done without assignment to levels. In contrast to the previous accounting treatment, however, expected credit losses are also anticipated under IFRS 9 and risk provisions are recognized for them. The application of the impairment model leads to a lower need for impairments in the amount of EUR 29 thousand. The reversal of the flat-rate individual value adjustments recognized at 12/31/2017 at the Group companies that use factoring results in an initial application effect of EUR 69 thousand.

The effects on hedge accounting are not material since the hedging relationships for foreign currency risks are prospectively effective.

The investment in Gigaset Mobile Pte. Ltd. is measured at fair value through other comprehensive income (FVOCI without recycling – measurement category) according to the rules of IFRS 9.

IFRS 15, Revenue from Contracts with customers, was adopted in May 2014. This Standard completely redefines the rules for revenue recognition and combines the previously applicable Standards and Interpretations that included rules applicable to revenue recognition. IFRS 15 supersedes the Standards IAS 11 and IAS 18 and the Interpretations IFRIC 13, 15, and 18, and SIC-31. Under the new

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Standard, revenue recognition is to be assessed with reference to a five-step model:

- Step 1: Identify a contract with a customer
- Step 2: Identify the specific performance obligation in this contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligation(s) in the contract
- Step 5: Recognize revenue when or as the entity satisfies a performance obligation.

IFRS 15 also sets out explicit rules on the recognition of revenue from multi-component contracts. In the future, revenue recognition will depend more on the transfer of control of the products or services to be delivered; the transfer of risks and rewards is now only viewed as an indicator. There are new guidelines for recognizing revenue over time or at a point in time. In addition, IFRS 15 entails a considerable increase in disclosures concerning revenue. The Company has studied the effects of the new Standard, which must be applied starting 1/1/2018, in the form of an extensive analysis of contracts. Important questions in the first step were whether any additional performance obligations could be identified in the individual contracts and whether revenue collected under individual contracts could have been be recognized over time. The analysis of the effects from the initial application of this Standard showed that there are agreements with customers that require an adjustment of the previous accounting treatment. These involve agreements on cash discounts and advertising cost subsidies. Additionally, the copyright levies to be paid to third parties were previously priced into revenue, which is no longer permitted under IFRS 15. Gigaset is exercising the option of modified retrospective application of IFRS 15 and will apply IFRS 15 for the first time for the financial year beginning on January 1, 2018. The cumulative effect of the initial application of IFRS 15 will be recognized at the time of initial application on 1/1/2018 as an adjustment to the initial value of retained earnings in the statement of financial position. A cumulative effect of about EUR 0.6 million must be recognized as an adjustment.

Cash discount clauses were included in the contracts of numerous customers. According to IFRS 15, this is variable consideration that affects the contractually specified price. Those customers who use the cash discount in the normal course of business were identified in the course of analyzing the effects of this Standard. A cash discount amount of about EUR 0.6 million results at the reporting date of 12/31/2017 and it can be expected that this amount will be utilized by the customers. Starting in financial year 2018, in which IFRS 15 will be applied completely, this amount cannot be recognized as revenue.

The contract analysis showed that agreements are frequently made with customers for marketing activities that are carried out for Gigaset. For these activities, customers receive compensation in the form of advertising cost subsidies. Previously, the advertising cost subsidies were posted as a revenue deduction. The marketing activities represent consideration to be paid by the customer within the meaning of IFRS 15. If the customer provides a service (marketing service) in return for the payment made, this is a service provided by the customer. In this case, the consideration to be paid to the customer is not to be recognized as a revenue deduction, but rather as an expense. Flat-rate advertising cost subsidies that are not matched to any specific actions will continue to be recognized as a deduction. EUR 0.5 million is recognized as additional marketing expenses at the reporting date of 12/31/2017. The future accounting recognition of the advertising cost subsidies as a revenue deduction or as an expense will be standardized using suitable supplements to the customer contracts and regular analysis.

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Gigaset is obligated to pay copyright levies to the Zentralstelle für Private Überspielungsrechte (ZPÜ - Central Office for Private Copying Rights). IFRS 15 fundamentally provides that sums collected in the interests of third parties are not to be included in the transaction price. The copyright levy amounts are part of the price calculation and are recognized in revenue. Starting with the initial application date of the Standard, the copyright levy payments will no longer be recognized as part of revenue. An amount of approximately EUR 0.6 million that must be paid to the ZPÜ is included in revenue at the reporting date of 12/31/2017.

When delivering products to customers using specific Incoterms, a transfer of control pursuant to IFRS 15 occurs only upon handover to the customer. Since the criterion of the transfer of substantially all risks and rewards to the customer is no longer exclusively sufficient for revenue recognition, it may lead to revenue being recognized at a later time. Since a revenue correction in relation to the reporting date is already being applied taking the Incoterms into account, no effects are to be expected from the initial application of IFRS 15. The correction as of the reporting date will lead to delayed recognition of revenue in individual cases.

IFRS 16 will replace the previous Standard IAS 17. Under the new Standard, assets must be recognized and in the statement of financial position of the lessee for the usage rights obtained under all leases and liabilities must be recognized for the payment obligations assumed. Until now, future payment obligations under operating leases have only been disclosed in Note 31 Other Financial Commitments. These commitments mainly relate to rental, lease and service agreements. Simplification options are available for short-term leases and low-value contracts. Therefore, it cannot yet be estimated at the present time whether and to what extent assets or liabilities will result from other financial commitments and the extent to which this will produce effects on the income statement and statement of cash flows.

The Company will not apply the new Standards IFRS 9, IFRS 15 and IFRS 16 ahead of time, but only from the date of mandatory first-time application.

The effects of the first-time application of the other revised or newly issued Standards and Interpretations that are to be applied only starting with financial year 2019 cannot be reliably estimated at the present time.

As for the amendments resulting from IFRS 4 Insurance Contracts (application of IFRS 9 with IFRS 4), IFRS 2 Share-based Payment (classification and measurement of share-based compensation), IAS 40 Investment Property (transfer of investment property), IFRIC 22 Foreign Currency Transactions and Advance Consideration, and the amendments to be applied in 2018 and beyond from the Annual Improvements Cycle for International Financial Reporting Standards (2014-2016 cycle), the Company assumes that they will not have any material effects.

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Scope and method of consolidation

The present consolidated financial statements at December 31, 2017 include the separate financial statements of the parent company Gigaset and its subsidiaries, including special purpose entities where appropriate.

Subsidiaries are all companies which the Company controls. This is generally the case when the share of voting rights exceeds 50%. However, additional circumstances such as the existence and effect of potential voting rights, for instance, are also taken into account when determining whether such control exists. In this regard, the existing rules do not provide for an automatic attribution of potential voting rights; instead, they make it clear that all relevant facts and circumstances must be taken into account. Substantial potential voting rights may provide the holder with the opportunity to currently steer the activity of the other company. Rights are substantial when the actual possibility of exercising the rights exists. The management must assess whether potential voting rights are substantial. In this process, the terms and conditions of the instrument must be considered; specifically, it must be determined whether exercising such potential voting rights would be advantageous for the holder and whether the instruments can be exercised when decisions on material activities must be made. Thus, the exact circumstances must be taken into account on a case-by-case basis.

Subsidiaries are included in the consolidated financial statements from the date on which control passes to the Group (full consolidation). They are deconsolidated from the date on which such control ends. Structured units for which the Group does not hold a majority or any of the voting rights are nevertheless included in the group of subsidiaries when the Group has control.

Capital consolidation of the subsidiaries is carried out in accordance with IFRS 10 (Consolidated Financial Statements) in conjunction with IFRS 3 (Business Combinations) by offsetting the carrying amount of the investment from the parent's share of equity in the subsidiary, which is remeasured at the date of acquisition (remeasurement method).

Acquisition cost is measured as the fair value of the assets transferred, the equity instruments issued and the liabilities created or assumed on the date of exchange. Incidental acquisition costs must be recognized as an expense. For initial consolidation, the assets, liabilities and contingent liabilities that can be identified as part of a business combination are measured at fair value at the date of acquisition, without regard to any non-controlling interests. The excess of the acquisition cost over the Group's share of the net assets measured at fair value is recognized as goodwill. If the acquisition cost is less than the fair value of the net assets of the acquired subsidiary, the difference is recognized directly in the statement of comprehensive income after conducting an additional review.

The effects of all significant intra-group transactions are eliminated. This involves offsetting income, expenses, receivables, and liabilities between Group companies. Intercompany profits and losses arising from intra-group sales of assets that are not yet sold on to third parties are eliminated. The deferred taxes required by IAS 12 (Income Taxes) are recognized for temporary differences arising from consolidation.

The results of the subsidiaries acquired or sold during the year are included in the consolidated income statement from the time when the Group's control of the subsidiary begins to the time when it ends. Intercompany transactions, balances, and unrealized gains and losses on transactions between Group companies are eliminated. In the event of unrealized losses, the transferred assets are tested for impairment.

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Besides the parent company, 21 subsidiaries – consisting of 8 domestic and 13 foreign companies – were included in the consolidated financial statements of Gigaset at December 31, 2017. No changes occurred compared to the previous year.

As in the previous year, there were no subsidiaries with an immaterial effect on the Company's financial position, financial performance, and cash flows at December 31, 2017, that were not included in the consolidated financial statements.

Details of the subsidiaries that belong to the consolidation group are included in the list of shareholdings (Section 313 (2) German Commercial Code (HGB)), which is presented as an annex to the consolidated financial statement at the end of the notes.

The financial statements of the subsidiaries are prepared at December 31, which is the reporting date for the consolidated financial statements of the parent company, Gigaset AG.

Currency translation

The annual financial statements of foreign Group companies are translated into the reporting currency of the Gigaset Group. For the most part, their functional currency is the respective local currency, although the functional currency differs from the local currency in a few cases. The euro is both the functional currency and the reporting currency of the parent company and hence of the consolidated financial statements.

Gigaset translates the assets and liabilities of foreign Group companies whose functional currency is not the euro at the exchange rate applicable at the reporting date. In contrast, income, expenses, profits, and losses are translated at the average exchange rate. All currency translation differences are recognized in a separate line item within equity.

Should a foreign Group company be sold, any resulting currency translation differences, plus the changes in equity that had previously been recognized in the reserve for currency translation differences, are recognized in the income statement as part of the gain or loss on the sale.

Foreign currency transactions are translated to the functional currency at the exchange rates in effect on the transaction date. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currency to the functional currency at the exchange rate on the reporting date are recognized in the income statement. Currency translation differences in non-monetary items for which changes in fair value are recognized in profit or loss are included as part of the gain or loss from measurement at fair value. On the other hand, currency translation differences in non-monetary items for which changes in fair value are recognized in equity are included in equity.

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The following table shows the exchange rates used to translate the key currencies listed.

		Closing Exchange Rate *		Average Exchange Rate *	
		12/31/2017	12/31/2016	2017	2016
Argentina	ARS	22.0052	16.4234	18.6968	16.3148
Switzerland	CHF	1.1694	1.0749	1.1116	1.0902
China	CNY	7.8128	7.3608	7.6197	7.3642
Denmark	DKK	7.4449	7.4344	7.4386	7.4453
United Kingdom	GBP	0.8873	0.8584	0.8762	0.8190
Hong Kong	HKD	9.3696	8.1888	8.8014	8.5913
Japan	JPY	134.8886	123.4939	126.6685	120.3083
Norway	NOK	9.8292	9.0855	9.3307	9.2956
Poland	PLN	4.1749	4.4165	4.2570	4.3642
Russia	RUB	69.3325	64.6720	65.8885	74.2341
Sweden	SEK	9.8320	9.5667	9.6369	9.4670
Singapore	SGD	1.6016	1.5258	1.5583	1.5279
Turkey	TRL	4.5343	3.7269	4.1212	3.3434
USA	USD	1.1988	1.0560	1.1293	1.1068

* Equivalent for EUR 1

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B. PRINCIPAL ACCOUNTING AND VALUATION METHODS

The annual financial statements of the companies included in the consolidated financial statements are based on uniform accounting and valuation principles, which were also applied when determining the prior-year comparison values. The consolidated financial statements are prepared in accordance with the principle of historical acquisition or production cost. Where it was necessary to deviate from this principle due to applicable regulations, this is explained as relevant in the following sections in the explanation of the material accounting policies that were used in preparing the present consolidated financial statements.

Recognition of income and expenses

Revenue is recognized as the fair value of the consideration received or to be received in the future. It represents the amounts that are receivable for goods and services in the ordinary course of business. Discounts, sales taxes, and other sales-related taxes are deducted from revenue. Sales taxes and other taxes are only deducted from revenue when Gigaset is not the economic tax debtor, in which case the taxes are merely a transitory item. Gigaset recognizes revenue on the sale of goods when substantially all the risks and rewards of ownership of the goods have been transferred to the customer and the Company no longer holds a right of disposal of the kind that is customarily associated with ownership, nor any other effective right of disposal over the goods, and when revenue and related expenses incurred or still to be incurred can be measured reliably and it is considered sufficiently probable that economic benefits will flow to the Company as a result of the transaction. Revenue from services is recognized when the service is rendered, provided it is considered sufficiently probable that economic benefits will flow to the Company as a result of the transaction and the amount of revenue can be reliably measured. Revenue is recognized net or gross depending on whether the recognizing company is acting as an agent or on its own account in generating such revenue. Operating expenses are recognized as expenses when the service is rendered or when they occur. Expenditures for research activities are recognized as expenses. An internally generated intangible asset produced as a result of the Group's development activities is only recognized as an asset if the criteria of IAS 38 are met. If an internally generated intangible asset cannot be recognized according to the criteria set out in IAS 38, the development costs are recognized as expenses in the period in which they occur.

"Income from the reversal of negative goodwill arising from capital consolidation" is presented within Additional ordinary income and is therefore also part of the Additional ordinary result. Gains or losses from deconsolidation are presented in Additional ordinary income or Additional ordinary expenses and are therefore part of the Additional ordinary result.

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Research and development expenditures

Expenditures for research, which is defined as original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in full as an expense. On the other hand, expenditures for development, which is defined as the application of research findings or other knowledge to a plan or design for the production of new or substantially improved products and processes, are capitalized. Recognition is permitted if the entity can demonstrate its ability to measure reliably the development expenditures and that the product or process is technically and economically feasible and will generate probable future economic benefits. In addition, Gigaset must have the intention and the resources available to complete the development and to use or sell the asset. The ability to capitalize intangible assets is determined using a milestone plan that precisely defines from which milestone on capitalization can be applied. The capitalized expenses cover the cost of materials, direct labor costs, and the directly allocable general overhead, provided these are used to make the asset available for use, and borrowing costs to be capitalized pursuant to IAS 23 unless they are not immaterial. The capitalized costs are recognized under internally generated intangible assets. Other development expenditures are recognized immediately in profit or loss when they arise. Capitalized development expenditures are measured at production cost, less accumulated scheduled amortization and impairments.

Government grants

Government grants are recognized when it can be assumed with a fair degree of certainty that the conditions attached to the grant will be fulfilled. Income subsidies are allocated to the periods in which the related costs occur and deducted from the corresponding expenses. In accordance with IAS 20 (Accounting for Government Grants and Disclosure of Government Assistance), subsidies for capital investments are deducted from the acquisition cost of the corresponding assets, thereby reducing the basis for depreciation.

Financial result

Interest income and expenses are recognized as they accrue by applying the effective interest method, based on the outstanding loan amount and the applicable interest rate. The applicable interest rate is exactly the rate by which the estimated future cash inflows over the term of the financial asset can be discounted to the net carrying amount of the asset.

Dividend income from financial assets is recognized when the shareholder acquires a legally grounded claim for payment of the dividend.

Income taxes

The corporate tax rate in the reporting period was 33.0% (PY: 33.0%).

A uniform rate of 15.0% for corporate income tax plus a solidarity surcharge of 5.5% is applied to distributed and retained profits for calculating current taxes in Germany. Local trade tax is levied on profits generated in Germany, as is corporate income tax. The local trade tax rate ranges from 16.0% (PY: 16.0%) to 17.2% (PY: 17.2%).

The profits generated by international Group subsidiaries are determined on the basis of local tax law and are taxed at the applicable rate in the country of domicile. The applicable country-specific income tax rates vary between 17.4% (PY: 18.3%) and 33.3% (PY: 33.3%).

Deferred tax assets and liabilities are recognized for all temporary differences between the values stated in the tax balance sheet and in the IFRS financial statements and for consolidation effects. The liability method oriented to the statement of financial position is applied. Deferred tax assets are recognized where it is considered probable that they will be utilized. For calculating deferred tax assets and liabilities, tax rates are assumed that are applicable when the asset is recovered or the liability settled.

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Recognition of deferred tax assets is subject to the following rules:

- In the case of company acquisitions, deferred tax assets are not normally recognized on tax loss carry-forwards and temporary differences at the acquisition date, except in amounts up to the amount of deferred tax liabilities that have been recognized, provided that offsetting is permissible.

- In the case of companies that have a history of generating losses instead of profits, deferred tax assets are recognized at least in the amount required to offset deferred tax liabilities, and above that amount only if use of the loss carryforwards is probable based on positive plans.

- In the case of companies that have a history of generating profits with an expectation of positive results in the future, any existing tax loss carry-forwards and deferred tax assets on temporary differences are likewise recognized.

Impairment losses are recognized for deferred tax assets that are no longer expected to be realized within a plannable period. Unrecognized deferred tax assets are reviewed and capitalized to the extent to which it has become probable for them to be utilized on account of taxable income generated in the future. As in previous years, a period of four years was used as the planning period for recognizing deferred tax assets. The period for the Group's budget is three years (PY: four years), but the most recent budget year of the individual company is updated without change for the impairment test of the deferred tax assets.

Deferred tax assets and liabilities relating to items recognized directly in equity are presented in equity. Deferred tax assets and liabilities are offset if there is an enforceable claim to offset the current tax refund claims against current tax liabilities. In addition, the deferred tax assets and liabilities must be based on income taxes that refer to the same taxable entity and are payable to the same tax authority.

Earnings per share

Earnings per share are calculated in accordance with IAS 33 (Earnings per Share) by dividing the consolidated net income by the average weighted number of shares outstanding during the financial year. Diluted earnings per share exist when equity or debt instruments were also issued from capital stock besides common and preferred shares, which could lead to an increase in the number of shares in the future. This diluting effect is determined and disclosed.

Purchased intangible assets

Purchased intangible assets are capitalized at their acquisition cost and, when they have determinable useful lives, amortized over their expected useful lives.

The following estimated useful lives are applied:

- Patents, utility designs, trademarks, publishing rights, copyrights and performance rights: 3-5 years

- Brands, company logos, ERP software, and Internet domain names: 5-10 years

- Customer relationships/lists: over the expected useful life, but generally between 2-5 years

- Licensed software: 3 years

If an impairment is identified in addition to the amount of regular amortization, the intangible asset is written down to the recoverable amount.

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Purchased intangible assets with indefinite useful lives are not subject to scheduled amortization but are tested for impairment once a year in accordance with IAS 36. If the recoverable amount is less than the carrying amount, the impairment is recognized in profit or loss.

If customer lists, customer relationships, and favorable contracts are capitalized in connection with the purchase price allocation process pursuant to IFRS 3, they are amortized over their estimated useful lives. When there are indications of impairment, these assets are tested for impairment.

Internally generated intangible assets

Internally generated intangible assets produced as a result of the Group's development activities are only recognized as an asset if the criteria of IAS 38 are met. Production cost includes all directly allocable costs plus appropriate portions of the production-related overhead costs and borrowing costs to be capitalized pursuant to IAS 23, unless they are immaterial. If internally generated intangible assets cannot be recognized according to the criteria set out in IAS 38, the development costs are recognized as expenses in the period in which they occur. Expenditures for research activities are always recognized as expenses.

Internally generated intangible assets are amortized over the period in which they are expected to generate economic benefits for the Company. If the development work has not yet been completed at the reporting date, the capitalized assets are tested for impairment compliant with IAS 36; upon completion of the development phase, an impairment test is only conducted when there is an indication of impairment.

Property, plant and equipment

All items of property, plant and equipment are measured at their historical acquisition or production cost, less accumulated depreciation. Acquisition cost includes the transaction cost directly allocable to the purchase; production cost includes all directly allocable costs plus appropriate portions of the production-related overhead costs and borrowing costs to be capitalized pursuant to IAS 23, unless they are immaterial. Significant components of an item of property, plant or equipment are recognized and depreciated separately. Subsequent acquisition or production costs are only added to the cost of the asset if it is probable that future economic benefits will flow to the Group and the costs can be reliably measured. All other repair and maintenance expenses are recognized as expenses in the statement of comprehensive income for the financial year in which they occur.

Land is not subject to scheduled depreciation. All other assets are depreciated to their residual carrying amounts on a straight-line basis over the expected useful lives of the assets, which are as follows:

- Buildings: 10 - 50 years
- Technical plant and machinery: 5-15 years
- Operational and business equipment: 2-10 years

The residual carrying amounts and economic lives are reviewed every year on the reporting date and adjusted as necessary. If the carrying amount of an asset exceeds its estimated recoverable amount, it is immediately written down to the latter value in accordance with IAS 36. Gains or losses on the disposal of assets of property, plant and equipment are calculated as the difference between proceeds on disposal and the residual carrying amount and are recognized in profit or loss.

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Borrowing costs

Borrowing costs must be recognized as part of acquisition and production costs when the asset:

- is a qualifying asset and
- the borrowing costs to be capitalized are material.

A qualifying asset is an asset for which a considerable period is necessary in order to bring it to its intended usable or salable condition. This may be property, plant and equipment, intangible assets during the development phase, or customer-specific inventories.

Non-current assets held for sale

Non-current assets (and groups of assets) classified as held for sale are measured at the lower of amortized cost or fair value less costs to sell. Non-current assets and groups of assets, including the liabilities directly allocable to these groups, are classified as held for sale if they are earmarked for disposal. This condition is only considered to be met if the sale is highly likely and the asset (or group of assets held for sale) is available for immediate sale in its current condition.

Impairment of non-financial assets

Assets with indefinite useful lives are not subject to scheduled depreciation, but are tested for possible impairment annually and when there are indications of possible impairment. Assets qualifying for scheduled depreciation are tested for possible impairment when certain events or changed circumstances indicate that the carrying amount may no longer be recoverable. An impairment loss is recognized in the amount by which the carrying amount exceeds the recoverable amount. The recoverable amount is the higher amount of the asset's value in use and its fair value minus its costs to sell. For the impairment test, assets are aggregated at the lowest level at which cash flows can be identified separately (cash-generating units).

If an impairment loss is later reversed, the carrying amount of the asset (or cash-generating unit) is increased to the newly estimated recoverable amount. The increase in the carrying amount is limited to the amortized value that would have resulted if no impairment loss had been recognized for the asset (or cash-generating unit) in previous years. Reversals of impairment losses are recognized immediately in profit or loss for the period.

There were intangible assets with indefinite useful lives in the year under review. These assets were tested for impairment compliant with IAS 36.

Leases

Leases are classified as finance leases when, by virtue of the leasing conditions, essentially all the risks and rewards of ownership are transferred to the lessee. All other leases are classified as operating leases.

Lease payments under an operating lease are recognized as expenses in the income statement on a straight-line basis over the lease term, unless another systematic approach better reflects temporal pattern of use for the lessee.

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Inventories

Inventories are measured at the lower of acquisition/production cost or net realizable value. Production cost includes direct material costs and, where applicable, direct production costs, as well as overhead costs allocable to production, based on normal levels of production capacity utilization. Acquisition or production cost is measured in accordance with the weighted average cost method. The net realizable value represents the estimated selling price less the estimated costs of completion and the cost of marketing, sale, and distribution. When necessary, value adjustments are charged to account for overstocking, obsolescence and reduced salability. The moving average price method was used as a measurement simplification procedure for measuring the inventory.

Trade receivables

Trade receivables are measured at amortized cost less value adjustments. A value adjustment is charged against trade receivables when there are objective indications that the amounts due cannot be collected in full. The amount of the value adjustment is measured as the difference between the carrying amount of the receivable and the present value of the estimated future cash flows from this receivable, discounted by the effective interest rate. The value adjustment is recognized in profit or loss. If the reasons for the value adjustments charged in previous periods no longer exist, the value adjustments are reversed accordingly.

Factoring

Some companies of the GIGASET Group assign a portion of their trade receivables to financing companies (known as factors). In accordance with IAS 39, sold trade receivables are derecognized only when significant portions of the risks associated with the receivables have been transferred to the buyer of the receivables. Under existing contractual agreements, significant portions of the risk of customer insolvency (del credere risk) are transferred to the factor. Gigaset still bears a portion of the interest and del credere risk of these receivables and therefore recognizes the receivables in the amount of the remaining commitments ("continuing involvement"). These receivables are offset by a liability measured in such a way that the net balance of assets and liabilities reflects the remaining claims or obligations. In accordance with the requirements of IAS 39, the sold receivables are therefore partially derecognized on the reporting date, although the portion that remains as the continuing involvement is low compared with the total amount of sold receivables. The purchase price retentions withheld initially by the factor as security are recognized separately under the category of other assets. They are due as soon as the customer's payment is received.

The remaining del credere risk due to purchase price retentions and the remaining interest rate risk are recognized as "continuing involvement" within trade receivables. This continuing involvement is offset by a corresponding other liability covering the additional risk of a potential loss of the receivables from the factor arising from the purchase price retentions, which is recognized under short-term other liabilities.

Additional purchase price retentions are agreed with the factor to account for legal validity and revenue deduction risk, which have been recognized as other assets. Barring problems in the payment flows, these retentions will be due and payable after a period of limitation.

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The purchase price is paid by the factor either when the factor receives payment of the receivables or at the request of the assigning company, against payment of interest; the unpaid portion of the purchase price is recognized as an other asset.

The interest expenses resulting from the sale of receivables are recognized in financial result. Administrative fees are recognized as other expenses of the core business.

Cash and cash equivalents

Cash and cash equivalents include cash, demand deposits, and other short-term, highly fungible financial assets with an original term of no more than three months, which are not subject to the risk of a change in value. They are measured at fair value. Used overdraft facilities are recognized within current liabilities as liabilities due to banks.

Financial assets

Financial assets are divided into the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity financial assets, and available-for-sale financial assets. The classification depends on the purpose for which the respective financial assets were acquired. Management determines the classification of the financial assets at the time of initial recognition and reviews the classification at every reporting date.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. For the determination of fair value, the counterparty credit risk has to be taken into consideration.

Financial assets at fair value through profit or loss

This category has two subcategories: financial assets designated as held for trading from the outset and financial assets designated as at fair value through profit or loss from the outset. A financial asset is assigned to this category if it was purchased with the intention of selling it immediately or in the near term or if it was so designated by Management. Derivatives also belong to this category if they are not part of a cash flow hedge. Assets in this category are presented as current assets if they are either held for trading or are expected to be recovered within twelve months of the reporting date.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise if the Group provides money, goods or services directly to the borrower without the intention of trading this receivable. They are presented as current assets as long as their due date is not more than 12 months after the reporting date and as non-current assets if their due date is more than 12 months after the reporting date. Loans and receivables are presented in the statement of financial position under trade receivables and other receivables. Loans and receivables are measured at amortized cost calculated in accordance with the effective interest method.

Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed terms, which the Group's management has the intention and ability to hold to maturity.

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially measured at fair value and subsequently at amortized cost calculated in accordance with the effective interest method, less any impairments. If loans are due in more than 12 months, they are presented as non-current assets. They are presented as current assets

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when they are due in not more than 12 months of the reporting date or, if they should be due in more than 12 months, when they are normally recovered in the ordinary course of business. Financial assets held to maturity are recognized at amortized cost calculated in accordance with the effective interest method.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that have either been assigned to this category or have not been assigned to any other category. They are presented as non-current assets if Management does not intend to sell them within 12 months of the reporting date.

All purchases and sales of financial assets are recognized at the trade date, which is the date on which the Group commits to purchase or sell the asset. Financial assets that are not carried at fair value through profit or loss are measured initially at their fair value plus transaction costs. They are derecognized when the rights to payment have expired or been transferred and the Group has transferred substantially all the risks and rewards of ownership. Available-for-sale financial assets and assets at fair value through profit and loss are measured at fair value.

Realized and unrealized profits and losses resulting from changes in the fair value of assets carried at fair value through profit or loss are recognized in profit or loss for the period in which they occur. Unrealized profits and losses from changes in the fair value of non-monetary securities classified as financial assets available for sale are recognized in equity. If securities classified as financial assets available for sale are sold or impaired, the accumulated fair value adjustments previously recognized in equity are recognized in profit or loss as gains or losses from financial assets.

The fair values of exchange-listed shares are based on the current offering prices of those shares. If there is no active market for financial assets or the assets are not listed on an organized exchange, the fair value is determined by means of appropriate methods, including reference to recent transactions between parties in an arm's length transaction, the current market prices of other assets that are essentially similar to the asset in question, discounted cash flow methods, or option price models that take the specific circumstances of the issuer into account.

If a contract contains one or more embedded derivatives that IAS 39.11 requires to be recognized separately, such derivatives are measured at fair value both at initial recognition and in subsequent periods. Gains or losses from changes in fair value are normally recognized immediately in profit or loss.

An impairment test is conducted at every reporting date to determine whether objective indications point to an impairment of a financial asset or group of financial assets. In the case of equity instruments classified as available-for-sale financial assets, a significant or lasting decrease in the fair value below the historical acquisition cost of such equity instruments is taken into account for the purpose of determining the extent to which equity instruments are impaired. If such an indication exists in the case of assets available for sale, the total accumulated loss – measured as the difference between the historical acquisition cost and the current fair value, less previous impairment losses recognized in earlier periods – is eliminated from equity and recognized in the income statement. After impairment losses in equity instruments have been recognized in the income statement, they can no longer be reversed.

Derivative financial instruments

In accordance with IAS 39, derivative financial instruments are measured at fair value at the reporting date if the fair value can be reliably measured. The Company recognizes the change in the fair value of the derivative financial instruments either in the consolidated income statement or, if cash flow hedges are involved, in equity in the item of "Accumulated other comprehensive income" after consideration of deferred income taxes.

Cash flow hedges: The effective portion of the change in the fair value of the derivative instruments that are classified as cash flow hedges is recognized in

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the item of "Accumulated other comprehensive income" after consideration of deferred income taxes. The ineffective portion is recognized immediately in the consolidated income statement. The amounts accumulated in equity are recognized in the consolidated income statement in the same period in which the underlying transaction is recognized in the consolidated income statement. In the reporting period, the Company recognized cash flow hedges exclusively for hedges of planned foreign currency transactions.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. For the determination of fair value, the counterparty credit risk has to be taken into consideration.

Equity

Shares are classified as equity. Costs directly allocable to the issuance of new shares or options are recognized in equity as a deduction from the issue proceeds.

If a Group company purchases company shares (treasury shares), the value of the consideration paid, including the directly allocable additional costs (including any taxes) are deducted from equity until such time as the shares are retired, re-issued or resold. When such shares are subsequently re-issued or sold, the consideration received is recognized in equity attributable to the Company´s shareholders after deduction of directly allocable transaction costs and the corresponding income taxes.

Provisions

Provisions are established to account for a present legal or constructive obligation resulting from a past event, if it is likely that the settlement of the obligation will lead to an outflow of economic resources and it is possible to reliably determine the amount of the provisions. In the event of several similar obligations, the likelihood of an outflow of economic resources is assessed with reference to the overall group of obligations.

Provisions for warranties are recognized when the goods concerned are sold or the service is performed. The required amount of the provision is determined on the basis of historic values and an appraisal of the probability of occurrence in the future. In accordance with IAS 37, and in conjunction with IFRS 3 in the case of newly acquired companies, restructuring provisions are only recognized if a detailed restructuring plan exists.

The Gigaset Group recognizes provisions for onerous contracts identified as part of purchase price allocations, especially in the case of company acquisitions.

Non-current provisions are discounted to present value if the effect is material. The discount rate applied for this purpose is the interest rate before taxes that best reflects the current market environment and the risks of the obligation.

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Employee benefits

Pension obligations

There are various pension plans in effect within the Gigaset Group, including both defined benefit and defined contribution plans. Defined contribution plans are plans for post-employment benefits under which the Company pays defined contributions to an independent entity (pension fund or insurance carrier) and has neither a legal nor a constructive obligation to pay further contributions if the pension fund does not have sufficient assets to cover all the benefits relating to the employees' services in the reporting period or earlier periods. A defined benefit plan is any plan that is not a defined contribution plan.

The agreements underlying the defined benefit plans provide for different benefits in the Gigaset Group, depending on the subsidiary concerned. These benefits essentially comprise the following:

- Retirement pensions when the respective pension age is reached
- Disability pensions in the event of disability or reduced working capacity
- Surviving dependent pensions
- Non-recurring payments upon termination of the employment contract

The provision for defined benefit plans recognized in the Consolidated Statement of Financial Position is based on the present value of the pension obligation less the fair value of the pension plan assets at the reporting date. If an asset results from the netting of the defined benefit obligation with the fair value of the plan assets, then it is fundamentally limited to the future economic benefit in the form of refunds from the plan or reductions in future contribution payments to the plan.

The pension provisions for the Company's pension plan are measured in accordance with the projected unit credit method prescribed in IAS 19 (Employee Benefits). They are measured anew by independent actuaries at each reporting date. Under this expectancy cash value method, the pension provisions are calculated on the basis of the known pensions and the vested pension rights at the reporting date and the anticipated future increases in salaries and pensions. The revaluation effects of the net obligation are recognized separately in equity under the item "Accumulated other comprehensive income." Revaluation effects result from changes in the present value of the defined benefit obligation due to experience adjustments (effects of the deviation between earlier actuarial assumptions and actual developments) and the effects of changes to actuarial assumptions. Gigaset's pension plan assets consist of the special funds, fixed-interest securities, stocks, and other assets which meet the definition of plan assets according to IAS 19. Past service cost must be recognized immediately in the income statement in the full amount, regardless of any vesting conditions. The net interest expense included in pension expenses is presented as personnel expenses.

Payments under a defined contribution pension plan are recognized as personnel expenses in the income statement.

Termination benefits

Termination benefits are provided when the Group terminates an employee's employment before the normal retirement date or when the employee leaves voluntarily in exchange for those benefits. The Group recognizes termination benefits when it has a demonstrable and unavoidable obligation to terminate the employment of current employees on the basis of a detailed formal plan that cannot be retracted, or if it has a demonstrable obligation to pay such benefits when the employee has voluntarily accepted the termination of his employment. Benefits that fall due more than 12 months after the reporting date are discounted to present value. Termination benefits payable are presented with the personnel provisions.

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Other long-term employee benefits

Other long-term employee benefits are all employee benefits, except for benefits to employees that are due in the short term, post-employment benefits (particularly pension funds), benefits at termination of an employment relationship. This includes the obligations arising from partial early retirement agreements, for instance. The Group recognizes provisions when it is demonstrably and unavoidably obligated to provide these benefits. Benefits that fall due more than 12 months after the reporting date are discounted to present value. Termination benefits payable are presented with the personnel provisions.

Profit-sharing and bonus plans

For bonus and profit-sharing payments, the Group recognizes a liability in the statement of financial position and an expense in the statement of comprehensive income on the basis of a measurement procedure that takes into account the profit to which the Group shareholders are entitled, after certain adjustments. The Group recognizes a provision when it has a contractual obligation or a constructive obligation based on past business practices.

Liabilities

Financial liabilities are composed of liabilities and derivative financial instruments with negative fair values. Liabilities are measured at amortized cost. This means that current liabilities are measured at the amounts required to repay or settle the underlying obligations, while non-current liabilities and financial liabilities are measured at amortized cost in accordance with the effective interest method.

In accordance with IAS 39, derivative financial instruments are measured at fair value at the reporting date, if the fair value can be reliably measured. The Company recognizes the change in the fair value of the derivative financial instruments either in the consolidated income statement or, if cash flow hedges are involved, in equity in the item of “Accumulated other comprehensive income” after consideration of deferred income taxes.

Cash flow hedges: The effective portion of the change in the fair value of the derivative instruments that are classified as cash flow hedges is recognized in the item of “Accumulated other comprehensive income” after consideration of deferred income taxes. The ineffective portion is recognized immediately in the consolidated income statement. The amounts accumulated in equity are recognized in the consolidated income statement in the same period in which the underlying transaction is recognized in the consolidated income statement. In the reporting period, the Company recognized cash flow hedges exclusively for hedges of planned foreign currency transactions.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. For the determination of fair value, the own credit risk has to be taken into consideration.

Segment report

In accordance with IFRS 8, operating segments are recognized on the basis of the Company’s internal organization and reporting structure. An operating segment is defined as a “component of an entity” that engages in business activities from which it generates income and expenses, whose financial performance is reviewed regularly by the chief operating decision maker for purposes of performance assessment and resource allocation, and for which discrete financial information is available. The chief operating decision maker is the Executive Board of the Company.

In the segment report, the Group’s operating divisions are structured according to the geographical regions of the Gigaset Group.

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The reportable segments of the Gigaset Group are the following:

- Gigaset
  - Germany
  - Europe (excluding Germany)
  - Rest of World
- Holding company
  - This segment comprises the activities of Gigaset AG, Gigaset Industries GmbH, CFR Holding GmbH, GIG Holding GmbH, GOH Holding GmbH and Hortensienweg Management GmbH.

Legal disputes and claims for damages

The companies of the Gigaset Group are involved in various lawsuits and administrative proceedings in the course of their ordinary business, or it is possible that such lawsuits or administrative proceedings could be commenced or asserted in the future. Even if the outcome of individual proceedings cannot be predicted with certainty due to the imponderability of legal disputes, it is the current estimation of the Management that the matters in question will not have a significant adverse effect on the cash flows and the financial performance of the Group beyond the risks that have been recognized in the financial statements in the form of liabilities or provisions.

Assumptions and estimates made for accounting and valuation purposes

In preparing the consolidated financial statements, it was necessary to make certain assumptions and estimates that have a bearing on whether, and to what extent, assets and liabilities, income and expenses, and contingent liabilities accruing in the reporting period are recognized in the financial statements. Such assumptions and estimates relate mainly to the recognition and measurement of intangible assets, the adoption of uniform group-wide useful lives for property, plant and equipment and intangible assets, and the recognition and measurement of provisions. Furthermore, the tax planning of future profits and losses, which serves as the basis for the recognition of deferred tax assets, also relies on estimates insofar as the deferred tax assets exceed the deferred tax liabilities that have been recognized. The assumptions and estimates made in these respects are based on the current status of available information. In particular, the expected course of business developments in the future was assessed on the basis of the circumstances known at the time when the consolidated financial statements were prepared and realistic assumptions regarding the future development of the operating environment. If the basic operating conditions that are not subject to the control of Management differ from the assumptions made, the actual performance figures could differ from the original estimates.

Our estimates are based on experience and other assumptions that are considered realistic under the given circumstances. The actual values may differ from the estimated values. The estimates and assumptions are continually reviewed. The true-and-fair-view principle is maintained without restriction, even when estimates are used. Management has not made any significant discretionary judgments beyond estimates and assumptions when applying the accounting and valuation policies.

Estimates made in connection with impairment tests

In accordance with IAS 36 (Impairment of Assets) and IAS 38 (Intangible Assets), intangible assets with indefinite useful lives must be tested for possible impairment at least once a year, or on an ad-hoc basis if events or changed circumstances indicate the possibility of impairment of an asset. For purposes of the impairment tests, the net carrying amounts of each individual cash-generating unit within Gigaset are compared with the recoverable amounts defined as the higher of the fair value less costs to sell or the value in use. In accordance with the relevant definition, the smallest identifiable business units for which there are independent cash flows are normally considered to be cash-generating units.

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If the carrying amount of the cash-generating unit is higher than the recoverable amount, an impairment loss is recognized in the amount of the difference. The impairments determined in this amount that are to be recognized in profit or loss are allocated to the assets of the individual strategic business unit in proportion to their carrying amounts insofar as they fall within the scope of IAS 36 and the value of the individual asset is not less than the individual fair value less costs to sell.

The recoverable amount is calculated as the present value of the future cash flows expected to result from the continued use by the strategic business unit, plus the value upon disposal at the end of the asset's useful life. The future cash flows are estimated on the basis of Gigaset's current business plans. The cost of capital is calculated as the weighted average cost of equity and debt capital, based on each business unit's share of total capital. The cost of equity capital is determined as the expected return on capital for each business unit, based on an appropriate peer group. Gigaset uses the average cost of debt capital of each business unit, based on bonds with an average residual maturity of at least 20 years, to calculate the cost of debt capital.

Income taxes

The Group is required to pay income taxes in various countries based on different tax assessment bases. The worldwide provision for accrued taxes is determined on the basis of profits calculated in accordance with local tax regulations and the applicable local tax rates. Nonetheless, there are many business transactions for which the final taxation cannot be determined conclusively in the regular course of business.

The amount of tax provisions and tax liabilities is based on estimates of whether and in what amount income taxes will be payable. Provisions of an adequate amount have been established to account for the risk of tax treatment that is different from that expected. Gigaset has not established a provision for gains on the sale of shares in subsidiaries or other associated companies because such gains should be regarded not as short-term proprietary trading gains, but as restructuring profits resulting from the Group's entrepreneurial activities, and thus are tax-exempt in Germany. If the final taxation of these business transactions differs from the previously assumed tax exemption for gains on disposal, this difference might have considerable effects on the current and deferred taxes for the period in which the final taxation is determined.

In addition, estimates are required in order to assess whether it is necessary to recognize impairment losses in deferred tax assets. Such an assessment depends on an estimate of the probability of taxable profits (taxable income) being generated in the future.

Furthermore, uncertainties are inherent in the interpretation of complex tax regulations and the amount and timing of future taxable income. Due particularly to the wide-ranging international activities of the corporate group, any differences between the actual profits or losses generated and the Management's assumptions in this regard or future changes to these assumptions may lead to different tax results in future periods.

Provisions

When determining the amount of provisions to be recognized, assumptions must be made concerning the probability of a future outflow of economic resources. These assumptions represent the best possible estimate of the underlying situation, but are nonetheless subject to a certain degree of uncertainty as a result of the assumptions applied for this purpose. Assumptions must also be made for determining the amount of provisions to be recognized regarding the amount of the possible outflow of economic resources. A change in these assumptions could lead to a change in the amount of provisions to be recognized. Here as well, the assumptions made for this purpose give rise to uncertainties.

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The determination of the net obligation from defined benefit plans depends essentially on the choice of discount rate to be applied and the underlying actuarial assumptions, which are determined anew at the end of each financial year. The underlying discount rate used is the interest rate paid by high-grade corporate bonds denominated in the currency in which the benefits are paid, the maturity of which matches the due date of the pension obligations. Changes in these interest rates can lead to significant changes in the amount of the pension obligations.

Contingent liabilities

The recognition and measurement of provisions and contingent liabilities in connection with pending lawsuits or other outstanding claims from settlement, mediation, arbitral or administrative proceedings are linked to estimates made by Gigaset AG to a considerable degree. Thus, the assessment of the probability that a pending proceeding will be successful or a liability will be created, and the quantification of the possible amount of the payment obligation is based on the estimation of the individual circumstances. Moreover, provisions for onerous contracts are created whenever a loss is probable and the loss can be reliably estimated. Due to the uncertainties associated with this estimation, the actual losses may differ from the original estimates and thus from the provision amount. The calculation of provisions for taxes and legal risks also involves considerable estimates, which may change due to new information. When obtaining new information, Gigaset AG primarily uses the services of both internal experts and external consultants such as actuaries or lawyers. Changes in the estimates of these anticipated losses from onerous contracts may have a considerable effect on the future financial performance.

All identifiable risks were taken into account in the underlying assumptions and estimates in preparing the consolidated financial statements.

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C. NOTES ON FINANCIAL INSTRUMENTS

Significance

The purpose of the disclosures required by IFRS 7 is to provide decision-relevant information concerning the amount, timing and probability of future cash flows resulting from financial instruments and to assess the risks of such financial instruments.

A financial instrument is a contract that simultaneously gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Aside from cash and cash equivalents, financial assets also mainly include uncertificated receivables such as trade receivables, loans and advances and certificated receivables such as checks, bills of exchange and debentures. The definition of financial assets also encompasses financial instruments held to maturity and derivatives held for trading. Financial liabilities, on the other hand, usually constitute a contractual obligation to deliver cash or another financial asset. They include trade payables, liabilities due to banks, loans, liabilities under accepted bills of exchange and the issuance of the Company's own bills of exchange, as well as options written and derivative financial instruments with negative fair values.

Financial risk factors

The use of financial instruments exposes the Group to specific financial risks, the nature and extent of which are disclosed in the notes to the financial statements. Such risks typically include credit risk, liquidity risk and market price risk and particularly exchange rate risk, interest rate risk and other price risks.

The Group's comprehensive risk management program is focused on the unpredictability of developments in the financial markets and is aimed at minimizing the potentially negative consequences of those developments on the Group's cash flows. The Group employs derivative financial instruments to hedge certain risks. Risk management is performed by the central finance department (Corporate Finance) on the basis of the guidelines adopted by the Executive Board. Corporate Finance identifies, assesses and hedges financial risks in close cooperation with the operating units of the Group. The Executive Board issues written directives setting out both the principles for group-wide risk management and guidelines for certain areas, such as the manner of dealing with foreign currency risk, interest rate and credit risk, the use of derivative and non-derivative financial instruments and the investment of surplus liquidity. In the course of the 2015 reporting year, the Company began to apply hedge accounting rules for hedging transactions with regard to the foreign currency risk for planned materials procurement.

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Credit risk/default risk

The Gigaset Group supplies customers in all parts of the world. Default risks can arise with respect to trade receivables, loans and other receivables when customers do not meet their payment obligations.

To counter default risks and the credit rating and liquidity risks possibly associated with them, the Group arranges to have a trade credit insurance company conduct credit checks of its customers, issue credit limits, and cover a portion of the possible losses on receivables. As an alternative to the credit checks conducted by trade credit insurance companies, those customers that cannot be insured by such companies furnish security deposits (deposits, credit note retentions), which would be applied against unpaid receivables. Furthermore, the option of up-front payment or cash on delivery is given to those customers that cannot be insured or are not insured by reason of other circumstances.

As part of the credit check process, the Group employs adequate credit management systems (including credit scoring systems to categorize the risks of customer receivables) to limit default risk. An internal rating and an internal credit limit are established for every customer on the basis of detailed, ongoing credit assessments.

Of the portfolio of loans and receivables carried in the Group at year-end 2017 in the amount of EUR 56,258 thousand (PY: EUR 45,608 thousand), EUR 37,786 or 67.2% (PY: EUR 17,330 or 38.0%) is hedged. Trade credit insurance has been used as the security instrument for most of the receivables. In addition, other forms of security exist in the form of letters of credit, customer deposits and bank guaranties.

The default risk in the carrying amounts of the recognized loans and receivables (EUR 56,258 thousand, PY: EUR 45,608 thousand) is reduced by trade credit insurance, letters of credit, and other credit improvements to a maximum default risk of EUR 18,472 thousand (PY: EUR 28,278 thousand).

2017 in EUR'000	Carrying amount	Maximum default risk	Secured portion	2017[3] %
Total	**56,258**	**18,472**	**37,786**	**67.2**
Trade receivables	39,921	2,138	37,783	67.2
Other receivables	16,337	16,334	3	0.0

2016 in EUR'000	Carrying amount	Maximum default risk	Secured portion	2016[3] %
Total	**45,608**	**28,278**	**17,330**	**38.0**
Trade receivables	30,384	13,054	17,330	38.0
Other receivables	15,224	15,224	0	0.0

3 With reference to the entire carrying amount

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The breakdown of loans and receivables by region yields the following risk concentrations:

	12/31/2017		12/31/2016	
	EUR'000	%	EUR'000	%
Total	**56,258**	**100.0**	**45,608**	**100.0**
Germany	22,160	39.4	17,346	38.0
Europe (excluding Germany)	31,174	55.4	24,569	53.9
Rest of World	2,924	5.2	3,693	8.1

As a rule, value adjustments are charged in adequate amounts to account for discernible default risks in the receivables portfolio. The changes in value adjustments on trade receivables are presented in tabular format in Note 18 Trade receivables.

Liquidity risk

In the Gigaset Group, liquidity risk is defined as the risk of not being able to settle the payment obligations resulting from the categories of trade payables, financial liabilities and other liabilities when they are due.

Therefore, prudent liquidity management dictates that the Group keep an adequate reserve of cash and marketable securities, secure adequate financing options in the form of committed credit facilities and maintain the ability to issue securities in the market.

Due to the dynamic nature of the business environment, the operating business is for the most part financed by way of an optimized working capital approach under which financing is procured from factoring. The financing through factoring as currently practiced is also not endangered in the long term.

In the table below, the financial liabilities are broken down by term to maturity, based on undiscounted cash flows:

2017 in EUR'000	Carrying amount	Total outflow	< 1 year	1-5 years	> 5 years
Non-derivative financial liabilities	56,380	56,380	56,380	0	0
Trade payables	56,114	56,114	56,114	0	0
Other liabilities	266	266	266	0	0
Derivative financial liabilities	2,142	2,142	2,142	0	0
Total	**58,522**	**58,522**	**58,522**	**0**	**0**

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2016 in EUR'000	Carrying amount	Total outflow	< 1 year	1-5 years	> 5 years
Non-derivative financial liabilities	51,287	51,287	51,287	0	0
Trade payables	51,026	51,026	51,026	0	0
Other liabilities	261	261	261	0	0
Derivative financial liabilities	0	0	0	0	0
Total	**51,287**	**51,287**	**51,287**	**0**	**0**

A more detailed presentation of trade payables in the maturity range "< 1 year" is provided in Note 26 "Trade payables".

As in the previous year, the Company had no obligations arising from finance lease agreements at the reporting date.

In addition to the collateral provided, most of the Gigaset companies receive goods under country-specific retentions of title.

The breakdown of financial liabilities by region yields the following risk concentrations:

	12/31/2017		12/31/2016	
	EUR'000	%	EUR'000	%
Total	**56,747**	**100.0**	**51,287**	**100.0**
Germany	17,766	31.2	13,487	26.4
Europe (excluding Germany)	15,107	26.7	13,790	26.8
Rest of World	23,874	42.1	24,010	46.8

As in the previous year, the amount of financial liabilities reported in the Group at the end of 2017 in the amount of EUR 56,747 thousand (previous year: EUR 51,287 thousand) is not secured.

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Market price risk

By reason of the international orientation of the Group, certain assets and liabilities are exposed to market risk in the form of exchange rate risks, interest rate risks and commodity price risks.

The exchange rate risks relate to the receivables and liabilities denominated in foreign currencies, as well as future cash flows in foreign currencies that are expected to result from transactions.

The loans presented under financial liabilities are subject to a theoretical interest rate risk. Price risks exist primarily in the context of procuring raw materials and manufacturing materials.

Foreign currency risk

By reason of the Group's international operations, it is subject to foreign currency risk, based on changes in exchange rates of various foreign currencies. Foreign currency risks arise with respect to expected future transactions, the assets and liabilities recognized in the statement of financial position and the net investments in foreign business operations. To hedge such risks arising from expected future transactions and from the assets and liabilities recognized in the statement of financial position, the Group companies employ forward exchange deals, as needed, in coordination with Corporate Finance.

Of the financial instruments presented for the Group, an amount of EUR 20,037 thousand (PY: EUR 26,713 thousand) consisted of financial assets denominated in foreign currencies and an amount of EUR 28,856 thousand (PY: EUR 25,470 thousand) consisted of financial liabilities denominated in foreign currencies. The risk concentrations based on foreign currencies are presented in the table below:

	12/31/2017		12/31/2016	
Financial assets in	EUR'000	%	EUR'000	%
USD (US dollar)	3,883	19.3	11,926	44.6
GBP (British pound)	3,849	19.2	3,176	11.9
RUB (Russian ruble)	3,400	17.0	3,005	11.2
TRL (Turkish lira)	3,004	15.0	2,979	11.2
CHF (Swiss franc)	2,318	11.6	2,589	9.8
CNY (Chinese renminbi yuan)	960	4.8	1,454	5.4
PLN (Polish zloty)	864	4.3	906	3.4
NOK (Norwegian krone)	741	3.7	327	1.2
SEK (Swedish krona)	544	2.7	191	0.7
DKK (Danish krone)	320	1.6	150	0.6
JPY (Japanese yen)	154	0.8	9	0.0
Other	0	0.0	1	0.0
Total	**20,037**	**100.0**	**26,713**	**100.0**

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	12/31/2017		12/31/2016	
Financial liabilities in	**EUR'000**	**%**	**EUR'000**	**%**
USD (US dollar)	25,793	89.3	21,811	85.6
CNY (Chinese renminbi yuan)	1,660	5.8	1,849	7.3
GBP (British pound)	363	1.3	601	2.4
TRL (Turkish lira)	268	0.9	517	2.0
CHF (Swiss franc)	264	0.9	249	1.0
RUB (Russian ruble)	150	0.5	127	0.5
PLN (Polish zloty)	131	0.5	99	0.4
JPY (Japanese yen)	106	0.4	95	0.4
SEK (Swedish krona)	80	0.3	87	0.3
Other	41	0.1	35	0.1
Total	**28,856**	**100.0**	**25,470**	**100.0**

For the purpose of presenting market risks, IFRS 7 requires the use of sensitivity analyses to assess the effects of hypothetical changes in relevant risk variables on the entity's financial performance and equity. In addition to currency risks, the Gigaset Group is subject to interest rate risks and price risks. The periodic effects are determined by applying the hypothetical changes in risk variables to the portfolio of financial instruments at the reporting date. For that purpose, it is assumed that the portfolio at the reporting date is representative of the full year.

At the reporting date, the Gigaset Group was subject to currency risks, which are reflected in the items of trade receivables, loan receivables, other receivables and trade payables, liabilities to banks and loan liabilities.

Result of the currency sensitivity analysis:

If the relative value of the euro against the foreign currencies in which the Gigaset Group operates had been 10% higher or 10% lower at December 31, 2017, the equity presented in the functional currency would have been EUR 801 thousand higher or EUR -981 thousand lower, respectively (PY: EUR -112 thousand lower or EUR 138 thousand higher).

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The hypothetical effect on profit or loss (after taxes) of EUR 801 thousand (PY: EUR -112 thousand) or EUR -981 thousand (PY: EUR 138 thousand), respectively, is broken down in the table below on the basis of the corresponding currency sensitivities:

	2017		2016	
EUR'000	+ 10%	- 10%	+ 10%	- 10%
EUR/USD	1,992	-2,434	899	-1,098
EUR/CNY	83	-102	36	-44
EUR/CZK	1	-1	0	0
EUR/DKK	-11	13	-10	12
EUR/NOK	-29	35	-30	37
EUR/SEK	-42	52	-9	11
EUR/PLN	-67	81	-73	90
EUR/JPY	-78	95	8	-10
EUR/GBP	-178	217	-234	286
EUR/RUB	-259	317	-262	320
EUR/TRL	-285	348	-224	274
EUR/CHF	-326	398	-213	260
Total	**801**	**-981**	**-112**	**138**

To hedge risks arising from expected future transactions in foreign currencies, the Company regularly enters into foreign currency derivatives in the context of its risk management strategy. Short-term and medium-term company planning and the Group's liquidity planning constitute the basis for concluding hedging transactions. In principle, the incoming and outgoing payments determined per foreign currency are netted individually, taking the maturity structure into account, and hedged in one sum as a net item. Generally, up to 80% of the expected net item is hedged. Therefore, the planned procurement transactions are classified as highly probable. Fee-based hedge transactions and hedges with a hedge ratio above 80% are only concluded with prior coordination and approval of the Management. In financial year 2017 and in the previous year, foreign currency derivatives were concluded primarily to hedge purchases in U.S. dollars (EUR/USD).

In financial year 2015, the Executive Board resolved that hedge accounting regulations will be used for foreign currency hedging in the Group starting October 1, 2015. Until September 30, 2015, the derivatives and the transactions to be hedged were recorded separately. Representing foreign currency hedges based on hedge accounting regulations is intended to achieve more adequate disclosure within the income statement. In the future, therefore, essentially no income or expenses from the measurement of the derivatives will be presented within exchange rate gains or losses for active hedging relationships; instead, the hedge transactions will be included in the purchased goods. Since future goods purchases in U.S. dollars will be hedged in the context of the hedge relationship based on existing plans, this is a cash flow hedge. To the extent that the relevant hedging activity is achieved with a high degree of probability, the changes in the value of the derivatives will be recognized in equity until the expected transaction is performed. Once the transaction has been performed, the effects arising from the hedge transactions will be included in the materials to be procured.

At the reporting date, an accumulated amount of EUR -547 thousand (PY: EUR 1,793 thousand) was recognized in equity, taking deferred taxes relating to foreign currency derivatives into account. The effect from cash flow hedges, which were recognized in equity in the current period, is EUR -3,391 thousand (PY: EUR 1,384 thousand). Income taxes of EUR 1,051 thousand (PY: EUR -379 thousand) were recognized on this amount.

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Effectiveness was assessed at the time of designation based on a prospective effectiveness test. This test led to the result that the defined hedging relationships were to be considered effective. The retrospective effectiveness test on the reporting date, which was determined using the dollar offset procedure ("hypothetical derivative"), likewise led to the result that the hedging relationships were to be considered effective.

At the reporting date, the Group held 24 (PY: 27) foreign currency derivatives to hedge the exchange rate of the U.S. dollar against the euro, for a total notional amount of USD 68.5 million (PY: USD 78.0 million). At the reporting date, the Group held one foreign currency swap with a nominal volume of TRY 0.3 million (PY: TRY 0.0 million) and a term until mid-January 2018 to hedge the exchange rate of the Turkish lira. Of the 24 foreign currency derivatives to hedge the exchange rate of the U.S. dollar, 18 derivatives are designed as "plain vanilla" forward foreign exchange contracts, 4 derivatives as "bonus-eventual" currency futures contracts, and 2 derivatives as "TARF" currency futures contracts. In the previous year, all of the derivatives were designed as "plain vanilla" forward foreign exchange contracts.

The regulations of hedge accounting were applied at the reporting date for the 18 foreign currency derivatives to hedge the U.S. dollar exchange rate that are designed as "plain vanilla" forward foreign exchange contracts. The volume of these forward contracts amounts to USD 39.0 million. The other forward contracts are measured at fair value through profit or loss.

At the reporting date, the terms of the forward foreign exchange contracts run from January 2018 to June 2019 (PY: January to November 2017). The following hedging transactions were concluded for the listed U.S. dollar amounts for the individual months:

USD hedges in million USD / Period until month	2018	2017
January	9.5	7.0
February	6.5	6.0
March	6.0	10.5
April	7.0	8.5
May	5.5	7.0
June	4.0	6.5
July	4.0	6.0
August	4.0	4.5
September	4.0	8.0
October	4.0	9.0
November	4.0	5.0
December	4.0	0.0
January	1.0	0.0
February	1.0	0.0
March	1.0	0.0
April	1.0	0.0
May	1.0	0.0
June	1.0	0.0
	68.5	**78.0**

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At the reporting date, the derivatives were measured at their fair value of EUR +1 thousand (PY: EUR +3,984 thousand) and EUR -2,142 thousand (PY: EUR 0 thousand), and are recognized under Other current assets (PY: Other current assets) or Other current liabilities.

The currency sensitivity analysis for the derivatives existing at the reporting date yielded the result that if the U.S. dollar exchange rate had been 10% higher, the fair value would have been lower by EUR 3,260 thousand (PY: EUR 7,246 thousand), and if the U.S. dollar exchange rate had been 10% lower, the fair value would have been higher by EUR 2,125 thousand (PY: EUR 7,432 thousand). Thus, equity (disregarding deferred taxes) would have been reduced by EUR 3,260 thousand (PY: EUR 7,246 thousand) if the U.S. dollar exchange rate had been 10% higher, and increased by EUR 2,125 thousand (PY: EUR 7,432 thousand) if the U.S. dollar exchange rate had been 10% lower.

Interest rate risks

The sensitivity analysis conducted for interest rate risks yields the effect of a change in market interest rates on interest income and interest expenses, on trading profits and trading losses and on equity. Interest rate risk comprises both a fair value risk for fixed-income financial instruments and a cash flow risk for variable-yield financial instruments.

No non-current financial assets or liabilities with variable or fixed interest rates existed at the reporting date.

Both fixed interest rates and variable interest rates have been stipulated for current financial asset and liabilities, insofar as they bear interest. Market interest rate changes of non-derivative financial instruments with fixed interest rates can have an effect on profit or loss only when they are measured at fair value. Accordingly, all financial instruments with fixed interest rates that are measured at amortized cost are not subject to interest rate risks according to the definition of IFRS 7. Market interest rate changes of primary financial instruments with variable interest have an effect on the cash flows of these financial instruments.

Since possible effects for the existing current assets and liabilities can be classified as immaterial due to the current low market interest rates and the short terms, no sensitivity analysis was performed.

Other price risks

For the purpose of presenting market risks, IFRS 7 also requires disclosures concerning the effects of hypothetical changes in risk variables on the prices of financial instruments. Stock market prices in particular represent a relevant risk variable. At the reporting date, however, the Gigaset Group did not hold shares in other exchange-listed companies that are not fully consolidated.

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Classification

The reconciliation of the items presented in the statement of financial position with the classes and categories of IAS 39, along with the corresponding carrying amounts and fair values of financial instruments, are presented in the table below:

Carrying amounts, measurement methods and fair values by measurement category in EUR'000	Note	Measurement category per IAS 39	Carrying amount 2017	Fair value 2017	Measurement method per IAS 39			Hedge Accounting
					(Amortized) cost	Fair value recognized in equity	Fair value through profit and loss	
Assets								
Non-current assets								
Financial assets	16	AfS	18,386	n/a	18,386	0	0	0
Current assets								
Trade receivables	18	LaR	39,921	39,921	39,921	0	0	0
Other assets	19	LaR, FA-HfT	16,337	16,337	16,336	0	1	0
Cash and cash equivalents	22	LaR	49,097	49,097	49,097	0	0	0
Liabilities								
Current liabilities								
Trade payables	26	FL-AC	56,114	56,114	56,114	0	0	0
Other liabilities	28	FL-AC, FL-HfT, Hedging	2,408	2,408	266	0	459	1,683

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		Measurement method per IAS 39						
Carrying amounts, measurement methods and fair values by measurement category in EUR'000	Note	Measurement category per IAS 39	Carrying amount 2017	Fair value 2017	(Amortized) cost	Fair value recognized in equity	Fair value through profit and loss	Hedge Accounting
Thereof aggregated by measurement category according to IAS 39:								
Financial assets								
Loans and receivables (LaR)			105,354	105,354				
Available-for-sale financial assets (AfS)			18,386	n/a				
Financial assets held for trading (FA-HfT)			1	1				
Derivatives (hedging)			0	0				
Financial liabilities								
Measured at amortized cost (FL-AC)			54,605	54,605				
Financial liabilities held for trading (FL-HfT)			459	459				
Derivatives (hedging)			1,683	1,683				

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Carrying amounts, measurement methods and fair values by measurement category in EUR'000	Note	Measurement category per IAS 39	Carrying amount 2016	Fair value 2016	Measurement method per IAS 39				
					(Amortized) cost	Fair value recognized in equity	Fair value through profit and loss	Hedge Accounting
Assets								
Non-current assets								
Financial assets	16	AfS	18,386	n/a	18,386	0	0	0
Current assets								
Trade receivables	18	LaR	30,384	30,384	30,384	0	0	0
Other assets	19	LaR, Hedging	19,208	19,208	15,224	0	0	3,984
Cash and cash equivalents	22	LaR	47,490	47,490	47,490	0	0	0
Liabilities								
Current liabilities								
Trade payables	26	FL-AC	51,026	51,026	51,026	0	0	0
Other liabilities	28	FL-AC, FL-HfT, Hedging	261	261	261	0	0	0
Thereof aggregated by measurement category according to IAS 39:								
Financial assets								
Loans and receivables (LaR)			93,098	93,098				
Available-for-sale financial assets (AfS)			18,386	n/a				
Financial assets held for trading (FA-HfT)			0	0				
Derivatives (hedging)			3,984	3,984				
Financial liabilities								
Measured at amortized cost (FL-AC)			51,287	51,287				
Financial liabilities held for trading (FL-HfT)			0	0				
Derivatives (hedging)			0	0				

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An indication of fair value is not required for current financial assets and liabilities pursuant to IFRS 7.29 as long as the carrying amount is a reasonable approximate value. Gigaset indicates the fair values in the preceding summaries for completeness and better understanding by the readers of the annual financial statements, but does not carry out separate measurement of the fair values, since the carrying amounts are used as reasonable approximate values. Therefore, there is also no separate presentation of these items in the following table, which breaks down the determined fair values for the financial assets and liabilities according to hierarchy levels for 2017 as supplemental information.

2017	Hierarchy level			
EUR'000	1	2	3	Total
Financial assets				
Derivative financial instruments	0	1	0	1
Financial liabilities				
Derivative financial instruments	0	2,142	0	2,142

2016	Hierarchy level			
EUR'000	1	2	3	Total
Financial assets				
Derivative financial instruments	0	3,984	0	3,984
Financial liabilities				
Derivative financial instruments	0	0	0	0

In financial year 2017, the category of other assets included current derivative financial assets in the amount of EUR 1 thousand (PY: EUR 3,984 thousand). The other liabilities included current derivative liabilities in the amount of EUR 2,142 thousand (PY: EUR 0 thousand).

The fair values of derivative financial instruments are calculated by means of present value and option price models. To the extent possible, the relevant market prices and interest rates observed at the reporting date, which are taken from recognized external sources, are applied as the input parameters for these models. In accordance with IFRS 13, the calculation of these fair values is assigned to Level 2 of the measurement categories for the determination of fair values.

Liabilities under finance leases do not fall within the scope of IAS 39 and are therefore presented separately. As in the previous year, however, there were no liabilities under finance leases at the reporting date. Therefore, there is also no separate presentation of these items.

The non-current financial assets include the carrying amount for the investment in Gigaset Mobile Pte. Ltd., Singapore, which was assigned to the category of available-for-sale financial assets. Since this company is not listed and sufficient other information, such as reliably determinable future cash flows to measure the remaining share of equity, for instance, was not available, the fair value for 2015 was calculated using the share of equity and the claims to profits from financial year 2014 to which it is entitled, taking the already reduced share of equity into account. The fair value approximated by applying this method was calculated to be EUR 18,386 thousand. This value also represents the cost of the financial asset within the meaning of IAS 39. Since a fair value cannot be derived from a stock exchange or market price or from discounting reliably determinable future cash flows, this equity item is measured at cost at the reporting date. There is no active market for these shares and a sale of these shares is not to be considered probable at the present time.

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Cash and cash equivalents, trade receivables and current financial assets have short terms to maturity. Therefore, the carrying amounts of such items are approximately equal to their fair values at the reporting date.

Trade payables and current financial liabilities are due in full within one year. Therefore, the nominal amounts or repayment amounts of such items are approximately equal to their fair values.

The fair values of other non-current financial assets and liabilities due in more than one year are equal to the present values of the future payments associated with the assets and liabilities, with due consideration given to the up-to-date interest rate parameters in every case, which reflect changes in terms related to currencies, interest rates and counterparties. In accordance with IFRS 7, the calculation of these fair values is assigned to Level 2 of the measurement categories for the determination of fair values.

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Net gains or losses under financial instruments

	From interest	From subsequent measurement			From disposal	
2017 in EUR'000		At fair value	Currency translation	Value adjustment		Net gain or loss
Financial assets						
Loans and receivables	-403	0	-1,693	618	0	-1,478
Financial liabilities						
Measured at amortized cost	4	0	1,971	0	956	2,931
Derivative financial instruments						
Held for trading	0	-458	0	0	0	-458
Hedging	0	0	0	0	-2,308	-2,308
2016 in EUR'000						
Financial assets						
Loans and receivables	-523	0	668	-3,165	0	-3,020
Financial liabilities						
Measured at amortized cost	-143	0	-743	0	2,014	1,128
Derivative financial instruments						
Held for trading	0	0	0	0	0	0
Hedging	0	0	0	0	1,379	1,379

Interest from financial instruments is presented within other interest and similar income and interest and similar expenses (see Notes 9 and 10). In particular, this item includes interest income on loans extended, interest expenses for receivables from factoring and interest expenses for liabilities to banks and other financial liabilities. No interest income was generated in 2017 or the previous year on financial assets in which impairment losses had been recognized ("unwinding").

The income and expenses recognized for derivatives for which the regulations of hedge accounting were used were recognized in purchased goods and services. In the current year, they increased purchased goods and services by EUR 2,308 thousand and in the previous year they reduced purchased goods and services by EUR 1,379 thousand. The effects of measurement of derivatives for which the regulations of hedge accounting were not used were presented within exchange rate gains or exchange rate losses in the income statement. The net gains or losses from held-for-trading financial instruments amounted to EUR 458 thousand in the reporting year (PY: EUR 0 thousand).

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Currency translation effects that are relevant to profit or loss are presented under exchange rate gains or exchange rate losses in the income statement.

The other components of the net gain or loss are recognized as other income from the core business and as expenses for the core business (see Notes 4 and 6).

Net gains or losses on loans and receivables include changes in value adjustments, gains or losses on currency translation, gains on disposal and payments recovered and reversals of earlier value adjustments in loans and receivables.

Net gains or losses on financial liabilities at amortized cost are composed of interest expenses, income and expenses from currency translation and income from the waiver of amounts owed to suppliers.

Capital management

Gigaset's business model foresees consolidation in the area of home-based telecommunications solutions, the further development of sensor-based intelligent home networking, the expansion of the Business Customers business and the expansion of the smartphone business. The primary goal of capital management is to secure the survival of Gigaset as a going concern. Management of the Gigaset Group's capital structure is carried out by the parent company. On the Group level, capital management is monitored by means of a regular reporting process and is supported and optimized when necessary. Decisions on dividend payments or capital measures are made individually on the basis of the internal reporting system and in agreement with the Gigaset Group.

The managed capital encompasses all current and non-current liabilities, as well as equity components. Changes in the capital structure over the course of time and the associated change in the dependency on external lenders are measured with the aid of the gearing ratio. The gearing ratio is calculated at the reporting date, with due consideration given to book equity.

Change in the gearing ratio:

EUR'000	2017	2016
Non-current liabilities	88,713	94,644
Current liabilities	114,060	109,259
Liabilities	202,773	203,903
Equity	24,088	17,842
Gearing Ratio	8.4	11.4

The existing covenants were fulfilled.

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D. NOTES TO THE INCOME STATEMENT

1. Revenue

Operating revenue of the Group in the amount of EUR 293,296 thousand (PY: EUR 281,932 thousand) resulted primarily from the sale of goods.

Total revenue breaks down as follows:

EUR'000	2017	2016
Trade revenue	40,656	27,013
Production revenue	252,640	254,919
Total	**293,296**	**281,932**

Trade revenue is defined differently in 2017 from the previous year. Along with revenue from smartphones, the revenue from merchandise from the other business units are presented in this item. The statement from the previous year has been adjusted accordingly.

Please refer to the notes on the segment report for a breakdown of revenue by geographic regions.

2. Purchased goods and services

EUR'000	2017	2016
Raw materials and supplies	-116,107	-113,244
Purchased goods	-28,487	-20,318
Other	-2,202	-3,133
Total	**-146,796**	**-136,695**

The individual items of purchased goods derived exclusively from the Gigaset Group.

The other purchased goods and services consisted mainly of energy supply costs. Raw materials and supplies included negative effects of hedges of materials purchases in foreign currencies compared to the previous year in the amount of EUR -2,308 thousand (PY: EUR 1,379 thousand). Please refer to Section C. Notes on financial instruments for details on this subject.

3. Other internal production capitalized

The internal production capitalized consisted of capitalized development costs and the recognition of internally generated intangible and tangible assets. As in the previous year, all internal production capitalized derived from the Gigaset Group.

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4. Other income from core business, additional ordinary income and exchange rate gains

EUR'000	2017	2016
Other income from core business	3,294	4,031
Additional ordinary income	8,333	5,781
Exchange rate gains	4,381	5,851
Other operating income	**16,008**	**15,663**

The other income from the core business breaks down as follows:

EUR'000	2017	2016
Rental income	1,195	520
Cafeteria income	604	717
Disposal of non-current assets	78	45
On-debiting	0	181
Miscellaneous other income from core business	1,417	2,568
Total	**3,294**	**4,031**

The miscellaneous other income from the core business consisted mainly of income from fixed asset sales, income from compensation of loss and damage, and income from factory sales in the amount of EUR 217 thousand (PY: EUR 187 thousand).

The additional ordinary income breaks down as follows:

EUR'000	2017	2016
Reversal of provisions	6,308	3,753
Derecognition of liabilities	1,479	2,014
Income from the reversal of value adjustments	422	14
Income from reimbursements	124	0
Total	**8,333**	**5,781**

The reversals of provisions mainly included the reversal of provisions for restructuring in the amount of EUR 4.7 million, a bonus provision (EUR 604 thousand), a provision for compensation for loss or damage (EUR 250 thousand), and an anniversary provision (EUR 140 thousand). In the previous year, the reversals of provisions mainly included the collection of salary liabilities in the amount of EUR 1,134 thousand related to the collective wage increase for 2015 from employees who waived salary components tied to investments in the "Gigaset Elements" segment in accordance with the special restructuring agreement.

The exchange rate gains of EUR 4,381 thousand (PY: EUR 5,851 thousand) included income from realized and unrealized foreign currency gains in the amount of EUR 4,380 thousand (PY: EUR 5,851 thousand) and derivative financial instruments in the amount of EUR 1 thousand (PY: EUR 0 thousand).

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5. Personnel expenses before restructuring and personnel expenses from restructuring

EUR'000	2017	2016
Personnel expenses before restructuring	-65,962	-76,320
Personnel expenses from restructuring	-1,347	-154
Total (personnel expenses)	**-67,309**	**-76,474**

Total personnel expenses break down as follows:

EUR'000	2017	2016
Wages and salaries	-53,393	-60,863
Social security, pension expenses and other benefit expenses	-13,916	-15,611
Total	**-67,309**	**-76,474**

The largest single amounts in the item of personnel expenses derived from the following segments of the Group:

EUR'000	2017	2016
Gigaset Group	-64,311	-73,041
Holding company	-2,998	-3,433
Total	**-67,309**	**-76,474**

In 2017, the personnel expenses from restructuring resulted mainly from Gigaset Communications GmbH (EUR 1,187 thousand). In 2016, the personnel expenses from restructuring derived primarily from the Gigaset Italy national subsidiary, which recognized a provision for restructuring expenses in the amount of EUR 135 thousand.

6. Other expenses from the core business, additional regular expenses, and exchange rate losses

EUR'000	2017	2016
Other expenses from core business	-67,200	-57,056
Additional ordinary expenses	-1,677	-186
Exchange rate losses	-4,638	-5,940
Other operating expenses	**-73,515**	**-63,182**

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The other expenses from the core business break down as follows:

EUR'000	2017	2016
Marketing and entertainment expenses	-25,558	-17,895
Administrative expenses	-11,094	-9,912
Outgoing freight / transport costs	-6,788	-6,688
Employee leasing	-6,498	-5,484
Consulting expenses	-3,057	-2,382
Patent and licensing fees	-3,051	-1,938
Expenses for land/buildings (including rent)	-3,015	-2,925
Maintenance of technical equipment, machinery, operational and office equipment	-1,731	-1,759
Other taxes	-1,270	-705
Research and development expenses	-1,229	-1,195
Addition to warranty provisions	-1,129	-1,433
Write-offs on receivables and losses on receivables	-327	-3,179
Miscellaneous other expenses from core business	-2,453	-1,561
Total	**-67,200**	**-57,056**

The additional ordinary expenses break down as follows:

EUR'000	2017	2016
Sales tax provision	-847	-186
Retroactive credits for on-debiting	-830	0
Total	**-1,677**	**-186**

The expenses for the sales tax provision resulted from ongoing external audits of Gigaset AG and Gigaset Communications GmbH. The retroactive credits for on-debiting relate to a former partner in the mobile area.

The exchange rate losses of EUR -4,638 thousand (PY: EUR -5,940 thousand) included realized and unrealized foreign currency losses in the amount of EUR -4,179 thousand (PY: EUR -5,940 thousand) and expenses from derivative financial instruments in the amount of EUR -459 thousand (PY: EUR 0 thousand).

7. Depreciation, amortization and impairments

EUR'000	2017	2016
Depreciation and amortization	-15,160	-17,531
Unplanned depreciation	-2,984	0
Total	**-18,144**	**-17,531**

Impairments in the amount of EUR 2,984 thousand were recognized for capitalized development expenses. The impairment occurred based on a changed strategic portfolio focus, which caused cancellation of a project and thus complete impairment of development expenses that had been capitalized up to that time. The impairment losses are included in the Germany reporting segment. No impairments were recognized in the previous year.

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8. Additional ordinary result

To enhance transparency, Gigaset presents the line item of Additional ordinary result separately from the result from the core business before depreciation, amortization and impairments. The goal is to provide more decision-relevant information to the users of the financial statements. This is done by separately presenting results that are not necessarily related to the core business in terms of timing or substance and thus to provide additional information to the users of the financial statements. Thus, all expenses and income resulting from legal disputes are presented within the Additional ordinary result. Expenses and income from tax risks not related to income taxes are also presented within this line item. This item also includes income resulting from the overestimation of parameters in previous periods or from uncertainties concerning the amounts or timing of cash outflows, which proved to be imprecise estimations over the course of time. Additional ordinary income also includes non-period expenses and income related to operational changes or restructuring programs. Finally, this item includes the results-influencing effects of changes in the consolidation group and the effects of exchange rate changes, insofar as they are not presented within hedges.

9. Other interest and similar income

Other interest and similar income in the amount of EUR 54 thousand (PY: EUR 163 thousand) consisted mainly of interest on bank balances and the discounting of long-term provisions, which are assigned to the category of loans and receivables.

All interest income resulting from financial assets and financial liabilities was calculated by application of the effective interest method.

10. Interest and similar expenses

Interest and similar expenses in 2017 in the amount of EUR -1,150 thousand (PY: EUR -1,244 thousand) primarily comprised interest expenses for income taxes, local trade tax and corporate income tax remaining to be paid arising from external audits in the amount of EUR -546 thousand (PY: EUR -502 thousand) and the interest expenses for factoring in the amount of EUR -415 thousand (PY: EUR -518 thousand). The interest expenses from factoring reduce the net result of the loans and receivables category.

The interest expense arising from the compounding of provisions amounted to EUR 0 thousand (PY: EUR -35 thousand).

All interest expenses resulting from financial assets and financial liabilities were calculated by application of the effective interest method.

11. Income taxes

The income tax expenses of EUR -3,247 thousand (PY: EUR -7,434 thousand) break down as follows:

EUR'000	2017	2016
Current tax expenses	-3,683	-2,545
Deferred tax expenses (-) / income (+)	436	-4,889
Total income tax expenses	**-3,247**	**-7,434**

The following reconciliation statement shows the differences between actual income tax expenses and expected income tax expenses. The expected income tax expenses are calculated as the product of the result before taxes mul-

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tiplied by the expected income tax rate. The total expected income tax rate, which is composed of the German corporate income tax, the solidarity surtax and local trade tax, came to 33.0% (PY: 33.0%).

EUR'000	2017	2016
Result before income taxes	11,125	11,751
Applicable income tax rate	33.0%	33.0%
Expected income tax expenses (-) / income (+)	-3,671	-3,878
Tax rate changes	303	-278
Tax rate differences	293	219
Tax-exempt income	0	-170
Non-deductible tax expenses	-446	-2,012
Change in value adjustment on deferred tax assets and non-recognized deferred tax assets for tax loss carry-forwards	-292	2,263
Non-period current taxes	-100	-195
Other effects	666	-3,383
Stated income tax expenses	**-3,247**	**-7,434**
Effective tax rate	-29.2%	63.3%

12. Earnings per common share

The basic and diluted earnings per share amounted to EUR 0.06 in financial year 2017 (PY: EUR 0.03), as per the following calculation:

EUR'000	2017	2016
PROFIT/LOSS		
Basis for basic earnings per share (share of period profit/ loss attributable to shareholders of the parent company)	7,878	4,317
Effect of potentially diluting common shares: Stock options	0	0
Basis for the diluted earnings per share	7,878	4,317
NUMBER OF SHARES		
Weighted average common shares outstanding, for calculating basic earnings per share	132,455,896	132,455,896
Effect of potentially diluting common shares: Stock options	0	0
Weighted average common shares outstanding, for calculating diluted earnings per share	132,455,896	132,455,896
Basic earnings per share (in EUR)	0.06	0.03
Diluted earnings per share (in EUR)	0.06	0.03

There were no diluting effects in the current financial year, so that the basic (undiluted) earnings per share corresponds to the diluted earnings per share.

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13. Dividend proposal

No dividend was paid to shareholders in 2017 for financial year 2016.

The net loss calculated in accordance with the German Commercial Code (GCC) amounted to EUR -37,741 thousand. The result is primarily influenced by amortization applied to the shares of GIG Holding GmbH, Munich, in the amount of EUR 29.4 million, as well as amortization applied to the shares of Gigaset Industries GmbH, Austria, in the amount of EUR 5.2 million. Taking the loss carry-forward of EUR -101,042 million into account, this resulted in a net loss of EUR -138,783 million. The Executive Board and the Supervisory Board will propose to the annual shareholders' meeting that the Company carry forward this amount to new account.

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14. Intangible assets

EUR'000	Franchises, intellectual property rights, and similar rights and licenses	Other intangible assets	Advance payments	Total
Acquisition costs, 1/1/2017	**25,621**	**110,685**	**3,035**	**139,341**
Currency translation	3	0	0	3
Acquisitions	21	8,978	10	9,009
Disposals	-2,082	-17,192	0	-19,274
Balance at 12/31/2017	**23,563**	**102,471**	**3,045**	**129,079**
Amortization 1/1/2017	-15,267	-87,282	-3,035	-105,584
Currency translation	-3	0	0	-3
Acquisitions	-1,105	-8,591	0	-9,696
Unplanned depreciation	0	-2,984	0	-2,984
Disposals	2,079	17,192	0	19,271
Balance at 12/31/2017	**-14,296**	**-81,665**	**-3,035**	**-98,996**
Net carrying amount 12/31/2017	**9,267**	**20,806**	**10**	**30,083**
Net carrying amount 12/31/2016	**10,354**	**23,403**	**0**	**33,757**
Acquisition costs, 1/1/2016	**25,561**	**101,965**	**3,035**	**130,561**
Currency translation	-2	0	0	-2
Acquisitions	62	8,720	0	8,782
Disposals	0	0	0	0
Balance at 12/31/2016	**25,621**	**110,685**	**3,035**	**139,341**
Amortization 1/1/2016	-14,074	-78,139	-3,035	-95,248
Currency translation	0	0	0	0
Acquisitions	-1,193	-9,143	0	-10,336
Unplanned depreciation	0	0	0	0
Disposals	0	0	0	0
Balance at 12/31/2016	**-15,267**	**-87,282**	**-3,035**	**-105,584**
Net carrying amount 12/31/2016	**10,354**	**23,403**	**0**	**33,757**
Net carrying amount 12/31/2015	**11,487**	**23,826**	**0**	**35,313**

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The item of franchises, intellectual property rights and similar rights was composed as follows:

EUR'000	12/31/2017	12/31/2016
Brand names	8,399	8,399
Patents	803	1,873
Franchises	65	82
Total	**9,267**	**10,354**

The brand names acquired in connection with the respective business transactions were capitalized, provided that a future benefit for the Company was ascribed to the brand. In making the determination of useful life, an indefinite useful life was assumed for these brands on the basis of past experience data and the estimations of the Management regarding the future development of these brands. The factors considered in making this determination included the anticipated usage of the brand, typical product life cycles, possible commercial obsolescence, competition, the industry environment, the level of brand maintenance expenditures, legal or similar usage restrictions and the influence of the Company's other assets on the useful life of the brand in question.

At the reporting date, the brand name Gigaset was presented in the amount of EUR 8,399 thousand (PY: EUR 8,399 thousand). The brand name "Gigaset" is assigned to the operating Gigaset Group, as the smallest cash-generating unit. The brand name was subjected to an impairment test at December 31, 2017 on the basis of the fair value less costs to sell. The calculation was conducted on the basis of a three-year cash flow plan (PY: four-year plan). The planning was prepared using the established planning process and is based both on historical information and on estimates regarding future developments. It is not possible to reconcile it with external information. For the planning period, EBIT margins from operations were calculated as being between 4.2% p.a. and 4.6% p.a. (PY: 5.6% und 6.8%). Appropriate growth rates were applied for the period beyond the detailed planning period. The applied discount factor after taxes was 8.2% p.a. (PY: 6.9% p.a.). The discount rate was calculated based on current market data using a risk surcharge based on Gigaset's peer group. Based on the detailed business plan, the growth discount was set at 1.0% (PY: 1.0%). In accordance with IFRS 13, the calculation of the achievable value is assigned to Level 3 of the measurement categories for the determination of fair values. Based on this calculation, there was no need to recognize an impairment loss. The calculations showed that realistically assumable changes in the underlying assumptions would not lead to any impairment losses.

The patents presented in the statement of financial position protect certain production processes of the Gigaset Group. They are amortized on a straight-line basis over an average useful life of about 10 years.

The franchises in the amount of EUR 65 thousand (PY: EUR 82 thousand) mainly consisted of software licenses held in the Gigaset Group.

Capitalized development expenses are presented within the item of other intangible assets in the amount of EUR 20,806 thousand (PY: EUR 23,403 thousand). They were allocated exclusively to Gigaset Communications GmbH. The development activities of the Gigaset Group represent capitalized product developments. Research and development expenses of EUR 1,229 thousand (PY: EUR 1,195 thousand) were recognized as expenses in financial year 2017, primarily at Gigaset Communications GmbH. Impairments in the amount of EUR 2,984 thousand were recognized for capitalized development expenses. The impairment occurred based on a changed strategic portfolio focus, which caused cancellation of a project and thus complete impairment of development expenses that had been capitalized up to that time. The impairment losses are included in the Germany reporting segment.

No capitalized goodwill existed at the reporting date.

In addition, borrowing costs of EUR 147 thousand (PY: EUR 127 thousand) were capitalized in the reporting year. The underlying interest rate is 2.03% (PY: 3.06%).

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15. Property, plant and equipment

EUR'000	Land, leasehold rights	Buildings, including buildings on non-owned land	Technical equipment, plant and machinery	Other equipment, operational and office equipment	Advance payments and assets under construction	Total
Acquisition costs, 1/1/2017	**4,025**	**20,427**	**3,914**	**54,489**	**73**	**82,928**
Currency translation	0	0	3	25	0	28
Acquisitions	0	0	78	3,007	476	3,561
Disposals	0	0	-1,711	-33,072	-73	-34,856
Balance at 12/31/2017	**4,025**	**20,427**	**2,284**	**24,449**	**476**	**51,661**
Amortization 1/1/2017	**0**	**-10,227**	**-2,430**	**-45,004**	**0**	**-57,661**
Currency translation	0	0	0	-40	0	-40
Acquisitions	0	-1,080	-425	-3,958	0	-5,463
Disposals	0	0	1,605	33,211	0	34,816
Balance at 12/31/2017	**0**	**-11,307**	**-1,250**	**-15,791**	**0**	**-28,348**
Net carrying amount 12/31/2017	**4,025**	**9,120**	**1,034**	**8,658**	**476**	**23,313**
Net carrying amount 12/31/2016	**4,025**	**10,200**	**1,484**	**9,485**	**73**	**25,267**
Acquisition costs, 1/1/2016	**4,025**	**20,427**	**4,555**	**59,434**	**691**	**89,132**
Currency translation	0	0	-2	1	0	-1
Acquisitions	0	0	17	2,469	72	2,558
Disposals	0	0	-656	-8,105	0	-8,761
Transfers	0	0	0	690	-690	0
Balance at 12/31/2016	**4,025**	**20,427**	**3,914**	**54,489**	**73**	**82,928**
Amortization 1/1/2016	**0**	**-9,093**	**-2,628**	**-47,505**	**0**	**-59,226**
Currency translation	0	0	-1	0	0	-1
Acquisitions	0	-1,134	-457	-5,604	0	-7,195
Disposals	0	0	656	8,105	0	8,761
Transfers	0	0	0	0	0	0
Balance at 12/31/2016	**0**	**-10,227**	**-2,430**	**-45,004**	**0**	**-57,661**
Net carrying amount 12/31/2016	**4,025**	**10,200**	**1,484**	**9,485**	**73**	**25,267**
Net carrying amount 12/31/2015	**4,025**	**11,334**	**1,927**	**11,929**	**691**	**29,906**

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At the reporting date, as in the previous year, property, plant and equipment did not include leased assets for which the Group was considered to be the beneficial owner by virtue of the underlying lease agreements.

As in the previous year, no impairments were recognized on property, plant and equipment in 2017.

In the current year, as in the previous year, no borrowing costs were capitalized as property, plant and equipment.

16. Financial assets

Financial assets include the stated amount for the 14.98% interest in Gigaset Mobile Pte. Ltd., Singapore, which has been assigned to the category of available-for-sale financial assets (AfS). Since this company is not listed and sufficient other information, such as reliably determinable future cash flows to measure the remaining share of equity, for instance, was not available, the fair value for 2015 was calculated using the share of equity and the claims to profits from financial year 2014 to which it is entitled, taking the already reduced share of equity into account. The fair value approximated by applying this method was calculated to be EUR 18,386 thousand. This value represents the cost of the financial asset within the meaning of IAS 39. Because no fair value can be derived from a stock exchange or market price or from the discounting of reliably determinable future cash flows, this equity item is measured at cost at the reporting date. There is no active market for these shares and a sale of these shares is not to be considered probable at the present time.

17. Inventories

Inventories break down as follows:

EUR'000	12/31/2017	12/31/2016
Raw materials and supplies	7,172	6,963
Semi-finished goods, semi-finished services	1,423	1,083
Finished goods, trading stock and finished services	14,308	13,953
Advance payments	3,830	1,530
Total	**26,733**	**23,529**

Inventories are measured at the lower of acquisition or production cost and the net realizable value less costs to sell at the reporting date. The value adjustments comprised within purchased goods and services amounted to EUR 187 thousand at the reporting date (PY: EUR 996 thousand). The value adjustments were mainly charged to account for slow-moving inventories and insufficient salability.

The amounts presented under inventories derived exclusively from Gigaset Communications GmbH and its subsidiaries.

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18. Trade receivables

EUR'000	12/31/2017	12/31/2016
Receivables before value adjustments	43,734	34,322
Value adjustments	-3,813	-3,938
Carrying amount of receivables	**39,921**	**30,384**

The value adjustments charged against trade receivables showed the following development:

EUR'000	2017	2016
01/01	3,938	753
Addition	327	3,179
Consumption	-30	7
Reversal	-422	-1
12/31	**3,813**	**3,938**

No interest income was collected in the reporting period on trade payables against which value adjustments had been charged.

Some companies of the Gigaset Group assigned a portion of their trade receivables to a financing company. The maximum volume of factoring agreements concluded at the reporting date was EUR 40,000 thousand (PY: EUR 40,000 thousand) for Germany and France, and CHF 2,200 thousand (PY: CHF 2,200 thousand) for Switzerland. The credit volume includes the purchased receivables less the purchase price retention. Receivables in the amount of EUR 44,762 thousand (PY: EUR 46,829 thousand) were sold. The trade receivables are derecognized upon being sold. Based on the contractual formulation of some factoring agreements, it can neither be assumed that the corresponding receivables were completely transferred, nor that the risks and rewards of the receivables remained completely with the company. In accordance with IAS 39, therefore, the companies recognized a so-called "continuing involvement" of EUR 170 thousand (PY: EUR 217 thousand), which was composed of the remaining interest rate risk in the amount of EUR 170 thousand (PY: EUR 217 thousand). The expenses in connection with factoring amounted to EUR 657 thousand in the financial year (PY: EUR 780 thousand), which includes the factoring fees as well as interest expenses for factoring. There were no cash inflows to the factoring company from the purchase price retentions in connection with the factoring, either in the current year or in the previous year.

In addition, the trade payables also comprised receivables due from factoring companies from clearing accounts in the amount of EUR 4,666 thousand (PY: EUR 6,049 thousand).

The age structure of trade receivables at December 31, 2017 is presented in the table below:

EUR'000	2017	2016
Carrying amount	**39,921**	**30,384**
Thereof: neither value-adjusted nor past due at the reporting date	31,535	13,087
Thereof: value-adjusted at the reporting date	3,813	3,938
Thereof: not value-adjusted, but past due by the following time intervals at the reporting date	4,573	13,359
Past due up to 90 days	2,658	6,025
Past due 90 days to 180 days	313	1,205
Past due 180 days to one year	1,243	2,110
Past due by more than one year	359	4,019

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With regard to the receivables that were neither impaired nor past due, there were no indications that payments will not be made when due.

The Gigaset Group received trade credit insurance, letters of credit and other credit improvements in the amount of EUR 37,786 thousand (PY: EUR 17,330 thousand) as security for trade receivables and outstanding invoices in financial year 2017.

By reason of the international activity of the Gigaset Group, the following receivables denominated in foreign currencies were converted to the Group currency (EUR) at December 31, 2017:

	12/31/2017		12/31/2016	
Foreign currency	EUR'000	%	EUR'000	%
TRL (Turkish lira)	2,732	29.8	2,389	29.0
RUB (Russian ruble)	2,682	29.2	2,535	30.7
GBP (British pound)	1,785	19.4	2,001	24.3
USD (US dollar)	893	9.7	632	7.7
PLN (Polish zloty)	557	6.1	527	6.4
CNY (Chinese renminbi yuan)	308	3.4	55	0.7
SEK (Swedish krona)	130	1.4	57	0.7
Other	96	1.0	44	0.5
Total	**9,183**	**100.0**	**8,240**	**100.0**

19. Other assets

The following amounts were comprised within the item of other assets:

EUR'000	12/31/2017	12/31/2016
Receivables from factoring	10,415	10,726
Tax receivables	7,290	6,501
Security deposits	2,453	767
Receivables from pension liability insurance	1,833	1,833
Recourse receivable	1,544	1,544
Accrual	408	464
Debit balances in vendor accounts	91	244
Other personnel receivables	43	186
Derivatives	1	3,984
Other assets	1,600	2,783
Total	**25,678**	**29,032**

The receivables from factoring in 2017 consisted mainly of the outstanding portion of the purchase price receivables still owed to the Gigaset Group in the amount of EUR 10,415 thousand (PY: EUR 10,726 thousand).

The tax receivables do not include income tax receivables because those are presented separately. The tax receivables presented in this item were mainly composed of sales tax refund claims in the amount of EUR 7,007 thousand (PY: EUR 6,191 thousand).

The recourse receivable relates to a former investment by the Group in Oxy Holding GmbH in the amount of EUR 1,544 thousand (PY: EUR 1,544 thousand).

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The increase in the security deposits from EUR 767 thousand to EUR 2,453 thousand is mainly attributable to the deposit obligation arising from the use of a derivatives line within the framework of hedging the foreign currency risks, as a larger number of derivatives with a negative market value were presented in the past financial year.

20. Tax refund claims

This item in the amount of EUR 513 thousand (PY: EUR 696 thousand) was composed exclusively of income tax refund claims, including an amount of EUR 466 thousand (PY: EUR 633) attributable to the Gigaset Group.

21. Cash and cash equivalents

This item comprises cash on hand, cash in banks for deposits that are due in less than three months, and financial instruments with an original term to maturity of less than three months. Of the total amount presented herein, an amount of EUR 4,451 thousand (PY: EUR 7,349 thousand) has been pledged as security for credit facilities and for currency hedging transactions (restricted cash).

EUR'000	12/31/2017	12/31/2016
Cash in banks	44,646	40,141
Restricted cash	4,451	7,349
Total	**49,097**	**47,490**

22. Equity

Subscribed capital

The Company's share capital totals EUR 132,455,896.00 (PY: EUR 132,455,896.00) and is divided into 132,455,896 (PY: 132,455,896) no par value shares. It has thus remained unchanged from the previous year. The shares are bearer shares. Thus, every no-par share represents EUR 1.00 of the Company's share capital.

No treasury shares were held at the reporting date of December 31, 2017 and none were held at December 31, 2016. By resolution of the Annual Shareholders' Meeting of June 12, 2012, the Company was authorized to acquire up to 10% of the existing capital stock itself. This authorization was valid until June 11, 2017.

Additional paid-in capital

Additional paid-in capital at December 31, 2017 amounted to EUR 86,076 thousand and has therefore not changed compared to the additional paid-in capital presented in the previous year.

Retained earnings

Retained earnings were unchanged from the previous year at EUR 68,979 thousand.

Authorized Capital / Contingent Capital

Authorized Capital 2014

The annual shareholders' meeting of August 12, 2014 resolved to create an authorized capital account (Authorized Capital 2014). Pursuant to Article 4 (6) of the Articles of Incorporation, the Executive Board is thus authorized to increase the Company's capital stock by issuing new shares in the period through August 11, 2019, with the consent of the Supervisory Board, by a total of up to EUR 22,000,000.00, all at once or in partial amounts, through the issuance of new bearer shares that qualify for dividends starting at the beginning of the year of issue, against cash or in-kind capital contributions (Authorized Capital

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2014). The existing shareholders are fundamentally entitled to a subscription right, but it can be excluded under certain circumstances. The new shares may also be accepted by one or more financial institutions with the obligation to offer them to the existing shareholders for purchase (indirect subscription right). The Executive Board was authorized to decide upon the content of the stock rights and the terms of the stock issue with the consent of the Supervisory Board and to specify the details of implementation of the capital increase. The Supervisory Board was further authorized to amend the wording of the Articles of Incorporation in accordance with the specific scope of the capital increase from the Authorized Capital 2014. At December 31, 2017, the Authorized Capital 2014 remained unchanged at EUR 22,000,000.00.

Authorized Capital 2016

The annual shareholders' meeting of August 12, 2016 resolved to create a new authorized capital account (Authorized Capital 2016) because no such authorized capital account was available after the capital measures taken in previous years. Pursuant to the reworded Article 4 (5) of the Articles of Incorporation, the Executive Board is thus authorized to increase the Company's capital stock by issuing new shares in the period through August 11, 2021, with the consent of the Supervisory Board, by a total of up to EUR 44,200,000.00, all at once or in partial amounts, through the issuance of new bearer shares that qualify for dividends starting at the beginning of the year of issue, against cash or in-kind capital contributions (Authorized Capital 2016). The existing shareholders are fundamentally entitled to a subscription right, but it can be excluded under certain circumstances. The new shares may also be accepted by one or more financial institutions with the obligation to offer them to the existing shareholders for purchase (indirect subscription right). The Executive Board was authorized to decide upon the content of the stock rights and the terms of the stock issue with the consent of the Supervisory Board and to specify the details of implementation of the capital increase. The Supervisory Board was further authorized to amend the wording of the Articles of Incorporation in accordance with the specific scope of the capital increase from the Authorized Capital 2016. At December 31, 2017, the Authorized Capital 2016 remained unchanged at EUR 44,200,000.00.

Contingent Capital 2014

The Annual Shareholders' Meeting resolved on August 12, 2014, that the Company is authorized, with the consent of the Supervisory Board, to issue option bonds and/or convertible bonds once or multiple times until August 11, 2019, with or without limitation of maturities, for a total nominal amount of up to EUR 150,000,000.00 ("bonds") or to grant the bond holders or creditors option and/or conversion rights to a total of up to 35,000,000 bearer no-par-value shares of the Company with a proportional share of the capital stock of up to EUR 35,000,000.00 after further specification of the terms and conditions of the individual bonds. The shareholders are fundamentally entitled to a subscription right. However, it can be excluded under certain circumstances. The new shares may also be accepted by one or more financial institutions with the obligation to offer them to the existing shareholders for purchase (indirect subscription right). The Executive Board was authorized to decide upon the content of the stock rights and the terms of the stock issue with the consent of the Supervisory Board and to specify the details of implementation of the capital increase. The Annual Shareholders' Meeting of August 12, 2014, likewise resolved to create a new contingent capital account (Contingent Capital 2014), by means of which the Company's share capital can be increased by up to EUR 35,000,000.00. This Contingent Capital is intended to be used to grant shares to the holders or creditors of option bonds and/or convertible bonds that are issued by the Company. The Executive Board is authorized, with the consent of the Supervisory Board, to determine the other details for carrying out the conditional capital increase. At December 31, 2017, the Contingent Capital 2014 remained unchanged at EUR 22,000,000.00.

Contingent Capital 2016

The Annual Shareholders' Meeting resolved on August 12, 2016, that the Company is authorized, with the consent of the Supervisory Board, to issue option bonds and/or convertible bonds once or multiple times until August 11, 2021, with or without limitation of maturities, for a total nominal amount of up to EUR 150,000,000.00 ("bonds") or to grant the bond holders or creditors option and/or conversion rights to a total of up to 29,700,000 bearer no-par-value shares of the Company with a proportional share of the capital stock of up

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to EUR 29,700,000.00 after further specification of the terms and conditions of the individual bonds. The shareholders are fundamentally entitled to a subscription right. However, it can be excluded under certain circumstances. The new shares may also be accepted by one or more financial institutions with the obligation to offer them to the existing shareholders for purchase (indirect subscription right). The Executive Board was authorized to decide upon the content of the stock rights and the terms of the stock issue with the consent of the Supervisory Board and to specify the details of implementation of the capital increase. The Annual Shareholders' Meeting of August 12, 2016, likewise resolved to create a new contingent capital account (Contingent Capital 2016), by means of which the Company's share capital can be increased by up to EUR 29,700,000.00. This Contingent Capital is intended to be used to grant shares to the holders or creditors of option bonds and/or convertible bonds that are issued by the Company. The Executive Board is authorized, with the consent of the Supervisory Board, to determine the other details for carrying out the conditional capital increase. At December 31, 2017, the Contingent Capital 2016 remained unchanged at EUR 29,700,000.00.

23. Pension obligations

23.1 Description of pension commitments

23.1.1 Geographical distribution of pension commitments

The pension obligations of Gigaset AG and its subsidiaries are distributed over four countries: Germany, Switzerland, Italy, and Austria. In addition, plan assets still exist in Germany and Switzerland. The amount of the obligations and the plan assets are broken down by country in the following table:

Pension obligations and plan assets at 12/31/2017 (in EUR'000):

Country	Pension obligation	Plan assets	Net obligation
Germany	119,427	39,233	80,194
Switzerland	3,230	2,450	780
Italy	388	0	388
Austria	70	0	70
Total	**123,115**	**41,683**	**81,432**

Pension obligations and plan assets at 12/31/2016 (in EUR'000):

Country	Pension obligation	Plan assets	Net obligation
Germany	119,327	40,495	78,832
Switzerland	3,307	2,084	1,223
Italy	608	0	608
Austria	80	0	80
Total	**123,322**	**42,579**	**80,743**

Because Germany's share of the pension obligations is about 97% (PY: about 97%) and its share of the net obligations is about 98% (PY: about 98%), only the German pension plans and the risk factors for the German obligations will be described in more detail.

23.1.2 Description of pension commitments in Germany

Because their legal predecessors originally belonged to the Siemens Group, the vast majority of the pension obligations held by Gigaset AG and its German subsidiaries (the Gigaset Group) were created based on Siemens promises. Siemens AG converted its guaranteed pension payments from pension benefits to a capital-based system in 2003. All employees who were already employed at a legal predecessor of the Gigaset Group received vested rights in the form of a benefit obligation in the course of this conversion. In addition, all employees can receive contributions to the new capital account plan, if funds are allocated

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to it by the Company. The Company can make a new decision on an allocation annually. For 2017, as in the previous year, no employer-financed contributions were paid into the capital account plan. Salary conversion also exists, which is likewise capital-based. It has been closed since 2007 and contributions are no longer being paid in. A death benefit is paid, as well as a transitional payment (six months of continued pay in case of an insured event) for some of the employees. A few retirees still receive installment payments according to another closed system for salary conversion (supplementary benefits option). In addition, two vested benefit obligations still exist under another pension plan (GOH). The payments from the capital account plan earn interest at 0.9% (PY: 1.25%).

New pension obligations are thus only generated by inclusion in the capital account plan as well as by vested rights in a death benefit. All other plans are closed to new hires and are no longer being serviced with contribution payments.

23.1.3 Significant risk factors

The primary risk consists of the pension obligations from status of possession, since they constitute about 83% (PY: about 82%) of the total German pension obligations. They are sensitive to the discount rate, inflation, and changes in life expectancy, but not to changes in wages and salaries. Only the death benefit and transitional payments are dependent on wages and salaries. Since this risk is not very significant (about 3% (PY: about 4%) of the pension obligations), however, no calculation was made of the sensitivities to projected salary increases. For all other risks, significant actuarial assumptions and the sensitivity analysis are shown in Chapter 23.2.

23.1.3.1 Longevity risk factor

Pension plans such as the vested rights system react sensitively to any change in life expectancy. An increase in life expectancy thus represents a significant risk to the pension obligation. Since the obligation is distributed over a group of more than 1000 people, as in the previous year, there are no concentration risks. For all other plans, the longevity risks are negligible or do not exist.

23.1.3.2 Inflation risk factor

Pension plans are likewise susceptible to inflation risk through the pension adjustment. A review to determine whether a pension adjustment is necessary is conducted every three years and is based on the consumer price index. All other plans are not subject to inflation risk.

23.1.3.3 Discount rate risk factor

Pension obligations depend very strongly on the discount rate. Since the discount rate is calculated at a reporting date and is based on the capital market, it has been subject to strong fluctuations since the financial crisis occurred. This means that it is very likely that the obligation will change by more than 10% from one year to the next. According to the current IAS 19 as revised in 2011, the actuarial gains and losses occurring (due inter alia to changes in parameters) must be recognized as losses against the Company's equity. While large actuarial losses do not affect cash flow, they can have a negative effect on equity.

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23.2 Significant actuarial assumptions and sensitivity analysis

The sensitivity analysis is intended to show the effects of changes in measurement assumptions that could reasonably occur until the next reporting date (IAS 19.145 and IFRS 7).

A Defined Benefit Obligation (DBO) in Germany at 12/31/2017: EUR 119,427 thousand

B Weighted average duration of the obligation (Macaulay duration based on best-estimate assumptions): 19.4 years

C Significant actuarial assumptions at 12/31/2017

Parameter	Initial value	Sensitivity analysis	DBO in EUR'000
Discount rate	1.85%	+0.50%	109,131
Discount rate	1.85%	-0.50%	131,388
Inflation (pension trend)	2.00%	+0.25%	123,361
Inflation (pension trend)	2.00%	-0.25%	115,725
Longevity	Heubeck 2005 G	+1 Year	123,554
Longevity	Heubeck 2005 G	-1 Year	115,340

A Defined Benefit Obligation (DBO) in Germany at 12/31/2016: EUR 119,327 thousand

B Weighted average duration of the obligation (Macaulay duration based on best-estimate assumptions): 19.9 years

C Significant actuarial assumptions at 12/31/2016

Parameter	Initial value	Sensitivity analysis	DBO in EUR'000
Discount rate	1.85%	+0.50%	108,740
Discount rate	1.85%	-0.50%	131,623
Inflation (pension trend)	2.00%	+0.25%	123,220
Inflation (pension trend)	2.00%	-0.25%	115,632
Longevity	Heubeck 2005 G	+1 Year	123,360
Longevity	Heubeck 2005 G	-1 Year	115,290

The sensitivity analysis above is based on changing one assumption while all other assumptions remain constant. It is improbable for this to occur in reality, and changes in some assumptions may correlate. When calculating the sensitivity of the defined benefit obligation to actuarial assumptions, the same method was used as was used to determine the pension provisions in the statement of financial position (the present value of the defined benefit obligations was calculated using the projected unit credit method at the end of the reporting period).

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23.3 Development of pension provisions in the Gigaset Group

Provisions for pensions and similar obligations have been recognized for a total of seven (PY: seven) Group companies. The total amount of pension provisions was divided up among the following companies:

EUR'000	12/31/2017	12/31/2016
Gigaset Group	79,711	79,075
Holding company	1,721	1,668
Total	**81,432**	**80,743**

The increase in the pension provision compared to the previous year resulted mainly from the reduced value of plan assets. The projected benefit obligation declined slightly compared to the previous year due to the increase in the weighted discount rate from 1.81% to 1.82%.

The revaluation effects from defined benefit plans are recognized in "accumulated other comprehensive income" within equity, while the ongoing change in the period is disclosed separately in the Statement of Changes in Equity.

The projected unit credit value of vested pension benefits under the defined benefit plans of the companies of the Gigaset Group showed the following development:

EUR'000	2017	2016
Balance at 01/01	**123,322**	**111,760**
Current service cost	1,799	1,880
Employee contributions	124	115
Interest expenses	2,218	2,510
Pension benefits paid	-2,194	-1,521
Pension benefits paid, plan settlements	-41	0
Actuarial gains/losses from demographic assumptions	0	0
Actuarial gains/losses from financial assumptions	-196	9,741
Actuarial gains/losses from experience values	-1,849	-1,189
Transfer of claims	202	0
Foreign currency effects	-269	26
Balance at 12/31	**123,116**	**123,322**

The pension expenses recognized in the current financial year were composed of the following elements:

EUR'000	2017	2016
Current service cost	1,799	1,880
Net interest on net liability	1,468	1,587
Effects from plan settlements	-41	0
Total pension expenses	**3,226**	**3,467**

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Pension expenses are presented as personnel expenses before restructuring in the item of social security, pension and other benefits. The current income on plan assets was EUR 335 thousand (PY: EUR 1,731 thousand).

The revaluation effects from defined benefit plans are recognized in the item "accumulated other comprehensive income" within equity.

EUR'000	2017	2016
Balance at 01/01	**-57,395**	**-49,651**
Revaluation effects in current year	1,630	-7,744
Balance at 12/31	**-55,765**	**-57,395**

The plan assets showed the following development:

EUR'000	2017	2016
Fair value of plan assets at 01/01	**42,579**	**41,740**
Expected net interest income	750	923
Difference between expected net interest income and actual net interest income	-415	808
Employer contributions	75	74
Employee contributions	118	116
Benefits paid	-1,447	-1,097
Transfer of claims	192	0
Foreign currency effects	-168	15
Fair value of plan assets at 12/31	**41,684**	**42,579**

The plan assets for the current financial year break down as follows:

EUR'000	2017	2016
Special funds	39,067	40,301
Fixed-income securities	971	911
Equities	673	687
Real estate and real estate funds	481	426
Other	492	254
Total	**41,684**	**42,579**

The special funds primarily contain bonds, corporate bonds, and stocks. The plan assets must be primarily assigned to measurement category 1, i.e., the plan assets are traded on active markets. Only the real estate and real estate funds are measured at current market value (using the DCF method).

The expected contributions to plan assets for the following year totaled EUR 194 thousand (PY: EUR 262 thousand). The expected benefit payments in the following year are expected to total EUR 2,522 thousand (PY: EUR 1,640 thousand).

The current employer's contributions to the statutory pension insurance system are recognized as operating expenses in the respective year. In the current financial year, they amounted to EUR 4,625 thousand (PY: EUR 5,251 thousand) for the Group.

No payments were made in respect of defined-contribution plans, as in the previous year.

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The calculation was based on the following weighted actuarial assumptions:

in %	2017	2016
Discount rate	1.82	1.81
Salary trend	2.24	2.24
Pension trend	1.94	1.97
Mortality tables:		
- Germany	Heubeck 2005 G	Heubeck 2005 G
- Switzerland	BVG 2005	BVG 2005
- Italy	ISTAT 2015	ISTAT 2014
- Austria	Pagler 2008 Generation Table, Salaried Employees	Pagler 2008 Generation Table, Salaried Employees

The provision for pension obligations was measured as follows:

EUR'000	2017	2016
Projected unit credit value of pension obligations	123,116	123,322
- internally financed	4,258	5,215
- externally financed	118,858	118,107
Fair value of plan assets	-41,684	-42,579
Total pension provisions	**81,432**	**80,743**

The provision showed the following development over time:

EUR'000	2017	2016
Pension provision at 1/1	**80,743**	**70,020**
Current service cost	1,799	1,880
Net interest expenses/income	1,468	1,587
Actuarial gains/losses from demographic assumptions	0	0
Actuarial gains/losses from financial assumptions	-196	9,741
Actuarial gains/losses from experience values	-1,849	-1,189
Difference between expected net interest income and actual net interest income from plan assets	415	-808
Pension benefits paid	-747	-424
Employer contributions	-75	-74
Employee contributions	6	-1
Plan settlements	-41	0
Carryover of claims	10	0
Foreign currency effects	-101	11
Pension provision 12/31	**81,432**	**80,743**

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24. Provisions

EUR'000	Balance at 01/01/2017	Utilization	Reversal	Addition	Currency/ interest effects	Balance at 12/31/2017
Restructuring	14,521	-7,112	-4,680	261	-9	2,981
Personnel	6,619	-3,316	-144	1,665	0	4,824
Warranties	4,555	-1,141	-61	172	-6	3,519
Onerous contracts	509	-5	-23	6	0	487
Other	13,435	-7,730	-2,114	12,569	-71	16,089
Total	**39,639**	**-19,304**	**-7,022**	**14,673**	**-86**	**27,900**

The restructuring provision comprises severance pay and residual costs in the amount of EUR 2,981 thousand (PY: EUR 14,521 thousand). The provisions for residual costs are expected to be utilized in several steps until the end of 2019.

Miscellaneous other provisions particularly include provisions for customer bonuses, external audits, and licensing expenses. This item also includes, inter alia, provisions for storage expenses, annual general meeting expenses, and annual report expenses, as well as Supervisory Board compensation and legal disputes.

The warranty provisions of EUR 3,519 thousand (PY: EUR 4,555 thousand) pertained exclusively to the Gigaset Group and were calculated on the basis of experience values and estimates of future occurrence probabilities.

The personnel provisions for the past two financial years break down as follows:

EUR'000	12/31/2017	12/31/2016
Partial early retirement	3,977	5,515
Service anniversary bonuses	847	1,104
Total	**4,824**	**6,619**

The provisions for onerous contracts related mainly to disadvantageous rental, usage and service agreements. They break down as follows:

EUR'000	12/31/2017	12/31/2016
Gigaset Group	6	5
Holding company	481	504
Total	**487**	**509**

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The maturity structure of provisions is presented in the table below:

EUR'000	12/31/2017	12/31/2016
Non-current provisions	5,609	11,068
Current provisions	22,291	28,571
Total	**27,900**	**39,639**

Non-current provisions, which have a maturity of more than one year, were divided among the various categories as follows:

EUR'000	12/31/2017	12/31/2016
Personnel	3,735	5,760
Warranty	545	730
Onerous contracts	481	503
Environmental risks	146	149
Restructuring	25	3,311
Other	677	615
Total	**5,609**	**11,068**

25. Deferred tax assets and deferred tax liabilities

Deferred taxes result from the different values contained in the IFRS financial statements as compared to the financial statements prepared for tax purposes, and from consolidation measures.

Deferred tax liabilities and assets were recognized in respect of the following items:

EUR'000	12/31/2017	12/31/2016
Deferred tax assets		
Intangible assets	68	106
Property, plant and equipment	6	7
Inventories	22	102
Receivables and other current assets	65	43
Provisions	22,530	22,731
Liabilities	491	6,449
Derivatives	681	0
Tax loss carry-forwards	375	2,847
Total deferred tax assets	**24,238**	**32,285**
thereof current	1,625	6,784
thereof non-current	22,613	25,501
Deferred tax liabilities		
Intangible assets	8,464	9,134
Property, plant and equipment	2,804	3,038
Inventories	308	42
Receivables and other current assets	121	3,545
Provisions	635	6,119
Liabilities	432	36
Total deferred tax liabilities	**12,764**	**21,914**
thereof current	2,164	9,742
thereof non-current	10,600	12,172
Net balance of deferred tax assets and liabilities	11,101	19,081
Stated amount of deferred tax assets	**13,137**	**13,204**
Stated amount of deferred tax liabilities	**1,663**	**2,833**

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No deferred tax assets were recognized in respect of corporate income tax loss carry-forwards totaling EUR 48,548 thousand (PY: EUR 44,286 thousand) and trade tax loss carry-forwards totaling EUR 29,978 thousand (PY: EUR 36,207 thousand). Of the non-recognized corporate income tax loss carry-forwards, an amount of EUR 17,385 thousand related to foreign companies (PY: EUR 15,758 thousand), of which, in turn, EUR 0 thousand (PY: EUR 0) will expire within 5 to 20 years. With regard to German companies, it should be noted that share transfers of 25% to 50% fundamentally result in a proportional reduction of existing tax loss carry-forwards, while share transfers of more than 50% fundamentally lead to the complete loss of existing tax loss carry-forwards. The deferred tax assets for tax loss carry-forwards that were recognized for Gigaset Communications GmbH in the previous year were completely used in the current year, which primarily resulted in a reduction of the deferred tax assets for tax loss carry-forwards. The remaining deferred tax assets for tax loss carry-forwards primarily relate to the Austrian and Spanish subsidiaries.

Gigaset did not recognize deferred tax assets on temporary differences in the amount of EUR 1,557 thousand (PY: EUR 1,760 thousand).

No deferred taxes were recognized in respect of differences between IFRS and the tax balance sheet related to interests in subsidiaries in the amount of EUR 83.9 million (PY: EUR 104.5 million).

For more information on this subject, please refer to the presentation of accounting and valuation methods and the explanations provided in Section 11.

26. Trade payables

Based on the usual payment terms agreed with suppliers and other business partners, the due dates and the corresponding cash outflows of current trade payables are presented in the table below:

EUR'000	12/31/2017	12/31/2016
Carrying amount	56,114	51,026
thereof due in the following time periods:		
< 30 days	39,032	32,599
30 – 90 days	16,255	17,856
90 – 180 days	758	491
180 days – 1 year	69	80

The largest amounts of trade payables were owed by the following corporate groups:

EUR'000	12/31/2017	12/31/2016
Gigaset Group	55,688	50,729
Holding company	426	297
Total	**56,114**	**51,026**

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By reason of the international activity of the Gigaset Group, the trade payables at December 31, 2017, included the following amounts denominated in foreign currencies, which have been translated to the euro, as the Group currency:

	12/31/2017		12/31/2016	
Foreign currency	EUR'000	%	EUR'000	%
USD (US dollar)	23,651	88.5	21,811	85.6
CNY (Chinese renminbi yuan)	1,660	6.2	1,849	7.3
GBP (British pound)	363	1.4	601	2.4
TRL (Turkish lira)	268	1.0	517	2.0
CHF (Swiss franc)	264	1.0	249	1.0
PLN (Polish zloty)	131	0.5	99	0.4
JPY (Japanese yen)	106	0.4	95	0.4
SEK (Swedish krona)	80	0.3	87	0.3
Other	191	0.7	162	0.6
Total	**26,714**	**100.0**	**25,470**	**100.0**

27. Tax liabilities

This item in the amount of EUR 17,166 thousand (PY: EUR 15,093 thousand) was composed exclusively of current income tax liabilities, including an amount of EUR 17,046 thousand (PY: EUR 14,996) attributable to Gigaset Communications GmbH and its subsidiaries.

28. Current other liabilities

EUR'000	12/31/2017	12/31/2016
Other personnel-related liabilities	5,659	6,865
Customs liabilities	4,536	2,603
Other taxes	3,568	3,144
Derivatives	2,142	0
Social security contributions	692	793
Wages and salaries	266	261
Advance payments received	243	433
Miscellaneous other liabilities	1,383	470
Total	**18,489**	**14,569**

The other current liabilities did not bear interest in the reporting year. Due to the fact that they are due in less than one year, it can be assumed that the carrying amounts of the liabilities essentially correspond to their fair values. Therefore, the repayment amounts presented in the statement of financial position are equivalent to the market values of the liabilities.

The other personnel-related liabilities were mainly composed of the following items:

EUR'000	12/31/2017	12/31/2016
Profit-based bonuses and other bonuses	1,926	2,357
Vacation leave not taken	1,874	1,871
Work time accounts	1,090	1,258
Miscellaneous personnel-related liabilities	769	1,379
Total	**5,659**	**6,865**

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29. Segment report

The segment report is based on geographical segments, in accordance with the Group's internal reporting system. As before, the holding company is presented separately from Gigaset's operating activities. Within operating activities, a distinction is made in the geographical regions between "Germany," "EU," and "Rest of World." The reportable segment "EU" contains multiple geographical regions including the "France" geographical region as an operating segment, which have been aggregated to form this segment. The individual segments were aggregated into the "EU" segment because the products and services sold, the customer structures, sales structures and regulatory conditions are comparable. With respect to economic criteria, the individual geographical segments have been aggregated particularly by reason of comparable gross margins.

Gigaset is principally active in the sector of communications technology. The geographical regions in which Gigaset operates are the following:

- "Germany"
  The "Germany" geographical region comprises the operating activities in Germany.
- "Europe (excluding Germany)"
  The "Europe" geographical region comprises the operating activities in Poland, Great Britain, Austria, France, Italy, the Netherlands, Spain, and Sweden.
- "Rest of World"
  The "Rest of World" geographical region comprises the operating activities in Switzerland, Turkey, Russia, and China.

The transfer prices charged between the segments are the same as those that could be achieved with third parties. Administrative services are charged to the Group companies as cost allocations.

The relevant segment result is the result from the core business before depreciation and amortization.

For purposes of internal segment reporting, revenue by country is reported both on the basis of the receiving entities and the registered head office of the respective company ("country of domicile").

Revenue by receiving entities represents the amounts invoiced in the respective regions, regardless of the domicile of the invoicing entity. If, for example, a German company issues an invoice to a company in the Netherlands, such revenue is assigned to the region of "Europe – EU (excluding Germany)" in the presentation by receiving entities. In the table below, revenue is presented according to the regions of the receiving entities within the meaning of IFRS 8.33 a), as described in the preceding paragraph, for financial year 2017 and the comparison period:

EUR'000	2017	2016
Germany	124,596	117,251
Europe (excluding Germany)	150,270	143,469
Rest of World	18,430	21,212
Total	**293,296**	**281,932**

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For purposes of current segment reporting within the Group, the attribution to individual geographical regions is additionally done according to the country of domicile of the respective legal entity. If, for example, a German company issues an invoice to a company in the Netherlands, such revenue is assigned to the "Germany" region for purposes of the presentation by country of domicile. Revenue classified by country of domicile is presented in the following tables. The relevant segment result (result from the core business before depreciation and amortization) is determined on the basis of the results of the respective legal entities (country of origin).

There were no significant individual customers, neither in the current year nor in the previous year, whose share of revenue reached or exceeded 10 percent of total revenue.

January 1 to December 31, 2017 in EUR'000	Germany	EU	Rest of World	Gigaset TOTAL	Holding company	Group
Revenue	156,106	106,245	30,945	293,296	0	293,296
Earnings from core business before depreciation and amortization	28,201	1,242	-273	29,170	-3,857	25,313
Depreciation	-15,053	-84	-23	-15,160	0	-15,160
Result of core business after scheduled depreciation	13,148	1,158	-296	14,010	-3,857	10,153
Additional ordinary result	839	34	473	1,346	722	2,068
Operating result	13,987	1,192	177	15,356	-3,135	12,221
Other interest and similar income						54
Interest and similar expenses						-1,150
Financial result						-1,096
Result from ordinary activities						11,125
Income taxes						-3,247
Consolidated net income for the year						**7,878**

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January 1 to December 31, 2016 in EUR'000	Germany	EU	Rest of World	Gigaset TOTAL	Holding company	Group
Revenue	145,733	105,752	30,447	281,932	0	281,932
Earnings from core business before depreciation and amortization	27,546	1,602	-551	28,597	-3,586	25,011
Depreciation and amortization	-17,417	-90	-24	-17,531	0	-17,531
Earnings from core business after depreciation and amortization	10,129	1,512	-575	11,066	-3,586	7,480
Additional ordinary result	3,117	-108	43	3,052	2,300	5,352
Operating result	13,246	1,404	-532	14,118	-1,286	12,832
Other interest and similar income						163
Interest and similar expenses						-1,244
Financial result						-1,081
Result from ordinary activities						11,751
Income taxes						-7,434
Consolidated net income for the year						**4,317**

The profit or loss effects of deconsolidations, where they exist, have been assigned to the respective segments.

In 2017, the operating revenue break down essentially into operating revenue from the Consumer Products segment in the amount of EUR 215,347 thousand (PY: EUR 233,139 thousand) and the Business Customers segment in the amount of EUR 55,272 thousand (PY: EUR 43,709 thousand), as well as the segments Home Networks and Mobile Products in the amount of EUR 22,677 thousand (PY: EUR 5,084 thousand).

In accordance with IFRS 8.33 b), non-current assets were divided among the following regions in financial year 2017 and the comparison period:

EUR'000	2017	2016
Germany	53,224	58,863
Europe (excluding Germany)	160	134
Rest of World	12	27
Total	**53,396**	**59,024**

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30. Cash flow statement

The cash flow statement presents the changes in net funds of the Gigaset Group in the reporting year and in the previous year. Net funds are defined as cash and cash equivalents, less restricted cash. As a general rule, items denominated in foreign currencies are translated at average exchange rates for the year. By way of exception, cash and cash equivalents are translated at the exchange rate on the reporting date. The effect of exchange rate changes on net funds is presented separately.

In accordance with IAS 7, cash flows are classified as cash flow from operating activities, investing activities and financing activities.

EUR'000	2017	2016
Cash flow statement		
Cash inflow (+)/ outflow (-) from operating activities	14,423	18,464
Cash outflow from investment activities	-12,470	-11,291
Free cash flow	1,953	7,173
Cash outflow from financing activities	0	-428
Change in cash and cash equivalents	**1,953**	**6,745**

The cash flow statement has been prepared in accordance with the indirect method. The changes in items of the statement of financial position considered for this purpose have been adjusted for the effects of changes in the consolidation group and transactions recognized in equity. For these reasons, the changes in items of the statement of financial position presented in the cash flow statement cannot necessarily be reconciled with the statement of financial position.

No investments in companies were acquired or sold in financial year 2017, as in the previous year.

The cash outflow from investment activities amounted to EUR 12,470 thousand in 2017, following EUR 11,291 thousand in the previous year. The cash outflows for investments in non-current assets in the amount of EUR 12,516 thousand (PY: EUR 11,336 thousand) break down as follows:

EUR'000	2017	2016
Cash outflows for investments in non-current assets		
Cash outflows for intangible assets	9,009	8,791
Cash outflows for property, plant and equipment	3,507	2,545
Total	**12,516**	**11,336**

There were no cash inflows or outflows from financing activities in the current financial year. In the previous year, cash outflows from financing activities occurred in the amount of EUR 428 thousand, resulting from the mandatory convertible bond.

Cash and cash equivalents at December 31, 2017 amounted to EUR 44,646 thousand (PY: EUR 40,141 thousand). This item comprises immediately available cash in banks, checks and cash on hand. Restricted cash, which has been pledged as security for liabilities and currency hedging transactions, amounted to EUR 4,451 thousand at December 31, 2017 (PY: EUR 7,349 thousand). Thus, the total amount of cash and cash equivalents according to the Consolidated Statement of Financial Position amounted to EUR 49,097 thousand (PY: EUR 47,490 thousand).

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31. Other financial commitments

The other financial obligations at the reporting date of December 31, 2017 resulted from rental, lease and service agreements which cannot be terminated prior to expiry and have been entered into by the Group and its subsidiaries in the ordinary course of business. In the table below, the total future payments to be made under these agreements are broken down by due dates, as follows:

2017 in EUR'000	Up to 1 year	1-5 years	Longer than 5 years	Total
Rental and lease commitments	1,614	1,947	0	3,561
Other commitments	1,408	140	0	1,548
Total	**3,022**	**2,087**	**0**	**5,109**

2016 in EUR'000	Up to 1 year	1-5 years	Longer than 5 years	Total
Rental and lease commitments	1,964	2,395	0	4,359
Other commitments	523	8	0	531
Total	**2,487**	**2,403**	**0**	**4,890**

The total rental and lease commitments amounted to EUR 3,561 thousand (PY: EUR 4,359 thousand). Of this amount, rental and lease agreements for land and buildings accounted for EUR 2,491 thousand (PY: EUR 3,392 thousand), and rental and lease agreements for other equipment, operational and office equipment accounted for EUR 1,070 thousand (PY: EUR 967 thousand).

The other financial commitments in the amount of EUR 1,548 thousand (PY: EUR 531 thousand) resulted from maintenance and service agreements for machinery and equipment, software and other operational and office equipment.

The Group was not subject to any significant commitments for capital expenditures at the reporting date, December 31, 2017, as in the previous year.

The leasing expenses in the current financial year totaled EUR 2,989 thousand, of which EUR 2,439 thousand was allocated to building rents and EUR 550 thousand to rents for the vehicle fleet.

32. Contingent liabilities

The contingent liabilities at the reporting date of December 31, 2017 were related to the following companies and matters:

In connection with the sale of the Jahnel-Kestermann Group, a seller liability (guarantee for corporate relationships) was assumed in the amount of EUR 18.5 million, limited in time until April 11, 2018. The probability of occurrence is considered to be low.

In connection with the sale of Golf House, a liability of up to EUR 1.7 million was assumed for tax matters. The duration of this liability is determined with reference to the administrative finality of the respective assessments of the tax authorities. There are no indications of possible utilization and therefore the risk is considered to be low.

In connection with the sale of the Anvis Group, Gigaset AG assumed a liability for tax circumstances. The liability under this guarantee will expire six months after presentation of respective, administratively final tax assessments. The probability of occurrence is considered to be extremely low.

The Company assumed a purchase contract guarantee of EUR 405 thousand in connection with the sale of van Netten. The probability of occurrence is considered very low.

In connection with the sales of other subsidiaries in the years 2009 to 2013, the Company issued guarantees for the corporate relationships of these subsidiaries. The probability of occurrence of these guarantees is considered to be very low.

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33. Executive Board and Supervisory Board of Gigaset AG

The following persons served on the Executive Board in financial year 2017:

- **Klaus Wessing**, engineer, Borken (Chairman and board member in charge of Product Development, New Business Fields, Supply Chain, Quality, Service Assurance, Sales, Marketing, Strategy & Innovation, Communication & Digital) since December 15, 2015.
- **Hans-Henning Doerr**, businessman, Heidelberg (board member in charge of Finance, IT, Legal, Human Resources and Investor Relations) from December 15, 2015 to July 31, 2017.
- **Guoyu Du**, engineer, London, United Kingdom (board member in charge of Cooperation Ventures) from December 1, 2015 to December 31, 2017.

The other executive activities of the Executive Board members Wessing, Doerr, and Du mainly consist or consisted of serving on the supervisory boards and executive boards and chief executive positions of affiliated companies and subsidiaries of Gigaset AG.

In the reporting period, the following persons served on the Supervisory Board that was elected by the annual shareholders' meeting of August 17, 2017:

- Bernhard Riedel (Chair) as of 12/19/2013
- Helvin (Hau Yan) Wong (Vice Chairman) as of 12/19/2013
- Ulrich Burkhardt as of 12/3/2014
- Paolo Vittorio Di Fraia as of 8/14/2013
- Prof. Xiaojian Huang as of 12/19/2013
- Flora (Ka Yan) Shiu as of 12/19/2013

Consequently, the Supervisory Board at the time this report was prepared consisted of Mr. Bernhard Riedel (Chair), Mr. Hau Yan Helvin Wong (Vice Chairman), Mr. Ulrich Burkhardt, Paolo Vittorio Di Fraia, Prof. Xiaojian Huang, and Ms. Flora Shiu. The Supervisory Board members were elected by the annual shareholders' meeting for the time until the close of the annual shareholders' meeting that will resolve to ratify their actions in the first financial year after the beginning of their terms of office. The financial year during which the term of office began is not counted for this purpose.

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The members of the Supervisory Board listed below held the listed memberships on additional supervisory boards and controlling boards during their term of office on the Supervisory Board of the Company within the reporting timeframe.

- **Bernhard Riedel**, Chairman of the Supervisory Board, attorney, Munich
  - Member of the Supervisory Board of Gigaset Communications GmbH since March 29, 2013
  - Member of the Supervisory Board of Softmatic AG from May 23, 2017 to August 4, 2017
  - Member of the Advisory Board of Operatis GmbH since January 1, 2017
- **Hau Yan Helvin Wong**, Vice Chairman
  - No seats were held on other supervisory boards and similar boards within the meaning of Section 125 (1) AktG.
- **Ulrich Burkhardt**, tax consultant, independent auditor, Fürstenfeldbruck:
  - No seats were held on other supervisory boards and similar boards within the meaning of Section 125 (1) AktG.
- **Paolo Vittorio Di Fraia**, businessman and corporate consultant, Paris, France
  - No seats were held on other supervisory boards and similar boards within the meaning of Section 125 (1) AktG.
- **Xiaojian Huang**, managing director, Executive Director at Goldin Financial Holding Ltd., Hong Kong, People's Republic of China
  - No seats were held on other supervisory boards and similar boards within the meaning of Section 125 (1) AktG.
- **Flora Ka Yan Shi**u, member of management as head of Corporate Development, Goldin Real Estate Financial Holdings Limited, Hong Kong, Peoples Republic of China
  - No seats were held on other supervisory boards and similar boards within the meaning of Section 125 (1) AktG.

34. Compensation of Executive Board and Supervisory Board members

The Compensation Report (pursuant to Section 4.2.5. of the German Corporate Governance Code) explains the principles applied in setting the compensation of Executive Board members and indicates the amount and structure of Executive Board compensation. It also describes the principles applied in setting the compensation of the Supervisory Board members and the amount of that compensation, and discloses the shareholdings of Executive Board and Supervisory Board members (see the following section).

Compensation of Executive Board members

The responsibilities and contributions of each Executive Board member are taken into account for purposes of setting the compensation. Their compensation in financial year 2017 comprises a fixed annual salary as well as success-related components (bonuses, variable compensation). The individual components are as follows:

- The fixed compensation is paid in the form of a monthly salary in 12 equal parts.
- The variable compensation of Executive Board members is based on company and/or target bonus agreements.
- Personal targets are agreed with Executive Board members based on qualitative milestones.

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Thus, variable compensation agreements exist for the Executive Board members based on company and/or target bonus agreements, and partially also based on personal targets with qualitative milestones. The goals were discussed with the Chairman of the Company's Supervisory Board and with the Executive Board members at the beginning of the financial year or at the beginning of work as an Executive Board member. The Chairman of the Supervisory Board decides the respective target attainment on the basis of the agreements made with Executive Board members.

In addition to the compensation components described above, a pension claim was also granted to one Executive Board member under the existing pension plan for the overall company. Please refer to our comments in Note 23, Pension obligations for details on this subject. The pension claim was granted several years before the person in question was appointed to the Executive Board and was not separately granted for exercising the position of Executive Board member, but must also be disclosed in the presentation of total compensation according to applicable regulations. The expenses incurred in each financial year are presented within the item of "Pension expenses."

Based on a resolution of the annual shareholders' meeting of August 11, 2015, the disclosures to be made in the notes according to Section 285 No.9a Sentences 5 to 8 and Section 314 (1) No.6a Sentences 5 to 8 of the German Commercial Code (Handelsgesetzbuch) were omitted in the preparation of the separate financial statements of Gigaset AG and the consolidated financial statements of the Group. The disclosures were omitted on the basis of a resolution of the annual shareholders' meeting adopted by a majority of at least three quarters of the capital stock represented in the vote, pursuant to Section 286 (5) HGB and Section 314 (3) HGB. This resolution applies to the preparation of the separate financial statements of Gigaset AG and the consolidated financial statements for the financial years commencing January 1, 2015, and the next four financial years, but no longer than until August 10, 2020. Therefore, the information relating to compensation of the Executive Board will only be provided in each case with a single sum, without specifying the individual Executive Board members by name.

Following the requirements of the German Corporate Governance Code (effective February 2017), Sample Table 1 for Number 4.2.5 Paragraph 3, the potential total compensation granted to the members of the Executive Board for financial year 2017 is presented in the table below:

Compensation granted to Executive Board members, in EUR		Fixed compensation	Fringe benefits	Total fixed compensation components	Single year variable compensation	Multiyear variable compensation	Total fixed and variable compensation	Pension expenses	Total compensation
All Executive Board members	2016 (100 %)	703,113	26,068	729,181	150,000	0	879,181	20,995	900,136
	2017 (100 %)	646,126	34,433	680,559	50,000	0	730,559	13,786	744,345
	2017 (Min)				0	0	680,559	13,786	694,345
	2017 (Max)				450,000	0	1,130,559	13,786	1,144,345

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The recognized expenses for members of the Executive Board for financial year 2017 break down as follows in accordance with the requirements of German Financial Accounting Standard (DRS) 17 (Reporting on the Remuneration of Members of Governing Bodies) and IAS 24, Related Party Disclosures:

EUR	Fixed compensation		Fringe benefits		Single year variable compensation		Pension expense		Total	
Financial year	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
All Executive Board members	646,126	703,113	34.433	26,068	50,000	150,000	13,786	20,995	744,345	900,136

The pension expenses stated in the table above include the service cost for the respective period. The projected unit credit value of the pension commitments to Executive Board members according to the provisions of IAS 19 Employee Benefits amounted to EUR 800 thousand at the reporting date (PY: EUR 777 thousand).

Provisions for current and former members of the Company's Executive Board were reversed and recognized in profit or loss in the amount of EUR 29 thousand (PY: EUR 50 thousand) in financial year 2017. Expenses in the amount of EUR 146 thousand were recognized in the current year in the context of terminating employment contracts with Executive Board members.

The total expense for compensation of the Executive Board, taking into account the reversals of provisions and settlement payments, amounted to EUR 861 thousand, after an income in the amount of EUR 1,378 thousand in the previous year from reversal of provisions.

Following the requirements of the German Corporate Governance Code (effective February 2017), Sample Table 2 for Number 4.2.5 Paragraph 3, the inflows to the members of the Executive Board in financial year 2017 are presented in the table below:

Total inflow to Executive Board members, in EUR	2017	2016
Fixed compensation	669,460	679,779
Fringe benefits	37,233	23,268
Total fixed compensation components	706,693	703,047
Single year variable compensation	125,000	0
Multiyear variable compensation	0	0
Total fixed and variable compensation	831,693	703,047
Pension expenses	13,786	20,955
Total compensation	**845,479**	**724,002**

No further compensation was granted to the Executive Board members for their work on the governing bodies of subsidiaries or affiliated companies.

The inflows from the total compensation of the Executive Board amounted to EUR 845 thousand in the reporting year (PY: EUR 724 thousand).

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Compensation of the Supervisory Board

By resolution of December 19, 2013, with retroactive effect to August 15, 2013, the compensation of the Supervisory Board was resolved as follows, which was amended by resolution of the annual shareholders' meeting on August 17, 2017, in No. 1, Base Compensation, as well as with regard to its period of validity. The compensation regulation now reads as follows:

1. **Base Compensation.** Each member of the Supervisory Board shall receive fixed compensation of EUR 5,000.00 ("Base Compensation") for each started month in office ("Settlement Month"). The beginning and end of each Settlement Month are determined in accordance with Sections 187 (1) and 188 (2) of the German Civil Code (BGB). The claim to Base Compensation shall arise at the end of the Settlement Month.

2. **Compensation for meeting attendance.** Each member of the Supervisory Board shall receive compensation of EUR 1,000.00 (the "Meeting Fee") for participating in a meeting of the Supervisory Board or a committee thereof (a "Meeting") called in accordance with the Articles of Incorporation. Participation in the meeting by telephone as well as voting in writing pursuant to Article 9 (3)(2) of the Articles of Incorporation shall be equivalent to participating in the meeting. Multiple meetings of the same body on a single day shall be compensated as a single meeting. The claim to a Meeting Fee shall arise when the Chairman or the committee chairman signs the minutes. The prerequisites to making a claim can only be proven by the minutes of the meeting according to Section 107 (2) of the German Stock Corporation Act (AktG).

3. **Compensation for adoption of resolutions outside of meetings.** Each member of the Supervisory Board shall receive compensation of EUR 1,000.00 ("Resolution Fee") for casting his vote in the context of adopting a resolution outside of a meeting according to Article 9 (4) of the Articles of Incorporation ("Adoption of Resolutions Outside of a Meeting") ordered on a case-by-case basis by the Chairman and carried out in writing, by telegraph, telephone, fax, or using other means of telecommunications or data transfer. If multiple resolutions are adopted on the same day outside of meetings, then the claim to the Resolution Fee shall only be established once. The claim to a Resolution Fee shall arise when the Chairman or the committee chairman signs the minutes on the adoption of resolutions. The prerequisites to making a claim can only be proven by the minutes of the adoption of resolutions.

4. **Compensation of the Chairman.** The Chairman of the Supervisory Board shall receive a bonus of 100% and the Deputy Chairman of the Supervisory Board shall receive a bonus of 50% on all compensation specified in Nos. 1 to 3.

5. **Expense reimbursement.** The Company shall reimburse the Supervisory Board members for the expenses incurred in performing their duties, as well as any sales tax accruing on the compensation and the expense reimbursement. The claim to reimbursement of expenses shall arise as soon as the Supervisory Board member has paid the expenses himself.

6. **Creation and due date of claims.** All payment claims shall be due 21 days after receipt of an invoice by the Company that satisfies the requirements for orderly invoicing. When expense reimbursement is claimed, the invoice must include copies of receipts for the expenses. The Company is entitled to pay advances before the claims are due.

7. **Insurance.** The Company shall conclude public liability insurance for the benefit of the Supervisory Board members that covers statutory liability arising from their activities as Supervisory Board members.

8. **Applicability Period.** This compensation regulation shall enter into force with retroactive effect as of 8/15/2013, and shall remain in force until an Annual Shareholders' Meeting adopts a new regulation. This compensation regulation replaces the compensation regulation adopted by the Annual Shareholders' Meeting on 8/14/2013, which is simultaneously rescinded with retroactive effect. Insofar as compensation was already paid based on the rescinded compensation regulation, such compensation shall be applied to compensation claims under the new regulation.

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The amendment to Base Compensation adopted for No. 1 shall become effective on 8/18/2017 and applies only to Settlement Months beginning after 8/18/2017. It shall remain in force until the Annual Shareholders' Meeting adopts a new regulation."

The compensation granted to members of the Supervisory Board of Gigaset AG in financial year 2017 pursuant to Section 314 (6a) HGB is presented in the table below:

EUR	Paid	Provisions	Total expenses
Bernhard Riedel	138,000.00	--	138,000.00
Wong Hau Yan Helvin	96,000.00	1,500.00	97,500.00
Ulrich Burkhardt	64,000.00	--	64,000.00
Paolo Vittorio Di Fraia	52,000.00	17,000.00	69,000.00
Huang Xiaojian	47,000.00	8,000.00	55,000.00
Flora Shiu Ka Yan	64,000.00		64,000.00
Total	**461,500.00**	**26,500.00**	**487,500.00**

Accordingly, the total compensation granted to the Supervisory Board according to IAS 24 amounted to EUR 487,500.00 (PY: EUR 413,000.00).

The compensation granted to members of the Supervisory Board in subsidiaries of Gigaset AG in financial year 2017 pursuant to Section 314 (6a) HGB is presented in the table below:

EUR	Paid	Provisions	Total expenses
Bernhard Riedel	80,000.00		80,000.00
Total	**80,000.00**		**80,000.00**

Accordingly, the total compensation granted to the Supervisory Board of Gigaset Communications GmbH, Bocholt, according to IAS 24 amounted to EUR 80,000 (PY: EUR 118,699.85).

No further commitments have been made in the event of termination of Supervisory Board mandates. No loans or advances were extended to members of the Executive Boards or Supervisory Boards of Gigaset AG. No contingent liabilities have been assumed in favor of these persons.

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35. Shareholdings of Executive Board and Supervisory Board members

According to his statement to the Company, Executive Board member Wessing did not hold any shares of Gigaset AG at the reporting date. According to his statement, Executive Board member Mathys, who joined on February 1, 2018, did not hold any shares of the Company in the period from his appointment on February 1, 2018, to the reporting date. According to their statements to the Company, Executive Board members Doerr and Du did not hold any shares of Gigaset AG until their respective departures.

According to their statements to the Company, the members of the Supervisory Board together held 13,264 shares of Gigaset AG at the reporting date, representing less than 0.1% of the total shares outstanding.

The shareholdings of Executive Board and Supervisory Board members were divided among the individual members as follows:

	Number of shares at 12/31/2017 or at the resignation date	Number of shares at the date of preparation of the financial statements	Number of options at 12/31/2017 or at the resignation date	Number of options at the date of preparation of the financial statements
Executive Board				
Klaus Weßing	0	0	0	0
Hans-Henning Doerr	0	0	0	0
Guoyu Du	0	0	0	0
Stephan Mathys	0	0	0	0
Supervisory Board				
Bernhard Riedel	3,264	3,264	0	0
Ulrich Burkhardt	0	0	0	0
Paolo Vittorio Di Fraia	10,000	10,000	0	0
Hau Yan Helvin Wong	0	0	0	0
Flora Ka Yan Shiu	0	0	0	0
Xiaojian Huang	0	0	0	0

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Disclosures concerning stock option rights and similar incentives

Any stock options of Supervisory Board and Executive Board members presented in the table above are stock options that can be purchased in the open market. Gigaset AG did not grant stock options to the members of the Supervisory Board, nor to members of the Executive Board. Please refer to the comments in the Compensation Report for additional information on the virtual share portfolios of Executive Board members.

36. Disclosures concerning dealings with related parties

Disclosures concerning the parent company pursuant to IAS 24.13:

On January 15, 2016, Goldin Fund Pte. Ltd., Singapore, notified the Company on behalf of Mr. Pan Sutong, Hong Kong, in a notification of existing voting rights pursuant to Section 127 (10) WpHG that the voting rights share of Mr. Sutong represented 79.16% of the total quantity of 122,979,286 voting rights on November 26, 2015. Of these voting rights, 71.57% (88,019,854 voting rights) originated from shares (DE0005156004). Another 7.59% (9,337,935 voting rights) resulted from instruments within the meaning of Section 38 (1) No. 2 German Securities Trading Act (WpHG) (mandatory convertible bond, maturing on January 23, 2016). To aid in understanding this information, the Company points out that the instruments which when exercised will create new voting rights are not yet included in the total quantity of voting rights. When the instruments are exercised, new voting rights will be created, thereby increasing the total quantity of voting rights and necessitating a recalculation of voting rights shares.

On January 23, 2016, the final maturity of the aforementioned mandatory convertible bond increased the total quantity of voting rights to 132,455,896, of which Mr. Sutong now held 73.50% (97,357,789 voting rights). The conversion of instruments (Section 38 (1) WpHG) into voting rights (Sections 33, 34 WpHG) caused a shift within the shareholder's reportable voting rights according to Section 39 WpHG, accompanied by a concurrent increase in the total quantity of voting rights, which caused the holdings of one shareholder to fall below a threshold without action on his part. On this subject, the Company received a notification pursuant to Section 40 WpHG on January 27, 2016 and a corrected notification pursuant to Section 40 WpHG on January 28, 2016.

To the knowledge of the Executive Board, the ultimate economic beneficiary or highest-ranking person of Goldin Investment (Singapore) Limited. is Mr. Pan Sutong.

In accordance with IAS 24 Related Party Disclosures, the business dealings with Gigaset Mobile Pte. Ltd., Singapore, are to be disclosed as business dealings with related parties in 2017. In this context, Gigaset Mobile Pte, Ltd, Singapore, acts as a supplier to Gigaset. Gigaset in turn charges contractually agreed upon services and fees to Gigaset Mobile Pte. Ltd. From a Group perspective, the transactions and balances for the reporting periods and at the reporting date break down as follows:

in EUR'000	Expenses 01/01-12/31/2017	Revenue/ Income 01/01-12/31/2017	Receivables 12/31/2017	Liabilities 12/31/2017
Gigaset	0	0	948	6
Gigaset Mobile Pte. Ltd.	0	0	6	948

in EUR'000	Expenses 01/01-12/31/2016	Revenue/ Income 01/01-12/31/2016	Receivables 12/31/2016	Liabilities 12/31/2016
Gigaset	0	223	1,527	1,160
Gigaset Mobile Pte. Ltd.	223	0	1,160	1,527

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Pursuant to IAS 24 Related Party Disclosures, the business dealings with Gigaset Mobile Europe GmbH, Düsseldorf, must be disclosed as business dealings with related parties since financial year 2016. This company is an other related entity according to IAS 24.19 (g). In this context, Gigaset Mobile Europe GmbH, Düsseldorf, acts as a supplier to Gigaset. Gigaset in turn charges contractually agreed upon services and fees to Gigaset Mobile Europe GmbH, Düsseldorf. From a Group perspective, the transactions and balances for the reporting periods and at the reporting date break down as follows:

in EUR'000	Expenses 01/01-12/31/2017	Revenue/Income 01/01-12/31/2017	Receivables 12/31/2017	Liabilities 12/31/2017
Gigaset	267	0	0	10
Gigaset Mobile Europe GmbH	0	267	10	0

in EUR'000	Expenses 01/01-12/31/2016	Revenue/Income 01/01-12/31/2016	Receivables 12/31/2016	Liabilities 12/31/2016
Gigaset	2,920	0	2,490	3,124
Gigaset Mobile Europe GmbH	0	2,920	3,124	2,490

The business dealings mainly consist of purchases and sales of goods according to IAS 24.21 b and services according to IAS 24.21 c.

Pursuant to IAS 24 Related Party Disclosures, business dealings with Gigaset Digital Technology, Shenzhen, China, must be disclosed as related party transactions since 2016. This company represents an other related entity according to IAS 24.19 (g). From a Group perspective, the transactions and balances for the reporting period and at the reporting date break down as follows:

in EUR'000	Expenses 01/01-12/31/2017	Revenue/Income 01/01-12/31/2017	Receivables 12/31/2017	Liabilities 12/31/2017
Gigaset	0	0	345	0
Gigaset Digital Technology	0	0	0	345

in EUR'000	Expenses 01/01-12/31/2016	Revenue/Income 01/01-12/31/2016	Receivables 12/31/2016	Liabilities 12/31/2016
Gigaset	0	0	345	0
Gigaset Digital Technology	0	0	0	345

The business dealings mainly consist of services provided according to 24.21 (c).

No significant dealings were conducted between the Group and related parties beyond those listed above.

37. Professional fees for the independent auditor

Professional fees in the total amount of EUR 381 thousand (PY: EUR 363 thousand) were incurred for the services of the independent auditor in financial year 2017:

EUR'000	2017	2016
Financial statement audit services	375	354
Other certification services	6	9
Other services	0	0
Total	**381**	**363**

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The financial statement audit services primarily include the fees for the audit of the consolidated financial statements and the audits of Gigaset AG and Gigaset Communications GmbH required by law. The fees for other certification services primarily comprise certifications for pension payments.

38. Employees

The Gigaset Group had an average of 962 employees in financial year 2017 (PY: 1,150 employees). The total number of employees at the reporting date of December 31, 2017, was 930 (PY: 1,061 employees).

	Reporting date		Average	
EUR'000	12/31/2017	12/31/2016	2017	2016
Salaried employees	925	1,051	957	1,138
Apprentice-trainees	5	10	5	12
Total	**930**	**1,061**	**962**	**1,150**

39. Declaration of Conformity with the German Corporate Governance Code

On February 27, 2018 / March 8, 2018, the Executive Board and Supervisory Board of Gigaset AG issued the Declaration of Conformity with the German Corporate Governance Code in its version of February 7, 2017, as required by Section 161 of the Stock Corporations Act (AktG), and made it permanently available to shareholders at the company's website (http://www.gigaset.com/de_de/cms/gigaset-ag/investor-relations/unternehmen/corporate-governance.html). In this declaration, the Executive Board and Supervisory Board of Gigaset AG state that the Company was in compliance with the behavioral recommendations of the Code Commission on corporate management and monitoring published in the Federal Gazette, with a few exceptions, and will comply with them in the future. The Declaration of Conformity itself and the statements on the exceptions are reproduced verbatim at the specified location.

40. Shareholder structure

No notifications as per Section 33 or Section 38 of the German Securities Trading Act (WpHG) were received by the Company in 2017.

The Group parent company Goldin Investment (Singapore) Limited, Tortola/British Virgin Islands, registered in the Registry of Corporate Affairs of the British Virgin Islands under the number 1713467, prepares consolidated financial statements for the largest group of companies, in which the separate financial statements of Gigaset AG will presumably be included. These consolidated financial statements will presumably not be published. The consolidated financial statements of Gigaset AG, Munich (smallest consolidation group) will be published in the German Federal Gazette (Bundesanzeiger).

41. Legal disputes and claims for damages

Gigaset companies are involved in various litigation and administrative proceedings in connection with their ordinary business, or it is possible that such litigation or administrative proceedings could be commenced or asserted in the future. Even if the outcome of individual proceedings cannot be predicted with certainty due to the imponderability of legal disputes, it is the current estimation of the Management that the matters in question will not have a significant adverse effect on the cash flows and the financial performance of the Group beyond the risks that have been recognized in the financial statements in the form of liabilities or provisions.

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In July 2009, the European Commission imposed a total administrative fine of EUR 61.1 million on various European companies in the calcium carbide sector in connection with an anti-trust law investigation. In this context, a fine totaling EUR 13.3 million was imposed jointly and severally on the parent SKW Stahl-Metallurgie Holding AG as well as its subsidiary SKW Stahl-Metallurgie GmbH (hereinafter collectively "SKW") as direct cartel participants. The European Commission held the current Gigaset AG, as the Group parent company at that time, jointly and severally liable for the fine imposed on SKW on the basis of the assumption that, as the Group parent company, it formed an "entrepreneurial unit" with SKW. By virtue of the administrative order assessing the fine, Gigaset AG paid an amount of EUR 6.7 million in 2009 and 2010 on a provisional basis (i.e. for the duration of the appeal) to the European Commission. Gigaset also filed an appeal against the assessment of the Commission. The European court of first instance handed down a decision on January 23, 2014, partially upheld the action brought by Gigaset AG (formerly Arques Industries AG) against the administrative order of the EU Commission imposing a fine in the SKW cartel case and reduced the fine imposed on Gigaset AG by EUR 1.0 million. In all other respects, the suit against the administrative order was dismissed. The judgment is final and enforceable against Gigaset AG. The action brought by SKW was refused, i.e., the fine imposed on it was not reduced. SKW filed an appeal against this judgment, which was dismissed by the European Court of Justice by judgment of June 16, 2016. Thus, the fine imposed on both SKW companies is final. Parallel to the legal dispute that has been decided, Gigaset AG filed a suit against SKW in a civil court for reimbursement of the antitrust fine paid by Gigaset on the grounds that SKW alone should bear the fine as the originator of the cartel and consequently should reimburse Gigaset AG for the fine it has already proportionally paid. Gigaset continues to hold the view that, as a direct participant in the cartel, SKW alone should bear the cost of the fine internally. In the litigation on this matter between Gigaset and SKW, Gigaset considers its position to have been affirmed by the judgment of the Federal Court of Justice dated November 18, 2014, which has remanded the case to the lower court for renewed arguments and decision. At the beginning of 2015, the Higher Regional Court that is now hearing the case again suspended Gigaset's action against SKW until the European Court of Justice's decision regarding the validity (or non-validity) of the fine imposed on SKW. As justification, it stated that the reimbursement by way of recourse to joint and several debtors pursued by Gigaset depends on the logical prior question of whether (and to what extent) SKW and Gigaset are at all jointly and severally liable debtors, and consequently on whether the fine imposed on Gigaset and SKW becomes final and enforceable This prior question was decided in Gigaset's favor by the judgment of the European Court of Justice on June 16, 2016 (see above). The Munich Higher Regional Court has already resumed the proceedings. By a decision of September 28, 2017, the Munich Local Court initially ordered preliminary self-administration with a protective shield proceeding pursuant to Section 270a (1) of the Insolvency Code (InsO) with respect to SKW Stahl-Metallurgie Holding AG, and commenced insolvency proceedings by a further decision of December 1, 2017. This led to a suspension of the present civil proceedings pursuant to Section 240 Sentence 1 of the Code of Civil Procedure (ZPO) with regard to SKW Stahl-Metallurgie Holding AG, but not with regard to SKW Stahl-Metallurgie GmbH. In the meantime, Gigaset AG has resumed the litigation suspended according to Sec. 240 ZPO with respect to SKW Stahl-Metallurgie Holding AG. The next appearance before the Munich Higher Regional Court for oral arguments is expected to occur in April 2018; the Court's judgement can be expected in the second half of 2018. Gigaset continues to expect that the fine that has already been paid will be fully or partially reimbursed by SKW.

In the legal dispute with Evonik Degussa GmbH regarding a penalty for breach of contract in the amount of EUR 12.0 million, in November 2013 an arbitration tribunal rejected the suit and otherwise sentenced Gigaset AG to pay an amount of EUR 3.5 million plus interest to Evonik. On March 4, 2015, Gigaset paid the amount in the principal matter of EUR 3.5 million plus interest to Evonik. Since adequate provisions had been recognized for this expense in previous years, the outflow of cash resources did not impact earnings for 2015. Due to the amounts paid under the guarantee, Gigaset now has taken recourse against the principal debtor, OXY Holding GmbH and the additional indemnification debtor, StS Equity Holding UG. After failing to reach an agreement out of court,

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Gigaset filed a lawsuit against the principal debtor OXY Holding GmbH and the indemnification debtor StS Holding UG for reimbursement of this amount in a request for arbitration and payment order dated June 29, 2015. In the further course of affairs, insolvency proceedings were commenced on the assets of both OXY Holding GmbH and StS Equity Holding UG. Gigaset is the principal creditor in both proceedings. In the meantime, the distribution of the insolvency estate has been largely completed; Gigaset expects – not least based on an agreement with the insolvency administrator regarding the matter – to receive up to EUR 3.5 million from the insolvency estate, EUR 2.0 million of which has already flowed to the Company as an advance distribution in the second quarter of 2016; the Company expects an additional EUR 1.5 million as part of the final distribution. In the final result, the Company will incur a net loss of EUR 1.3 million, primarily representing the interest paid to Evonik from the principal amount.

42. Significant events after the reporting date

No events of particular importance that would need to be reported separately in accordance with Section 285 No. 33 GCC or IAS 10 Events After the Reporting Period occurred after the reporting date.

43. Release for publication of the consolidated financial statements

The present consolidated financial statements of Gigaset AG were released for publication by the Executive Board on March 29, 2018. The Company's shareholders will have the right and option of amending the consolidated financial statements at the annual shareholders' meeting.

Munich, March 29, 2018

The Executive Board of Gigaset AG

Klaus Weßing Stephan Mathys

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LIST OF SHAREHOLDINGS

	Location		Equity share direct	Equity share indirect	Currency ,000	Local equity 2017	local profit/loss 2017
Gigaset AG	Munich	Germany			EUR	151,445	-37,741
CFR Holding GmbH	Munich	Germany	100%		EUR	-2[1]	-1[1]
GOH Holding GmbH	Munich	Germany	100%		EUR	307[1]	-2[1]
Gigaset Industries GmbH	Vienna	Austria	100%		EUR	10,271[1]	-154[1]
GIG Holding GmbH	Munich	Germany	89.9%	10.1%	EUR	68,973[1]	-31[1]
Gigaset Online GmbH	Bocholt	Germany		100%	EUR	22[1]	-2[1]
Gigaset Communications GmbH	Bocholt	Germany		100%	EUR	35,778[1]	15,028[1]
Gigaset International Sales & Services GmbH	Munich	Germany		100%	EUR	359[1]	37[1]
Gigaset Communications Schweiz GmbH	Solothurn	Switzerland		100%	CHF	1,704[1]	145[1]
Gigaset Communications Polska Sp. z o.o.	Warsaw	Poland		100%	PLN	1,941[1]	1,058[1]
Gigaset Communications UK Limited	Chester	Great Britain		100%	GBP	778[1]	66[1]
Gigaset İletişim Cihazlari A.Ş.	Istanbul	Turkey		100%	TRL	10,925[1]	200[1]
OOO Gigaset Communications	Moskow	Russia		100%	RUR	78,268[1]	8,394[1]
Gigaset Communications Austria GmbH	Vienna	Austria		100%	EUR	-127[1]	74[1]
Gigaset Communications (Shanghai) Limited	Shanghai	PR China		100%	CNY	691[1]	2,632[1]
Gigaset Communications France SAS	Courbevoie	France		100%	EUR	6,387[1]	359[1]
Gigaset Communications Italia S.R.L.	Milan	Italy		100%	EUR	613[1]	70[1]
Gigaset Communications Nederland B.V.	Zoetermeer	Netherlands		100%	EUR	641[1]	249[1]
Gigaset Communications Iberia S.L.	Madrid	Spain		100%	EUR	512[1]	114[1]
Gigaset Communications Sweden AB	Stockholm	Sweden		100%	SEK	1,930[1]	-63[1]
Gigaset elements GmbH	Bocholt	Germany		100%	EUR	-16,822[1]	0[1]
Hortensienweg Management GmbH	Munich	Germany	100%		EUR	583[1]	-32[1]

1 2016 final figures

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INDEPENDENT AUDITOR'S REPORT

To Gigaset AG, Munich

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Audit Opinions

We have audited the consolidated financial statements of Gigaset AG, Munich, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of comprehensive income, consolidated statement of profit or loss, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from 1 January to 31 December 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Gigaset AG, which is combined with the Company's management report, for the financial year from 1 January to 31 December 2017. We have not audited the content of those parts of the group management report listed in the "Other Information" section of our auditor's report in accordance with the German legal requirements.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to [§ [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code]] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2017, and of its financial performance for the financial year from 1 January to 31 December 2017 and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

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Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matter of most significance in our audit was as follows:

Pension provisions

Our presentation of this key audit matter has been structured as follows:

1 Matter and issue

2 Audit approach and findings

3 Reference to further information

Hereinafter we present the key audit matter:

Pension provisions

1 In the consolidated financial statements of the Company a total amount of € 81,4m (35,9 % of consolidated total assets) is reported under the „Pension provisions" balance sheet item. The pension provisions comprise the obligations from defined benefit pension plans amounting to € 123,1m and the plan assets of € 41,7m. Obligations under defined benefit plans are measured using the projected unit credit method. This requires assumptions to be made in particular about long-term rates of growth in salaries and pensions, average life expectancy and staff turnover. The discount rate must be determined by reference to market yields on high-quality corporate bonds with matching currencies and consistent maturities. This usually requires the data to be extrapolated, since sufficient long-term corporate bonds do not exist. The plan assets are measured at fair value, which in turn involves making estimates that are subject to estimation uncertainties.

From our point of view, these matters were of particular significance in the context of our audit because the recognition and measurement of this significant item in terms of its amount are based to a large extent on estimates and assumptions made by the Company's executive directors.

2 As part of our audit we evaluated the actuarial expert reports obtained and the professional qualifications of the external experts. We also examined the specific features of the actuarial calculations and assessed the numerical data, the actuarial parameters and the valuation methods on which the valuations were based for compliance with the standard and appropriateness, in addition to other procedures. In addition, we analyzed the development of the obligation and the cost components in accordance with actuarial expert reports in the light of changes occurring in the valuation parameters and the numerical data, and assessed their plausibility. Finally, we reconciled the provision postings and the disclosures in the notes with the obtained expert reports. For the purposes of our audit of the fair value of the plan assets we obtained bank and fund confirmations.

Based on our audit procedures, we were able to satisfy ourselves that the estimates and assumptions made by the executive directors are substantiated and sufficiently documented.

3 The Company's disclosures relating to the pension provisions are contained in note 23 to the consolidated financial statements.

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Other Information

The executive directors are responsible for the other information. The other information comprises the following non-audited parts of the group management report:

- the statement on corporate governance pursuant to § 289f HGB and § 315d HGB included in section 7 of the group management report
- the corporate governance report pursuant to No. 3.10 of the German Corporate Governance Code

The annual report and the separate non-financial report pursuant to § 289b Abs. 3 HGB and § 315b Abs. 3 HGB are expected to be made available to us after the date of the auditor's report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

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The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive 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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair

view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on 17 August 2017. We were engaged by the supervisory board on 14 December 2017. We have been the group auditor of the Gigaset AG, Munich, without interruption since the financial year 2005.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Antje Schlotter.

Düsseldorf, 29 March 2018

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Antje Schlotter
Wirtschaftsprüferin
(German Public Auditor)

ppa. Arkadius Jaroszek
Wirtschaftsprüfer
(German Public Auditor)

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REPORT OF THE EXECUTIVE BOARD

The Executive Board of Gigaset AG is responsible for the preparation of the consolidated financial statements and the information contained in the combined management report. This information has been reported in accordance with the accounting regulations set by the International Accounting Standards Committee. The combined management report has been prepared in accordance with the provisions of the German Commercial Code.

By implementing Group-wide reporting in accordance with uniform guidelines, using reliable software, selecting and training qualified personnel and continually optimizing processes in the consolidated companies, we are able to present a true and fair view of the Company's business performance, its current situation and the opportunities and risks of the Group. To the extent necessary, appropriate and objective estimates have been applied.

In accordance with a resolution adopted at the Annual Shareholders' Meeting, the Supervisory Board has engaged PricewaterhouseCoopers GmbH Wirtscha ftsprüfungsgesellschaft, Düsseldorf, to audit the consolidated financial statements of the Group in the capacity of independent auditors. The Supervisory Board discussed the consolidated financial statements and the combined management report with the independent auditors during its meeting

Responsibility statement

"To the best of our knowledge, and in accordance with the required accounting principles, the consolidated financial statements provide a true and fair view of the assets, liabilities, financial position and earnings of the Group, and the combined management report provides a true and fair view of the Group's performance and situation, along with a fair description of the principal opportunities and risks of the Group's future development."

Munich, March 29, 2018

The Executive Board of Gigaset AG

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FINANCIAL CALENDAR 2018 (REMAINING)[2]

June 6, 2018

- First Quarter Report 2018

August 14, 2018

- Annual General Meeting 2018

August 22, 2018

- Interim Financial Report 2018 (Q2)

December 6, 2018

- Third Quarter Report 2018

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