Gigaset

ANNUAL REPORT 2018

KEY FIGURES

EUR millions	2014	2015	2016	2017	2018
Consolidated revenues	326.1	305.3	281.9	293.3	280.3
EBITDA (Earnings before interest, taxes, depreciation and amortization	17.5	7.5[1]	25.0[1]	25.3[1]	22.1
EBIT (Earnings before interest, taxes and depreciation)	-10.5	-16.3[2]	12.8[2]	12.2[2]	8.5
Consolidated net income/net loss for the financial year	-16.6	-22.0	4.3	7.9	3.4
Free cash flow	-12.1	-9.7	7.2	2.0	-24.1
Earnings per share (diluted) in EUR	-0.15	-0.17	0.03	0.06	0.03
Total asset	251.2	221.1	221.7	226.9	213.1
Consolidated equity	41.2	17.9	17.8	24.1	25.0
Equity ratio (in%)	16.4	8.1	8.0	10.6	11.7
Employees	1,366	1,270	1,061	930	888

1 Earnings from core business before depreciation and amortization
2 Operating result

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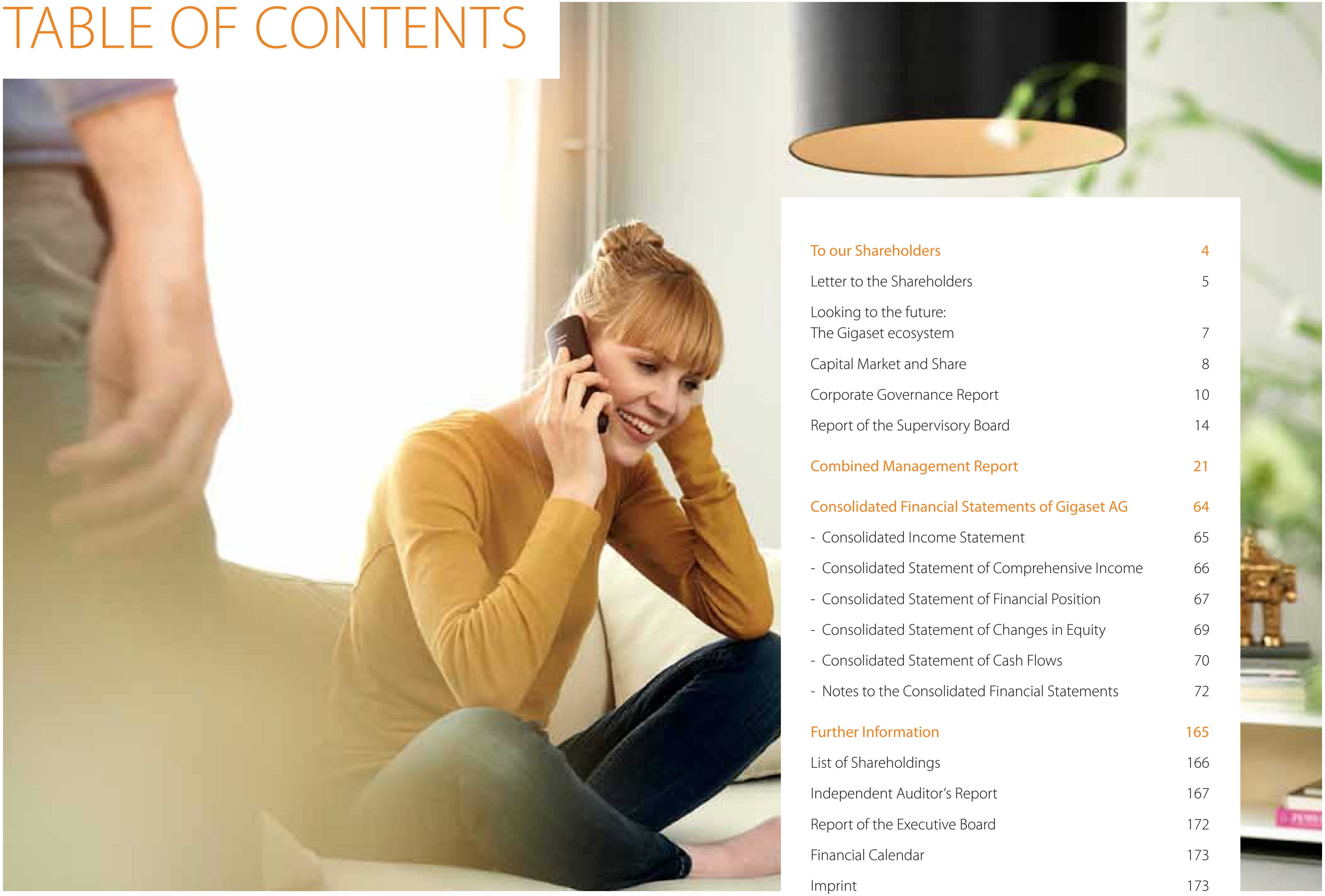
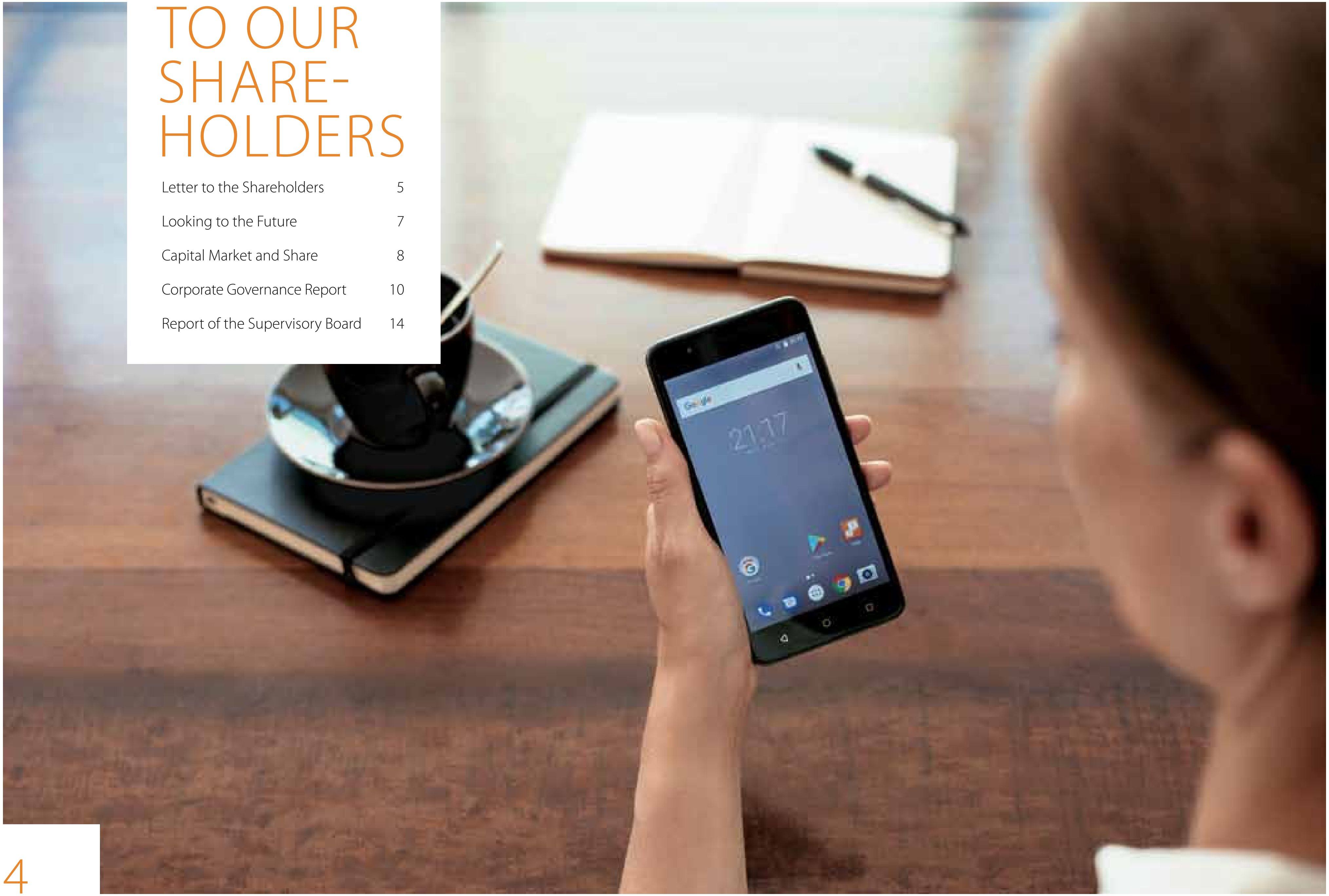


TO OUR SHARE-HOLDERS



LETTER TO THE SHAREHOLDERS

Dear Shareholders,

An important trend reversal has taken place. The figures confirm that the consistent focus on our promising business segments and the transformation of Gigaset are bearing fruit. We have closed the third financial year in a row with a positive Group result, and met the expectations in the 2018 financial year for all the important performance indicators described in our Outlook. Consolidated revenues reached EUR 280.3 million. Thus, the Company achieved an EBITDA of EUR 22.1 million.

As part of the repositioning of Gigaset, we redefined the brand architecture for the 2018 half-yearly report. “Consumer Products” was changed to “Phones”, “Business Customers” to “Professional”, “Home Networks” to “Smart Home” and “Mobile Devices” to “Smartphones”. This placed greater strategic focus on the Gigaset family brand, which was implemented operationally at the product level in the second half of the year. This decision proved to be very sound. In the three promising business segments Smartphones, Smart Home, and Professional, your Company grew substantially in financial year 2018. In the highly competitive market for phones, Gigaset generated revenues of EUR 193.4 million in the financial year that just ended.

Revenues in the Professional segment climbed 8.3% to EUR 59.9 million. The growth drivers were the markets in Germany, Spain and Italy. With our modern DECT base stations and IP-based products, we were able to convince business customers to choose Gigaset as a partner for the future. The new multi-cell N870 PRO is of particular importance here. With this system customers can integrate up to 20,000 participants in their communications structure. In our Smartphones segment we generated EUR 23.9 million and thus 16.3% more revenues than in the previous year. We expanded our product portfolio in this segment

Klaus Weßing

by three models. In particular, the first smartphone produced in Germany – the Gigaset GS185 – received a great deal of attention from the trade press, dealers, and customers. Our business in the Smart Home segment increased by 49.3% to EUR 3.2 million. Here we began advertising special Smart Care products at the end of 2018. As a pioneer in this field, we expect clear future growth potential in the area of assistive systems for the elderly.

For 2019, we are planning the start of an entire series of new products, from intelligent hands-free solutions to increased activities in the area of digital services. As part of this digitalization we will develop new business models and further diversify our business. Gigaset will be expanded into an integrated provider of hardware, software, and services. The modularization of the product platform will increase our efficiency and bring synergies. In order to ensure the success of this important reorganization of the Company into a provider of digital and holistic solutions in the area of telecommunications, the Company's organization was once again scrutinized at the beginning of 2019. The topics of digitalization, software development, and innovation were once again underpinned as determinedly independent areas in the structural framework, and will ensure the rapid introduction of innovative products in the Gigaset ecosystem in focused collaboration with the product area.

The price performance of the Gigaset share in the past year was not satisfactory. Starting the year at a price of EUR 0.55, the Gigaset share reached its peak for the year at EUR 0.77 on March 16, 2018. In the second and third quarters the share trended sideways. Beginning around the middle of October, the price fell along with the market as a whole. The adjustment of revenues expected for 2018 published at the end of November pushed the share down to a low for the year of EUR 0.18. However, as shareholders you have been seeing rising prices ever since; the Gigaset share has recovered and was quoted at this year's high of EUR 0.54 on February 8. In order to further increase the value of your Company in the coming years, we will continue to work to improve annual revenues, return on sales, and profit before taxes.

We will grow the Phones segment by crowding out competitors and addressing new technologies and services in the area of IP. We will expand the Professional segment through development, production and distribution of tailored telephony solutions and services. We will build out the Smart Home segment by continuously expanding the portfolio and entering new solution areas. We will advance the Smartphone segment by means of a growing product portfolio with optimum cost-effectiveness, and by focusing on marketing and advertising activities. New developments will augment the existing product areas in the short to medium term.

Gigaset also set the course for a successful 2019 financial year with a change in management. Thomas Schuchardt took over the financial department of Gigaset Communications GmbH as the Finance Director. Mr. Schuchardt has been Senior Vice President Controlling at Gigaset since January 1, 2017. He provided commercial support for the successful start of numerous products in the manufacturing company Gigaset Communications GmbH.

We would like to thank you as our shareholders for your trust during the past financial year, and look forward to your continued support. Together with our highly motivated and committed employees as well as our expert business partners, we will lead your Company to long-term success. Our thanks go to our colleagues, employees and business partners for your dedication and our common vision.

Sincerely,

Klaus Weßing, CEO

LOOKING TO THE FUTURE: THE GIGASET ECOSYSTEM

Gigaset stands for high quality telecommunication products that distinguish themselves through first-class design, the highest level of user-friendliness, intuitive handling, and long-lasting quality. Achieving these standards in our products was our greatest aspiration in the daily effort to be the "best in class".

With a view to 2025, nothing about this aspiration will change, although changes are likely in the composition of the products and in terms of greater utility of the product range as a whole. The times are gone in which Gigaset offered isolated products. While each was excellent in its own right and had innovative features, the technical superstructure and commonality were lacking. Since the end of 2015 the Company has been working intensively to make the Gigaset ecosystem a reality.

We would like to take you on a journey to our telecommunications ecosystem of the future. A journey to a fully networked and digitalized smart home or smart office, in which our products surround you ubiquitously yet discreetly; they facilitate your daily routine, support you in your productivity, and make your life safer, more comfortable, and more interactive.

The current Phones, Smart phones, Smart Home, and Professional segments are the thematic building blocks of this new world, this networked and consistent ecosystem. On the way to this new world, we are leaving behind old ways and product categories. We are reinventing telecommunications, merging technologies, expanding application areas, and using digitalization as an opportunity to supplement our products with software applications and solution-oriented offerings.

The networked home is a central aspect of the Gigaset ecosystem. Smart Home security technologies were an early pillar of our product line, and the Smart Care and Smart Comfort areas were added as subsegments. Looking ahead, the Smart Comfort area in particular will be an important integrator in the ecosystem. Smart Home solutions have always been controlled and managed by smartphones, so our portfolio is a logical building block. Telecommunications devices round out this offering in the private and professional sphere. Here as well, products will develop from the "smart cordless telephone" to new, innovative products. We have already demonstrated this with the Maxwell 10. Before the end of 2019 we will have expanded the previously known limits of telephony and will present an innovative smart communications product in the private consumer segment.

These are all building blocks on our Gigaset 2025 journey, on the way from hardware to software, on the way from the old cordless telephone to new telecommunications solutions. The road to this ecosystem is charted and we are firmly resolved to follow it. Come with us!

CAPITAL MARKET AND SHARE

Global stock markets saw an average loss of 10 to 20% in 2018. The international stock market indices slipped into the red after a positive start to the year. In the first quarter, only technology stocks succeeded in quickly recovering their price losses, and in the second and third quarters they had risen by up to 20% compared with the beginning of the year. The DAX, Dow Jones and Nikkei likewise stabilized over the course of the year. The increasing interest in US stocks helped the Dow Jones to a positive performance in the summer. Europe and Asia trended at the previous year's level in the same period. In the fourth quarter, a selloff of shares began worldwide. Not even technology stocks were able to buck this trend. The DAX closed 2018 with a loss of 18.3%. The Nasdaq and Nikkei recorded losses of 4.6% and 12.0% respectively.

In 2018 international stock markets were driven by politics, the central banks, and economic expectations. The sustained "America First" policy of the US government induced investors to rearrange their portfolios of US stocks. Punitive US tariffs on imports of raw material such as steel and aluminum were the beginning. Worries that consumer and investment goods would also be taxed increasingly rattled investors. European central banks retained their loose monetary policies as well as the historically low key interest rate. However, European stocks suffered under an uncertain political environment and slowing growth. Brexit, electoral victories by populist parties and the rising number of company balance sheets that fell short of market expectations led to dwindling growth forecasts for the most important European economies.

Gigaset share price follows the market

The price performance of the Gigaset share in the past year was not satisfactory. Having started the year at EUR 0.55, the share price rose at first and reached its peak for the year at EUR 0.77 on March 16, 2018. In the second and third quarters the share trended sideways, following the market. Beginning around the middle of October, the share price then fell with the market as a whole.

The adjustment of revenues expected for 2018 published at the end of November also had a negative impact on the valuation, and reinforced the negative trend in the market as a whole. The Gigaset share fell to a low for the year of EUR 0.18. On December 28, 2018, the last trading day of 2018, the shares closed at a price of EUR 0.30. This was a considerable increase compared with the market bottom in 2018.

The significant price decreases quickly proved to be an exaggeration. The adjusted market expectations with respect to revenues and profits were met for the 2018 financial year and spurred on the share price at the beginning of the year.

Dividends

A decision was made not to pay out any dividends for the 2018 financial year.

Shareholder structure

Since the end of 2017 an institutional investor, Goldin Fund Pte. Ltd. of Singapore, has held 73.5% of shares of Gigaset AG as defined by Deutsche Börse AG. Transactions entered into by managers of Gigaset AG and requiring disclosure are published on the Company's website in compliance with the German Securities Trading Act (Wertpapierhandelsgesetz, WpHG). Detailed information on the shares and options held by the Executive Board and Supervisory Board, as well as 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 and a Finance Committee. The Personnel Committee is 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). The Finance Committees deals with complex financial matters.

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").

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 April 11, 2019.

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 28, 2019, 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 1, 2019. 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 2018 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.*

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 per para. 1 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 23,264 shares of Gigaset AG as of the balance sheet 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, 2018, 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
Stephan Mathys (Executive Board member from February 1, 2018 to December 13, 2018)	0	0
Supervisory Board		
Bernhard Riedel (Supervisory Board Chairman from March 22, 2013 to January 24, 2019)	3,264	3,264
Ulrich Burkhard	0	0
Paolo Vittorio Di Fraia	15,000	15,000
Hau Yan Helvin Wong (Supervisory Board Chairman since February 28, 2019)	2,000	5,000
Xiaojian Huang	0	0
Flora Ka Yan Shiu	0	0
Barbara Münch (alternate member, on the Supervisory Board since January 24, 2019)	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.

REPORT OF THE SUPERVISORY BOARD

The Supervisory Board closely followed the Company and its Executive Board in all significant transactions in 2018. 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 Gigaset Group had resolved to undertake a restructuring program in order to achieve cost savings throughout the organization, not least in the field of personnel expenses. This project came to a conclusion in the fiscal year; it gave rise to considerable savings overall. In addition, the Gigaset Group obtained bank financing of up to EUR 20 million, which is earmarked for expanding the product portfolio in order to tap into new sales opportunities. Mid last year, the Gigaset Group commenced production of a smartphone at Gigaset's own manufacturing site in Bocholt.

Collaboration with the Executive Board

The Supervisory Board collaborated constructively with the members of the Executive Board over the entire course of the 2018 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.

One focal point of the Supervisory Board's activities in the 2018 fiscal year consisted of advising on and providing support with the bank financing. Furthermore, the Management regularly provides the Supervisory Board with a comprehensive overview of the development of the business, in particular sales revenues 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.

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 2018. Special emphasis was placed on the conclusion of the financing agreement, the Company's liquidity situation as well as the nature and scope of contingent liabilities. Furthermore, the Supervisory Board also dealt intensively with the Company's internal organization. Furthermore, the Supervisory Board continued to address the clarification and elimination of the Company's risks.

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 2018

The Supervisory Board convened for a total of ten meetings in fiscal year 2018, namely on February 27, 2018, March 27, 2018, April 26, 2018, May 29, 2018, July 31, 2018, August 13, 2018, September 27, 2018, October 31, 2018, November 29, 2018 and on December 13, 2018.

The auditor selected by the Annual General Meeting, PricewaterhouseCoopers AG, was also present at the meeting to adopt the financial statements for the 2017 fiscal year held on April 26, 2018.

The Supervisory Board formed an Audit Committee, a Personnel Committee and a Finance 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 26, 2018, as well as on May 29, 2018, August 13, 2018, and November 29, 2018. 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 great depth 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. Furthermore, the Audit Committee carried out an in-depth review of the separate non-financial Group report pursuant to section 315b of the German Commercial Code (Handelsgesetzbuch, HGB). 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 29, 2018 and on October 31, 2018.

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 recommendations 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. The focal point in the 2018 fiscal year was placed on Executive Board remuneration.

Activity of the Finance Committee

The Finance Committee, formed in the 2018 fiscal year, convened on October 15, 2018.

In the 2018 fiscal year, the activity of the Finance Committee focused on evaluating further options for external financing over and above the existing bank financing.

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 28, 2019, 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 161 of the German Stock Corporation Act and made it permanently available to the shareholders on the Company's website (www.gigaset.com).

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 May 2, 2018, 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 decision on the part of the Supervisory Board, the Audit Committee first studied the aforementioned documents in detail. 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 25, 2019. Furthermore, the Audit Committee members' questions were answered. 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 25, 2019, 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.

Risk management

The Supervisory Board dealt with the issue of risk in detail in 2018, 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 315(4) HGB and confirmed by the auditor. The result was discussed with the Supervisory Board.

Personnel matters of the Executive Board

Mr. Stephan Mathys resigned from the Company's Executive Board for personal reasons effective immediately with a letter dated December 13, 2018. The Supervisory Board has concluded a termination agreement with Mr. Mathys and approved his immediate release from the duties of his employment.

As a consequence of these changes, the Executive Board comprised of Mr. Klaus Weßing (Chairman of the Executive Board) and Stephan Mathys for the period from February 1, 2018 to December 13, 2018 and of only Mr. Klaus Weßing for the period from December 13, 2018 to December 31, 2018. Mr. Weßing represents the Company in accordance with the Articles of Association and is authorized to carry out legal transactions in the name of the Company with himself 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.

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 9, 2019.

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, which was appointed as the auditor and Group auditor ("auditor") by the Annual General Meeting for fiscal year 2018 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, 2018, as well as the consolidated financial statements as of December 31, 2018, 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 25, 2019.

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 25, 2019, 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 25, 2019, 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 25, 2019, 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. The Audit Committee assured itself that the audit and the audit report had been properly prepared. 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 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 25, 2019, 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' 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 25, 2019, 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 2018 amounts to EUR 52,723,281.58. Including the losses carried forward in the amount of EUR 138,783,052.02, this results in a net accumulated loss of EUR 191,506,333.60, 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 2018 (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."

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.

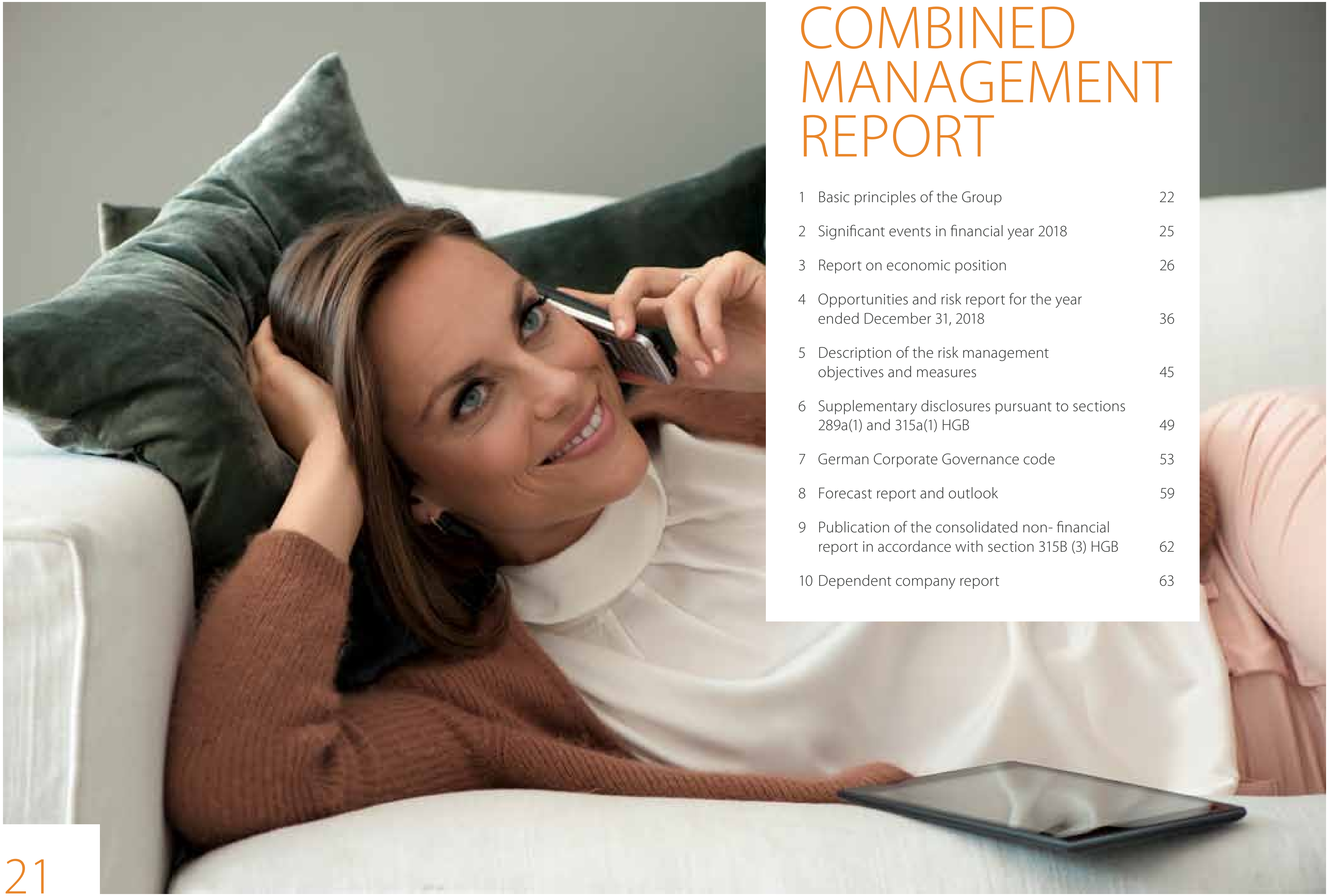
In preparation for the review and decision on the part of the Supervisory Board, the Audit Committee first studied the aforementioned documents in detail. In its meeting held on April 25, 2019, the Audit Committee heard comments from the Executive Board on its dependent company report. Furthermore, the 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 audit findings. The Audit Committee assured itself that the audit and the audit report had been properly prepared. 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 25, 2019, 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 the 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 members active in 2018 and to all the employees for their outstanding commitment in fiscal year 2018.

Munich, April 2019

Helvin Wong
Chairman of the Supervisory Board



COMBINED MANAGEMENT REPORT

1. BASIC PRINCIPLES OF THE GROUP

1.1 Business model

Gigaset AG is a global enterprise operating in the area of telecommunications. The Company is headquartered in Munich and has a highly automated production site in Bocholt, Germany. Gigaset has 888 employees and had sales activities in 53 countries in the 2018 financial year.

As part of the introduction of a new family brand architecture with a greater market focus, Gigaset renamed its four business segments with the 2018 half-yearly financial statements: "Consumer Products" was changed to "Phones", "Business Customers" to "Professional", "Home Networks" to "Smart Home" and "Mobile Devices" to "Smartphones". This nomenclature is also used in the 2018 Annual Report. The Group has a broad international position on the market with its operations in these four segments.

Observed on a regional basis, the Company is divided into the segments Germany, Europe (excluding Germany), and Rest of World, whereby most of its revenues are generated in Europe, in particular in the four most important European markets for the Company (EU4): Germany, France, Italy, and the Netherlands.

1.1.1 Phones

Gigaset's core business in the Phones segment focuses on the production and distribution of DECT cordless telephones. DECT is worldwide the most successful telecommunications standard for cordless telephones. In this area, Gigaset is the market leader in the most important European markets. High market penetration is a key factor behind the Company's success. Nearly all of the Company's products are manufactured in the highly automated plant in Bocholt.

Gigaset focuses its innovations in the Phones segment also in 2018 on the growth segments of IP telephony and ergonomic telephones for the elderly. Services that are intended to offer additional comfort for customers continue to be addressed in the area of telephony. The alternative decision on the part of customers in favor of smartphones is the most important challenge facing the Company in this area.

1.1.2 Professional

The Professional segment offers business customers a broad range of desk telephones and mobile components for SMEs with up to 250 users. The operations are focused on small and medium-sized enterprises. Due to the high level of consultation for commercial products, these are distributed solely over systems vendors (value added resellers) and exclusively in European markets. Here as well, Germany, France, Italy, and the Netherlands represent the most important sales markets. The Professional segment is the Company's second-largest sales pillar.

1.1.3 Smartphones

Gigaset has also been active in the segment for mobile devices since financial year 2015. The Company has since then positioned itself in the entry-level segment for smartphones and taken up price points between EUR 119.00 and EUR 279.00 over various products. The goal of the current product strategy is to develop the market successively over the entry-level segment and to win over the trust and interest of customers with feature-rich smartphones at attractive prices. An important part of this strategy is the promise of the familiar Gigaset quality also with smartphones. With the introduction of the GS185 in May 2018 – the first smartphone manufactured in Germany[1] – the Company has taken a major step in this direction and created a unique selling point for its product offering.

1 RP Online (2018) – The first smartphone Made in Germany

1.1.4 Smart Home

Security and alarm solutions are developed and marketed for private households in the Smart Home segment. The solutions from the Smart Security, Smart Comfort, and Smart Care business lines concentrate on the protection of condominiums and houses, more comfort in one's own home, and assistive systems for the elderly. In the third quarter of 2018, Gigaset began advertising special Smart Care products (assistive systems for the elderly). Gigaset relies on a modular, sensor-based system that enables users to maintain a constant connection with their home via smartphone and supported by the cloud. The portfolio of sensors is continuously expanded, while on the software side progress is being made with the integration of third-party systems in order to increase the users' comfort.

1.2 Goals and strategy

Gigaset's strategic goal is to expand the Company into an integrated hardware, software and service provider. In addition to the stabilization of the core business with Phones by increasing its share of the market in important core markets in Europe, the Company's existing product range is being further expanded and given a broader base.

The Company took a step in this direction when it established its Smartphones business in the middle of 2015. Further strategic decisions were made in 2017 and 2018 and the product portfolio was also continuously expanded in the Professional and Smart Home segments. Key steps taken in 2018 included the presentation of the Gigaset Smart Care System as a subsegment of the Smart Home segment and the introduction of the Gigaset multi-cell N870IP PRO in the Professional segment, which will also permit the connection of more than 250 users to a system in the future.

1.3 Control systems

The development of the Group was analyzed and managed by the management on a monthly basis in 2018 using various key indicators. The Gigaset Group is oriented worldwide based on regional segments. The analysis of revenues and earnings before interest, taxes, depreciation, amortization and impairment losses (EBITDA) by region as well as free cash flow at the Group level played an important role in monitoring the operating business in the Group. 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 2018 based on the result under German generally accepted commercial 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 the Sections "Research and development", "Environment" and "Employees" below.

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 2018, the Group incurred expenses for research and development in the amount of EUR 18.1 million and capitalized a total of EUR 10.0 million in development costs, EUR 9.0 million of which under other intangible assets and EUR 1.0 million under property, plant and equipment. The resulting capitalization rate amounts to 55.2%. Amortization of capitalized development costs amounted to EUR 7.3 million in the financial year. Gigaset AG itself does not report any research and development expenses in the financial year.

2 SIGNIFICANT EVENTS IN FINANCIAL YEAR 2018

April 2018:

Supervisory Board approves financing for capital expenditures of up to EUR 20 million

Gigaset received approval for capex financing in the amount of up to EUR 20 million from a syndicate led by a German regional bank. The funds give the Company additional financial flexibility to expand the product portfolio and develop new revenue potential.

December 2018:

Chief Financial Officer Stephan Mathys leaves Gigaset AG

On December 13, 2018, Gigaset AG announced that Chief Financial Officer Stephan Mathys was resigning from the Executive Board for personal reasons effective immediately with the consent of the Supervisory Board.

Thomas Schuchardt will be the new Finance Director

In its press report on December 21, 2018, Gigaset AG announced that Thomas Schuchardt will take over the finance department of Gigaset Communications GmbH and therefore succeeds Stephan Mathys as Finance Director beginning January 1, 2019. Thomas Schuchardt has been Senior Vice President Controlling at Gigaset since January 1, 2017.

3 REPORT ON ECONOMIC POSITION

3.1 General economic and industry-specific operating environment

3.1.1 General economic environment

The global economy grew by 3.7% in 2018 (2017: 3.8%) according to preliminary calculations by the International Monetary Fund (IMF). In particular, growth in the eurozone and in the United Kingdom slowed more sharply than expected by the IMF in its forecasts from April 2018 and October 2018 – not least due to sustained international trade disputes and the Brexit difficulties[2].

In addition to the general political uncertainty, numerous geopolitical and local tensions, fiscal risks in China and the U.S.A., and rising protectionism around the world ensured further sustained uncertainty and correspondingly restrained investment activity.

According to the IMF, the German economy is expected to have achieved growth of only 1.5% instead of the 2.5% predicted back in April. In its assessment of economic development, the German Council of Economic Experts had also forecasted slowing economic growth in its Annual Economic Report at the end of 2018. Unfavorable foreign trade conditions, including fears of a trade dispute with the U.S.A. and a disorderly exit from the EU by the United Kingdom, the shortage of skilled labor in Germany, and capacity bottlenecks were named by the Council as reasons for this[3].

The following picture results for the four most important European markets for Gigaset (EU4) – Germany, France, Italy and the Netherlands: France's economic growth slipped from 2.3% in 2017 to 1.5% in 2018 according to an estimate by IMF experts and Italy's economic growth fell to 1.0% (2017: 1.6%). In contrast, slight growth of 3.2% (2017: 3.1%) was recorded for the Netherlands in 2018[4].

3.1.2 Telecommunications market

3.1.2.1 Phones

The market for information and telecommunications technology (ITC market) increased in Europe by a total of 1.8% to EUR 682.7 billion in 2017[5]. At EUR 79.78 billion, the share of telecommunications equipment was 2.2% higher than in the previous year. In Germany, the ITC market expanded by a total of 2.5% in 2018, while sales of telecommunications devices increased by 5.9%[6].

Observing the six countries Germany, France, Italy, the Netherlands, the United Kingdom, and Spain in 2018, the European Market for cordless telephones shrank by 10.3% in terms of unit volume and by 8.7% in terms of revenues. The domestic German market as well as the business with cordless telephones in Italy developed better than the rest of the EU6 countries[7]. This decrease is due primarily to the fact that cordless house telephones are becoming less important to consumers than smartphones. Positive market stimulus comes from two areas: Through the topic of IP telephony, driven by the conversion of networks to all-IP connections on the one hand and by the demographic change in industrial nations on the other hand. This ensures an increasing need for devices that are easy to use for people in the second half of their life.

3.1.2.2 Professional

The telecommunications market for business customers in Europe 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 63% 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 [8]

2 IMF (2018/2019) World Economic Outlook April 2018, October 2018, January 2019
3 German Council of Economic Experts (2018) - Assessment of Economic Development 2018 and 2019
4 Statista (2018) - Netherlands_Growth of real gross domestic product
5 Statista (2018) - Market volume in the areas of information technology and telecommunications
6 bitkom (2019) - ITC market figures January 2019
7 GfK (2019) - Cordless Phones EU6
8 MZA (2018) - Hosted-Cloud Business Telephony 2018 Europe (Table 2, Chart 2)

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 here for 2019 is approximately 5.1 million SIP-based consumer devices.

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.

3.1.2.3 Smartphones[9]

According to Statista, 2.6 billion people used a smartphone worldwide in 2018[10]. Accordingly, 1.4 billion smartphones were sold worldwide in 2018[11]. However, according to current estimates by Canalys[12], sales of smart phones in Europe declined by 4% to 197 million units in 2018. For the fourth quarter of 2018, Statista calculated a decrease in sales of 4.1% worldwide, whereas according to Canalys the decrease in Europe in the fourth quarter of 2018 was just under 50% smaller. The reason for the declining sales figures is also the current political situation between Chinese companies and the U.S. government. In numerous European countries, the number of smartphone users is expected to increase until the year 2021[13]. In Germany, the average price of smartphones sold on the consumer market in the past five years rose to EUR 489 in 2018[14].

3.1.2.4 Smart Home

The Statista Smart Home Report 2019[15] estimates that the global market for Smart Home products will nearly triple from USD 53.2 billion in 2018 to USD 145.4 billion in 2023. In Europe, revenues with Smart Home products in 2018 amounted to EUR 12.5 billion according to Statista and should increase to EUR 35 billion by the year 2023[16]. In 2018, Germany was the largest market in Europe with forecasted revenues of EUR 2.8 billion, followed by the United Kingdom, France, the Netherlands, and Italy[17].

The Smart Home market offers a large field of implementation possibilities. Currently, Gigaset offers protection in the event of a fire with alarm systems and protection from water damage with intelligent control systems, in particular products in the area of building security (Smart Security) and home comfort (Smart Comfort). Since the fourth quarter of 2018, Gigaset has also distributed a Smart Care assistive system for the elderly. Due to the demographic trend, the Company sees a growing need for care and assistive services in the future and a correspondingly large future sales potential. This assessment is also supported by Statista "Smart Home: Ambient Assisted Living Outlook 2016". According to this report, this market will increase nearly tenfold worldwide in the next few years to $5.6 billion[18].

3.2 Business performance of the Group

3.2.1 Phones

In a further difficult market environment, Gigaset's revenues in the Phones segment fell by 10.2% in 2018. At -10.3%, the market continued to decline overall. In the largest sales markets for Gigaset – Germany, France, Italy, and the Netherlands (EU4 area) – the Company further expanded its market share in 2018 calculated based on unit volume. In the three countries Germany, France and Italy, Gigaset's revenues fell less sharply than the market as a whole. Only in the Netherlands was the revenue trend weaker than the market as a whole.

Gigaset continues to work intensively on the development of new products, whereby the focus lies in particular on products in the area of IP telephony and offers for the elderly.

3.2.2 Professional

In the Professional segment, total revenues increased by 8.3% compared with the previous year. The business in Western Europe constitutes 98% of the generated revenues. The business trend in the core markets of Germany, France, and the Netherlands as well as in Spain, the United Kingdom and Austria was

9 Statista (2019) - Statistics for smartphones
10 Statista (2018) - Forecast number smartphone users
11 Statista (2019) - Smartphone sales worldwide since 2009
12 Canalys (2019) - Chinese smartphone vendors take record
13 Statista (2019) - Forecast of the share of smartphone users
14 Statista (2019) - Average price of smartphones sold in Germany since 2008
15 Statista (2018) - Smart Home Report 2019
16 Statista (2018) - Smart Home Report 2019, page 7
17 Statista (2019) - Forecast of Smart Home revenues for selected countries in Europe
18 Statista (2017) - Smart Home Ambient Assisted Living Outlook 2016

particularly satisfying. Of the EU4 countries, which also generated the most revenues in this segment, only Italy recorded a slight decrease in revenues. The development of mobile components as well as of single and multi-cells was particularly satisfying. Therefore, Gigaset will further expand its commitment in the enterprise market and intends to develop further revenue potential there in the future.

3.2.3 Smartphones

In the Smartphones segment, revenues increased by 16.3% in financial year 2018, whereby the business trend at the end of the year was particularly satisfactory; based on the fourth quarter, Gigaset generated an increase in revenues of 32.4% with smartphones.

Gigaset expanded its product portfolio by three new models in 2018: GS100, GS180, and GS185 – the first smartphone manufactured in Germany. Revenues with higher-priced smartphones increased by 80.0%. The business trend in the two largest markets, Germany and France, was particularly satisfactory. The Company's goal is to continue to expand its position as an established participant in the smartphone market and to consistently develop the range of models. The issue of quality will play a key role in achieving this goal, including for the production in Germany.

3.2.4 Smart Home

The business with Smart Home products increased by 49.3% in the past year. In 2018, Gigaset expanded its product portfolio in this segment by several specially-offered bundles with Smart Home products for the protection of houses and condominiums as well as for more comfort. These bundles offer consumers an attractive introduction to the topic of Smart Home. Further new products in the area of assistive systems for the elderly were developed based on the many years of experience from the Smart Home segment and have already been distinguished with the seal of approval of the Deutsche Seniorenlotse (German Seniors Guide).

3.2.5 Environment

As a global enterprise, 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 facility 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)[19]. 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

After the previous years were strongly characterized by the restructuring measures, no employees left the Company in 2018 due to the restructuring. Eleven employees left the Company as a result of early retirements, termination agreements, termination of employment due to occupational disability payments, dismissals by the employer, and the expiration of limited duration contracts. In addition, 36 employees retired in connection with an individual partial retirement agreement.

Thirteen employees left the Company of their own volition and one employee died. Thus, a total of 61 employees left Gigaset over the course of 2018. The number of employees in the subsidiaries was increased from 252 to 260 employees as of the reporting date December 31, 2018, in particular due to the hiring of software developers at our location in Wroclaw (Poland). Gigaset had a total of 888 employees at the end of the 2018 financial year.

19 HTV-Life (2019) - Tested products

Gigaset is positioning itself in the market as an international communications company with clear strengths in the area of technology, products, and digital services. The international orientation of all its locations puts Gigaset in a very good position in the competition for the best employees. The restructuring measures initiated in 2015 were completed in financial year 2018. Observing only the leavers on the basis of a voluntary departure from the Company, the turnover rate for 2018 fell to 2.1%. In the previous year it was still 4.7%.

The need for employees varies as a result of the higher revenue planning compared with the previous year, but also due to the expansion of business activities in the Phones, Smartphones, Professional, and Smart Home product centers. These needs can be covered in individual cases by the Company's own employees (key talents or apprentices/trainees). Additional personnel must be attracted by 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 **revenues** in the total amount of EUR 280.3 million (prior year: EUR 293.3 million) in the 2018 financial year just ended. Revenues from core business activities are subject to the usual seasonal fluctuations in the consumer business. The decrease in revenues of -4.4% or EUR 13.0 million compared with the previous year can be explained by a decrease of EUR 22 million in particular due to increasingly difficult market conditions in the Phones segment.

Revenues are 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).

Revenues based on receiving units represent the revenues 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 revenues are allocated to the region of "Europe" in the presentation based on receiving units. Revenues based on receiving units can be broken down as follows for the individual regions:

Revenue in EUR millions	2018	2017[20]	Change
Germany	124.4	124.6	0%
Europe (excluding Germany)	122.3	128.8	-5.0%
Rest of World	33.6	39.9	-15.8%
Gigaset Total	**280.3**	**293.3**	**-4.4%**

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, such revenues are allocated to the region of Germany in the presentation based on country of domicile. Revenues based on country of domicile can be broken down as follows for the individual regions:

Revenue in EUR millions	2018	2017	Change
Germany	148.3	156.1	-5.0%
Europe (excluding Germany)	104.8	106.2	-1.3%
Rest of World	27.2	31.0	-12.2%
Gigaset Total	**280.3**	**293.3**	**-4.4%**

20 The prior-year figures differ from the 2017 Annual Report, as the segment classification was changed. The Europe segment previously included both countries that are members of the EU as well as other countries in Europe. The Rest of World segment includes countries that are in Europe but which are not EU members and other countries in the world (third countries).

In financial year 2018, revenues grew in the Professional, Smart Home, and Smartphones segments. In the Professional segment revenues increased the most in absolute terms from EUR 55.3 million to EUR 59.9 million. With an increase of 49.3%, the Smart Home segment exhibited the highest percentage rate growth. In the Phones business, revenues fell by EUR 22.0 million to now EUR 193.3 million.

Revenue in EUR millions	2018	2017	Change
Phones	193.3	215.3	-10.2%
Professional	59.9	55.3	8.3%
Smartphones	23.9	20.6	16.3 %
Smart Home	3.2	2.1	49.3%
Gigaset Total	**280.3**	**293.3**	**-4.4%**

The **cost of materials** for raw materials, merchandise, finished goods and purchased services was EUR 146.7 million – a decrease of EUR 0.1 million from EUR 146.8 million in the previous year. At 50.9%, the cost of materials rate remained nearly constant (prior year: 50.3%), taking into account the change in inventories. The calculation was changed compared with the previous year. The key figure is derived as the quotient of material expense and the total of revenues and the change in inventories of finished goods and work in progress.

Gross profit, comprising revenues less the cost of material and including the 2.3% change in inventories of finished goods and work in progress decreased to EUR 141.6 million in the reporting period.

Other own work capitalized in the amount of EUR 9.8 million (prior year: EUR 10.2 million) mainly includes costs related to the development of new products. As in the previous year, capital expenditures were made in the further development of the Gigaset Professional telephone system and Gigaset Maxwell in the 2018 financial year. In the Smart Home segment, costs were capitalized in particular for the heater thermostat.

Other operating income amounted to EUR 13.7 million and was thus down EUR 2.3 million year-on-year. The main items include income from exchange gains in the amount of EUR 5.8 million (prior year: EUR 4.4 million) and reversals from provisions in the amount of EUR 2.9 million (prior year: EUR 6.3 million). The remaining other operating income relates mainly to income from rents in the amount of EUR 1.1 million (prior year: EUR 1.2 million).

Personnel expenses for wages, salaries, social security contributions and old age pensions amounted to EUR 60.6 million, representing a year-on-year decrease of EUR 6.7 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 42 persons.

Other operating expenses in the amount of EUR 82.4 million (prior year: EUR 73.5 million) were incurred in the reporting period. These include in particular marketing expenses (EUR 32.7 million; prior year: EUR 25.6 million), general administrative expenses (EUR 10.8 million; prior year: EUR 11.1 million), and costs for the loaning of employees (EUR 8.3 million; prior year: EUR 6.5 million). This item also includes transport costs (EUR 7.0 million; prior year: EUR 6.8 million), expenses from exchange losses (EUR 6.1 million; prior year: EUR 4.6 million), advisory and auditing costs (EUR 2.9 million; prior year: EUR 3.7 million), expenses for land and buildings (EUR 2.9 million; prior year: EUR 3.0 million), patent and license fees (EUR 2.4 million; prior year: EUR 3.1 million), and preventative maintenance work (EUR 1.8 million; prior year: EUR 1.7 million). The increase in marketing costs in the financial year compared with the previous year was shaped primarily by the Smartphones segment.

Earnings before interest, taxes, depreciation, amortization and impairment losses (EBITDA) thus amounted to EUR 22.1 million (prior year: EUR 30.4 million). Taking into account depreciation, amortization and impairment losses in the amount of EUR -13.6 million (prior year: EUR -18.1 million), **earnings before interest and taxes** (EBIT) amounted to EUR 8.5 million (prior year: EUR 12.2 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** of EUR 7.5 million (prior year: EUR 11.1 million). The financial result includes interest expenses in the amount of EUR -0.3 million from the funding raised in 2018.

Consolidated profit for the year amounts to EUR 3.4 million for financial year 2018 (prior year: consolidated profit for the year of EUR 7.9 million).

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

3.3.2 Cash flows

Cash flow can be broken down as follows:

Cashflow in EUR millions	2018	2017
Cash flows from operating activities	-9.6	14.9
Cash flows from investing activities	-14.5	-12.5
Free cash flow	-24.1	2.4
Cash flows from financing activities	12.0	-0.4

In the 2018 financial year, the Gigaset Group recorded a **cash outflow from continuing operations** in the amount of EUR -9.6 million (prior year: cash inflow of EUR 14.9 million). Cash flows from operating activities, which were down compared with the previous year, result primarily from the decrease in trade liabilities.

The **cash outflow from investing activities** amounts to EUR -14.5 million after EUR -12.5 million in the previous financial year. At EUR 9.8 million (prior year: EUR 10.2 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.

In the current financial year there was a **cash inflow from financing activities** in the amount of EUR 12.0 million, which can be attributed primarily to the raising of financing, of which EUR 13.5 million had been drawn down in financial year 2018. The cash outflow from the previous year amounted to EUR -0.4 million. The presentation was changed compared with the previous year, because in addition to interest expenses for the loan, all other interest expenses are now also reported under cash flows from financing activities instead of under operating cash flows.

Cash and cash equivalents amounted to EUR 36.9 million as of December 31, 2018 (prior year: EUR 49.1 million).

Cash flow includes changes in exchange rates in the amount of EUR -0.1 million (prior year: EUR -0.3 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 213.1 million as of December 31, 2018, and fluctuated just below the previous year's level of EUR 226.9 million.

At EUR 73.1 million, **noncurrent assets** decreased by EUR 11.8 million compared with December 31, 2017. This effect resulted primarily from the financial assets, which decreased by EUR 9.7 million to EUR 8.7 million. The determination of the fair value of the financial investment in Gigaset Mobile Pte. Ltd. led to an impairment loss. In accordance with the provisions of IFRS 9, Gigaset Mobile Pte. Ltd. represents a financial investment in equity instruments, whose fair value changes are recognized through other comprehensive income (FVOCI measurement category with no recycling) directly in equity.

Current assets constituted 65.7% of total assets. These decreased by EUR 2.0 million compared with the previous year and amount to EUR 140.0 million. At EUR 32.7 million (prior year: EUR 26.7 million), inventories are higher than in the previous year. Whereas the portfolio of finished goods and merchandise increased by EUR 6.1 million and raw materials, consumables and supplies increased by EUR 3.1 million compared with the previous year, services in progress decreased by EUR 0.2 million and advance payments decreased by EUR 3.0 million. Trade receivables slightly exceeded the previous year's level, increasing by EUR 0.9 million to EUR 40.8 million. Furthermore, the portfolio of cash and cash equivalents decreased year-on-year from EUR 49.1 million to EUR 36.9 million. Please refer to the statement of cash flows in the notes for a breakdown of changes in cash and cash equivalents.

Total liabilities amount to EUR 188.1 million (prior year: EUR 202.8 million), 51% of which are current. Total debt in 2018 decreased by EUR 14.7 million compared with the previous year, even though financial liabilities were incurred in the amount of EUR 13.5 million. This resulted in a shift from current to noncurrent liabilities.

The Gigaset Group's **equity** amounted to around EUR 25.0 million as of December 31, 2018, and was EUR 0.9 million higher than at the beginning of the year. This corresponds to an equity ratio of 11.7% compared with 10.6% as of December 31, 2017. The impairment loss of EUR 9.7 million based on the fair value evaluation of the financial investment in Gigaset Mobile Pte. Ltd. was recognized directly in equity. Taking into account deferred taxes, actuarial gains were recognized in the amount of EUR 6.9 million in equity. Furthermore, changes in exchange rates were recognized directly in equity in the amount of EUR -0.7 million. Taking into account deferred taxes, cash flow hedging led to a positive effect of EUR 1.6 million recognized directly in equity. Consolidated profit for the year amounted to EUR 3.4 million and led to a corresponding positive effect in consolidated equity.

Noncurrent liabilities include primarily pension obligations, financial liabilities, noncurrent provisions for personnel expenses, and provisions for guarantees as well as deferred tax liabilities. The increase in noncurrent liabilities amounts to EUR 3.5 million year-on-year; as a result, these liabilities now amount to EUR 92.2 million as of the reporting date. The increase resulted from the incurrence of financial liabilities in the amount of EUR 13.5 million, which were offset in part by positive measurement effects with respect to pension obligations that led to a reduction of EUR 8.0 million.

At EUR 95.9 million, **current liabilities** are around 15.9% lower than reported as of the prior-year reporting date. Trade liabilities decreased year-on-year by EUR 8.8 million. Current provisions were around EUR 3.9 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 3.0 million. The decrease in other liabilities from EUR 18.5 million to EUR 15.2 million resulted primarily from a decrease of EUR 1.9 million in liabilities from derivatives with a negative fair value and lower customs debts in the amount of EUR 1.6 million.

3.3.4 General assessment of the Group's economic situation

As in the previous year, financial year 2018 was characterized by a declining telecommunications market. The implementation of the restructuring program initiated in 2015 was completed in the 2018 financial year. Personnel costs were clearly 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 secured and the Group has raised a bank loan in the maximum amount of EUR 20 million for capital expenditures in forward-looking and high-margin segments.

Gigaset would like to continue countering the declining revenues in the overall market, which fluctuated in financial year 2018 in line with the adjusted forecast from November 2018, in particular by gaining market share in the Phones segment and increasing revenues in the Professional segment as well as improving the market position of the Smart Home segment and further expanding the Smartphones segment. New business lines such as Smart Care or Smart Communications should likewise contribute to increasing revenues in the coming years beginning in 2018.

At the end of the year, EBITDA in the amount of EUR 22.1 million fell short of the previous year's level (EUR 30.4 million), substantially as a result of the decrease in revenues as well as due to future-oriented marketing expenses. However, the completion of the restructuring program as well as further cost reduction programs had a positive influence on the result.

Annual revenues for 2018 in the amount of EUR 280.3 million in the Group missed the previous year's mark by EUR 13.1 million and were not – as expected in the previous year – increased by an amount in the single-digit millions; however, they correspond to the adjusted forecast from November 2018. Similarly, EBITDA amounted to EUR 22.1 million and thus lies in the corridor of the forecast from the previous year as well as from November 2018. The free cash flow of EUR -24.1 million fell short of the previous year's forecast of a negative free cash flow in the mid-single-digit millions, but also reached the forecasted value from November 2018.

Please refer to our comments in Section 8 (Forecast Report and Outlook) below 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 %	2018	2017
Equity ratio	11.7	10.6
Ratio of noncurrent assets to total assets[21]	29.5	31.6
Debt capital structure[22]	51.0	56.3
Return on sales	1.2	2.7
Return on equity	13.6	32.7
Return on investment[23]	2.2	4.0

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

3.4.1 Financial performance

Revenues in the amount of EUR 1.8 million (prior year: EUR 4.0 million) comprised exclusively services rendered for associated companies in Germany.

Other operating income decreased from EUR 0.7 million to EUR 0.2 million. This item mainly includes reversals of provisions in the amount of EUR 0.2 million (prior year: EUR 0.6 million).

Personnel expenses decreased year-on-year from EUR 2.6 million to EUR 0.8 million. This can be attributed to the restructuring measures initiated and implemented at the end of financial year 2015 with the associated reduction in personnel and employee transfers to other Group companies.

Other operating expenses were incurred in financial 2018 in the amount of EUR 2.6 million (prior year: EUR 3.1 million). There were primarily cost allocations from Gigaset Communications GmbH in the amount of EUR 0.6 million (prior year: EUR 0.9 million) and expenses for Supervisory Board compensation in the amount of EUR 0.6 million (prior year: EUR 0.6 million) as well as legal and advisory costs in the amount of EUR 0.4 million (prior year: EUR 0.7 million). Furthermore, expenses were incurred for insurance policies in the amount of EUR 0.2 million (prior year: EUR 0.2 million) and expenses for business consulting costs in the amount of EUR 0.1 million (prior year: EUR 0.5 million).

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

Impairment losses on noncurrent financial assets related mainly to impairment losses on the interest in GIG Holding GmbH, Munich, in the amount of

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

22 Debt capital structure = current liabilities/total liabilities

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

EUR 45.6 million, as well as an impairment loss on the interest in Gigaset Industries GmbH, Vienna, Austria, in the amount of EUR 3.8 million.

Interest and similar expenses amounted to EUR 0.7 million and included primarily interest effects from internal clearing transactions in the amount of EUR 0.4 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 was EUR -52.6 million (prior year: EUR -37.8 million).

In financial year 2018, a **net loss for the year** was incurred in the amount of EUR 52.7 million (prior year: EUR 37.7 million).

3.4.2 Cash flows

Cash flow can be broken down as follows:

Cashflow in EUR millions	2018	2017
Cash flows from operating activities	-1.4	-4.4
Cash flows from investing activities	0.0	5.8
Free cash flow	-1.4	1.4
Cash flows from financing activities	0.7	0

In financial year 2018, Gigaset AG recorded a **cash outflow from continuing operations** in the amount of EUR -1.4 million (prior year: EUR -4.4 million). This can be explained primarily by Gigaset AG's currently payable expenses comprising personnel expenses and the compensation of Supervisory Board members, legal and advisory fees, and cost allocations for services rendered by Group companies.

Cash flows from investing activities in the current financial year amounted to EUR 0.0 million after EUR 5.8 million in the previous year. In the previous year, investing activities 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 1.4 million in the previous year.

In the current financial year, there was a **cash inflow from financing activities** as a result of the repayment of a loan extended to a Group company in the amount of EUR 0.7 million.

Cash and cash equivalents amounted to EUR 1.1 million (prior year: EUR 1.9 million) as of December 31, 2018.

3.4.3 Financial position

Gigaset AG's **total assets** amount to EUR 121.2 million as of December 31, 2018 (prior year: EUR 172.6 million), and thus decreased approximately 29.8% year-on-year. This is mainly due to the net loss for the period and the decrease in pension provisions as well as the lower amount of liquid funds.

Noncurrent assets decreased by EUR 49.6 million to EUR 105.1 million (prior year: EUR 154.6 million). The decrease in noncurrent assets can be attributed primarily to the impairment loss on the interest in GIG Holding GmbH, Munich, as well as on the interest in Gigaset Industries GmbH, Vienna, Austria.

Current assets amount to EUR 16.1 million (prior year: EUR 18.0 million) and constitute 13.3% of total assets. They include mainly receivables from associated companies, other assets, and bank deposits. Receivables from associated companies decreased year-on-year by EUR 0.8 million to EUR 13.6 million. The reduction resulted mainly from the repayment of a loan to an associated company in the amount of EUR 0.7 million. Furthermore, other assets decreased by EUR 0.3 million and cash in banks decreased by EUR 0.8 million.

On the liabilities side, the decrease in **total equity and liabilities** can be seen primarily in the reduction of equity due to the net loss for the period of EUR 52.7 million and due to the decrease in pension provisions of EUR 0.6 million.

The decrease of EUR 52.7 million in Gigaset AG's **equity** can be attributed exclusively to the net loss for the period. The equity ratio decreased from 87.7% to 81.4% due to the decrease in total equity and liability.

In the financial year just ended, Gigaset AG's **noncurrent liabilities** fell from EUR 1.2 million to EUR 0.7 million and include primarily pension provisions in the amount of EUR 0.6 million (prior year: EUR 1.1 million) and other provisions in the amount of EUR 0.1 million (prior year: EUR 0.1 million).

Current liabilities, provisions and deferred income increased to EUR 21.8 million (prior year: EUR 20.0 million). Current liabilities include liabilities to associated companies in the amount of EUR 17.2 million (prior year: EUR 15.0 million). Current provisions include other provisions in the amount of EUR 4.3 million (prior year: EUR 4.3 million). Other provisions were recognized in particular for additional value added tax payments and legal disputes. Furthermore, other liabilities were recognized in the amount of EUR 0.3 million (prior year: EUR 0.3 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, which nearly corresponds to the forecast from the previous year of a loss in the mid to high single-digit millions. The Company's net loss for the financial year amounts to EUR 52.7 million due to the impairment loss on noncurrent financial assets in the amount of EUR 49.7 million.

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

Key figures of Gigaset AG in EUR million	2018	2017
Noncurrent assets	105.1	154.6
Current assets	16.1	18.0
Equity	98.7	151.4
Noncurrent liabilities	0.7	1.2
Current liabilities	21.8	20.0
Equity ratio	81,4%	87.7%
Return on equity	negative	negative
Return on investment	negative	negative

4 OPPORTUNITIES AND RISK REPORT FOR THE YEAR ENDED DECEMBER 31, 2018

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	***

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 and industry risks	
Products | Patents | Certificates	*
Legal operating environment	*
Customers	*
Business and litigation risks	
Procurement	*
Information technology	*
Personnel	**
Financial risk	
Liquidity	**
Foreign currency	*
Equity	**
Taxes	**
Liability risks	
Guaranties | Contingent liabilities	*
Legal disputes	*

4.1 Market and industry risks

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.

Market and industry risks are risks that affect 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 Professional.

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 well as in Russia and the bordering former Commonwealth of Independent

States and is undertaking corresponding preparations. From the Company's perspective, political developments such as in Turkey lead to the destabilization of established markets.

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.

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.

From the Company's point of view, there are entrepreneurial opportunities in the Professional segment with a specific product portfolio. In addition to the traditional Phones 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 Professional and is developing the corresponding revenue potential.

In the Smart Home segment, Gigaset already introduced a modular, sensor-based security system to the market in 2012, for which the hardware and software has since been continuously expanded. The products and services serve a broad field of security-relevant scenarios in the private residential environment. In 2018, the system was not only expanded to include comfort components for the first time (intelligent thermostats), the systems technology was also used to present a new approach with Smart Care that helps the elderly and people in need of assistance to live longer independently and safe in their own home.

In addition, the Company sees further opportunities in the broadening of the portfolio to include 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, which can result in additional market potential. Thus, with the 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.

The business with so-called easy to use (big button) telephones is growing within the Phones business. Gigaset will further optimize its existing portfolio for this business and expand it in the direction of Smart Care. This includes a telephone for hearing-impaired people and a device with an additional pendant. These products are 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. In 2018, four models were added to the Gigaset smartphone portfolio for the entry level. The GS185 is the first Gigaset smartphone produced in Germany. 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.

4.2 Business and litigation risks

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.

Gigaset could be exposed to additional risks in the Smart Home 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.

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.

Gigaset could violate the intellectual property of third parties or be obligated to pay for the use of third-party intellectual property. This applies in particular in the area of smartphones, where there are uncertainties with respect to licensing requirements and important market participants are therefore involved in major legal disputes.

Defects in Gigaset's products can lead to warranty and product liability claims as well as the loss of revenues, 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 has been 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. Gigaset has taken the risk of a business interruption as a consequence of a fire or another form of elementary loss into consideration in its property insurance. The normally small order backlog of just a few weeks, which is typical for the industry, makes it more difficult to plan revenues 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.

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 below, 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 also depends on qualified managers and employees. It the Gigaset Group cannot attract or hold onto sufficiently qualified managers and employees, it could have a negative effect on the development of the Group.

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.

However, 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. In addition, insurance protection against a potential default on the part of individual customers or entire distribution regions can be reduced or entirely eliminated as a result of reduction in economic activity.

4.3 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.

The business activities are financed both through own funds as well as through bank borrowings that were raised in financial year 2018. Gigaset entered into a loan agreement over EUR 20.0 million in order to finance capital expenditures in new lines of business. As of December 31, 2018, EUR 13.5 million of this amount had been drawn down. For financial year 2019 as well as for financial year 2020, the Company has sufficient liquid funds at its disposal based on its internal budgeting. According to the terms of the contract, the loan can be paid off in installments beginning January 2020.

Due to consistent cost-savings, one-time-only payments of tax liabilities from a settlement from past tax audits resolved with the tax authorities were settled in

2018. Further tax refunds arising from this settlement are reflected both in the provisions as well as in the liquidity planning.

Gigaset AG has no external loans payable. Even if Gigaset AG is not a recipient of the financing raised by Gigaset Communications GmbH and guaranteed by a State government, it is nevertheless joint and severally liable in addition to the borrower in accordance with section 421 of the German Civil Code (Handelsgesetzbuch, HGB) for all present and future claims on the part of the lender. However, in exchange, the loan agreement enables Gigaset Communications GmbH to compensate Gigaset AG for its expenses with an annual lump-sum payment. In accordance with this opportunity, Gigaset AG has sufficient liquid funds at its disposal for financial year 2019 as well as for financial year 2020 based on its internal budgeting.

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

The Group uses various instruments to refinance its receivables portfolio, such as factoring, in order to hedge cash flow risks and to ensure the liquidity of the Group. If it should be necessary to renegotiate the terms of the sale of receivables (factoring) agreed to by Gigaset Group companies due to expiration or termination, Gigaset is financially dependent on the currently available terms and conditions and a new arrangement may not be agreed.

The loan agreement entered into in April 2018 stipulates compliance with various contractual duties until the loan funds are fully repaid. Noncompliance entitles the lender to give notice of termination of the loan agreement for cause and to call in the loan principal, which would lead to an uncovered need for liquidity. Among other things, the contractual duties include compliance with key financial figures.

In addition, the loan agreement specifies various contractual duties that Gigaset must adhere to as the borrower and which can cause the loan principal to be called in if violated. A violation of these contractual duties for which Gigaset is at fault is not likely at this time.

A change in control at Gigaset AG in which the current majority shareholder Goldin Fund Pte. Ltd. transfers 50% or more of its interest in the Company to one or more third parties represents an exception to this. Such a change in control can likewise entail a termination of the loan agreement for cause, but cannot be influenced by the Executive Board of Gigaset AG.

Early repayment of the loan in full if the lender exercises its right to termination for cause is not possible using the Company's own liquid funds based on currently available information.

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.

Gigaset holds a financial investment in Gigaset Mobile Pte. Ltd. as a noncurrent asset. When measuring the financial assets, the determination of the fair value of this financial investment led to an impairment loss on September 30, 2018. This impairment was recognized directly in equity. A further impairment loss of the remaining residual value of this financial investment in the future cannot be ruled out.

4.4 Tax risk

4.4.1 Tax risk in Gigaset AG

Gigaset AG receives tax advice on an ongoing basis in order to identify any risks in advance. In 2016, the Company received an audit order in the area of value added tax and income tax for financial years 2010 to 2013. The federal tax audit by the German Federal Central Tax Office (Bundeszentralamt für Steuern (BZSt)) and the tax audit by the Bavarian state revenue office (local tax office of Munich) are in the final stages and both audits are expected to be completed in the first quarter of 2019. Beyond the risks already known at this time, no additional risks can be inferred and/or corresponding provisions have already been set aside for known risks.

The tax audit for the years 2007 to 2009 was completed in 2018 and a report on the audit was issued by the local tax office of Munich in August 2018. All formal assessment notices for the audited years were issued in September 2018. The resulting subsequent tax payments were made in full in 2018.

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.

4.4.2 Other tax 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.

Transfer pricing documentation is prepared annually under the leadership of an external tax consulting firm that specializes in transfer pricing and which is familiar with Gigaset in order to limit any potential tax risk arising from intragroup clearing transactions with and between foreign companies.

4.5 Liability risks

4.5.1 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.

4.5.2 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:

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 joint and severally liable for this administrative fine by order of the European Commission because it formed an "entrepreneurial unit" with SKW. The portion of the fine attributable to Gigaset AG in the amount of EUR 6.7 million was paid on a preliminary basis (i.e. for the duration of the appeal proceedings) to the European Commission. Concurrently, Gigaset also filed an appeal against the assessment of the administrative fine. 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 fine imposed by the European Commission in the cartel case involving SKW and reduced Gigaset AG's administrative fine by EUR 1.0 million. 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 rejected by the European Court of Justice in a decision handed down on June 16, 2016. 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 portion of the administrative fine it has already paid. 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 now once again responsible then suspended Gigaset's legal dispute against SKW at the beginning of 2015 until the European Court of Justice's decision regarding the existence (or non-existence) of the fine imposed on SKW. The reimbursement by means of recourse to parties joint and severally liable desired by Gigaset depends on the logical preliminary question of whether (and to what extent) SKW and Gigaset are at all joint and severally liable, and consequently on whether the administrative fines imposed on Gigaset and SKW become finally enforceable. This preliminary question was decided in favor of Gigaset with the decision handed down by the European Court of Justice on June 16, 2016 (see above). The higher regional court of Munich thereupon reopened the proceedings. With a resolution dated September 28, 2017, the Local Court of Munich (Amtsgericht) issued an order temporarily establishing personal management in addition to protective shield proceedings in accordance with section 270a (1) of the German Insolvency Code (Insolvenzordnung, InsO) with respect to SKW Stahl-Metallurgie Holding AG and opened 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 higher regional court of Munich has stated that it will pronounce a decision on April 11, 2019. Gigaset continues to expect that the fine that has already been paid will be fully or partially reimbursed by SKW.

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. 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 assets. EUR 2.0 million of this amount has already flowed to the Company in the second quarter of 2016 by means of a preliminary distribution of the liquid insolvency assets in the insolvency proceedings over the assets of OXY Holding GmbH as well as around EUR 194 thousand in the fourth quarter of 2018 from the final distribution in the insolvency proceedings over the assets of StS Equity Holding UG. The Company expects an additional sum of around EUR 1.3 million as part of the final distribution in the insolvency proceedings of OXY Holding GmbH. 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.

4.6 Overall statement regarding the report on opportunities and risks

Gigaset's primary opportunities in the forward-looking and high-margin market segments, whose potential is to be tapped through the further expansion and development of the Professional, Smart Home, and Smartphones segments.

If the realization of entrepreneurial opportunities and the development of the associated revenue potential cannot be achieved to the desired degree, there will be a risk of weaker sales figures due to the declining core business.

Gigaset is dependent on a sufficient supply of liquidity. In addition to the planned inflow of liquid funds from the operating business, such a supply of funds also depends on the planned availability of financing under the loan agreement as well as the other instruments used for refinancing. Limitations in this regard could lead to an uncovered need for liquidity.

5 DESCRIPTION OF THE RISK MANAGEMENT OBJECTIVES AND MEASURES

and 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) as well as 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 entities. 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 entities.

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 the information from the Group entities take place at Gigaset primarily in the Accounting, Global Controlling, and Treasury departments as well as in the central Risk Management department of Gigaset Communications GmbH. The completeness and accuracy of accounting data are periodically reviewed. The Company's other governing bodies such as the Supervisory Board are likewise included in the Gigaset Group's control environment with their prescribed activities based on their function.

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

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.

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 corporate group in the Gigaset risk management handbook. The central risk manager monitors compliance with the specifications.

R2C_GRC 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 and industry risks (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)
- Liability risks (guarantees/contingent liabilities, other financial obligations, legal disputes, D&O liability)

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 current developments as well as the integration of risk assessment in the annual planning discussions.

Monthly target/actual comparisons are conducted as part of 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.

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

Sections 289a (1) no. 1 HGB, 315a (1) no. 1 HGB: The subscribed capital of Gigaset AG as of December 31, 2018, 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: As of the date of this report, the Company has received no new notifications regarding shareholdings in excess of ten percent of the voting rights.

Goldin Fund Pte. Ltd., Singapore, Republic of Singapore, notified the Company on January 27, 2016 (with a correction on January 28, 2016), that it now holds 97,357,789 shares of the Company that grant the same number of voting rights. This corresponds to a share of 73.50% of the 132,455,896 voting rights. As far as the Executive Board is aware, the shareholder therefore held a share of 73.50% of the voting rights also in financial year 2018.

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

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 Association, the Supervisory Board only determines the exact number of Executive Board members. The responsibility and requirements to alter the Articles of Association are oriented on sections 179-181 AktG. Additional rules in the Company's Articles of Association 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 Association can be found in part II (Executive Board) and part III (Supervisory Board) and Art. 16 of the Articles of Association. There were no changes to the Articles of Association in the financial year.

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

Authorized Capital 2016 (Art. 4 (5) of Articles of Association)

The Authorized Capital 2014 currently included in Art. 4 (6) of the Articles of Association 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 General 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 Association.

In light of this, the Annual General Meeting resolved to insert the following new paragraph 5 into Art. 4 of the Articles of Association:

„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 warrant-linked 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 warrant right or conversion right or after fulfilling the conversion obligation;

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 warrant 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.

<u>Authorized Capital 2014 (Art. 4 (6) of Articles of Association)</u>

In the Annual General Meeting held on August 12, 2014, the Executive Board was authorized under a new Art. 4 (6) of the Articles of Association 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.

<u>Contingent Capital 2014 (Art. 4 (8) of the Articles of Association)</u>

The Annual General Meeting held on August 12, 2014, decided on a new, additional authorization for the issuance of bonds with warrants and/or convertible bonds as well as a new Contingent Capital 2014 and amended the Articles of Association accordingly.

Accordingly, the Annual General Meeting resolved to add a new Art. 4 (8) to the Articles of Association, 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 bonds with warrants and/or convertible bonds that were issued by the Company or a subordinate Group company in exchange for cash performance in the time until August 11, 2019, by virtue of the authorization of the Annual General Meeting of 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/or conversion requirements from the debt securities are met and to the extent that cash contributions are 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 Company has not yet utilized the authorization granted in Art. 4 (8) of the Articles of Association.

<u>Contingent Capital 2016 (Art. 4 (9) of the Articles of Association)</u>

Since the existing authorization of the Executive Board to issue bonds with warrants 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 Association only takes advantage of some of the legal possibilities for contingent capital, the Annual General Meeting on August 12, 2016, resolved a new additional authorization to issue bonds with warrants and/or convertible bonds as well as a new Contingent Capital 2016 and amended the Articles of Association 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 warrant-linked and/or convertible bonds.

Accordingly, the Annual General Meeting resolved to add a new Art. 4 (9) to the Articles of Association, which reads as follows:

"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 bonds with warrants and/or convertible bonds that were issued by the Company or a subordinate Group company in exchange for cash performance in the time until August 11, 2021, by virtue of the authorization of the Annual General Meeting of 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 contributions are 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 Company has not yet utilized the authorization granted in Art. 4 (9) of the Articles of Association.

Sections 289a (1) no. 8, 315a (1) no. 8 HGB: There are no material agreements with the parent company as of December 31, 2018, 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.

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 28, 2019, 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 1, 2019. 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 Relevant disclosures regarding 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.

7.1.3 Report on corporate governance

7.1.3.1 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 Association, 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 corporate 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 corporate group's financial management and reporting.

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

7.1.3.2 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 annual 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. In addition, it reviewed the separate consolidated non-financial report in accordance with section 315b HGB.

7.1.3.3 Supervisory Board committees

Audit Committee: From September 23, 2015, to January 24, 2019, the Audit Committee comprised Mr. Riedel, Mr. di Fraia, Mr. Burkhardt (Chairman), and Ms. Shiu. After the death of Mr. Riedel, the Audit Committee has comprised Mr. di Fraia, Mr. Burkhardt (Chairman), and Ms. Shiu since January 24, 2019.

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 annual 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 annual 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 General 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 handles the review of the separate consolidated non-financial report in accordance with section 315b HGB and 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. From September 23, 2015, to January 24, 2019, the Personnel Committee comprised Mr. Riedel, Mr. di Fraia, and Mr. Wong. After the death of Mr. Riedel, the Personnel Committee has comprised Mr. Wong and Mr. di Fraia since January 24, 2019.

Finance Committee: The Finance Committee deals with complex financial issues. From October 15, 2018, to January 24, 2019, it comprised Mr. Riedel, Mr. di Fraia, and Mr. Wong. After the death of Mr. Riedel, the Finance Committee has comprised Mr. Wong and Mr. di Fraia since January 24, 2019. The Report of the Supervisory Board provides details on the activities of the Supervisory Board and its committees.

7.1.3.4 Disclosures regarding the share of women and the concept of diversity

On July 24, 2017, the Supervisory Board established targets for the share of women – namely 16.66% on the Supervisory Board by June 30, 2022, and 0% on the Executive Board by June 30, 2022. These targets were hit during financial year 2018. In addition, the Executive Board established targets on August 9, 2017, 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. Effective January 1, 2018, the employment relationships of the employees of Gigaset AG were transferred to Gigaset Communications GmbH; as a result, these targets became obsolete.

Gigaset AG does not pursue a diversity concept. Gigaset is of the opinion that the appointment to the Company's Executive Board should be based primarily on skills, qualifications, and professional experience. The Supervisory Board is elected by the Annual General Meeting. The election recommendations to the Annual General Meeting are also based primarily on the candidates' skills, qualifications and professional experience. Gigaset AG is of the opinion that the suitability of candidates should be decided solely by the Company's shareholders.

7.1.3.5 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 conducted by persons discharging managerial responsibilities ("managers' transactions"), 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 2018.

7.1.3.6 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 annual 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 annual 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 General 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 the 2018 financial year comprised both a fixed salary as well as variable compensation components. There are variable compensation components 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 General Meeting held on August 11, 2015, in accordance with sections 286 (5) and 314(3) HGB, the disclosures required 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 paragraphs of the compensation report below are each provided in aggregate without any names.

The possible and/or granted total compensation of the members of the Executive Board for financial year 2018 breaks down as follows analogous to the requirements of the German Corporate Governance Code (version dated February 2017), Model Table 1 for Section 4.2.5 (3) (1st indent):

Payments granted to Executive Board members, in EUR	2017 (100 %)	2018 (100 %)	2018 (Min)	2018 (Max)
Fixed compensation	646,126	617,209		
Fringe benefits	34,433	25,202		
Total of fixed compensation components	680,559	642,411		
One-year variable compensation	50,000	50,000	0	250,000
Multi-year variable compensation	0	0	0	0
Total of fixed and variable compensation	730,559	692,411	642,411	892,411
Service cost	13,786	11,592	11,592	11,592
Total compensation	**744,345**	**704,003**	**654,003**	**904,003**

The income accruing to the members of the Executive Board for financial year 2018 breaks down as follows in accordance with the requirements of the German Corporate Governance Code (version dated February 2017), Model Table 2 for Section 4.2.5 (3) (2nd indent):

Allocation to Executive Board members collectively, in EUR	2018	2017
Fixed compensation	617,209	669,460
Fringe benefits	25,202	37,233
Total of fixed compensation components	642,411	706,693
One-year variable compensation	50,000	125,000
Total of fixed and variable compensation	692,411	831,693
Service cost	11,592	13,786
Total compensation	**704,003**	**845,479**

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 704 thousand in the financial year (prior year: EUR 845 thousand).

7.2.2 Compensation paid to members the Supervisory Board

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

"In accordance with section 113 of the German Stock Corporation Act (Aktiengesetz, AktG) and Art. 12 (2) of the Company's Articles of Association, the Annual General 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 Association. 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 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. *Compensation 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. *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 policies 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 General Meeting. This compensation scheme replaces the compensation 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 compensation scheme, it is to offset claims to payment under the new scheme.*

The resolved amendment of the base compensation 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."

These resolutions are being implemented by the Company.

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

8 FORECAST REPORT AND OUTLOOK

8.1 General economic development

According to an estimate by the International Monetary Fund (IMF), the global economy will continue to grow in 2019, but lose momentum in particular in the major industrial nations. The reasons for this lie in the smoldering tariff conflicts, possible consequences of an uncontrolled Brexit and a weakening Chinese economy. The expectations for global gross domestic product growth are 3.5% for 2019 (2018: 3.7%). In October 2018, the IMF experts were still expecting global economic growth of 3.7% for 2019.

In the eurozone, where the IMF is expecting an increase of 1.6% (2018: 1.8%), the momentum of economic development will likewise weaken slightly according to the IMF. In October, the experts were still expecting 0.3 percentage points more also for this economic area. For Germany, the forecast has even fallen by 0.6 points since October 2018 to now only 1.3% (2018: 1.5%). For France, the IMF expects that the economy will grow by 1.5% also in 2019 (2018: 1.5%), whereas the Italian economy is expected to weaken to 0.6% (2018: 1.0%). According to the most recent forecast by the Netherlands Bureau for Economic Policy Analysis (CPB), the Dutch economy will grow by 2.7% in 2019 after 3.2% in 2018[24].

8.2 Development of the industry

Phones

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.

Smartphones

The Group expects sales volume to further increase in the segment with smartphones. This can also be seen in a current Statista study of expected smartphone sales volumes, which expects an increase in smartphone users[25] in all European countries by the year 2021. The number of smartphones should also further increase worldwide over the next few years[26].

Smart Home

The Group expects Smart Home applications overall to develop more modestly than forecasted, also in the foreseeable future, whereby individual studies and forecasts – in particular for the Smart Care market occupied by Gigaset since the fourth quarter of 2018 – nevertheless instill confidence. The "Statista Smart Home: Ambient Assisted Living Outlook 2016" forecasts a tenfold increase for this market worldwide in the next ten years[27].

Professional

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.

24 IMF (2019) - World Economic Outlook January 2019
25 Statista (2019) - Forecast of the share of smartphone users
26 Statista (2019) - Forecast for the sale of smartphones since 2010
27 Statista (2018) - Smart Home Report 2019

8.3 Development of the Gigaset Group

8.3.1 Financial performance

In financial year 2018, the market as a whole for cordless telephones in Western Europe declined by around 9% based on sales in the markets observed by Gigaset[28]. This trend is also expected to continue in the market in 2019. But the Professional and Smart Home segments as well as the new Smartphones segment cannot offset the loss in revenues at this time. Therefore, Gigaset is further expanding these segments and will further develop and expand additional segments, for example Smart Care and Smart Communications, beginning in 2019 to further increase revenues.

In order to achieve profitable growth, Gigaset will consistently continue its strict cost management also in 2019 and invest with sound judgment depending on the revenue trend. Therefore the Company will invest in its development as well as in marketing or personnel for the further development of new, innovative products and to develop new markets.

Gigaset hedged a large part of the U.S. dollar risk for 2019. 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, but will continue to place its focus on liquidity management in the coming 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 2018, Gigaset had a portfolio of cash funds in the amount of EUR 36.9 million at its disposal. In addition to the operational requirements, this cash portfolio is to cover payment obligations from prior years, mainly for tax payments resulting from tax audits in prior years as well as for making payments in connection with the external financing. 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.

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 Executive Board. Since revenues from the group allocations are 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 2019, 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.

28 GfK Presentation Gigaset (2017) – Page: 6

8.5 General assessment of the Group's expected performance

In 2019, Gigaset is continuing its operating strategy launched in 2016 without any changes. The entrepreneurial focus lies on expanding the product portfolio while simultaneously securing the Phones business. Research and development expenses will increase accordingly, whereby a portion of the expenses will be offset by strict cost management.

With a view to compensating the budgeted market decline in the Phones segment, which will be slowed by gains in market share, the expansion of activities, and the increase in revenues in the Smartphones, Smart Home, and Professional segments, the Company expects the following for the 2019 financial year:

1. A slight increase in revenues compared with 2018

2. A considerable improvement in free cash flow as well as

3. EBITDA at the previous year's level

9 PUBLICATION OF THE CONSOLIDATED NON-FINANCIAL REPORT IN ACCORDANCE WITH SECTION 315B (3) HGB

In accordance with section 315b (1) in conjunction with (3) HGB, Gigaset AG is exempt from the duty to expand the group management report to include a non-financial group statement, since Gigaset AG has prepared a separate consolidated non-financial report for the 2018 reporting period in addition to the combined management report. In compliance with section 315b (3) no. 2 b) HGB, Gigaset AG will make the separate consolidated non-financial report public and publish it on Gigaset AG's website under: http://www.Gigaset.com/de_de/cms/Gigaset-ag/investor-relations/unternehmen/dnk.html.

10 DEPENDENT COMPANY REPORT

Goldin Fund Pte. Ltd., Singapore, holds a majority interest. In accordance with section 312 of the German Stock Corporation Act (Aktiengesetz, AktG), we prepared a report on March 22, 2019, regarding our relationships with associates that closes with the following statement: "We declare that the Company received appropriate consideration for each transaction listed in the report on relationships with affiliated companies in financial year 2018 based on the circumstances known to us at the time when the transactions were entered into."

Munich, March 22, 2019
The Executive Board of Gigaset AG

Klaus Weßing, CEO

FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT FOR THE PERIOD FROM JANUARY 1 - DECEMBER 31, 2018[1]

EUR'000	Note	01/01 - 12/31/2018	01/01 - 12/31/2017[2]
Revenues	1	280,331	293,296
Change in inventories of finished and unfinished goods		7,940	-1,502
Purchased goods and services	2	-146,656	-146,796
Gross profit		**141,615**	**144,998**
Other internal production capitalized	3	9,755	10,183
Other operating income	4	13,703	16,008
Personnel expenses	5	-60,567	-67,309
Other operating expenses	6	-82,376	-73,515
EBITDA		**22,130**	**30,365**
Depreciation and amortization	7	-13,607	-15,160
Impairments	7	0	-2,984
EBIT		**8,523**	**12,221**
Other interest and similar income	8	179	54
Interest and similar expenses	9	-1,244	-1,150
Financial result		**-1,065**	**-1,096**
Result from ordinary activities		**7,458**	**11,125**
Income taxes	10	-4,064	-3,247
Consolidated net income for the year		**3,394**	**7,878**
Earnings per share	**11**		
- Undiluted (Basic) in EUR		0.03	0.06
- Diluted in EUR		0.03	0.06

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

2 Prior-year figures have been adjusted. Detailed explanations can be found in Section A., GENERAL INFORMATION AND PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS, in the subsection "Adjustment of the Comparative Information in the Consolidated Financial Statements."

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD FROM JANUARY 1 - DECEMBER 31, 2018

EUR'000	01/01 - 12/31/2018	01/01 - 12/31/2017
Consolidated net income for the year	**3,394**	**7,878**
Items that may possibly be reclassified to profit or loss at a later time		
Currency changes	-705	-562
Cash flow hedges	2,292	-3,391
Income taxes recognized on these items	-722	1,051
Items that will not be reclassified to profit or loss at a later time		
Revaluation effect, net liability of defined Benefit Pension plans before income taxes	9,802	1,630
Financial instruments at Fair Value through Other Comprehensive Income (FVOCI)	-9,700	0
Income taxes recognized on this item	-2,907	-360
Total changes not recognized in profit or loss	-1,940	-1,632
Total income and expenses recognized	**1,454**	**6,246**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT DECEMBER 31, 2018

EUR'000	Note	12/31/2018	12/31/2017
ASSETS			
Noncurrent assets			
Intangible assets	13	30,957	30,083
Property, plant and equipment	14	23,319	23,313
Financial assets	15	8,686	18,386
Deferred tax assets	25	10,150	13,137
Total noncurrent assets		**73,112**	**84,919**
Current assets			
Inventories	16	32,720	26,733
Trade receivables	17	40,816	39,921
Other assets	18	29,016	25,678
Tax refund claims	19	471	513
Cash and cash equivalents	20	36,939	49,097
Total current assets		**139,962**	**141,942**
Total assets		**213,074**	**226,861**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT DECEMBER 31, 2018

EUR'000	Note	12/31/2018	12/31/2017
EQUITY AND LIABILITIES			
Equity	21		
Subscribed capital		132,456	132,456
Additional paid-in capital		86,076	86,076
Retained earnings		68,979	68,979
Accumulated other comprehensive income		-262,490	-263,423
Total equity		**25,021**	**24,088**
Non-current liabilities			
Pension obligations	22	73,457	81,432
Financial liabilities	24	13,500	0
Provisions	23	3,773	5,609
Other liabilities		0	9
Deferred tax liabilities	25	1,440	1,663
Total noncurrent liabilities		**92,170**	**88,713**
Current liabilities			
Provisions	23	18,355	22,291
Trade payables	26	47,355	56,114
Tax liabilities	27	15,005	17,166
Other liabilities	28	15,168	18,489
Total current liabilities		**95,883**	**114,060**
Total equity and liabilities		**213,074**	**226,861**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AT DECEMBER 31, 2018

	EUR'000	Subscribed capital	Additional paid-in capital	Retained earnings	Accumulated other comprehensive equity	Consolidated equity
	January 1, 2017	**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	Financial instruments at Fair Value through Other Comprehensive Income (FVOCI)	0	0	0	0	0
5	Revaluation effects from defined benefit pension plans	0	0	0	1,270	1,270
6	Total changes not recognized in profit or loss	0	0	0	-1,632	-1,632
7	**Total net income (1+6)**	**0**	**0**	**0**	**6,246**	**6,246**
	December 31, 2017	**132,456**	**86,076**	**68,979**	**-263,423**	**24,088**
	Adjustments, IFRS 9 / IFRS 15	0	0	0	-521	-521
	January 1, 2018	**132,456**	**86,076**	**68,979**	**-263,944**	**23,567**
1	Consolidated net income 2018				3,394	3,394
2	Currency translation differences	0	0	0	-705	-705
3	Cash flow hedges	0	0	0	1,570	1,570
4	Financial instruments at Fair Value through Other Comprehensive Income (FVOCI)	0	0	0	-9,700	-9,700
5	Revaluation effects from defined benefit pension plans	0	0	0	6,895	6,895
6	Total changes not recognized in profit or loss	0	0	0	-1,940	-1,940
7	**Total net income (1+6)**	**0**	**0**	**0**	**1,454**	**1,454**
	December 31, 2018	**132,456**	**86,076**	**68,979**	**-262,490**	**25,021**

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD FROM JANUARY 1 - DECEMBER 31, 2018

EUR'000	01/01 - 12/31/2018	01/01 - 12/31/2017[3]
Result from ordinary activities	**7,458**	**11,125**
Depreciation and amortization of property, plant and equipment and intangible assets	13,607	15,160
Impairments	0	2,984
Increase (+)/decrease (-) in pension provisions	1,827	2,319
Gain (-)/loss (+) on the sale of noncurrent assets	2	-46
Gain (-)/loss (+) from currency translation	136	915
Net interest income	1,065	1,096
Interest received	148	33
Income taxes paid	-6,668	-2,186
Increase (-)/ decrease (+) in inventories	-5,987	-3,204
Increase (-)/ decrease (+) in trade receivables and other assets	-2,462	-9,574
Increase (+)/ decrease (-) in trade payables, other liabilities and other provisions	-17,544	-3,419
Increase (+)/ decrease (-) in other items of the statement of financial position	-1,170	-348
Cash inflow (+)/ outflow (-) from operating activities (net cash flow)	**-9,588**	**14,855**
Proceeds from the sale of noncurrent assets	0	46
Payments of investments in noncurrent assets	-14,489	-12,516
Cash inflow (+)/ outflow (-) from investing activities	**-14,489**	**-12,470**

3 Prior-year figures have been adjusted. Detailed explanations can be found in Section A., GENERAL INFORMATION AND PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS, in the subsection "Adjustment of the Comparative Information in the Consolidated Financial Statements."

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD FROM JANUARY 1 - DECEMBER 31, 2018

EUR'000	01/01 - 12/31/2018	01/01 - 12/31/2017[3]
Free cash flow	**-24,077**	**2,385**
Cash flows from the borrowing of noncurrent financial liabilities	13,500	0
Interest paid	-1,530	-432
Cash inflow (+)/ outflow (-) from financing activities	**11,970**	**-432**
Cash and cash equivalents at beginning of period	44,595	39,795
Changes due to exchange rate differences	-51	-346
Cash and cash equivalents at beginning of period, measured at prior-year closing exchange rate	44,646	40,141
Increase (-)/ decrease (+) in restricted cash	1,354	2,898
Change in cash and cash equivalents	-12,107	1,953
Cash and cash equivalents at end of period	**33,842**	**44,646**
Restricted cash	3,097	4,451
Cash and cash equivalents per statement of financial position	**36,939**	**49,097**

3 Prior-year figures have been adjusted. Detailed explanations can be found in Section A., GENERAL INFORMATION AND PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS, in the subsection "Adjustment of the Comparative Information in the Consolidated Financial Statements."

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2018

A. GENERAL INFORMATION AND PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

Business activities

Gigaset AG (or hereinafter called 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 Association, 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 global enterprise operating in the area of telecommunications. The Company is headquartered in Munich and has a highly automated production site in Bocholt, Germany. Gigaset has 888 employees and had sales activities in 53 countries in the 2018 financial year.

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 noncurrent 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 noncurrent 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.

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 the 2018 financial year 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 the 2018 financial year have been observed.

In addition, application of the following amended and newly issued Standards and Interpretations of the IASB was mandatory starting with the 2018 financial year:

- IFRS 9 Financial Instruments, IFRS 15 Revenues from Contracts With Customers, and clarifications to IFRS 15 Revenues from Contracts With Customers

  See the section below titled Modifications to Accounting due to Initial Application of IFRS 15 and IFRS 9.

- IFRS 2 Share-based Payment - Classification and Measurement of Share-Based Payment Transactions

  The adjustments to IFRS 2 contain clarifications on three regulatory areas:

  - Measurement of share-based compensation transactions with cash settlement (future measurement of share-based compensation transactions with cash settlement in accordance with the measurement regulations for share-based compensation transactions with settlement using equity instruments)

  - Classification of share-based compensation with tax withholding (classification in case of tax withholding as share-based compensation transactions with cash settlement or share-based compensation transactions with settlement using equity instruments or a classification when both circumstances exist (split within the accounting framework))

  - Modification of share-based compensation with cash settlement into share-based compensation with settlement using equity instruments (measurement at the time of transfer as well as the treatment of measurement differences that arise).

  The new provisions apply for financial years beginning on or after January 1, 2018. The amendments had no effect on the consolidated financial statements.

- IAS 40 Investment Property – Transfers of Investment Property

  The amendment of IAS 40 serves to clarify the cases in which the classification of a property as “investment property” begins or ends when the property is still under construction or development. The classification of properties that were not yet completed was previously not clearly regulated due to the designation of the earlier list in the standard as exhaustive. The list is now explicitly designated as non-exhaustive, so that now properties that have not yet been completed can be subsumed under the regulations. The new provisions apply for financial years beginning on or after January 1, 2018. The amendments had no effect on the consolidated financial statements.

- Annual Improvements cycle to International Financial Reporting Standards (2014-2016 cycle)

  The Annual Improvements (2014-2016 cycle) relate to clarifications within the following standards:

  - IFRS 1 First-time Adoption of International Financial Reporting Standards (deletion of short-term exemptions that are no longer relevant)

  - IAS 28 Investments in Associates and Joint Ventures (clarification that the measurement of investments in associates that are held by a venture capital organization or other qualifying entity can be exercised differently for each investment.

  The new provisions apply for financial years beginning on or after January 1, 2018. The amendments had no effect on the consolidated financial statements.

- IFRS 4 Insurance Contracts – Applying IFRS 9 with IFRS 4

  Until the effective date of the new standard for insurance contracts, IFRS 17 Insurance Contracts, the amendments to IFRS 4 provide two options to avoid specific accounting consequences resulting from the different initial application dates of IFRS 9 and IFRS 17 (deferral of initial application of IFRS 9 or a transitional approach under which the result affecting net income is accounted for in accordance with the previous regulations of IAS 39). The new provisions apply for financial years beginning on or after January 1, 2018. The amendments had no effect on the consolidated financial statements.

- IFRIC 22 Foreign Currency Transactions and Advance Consideration

  This interpretation clarifies the point in time at which the exchange rate for translating transactions in foreign currencies that include received or paid advance consideration is to be determined. Accordingly, the time that applies to the determination of the exchange rate for the underlying asset, income, or expense is the date when the asset or liability resulting from the advance payment is recognized for the first time. The new provisions apply for financial years beginning on or after January 1, 2018. The amendments had no effect on the consolidated financial statements.

Application of the following revised and newly issued Standards and Interpretations already adopted by the IASB was not yet mandatory in the 2018 financial year:

Standards		Application mandatory for Gigaset from	Adopted by the EU Commission
IFRS 16	Leasing	1/1/2019	Yes
IFRS 9	Financial Instruments – Prepayment Features with Negative Compensation	1/1/2019	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
IAS 28	Investments in Associates and Joint Ventures	1/1/2019	Yes
IAS 19	IAS 19 Employee Benefits, - Plan Amendment, Curtailment or Settlement	1/1/2019	Yes
Framework	Amendments to the cross-references to the framework for financial accounting	1/1/2020	No
IFRS 3	IFRS 3 Business Combinations - Change in the definition of a business operation	1/1/2020	No
IAS 1 / IAS 8	IAS 1 Presentation of Financial Statements / IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors - definition of materiality	1/1/2020	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 23	Uncertainty over Income Tax Treatments	1/1/2019	Yes

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.

IFRS 16 Leases will replace the previous Standard, IAS 17 Leases. Under the new Standard, assets must be recognized 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 the Notes (see Gigaset AG's 2017 Annual Financial Statements, 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. Due to the application of the new regulations, the assets — primarily from existing leases — as well as the liabilities under finance leases will increase by about EUR 3.1 million. Effects on the income statement will likewise result from the change in accounting policies. Based on the leases existing at the end of 2018, it is assumed for 2019 that on the one hand, other operating expenses will decrease by EUR 1.4 million, and on the other hand, depreciation and amortization will increase by EUR 1.4 million due to the amortization of the rights of use, and interest expenses from leases will amount to about EUR 0.2 million. The presentation in the cash flow statement will also change due to the new IFRS 16 since the principal and interest payments will reduce the cash flow from financing activities and the cash flow from operating activities will increase accordingly. The new Standard IFRS 16 will not be applied early by the Company, but rather correspondingly taken into account on the required initial application date for Gigaset starting on January 1, 2019. Gigaset will apply this Standard retroactively pursuant to IFRS 16.C5(b) in that the cumulative effect will be recognized at the time of initial application. The exemptions for low-value (new value <= USD 5,000) and short-term leases (lease term <= 12 months at starting date) will be used.

For the amendments with initial application starting in 2019 resulting from IFRS 9 Financial Instruments (Prepayment Features with Negative Compensation), IAS 28 Investments in Associates and Joint Ventures, IAS 19 Employee Benefits (Plan Amendment, Curtailment or Settlement), and the amendments to be applied starting in 2019 from the Annual Improvements cycle to International Financial Reporting Standards (2015-2017 cycle), the Company assumes that they will not have any material effects.

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 the 2020 financial year cannot be reliably estimated at the present time.

Scope and method of consolidation

The present consolidated financial statements as of December 31, 2018 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.

Besides the parent company, 21 subsidiaries – consisting of 8 domestic and 13 foreign companies – were included in the consolidated financial statements of Gigaset as of December 31, 2018. 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 as of December 31, 2018, 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 as of 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 as of 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 as of 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.

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

		Closing Exchange Rate[4]		Average Exchange Rate[4]	
		12/31/2018	12/31/2017	2018	2017
Argentina	ARS	43.9234	22.0052	32.8273	18.6968
Switzerland	CHF	1.1266	1.1694	1.1549	1.1116
China	CNY	7.8737	7.8128	7.8083	7.6197
Denmark	DKK	7.4675	7.4449	7.4531	7.4386
United Kingdom	GBP	0.8968	0.8873	0.8847	0.8762
Hong Kong	HKD	8.9687	9.3696	9.2599	8.8014
Japan	JPY	125.8980	134.8886	130.4150	126.6685
Norway	NOK	9.9397	9.8292	9.6023	9.3307
Poland	PLN	4.2980	4.1749	4.2609	4.2570
Russia	RUB	79.8149	69.3325	74.0563	65.8885
Sweden	SEK	10.2512	9.8320	10.2569	9.6369
Singapore	SGD	1.5592	1.6016	1.5929	1.5583
Turkey	TRL	6.0564	4.5343	5.6998	4.1212
USA	USD	1.1451	1.1988	1.1815	1.1293

4 Equivalent for EUR 1

Modifications to Accounting due to Initial Application of IFRS 15 and IFRS 9

Recognition of revenues under IFRS 15

The new accounting standard IFRS 15 Revenues from Contracts with Customers has been used since January 1, 2018. IFRS 15 supersedes the Standards IAS 11 and IAS 18 and the Interpretations IFRIC 13, 15, and 18, and SIC-31. Gigaset makes use of the option of modified retroactive application of IFRS 15, according to which no adjustment of values from the previous year is necessary. They will continue to be presented in compliance with Standards IAS 11 and IAS 18 (for further details on the new regulations of IFRS 15, see the 2017 Annual Report, Consolidated Notes Part A, "General Information and Presentation of the Consolidated Financial Statements" as well as Section B, Principal Accounting and Valuation Methods, in this Annual Report). The cumulative effect of the initial application of IFRS 15 in the amount of EUR 0.6 million was recognized in equity at January 1, 2018.

The new regulations of IFRS 15 have the effect on discount or rebate agreements as a form of variable consideration at the time when the discount or rebate amount is recognized, provided that utilization of the discount can be expected. Marketing activities, which represent consideration to be paid by the customer within the meaning of IFRS 15, are recognized as revenues and the corresponding subsidies as expenses, instead of as revenue deductions as previously. Gigaset is obligated to pay copyright levies to the Zentralstelle für Private Überspielungsrechte (ZPÜ - Central Office for Private Copying Rights). Since these are sums that are collected in the interest of third parties, they are not to be included in the transaction price. The copyright levy amounts are therefore no longer presented in revenues. The performance obligations relate almost exclusively to a point in time due to the business model.

Gigaset makes use of the modified retroactive application of IFRS 15, according to which no adjustment of the previous year's values is necessary; however, the effects on the income statement are explained for better understanding (see the table below at the end of this section).

Recognition of financial instruments under IFRS 9

The new accounting standard IFRS 9 Financial Instruments has been applicable since January 1, 2018. It supersedes the previous regulations on financial instruments. The Group exercises the option of not adjusting comparative information for previous periods with respect to the changes in classification and measurement (including impairment) (for further details, see 2017 Annual Report, Consolidated Notes Part A, "General Information and Presentation of the Consolidated Financial Statements" as well as Section B. Principal Accounting and Valuation Methods in this Annual Report).

Initial application of this Standard has effects on the Group companies that use factoring. The unsold trade receivables will be assigned to the category "fair value through profit and loss" (FVPL) since the majority of the receivables in these partial stocks are sold and thus it is not possible to assume either a business model with a pure intention to hold or a mixed holding and selling 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 identical. Material changes in value caused by defaults would certainly reduce the market value, but they are already recognized in profit or loss as impairments. The initial application effect of IFRS 9 results from the reversal of the flat-rate individual value adjustments recognized as of December 31, 2017, at the Group companies that use factoring. The trade receivables not subject to factoring are measured at amortized cost. The impairments for trade receivables are determined based on an impairment model using the simplified approach that can be done without assignment to levels. In contrast to the previous accounting policies, however, expected default losses are also anticipated under IFRS 9 and risk provisions are created for them. 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) according to the rules of IFRS 9.

Disclosures pursuant to IFRS 7 and IFRS 13 that are made in connection with the implementation of IFRS 9 are presented in Section C. Notes on Financial Instruments.

Changes in impairments result from the reclassification of trade receivables within the framework of factoring, from the IAS 39 category "loans and receivables" (LaR) to the IFRS 9 category "fair value through profit or loss" (FVPL), and result in an impairment that is EUR 60 thousand lower at January 1, 2018, compared to December 31, 2017.

The Group exercises the option allowed under IFRS 9 to not adjust comparative information for previous periods with respect to the changes in classification and measurement (including impairment).

The reclassifications and adjustments arising from the initial application of IFRS 15 and IFRS 9 are recognized in the opening balance sheet at January 1, 2018. The effects that would have resulted without application of the new Standards are shown next to the values as of December 31, 2018. The following table shows the adjustments for each individual item.

Consolidated Statement of Financial Position as of December 31, 2018	12/31/2018			12/31/2018
ASSETS in EUR'000	Before application of IFRS 9 and IFRS 15	IFRS 9	IFRS 15	According to 2018 Annual Report
Noncurrent assets				
Intangible assets	30,957			30,957
Property, plant and equipment	23,319			23,319
Financial assets	8,686			8,686
Deferred tax assets	10,150			10,150
Total noncurrent assets	**73,112**	**0**	**0**	**73,112**
Current assets				
Inventories	32,720			32,720
Trade receivables	41,315	-111	610	40,816
Other assets	29,016			29,016
Tax refund claims	471			471
Cash and cash equivalents	36,939			36,939
Total current assets	**140,461**	**-111**	**610**	**139,962**
Total equity and liabilities	**213,573**			**213,074**

Consolidated Statement of Financial Position as of December 31, 2018	12/31/2018			12/31/2018
EQUITY AND LIABILITIES in EUR'000	Before application of IFRS 9 and IFRS 15	IFRS 9	IFRS 15	According to 2018 Annual Report
Equity				
Subscribed capital	132,456			132,456
Additional paid-in capital	86,076			86,076
Retained earnings	68,979			68,979
Accumulated other comprehensive income	-261,991	-111	610	-262,490
Total equity	**25,520**	**-111**	**610**	**25,021**
Non-current liabilities				
Pension obligations	73,457			73,457
Financial liabilities	13,500			13,500
Provisions	3,773			3,773
Other liabilities	0			0
Deferred tax liabilities	1,440			1,440
Total noncurrent liabilities	**92,170**	**0**	**0**	**92,170**
Current liabilities				
Provisions	18,355			18,355
Trade payables	47,355			47,355
Tax liabilities	15,005			15,005
Other liabilities	15,168			15,168
Total current liabilities	**95,883**	**0**	**0**	**95,883**
Total equity and liabilities	**213,573**	**-111**	**610**	**213,074**

Consolidated Statement of Financial Position as of December 31, 2017	12/31/2017			01/01/2018
ASSETS in EUR'000	According to 2017 Annual Report	IFRS 9	IFRS 15	With application of IFRS 9 and IFRS 15
Noncurrent assets				
Intangible assets	30,083			30,083
Property, plant and equipment	23,313			23,313
Financial assets	18,386			18,386
Deferred tax assets	13,137			13,137
Total noncurrent assets	**84,919**	**0**	**0**	**84,919**
Current assets				
Inventories	26,733			26,733
Trade receivables	39,921	60	-581	39,400
Other assets	25,678			25,678
Tax refund claims	513			513
Cash and cash equivalents	49,097			49,097
Total current assets	**141,942**	**60**	**-581**	**141,421**
Total equity and liabilities	**226,861**	**60**	**-581**	**226,340**

Consolidated Statement of Financial Position as of December 31, 2017	12/31/2017			01/01/2018
EQUITY AND LIABILITIES in EUR'000	According to 2017 Annual Report	IFRS 9	IFRS 15	With application of IFRS 9 and IFRS 15
Equity				
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	60	-581	-263,944
Total equity	**24,088**	**60**	**-581**	**23,567**
Non-current liabilities				
Pension obligations	81,432			81,432
Provisions	5,609			5,609
Other liabilities	9			9
Deferred tax liabilities	1,663			1,663
Total noncurrent liabilities	**88,713**	**0**	**0**	**88,713**
Current liabilities				
Provisions	22,291			22,291
Trade payables	56,114			56,114
Tax liabilities	17,166			17,166
Other liabilities	18,489			18,489
Total current liabilities	**114,060**	**0**	**0**	**114,060**
Total equity and liabilities	**226,861**	**60**	**-581**	**226,340**

Consolidated Income Statement for the period from January 1 to December 31, 2018

According to IFRS 15, the early recognition of the discount amount arising from the expected utilization in the amount of EUR 0.6 million and the copyright levy amounts of EUR 0.9 million that are not to be included in the transaction price have the effect of reducing revenues. Marketing activities, which represent consideration to be paid by the customer within the meaning of IFRS 15, are recognized as revenues and the corresponding subsidies as expenses, instead of as revenue deductions as previously. According to IFRS 9, the trade receivables not subject to factoring are determined according to the simplified approach using an impairment model. The use of this model results in a positive effect of EUR 0.1 million as of December 31, 2018, for those Group companies that do not use factoring. The following table provides a summary of the aforementioned effects on the income statement and the consolidated statement of comprehensive income resulting from the initial application of the Standards IFRS 9 and IFRS 15.

Income Statement	01/01-12/31/2018			01/01-12/31/2018
EUR'000	Before application of IFRS 9 and IFRS 15	IFRS 9	IFRS 15	According to 2018 Annual Report
Revenues	281,830		-1,499	280,331
Change in inventories of finished and unfinished goods	7,940			7,940
Purchased goods and services	-146,656			-146,656
Gross profit	**143,114**	**0**	**-1,499**	**141,615**
Other internal production capitalized	9,755			9,755
Other operating income	13,703			13,703
Personnel expenses	-60,567			-60,567
Other operating expenses	-83,376	111	889	-82,376
EBITDA	**22,629**	**111**	**-610**	**22,130**
Depreciation and amortization	-13,607			-13,607
Impairments	0			0
EBIT	**9,022**	**111**	**-610**	**8,523**
Other interest and similar income	179			179
Interest and similar expenses	-1,244			-1,244
Impairment loss on financial assets	-9,700	9,700		0
Financial result	**-10,765**	**9,700**	**0**	**-1,065**
Result from ordinary activities	**-1,743**	**9,811**	**-610**	**7,458**
Income taxes	-1,304	-2,943	183	-4,064
Consolidated net income	**-3,047**	**6,868**	**-427**	**3,394**
Earnings per share				
- Undiluted (Basic) in EUR	0.03	0.00	0.00	0.03
- Diluted in EUR	0.03	0.00	0.00	0.03

Consolidated Statement of Comprehensive Income for the period from January 1 - December 31, 2018	01/01-12/31/2018			01/01-12/31/2018
EUR'000	Before application of IFRS 9 and IFRS 15	IFRS 9	IFRS 15	According to 2018 Annual Report
Consolidated net income / deficit	**-3,047**	**6,868**	**-427**	**3,394**
Items that may possibly be reclassified to profit or loss at a later time				
Currency changes	-705			-705
Cash flow hedges	2,292			2,292
Income taxes recognized on this item	-722			-722
Items that will not be reclassified to profit or loss at a later time				
Revaluation effects from defined benefit pension plans	9,802			9,802
Financial instruments at Fair Value through Other Comprehensive Income (FVOCI)	0	-9,700		-9,700
Income taxes recognized on this item	-2,907			-2,907
Total changes not recognized in profit or loss	**7,760**	**-9,700**	**0**	**-1,940**
Total income and expenses recognized	**4,713**	**-2,832**	**-427**	**1,454**

Adjustment of the Comparative Information in the Consolidated Financial Statements

The structure of the income statement was changed compared to the previous year. The previously presented subdivision of the operating result into a result of the core business before and after depreciation and amortization and an additional ordinary result has been eliminated. With the subtotals "EBITDA" (Earnings Before Interest, Taxes, Depreciation and Amortization) and "EBIT" (Earnings Before Interest and Taxes) that are now shown, the structure has been changed to a customary format by eliminating the described earlier subdivision. This has increased comparability with other financial statements.

	EUR'000	01/01-12/31/2017 Structure in 2017 Annual Report		EUR'000	01/01-12/31/2017 Structure in 2018 Annual Report
1	Revenues	293,296	1	Revenues	293,296
2	Change in inventories of finished and unfinished goods	-1,502	2	Change in inventories of finished and unfinished goods	-1,502
3	Purchased goods and services	-146,796	3	Purchased goods and services	-146,796
	Gross profit	**144,998**		**Gross profit**	**144,998**
4	Other internal production capitalized	10,183	4	Other internal production capitalized	10,183
5	Other income from core business	3,294	5, 9, 12	Other operating income	16,008
6	Personnel expenses before restructuring	-65,962	6, 11	Personnel expenses	-67,309
7	Other expenses from core business	-67,200	7, 10, 13	Other operating expenses	-73,515
	Earnings from core business before depreciation and amortization/EBITDA	**25,313**		**EBITDA**	**30,365**
8	Depreciation and amortization	-15,160	8	Depreciation and amortization	-15,160
	Earnings from core business after depreciation and amortization	**10,153**			
9	Additional ordinary income	8,333			
10	Additional ordinary expenses	-1,677			
11	Personnel expenses from restructuring	-1,347			
12	Exchange rate gains	4,381			
13	Exchange rate losses	-4,638			

	EUR'000	01/01-12/31/2017 Structure in 2017 Annual Report
14	Impairments	-2,984
	Additional ordinary result	2,068
	Operating result	**12,221**
15	Other interest and similar income	54
16	Interest and similar expenses	-1,150
	Financial result	**-1,096**
	Result from ordinary activities	**11,125**
17	Income taxes	-3,247
	Consolidated net income	**7,878**
	Earnings per share	
	- Undiluted (basic) in EUR	0.06
	- Diluted in EUR	0.06

	EUR'000	01/01-12/31/2017 Structure in 2018 Annual Report
14	Impairments	-2,984
	EBIT	**12,221**
15	Other interest and similar income	54
16	Interest and similar expenses	-1,150
	Financial result	**-1,096**
	Result from ordinary activities	**11,125**
17	Income taxes	-3,247
	Consolidated net income	**7,878**
	Earnings per share	
	- Undiluted (basic) in EUR	0.06
	- Diluted in EUR	0.06

The current item "Other operating income" (EUR 16,008 thousand) includes the formerly presented item "Other income from core business" (EUR 3,294 thousand), "Additional ordinary income" (EUR 8,333 thousand), and "Exchange rate gains" (EUR 4,381 thousand). The personnel expenses (EUR -67,309 thousand) include the former "Personnel expenses before restructuring" (EUR -65,962 thousand) and the "Personnel expenses from restructuring" (EUR -1,347). The "Other operating expenses" (EUR -73,515 thousand) combine the former items "Other expenses from core business" (EUR -67,200 thousand), "Additional ordinary expenses" (EUR -1,677 thousand), and "Exchange rate losses" (EUR -4,638 thousand).

The presentation of interest paid was changed in the consolidated statement of cash flows. Since financial liabilities are shown in the form of bank loans starting in the 2018 financial year, the interest paid on them is shown in cash inflow/outflow from financing activities. In addition, the Company decided to also present the interest paid from factoring as well as other interest paid under cash inflow/outflow from financing activities since this leads to a more transparent and more adequate presentation of the cash inflows/outflows from financing activities from the perspective of the Company. The changes for the 2017 financial year are as follows:

	01/01-12/31 2017	01/01-12/31 2017	01/01 - 12/31 2017
EUR'000	Before Change	Change	After Change
Result from ordinary activities	**11,125**		**11,125**
Depreciation and amortization of property, plant and equipment and intangible assets	15,160		15,160
Impairments	2,984		2,984
Increase (+)/decrease (-) in pension provisions	2,319		2,319
Gain (-)/loss (+) on the sale of noncurrent assets	-46		-46
Gain (-)/loss (+) from currency translation	915		915
Net interest income	1,096		1,096
Interest received	33		33
Interest paid	-432	432	0
Income taxes paid	-2,186		-2,186
Increase (-)/ decrease (+) in inventories	-3,204		-3,204
Increase (-)/ decrease (+) in trade receivables and other assets	-9,574		-9,574
Increase (+)/ decrease (-) in trade payables, other liabilities and other provisions	-3,419		-3,419
Increase (+)/ decrease (-) in other items of the statement of financial position	-348		-348
Cash inflow (+)/ outflow (-) from operating activities (net cash flow)	**14,423**	**432**	**14,855**
Proceeds from the sale of noncurrent assets	46		46
Payments of investments in noncurrent assets	-12,516		-12,516
Cash inflow (+)/ outflow (-) from investing activities	**-12,470**		**-12,470**

	01/01-12/31 2017	01/01-12/31 2017	01/01 - 12/31 2017
EUR'000	Before Change	Change	After Change
Free cash flow	**1,953**	**432**	**2,385**
Interest paid	0	-432	-432
Cash inflow (+)/ outflow (-) from financing activities	**0**	**-432**	**-432**
Cash and cash equivalents at beginning of period	39,795		39,795
Changes due to exchange rate differences	-346		-346
Cash and cash equivalents at beginning of period, measured at prior-year closing exchange rate	40,141		40,141
Increase (-)/ decrease (+) in restricted cash	2,898		2,898
Change in cash and cash equivalents	1,953		1,953
Cash and cash equivalents at end of period	**44,646**		**44,646**
Restricted cash	4,451		4,451
Cash and cash equivalents per statement of financial position	**49,097**		**49,097**

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

Gigaset recognizes revenues when control of distinct goods or services is passed to the customer, that is, when the customer has the ability to direct the use of the transferred goods or services and obtain substantially all of the remaining benefits from them. The prerequisite for this is that a contract with enforceable rights and obligations exists and the receipt of consideration, among other things, is likely, taking into account the customer's credit rating. The revenues correspond to the transaction price that Gigaset is expected to be entitled to receive. Variable consideration, such as discount agreements, is included in the transaction price when it is highly probable that no significant change in revenues will occur as soon as the uncertainty relating to the variable consideration has been subsequently resolved. The amount of the variable consideration is determined either according to the expectation method or using the most likely amount depending on which value most accurately estimates the variable consideration. The most likely value is determined for discount agreements. If the period between the transfer of the goods and services and the payment date exceeds twelve months and a significant benefit results for the customer or Gigaset from the financing, the consideration is adjusted by the net present value of money. If a contract involves multiple distinct goods or services, the transaction price is allocated to the payment obligations based on the relative standalone selling prices. If standalone selling prices cannot be directly observed, Gigaset estimates them in a reasonable amount. Revenues are recognized for each payment obligation either at a specific time or over a specific period of time.

Gigaset has made agreements with customers regarding marketing activities that are carried out for Gigaset. For these activities, customers receive remuneration in the form of advertising cost subsidies. 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 item. Flat-rate advertising cost subsidies that are not matched to any specific actions will continue to be recognized as revenue deductions.

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 payments are therefore not recognized as part of revenues.

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 other operating income and is therefore also part of the EBITDA. Gains or losses from deconsolidation are presented in other operating income or other operating expenses and are therefore part of the EBITDA.

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: 17.4%) 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.

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

- In the case of company acquisitions, deferred tax assets are normally recognized on tax loss carry-forwards and temporary differences at the acquisition date in accordance with the general regulations; however, insofar as reorganization cases are acquired, deferred tax assets are not recognized 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: three 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.

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 Intangible Assets 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 as of 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 and 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 as of 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.

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.

Noncurrent assets held for sale

Non-current assets (and groups of assets) classified as held for sale are measured at the lower of carrying amount or fair value less costs to sell. Noncurrent 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 in order to be identified separately for the cash flows (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.

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 unless they are subject to factoring. A value adjustment is charged against trade receivables if the determination based on the lifetime expected loss indicates such an adjustment. The value adjustment is recognized in profit or loss. If the reasons for the value adjustments charged in prior periods no longer exist, the value adjustments are reversed accordingly.

Trade receivables that are subject to a factoring agreement are carried at fair value affecting net income and are allocated to the category "fair value through profit or loss" (FVPL) within financial assets.

Factoring

Some companies of the Gigaset Group assign a portion of their trade receivables to financing companies (known as factors). In accordance with IFRS 9, 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 late payment 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 IFRS 9, the sold receivables are therefore partially derecognized as of 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 late payment 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.

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 operating expenses.

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

The categorization of financial assets depends on Gigaset's individual business model for managing the financial assets and the characteristics of the contractual payment flows. The individual business models differ between "collect", "hold and collect", and "other". The characteristics of the contractual payment flows are checked to see if they are „solely payments of principal and interest" - sppi. The financial assets are subdivided into the following categories at Gigaset depending on the business model and the characteristics of the contractual payment flows:

- At amortized cost (AC)
- At fair value through profit or loss (FVPL)
- At fair value through other comprehensive income (FVOCI)
- Financial assets (hedge accounting).

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.

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 belong to a category that is not measured at fair value 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.

Financial assets measured at amortized cost (AC)

Financial assets that match both the "collect" business model as well as the "sppi" criterion for the contractual payment flows are assigned to this category. At Gigaset, this primarily includes trade receivables, loans and other financial receivables and assets, as well as cash and cash equivalents. They are presented as current assets as long as their due date is not more than 12 months after the reporting date and as noncurrent assets if their due date is more than 12 months after the reporting date. In subsequent periods, these assets are measured by application of the effective interest method. Value adjustments for financial assets that are carried at amortized cost must normally be determined according to a three-step model (Step 1: Expected loss for 12 months, Step 2 in case of a significant increase in credit risk: lifetime expected loss, Step 3: individual measurement based on an expected default). An exception to this applies to trade receivables for which determination of a possible impairment is carried out based on the lifetime expected loss model for reasons of simplification.

Financial assets measured at fair value through profit or loss (FVPL)

This category includes financial assets that are not to be allocated to any other category and those that were designated from the beginning as at fair value through profit or loss by exercising the fair value option. They are presented as current assets as long as their due date is not more than 12 months after the reporting date and as noncurrent assets if their due date is more than 12 months after the reporting date. The subsequent measurement for these assets occurs at fair value, with impairments recognized in profit or loss. Derivative financial instruments also belong to this category. Please see the discussion in this section under "Derivative financial instruments".

Financial assets measured at Fair Value through Other Comprehensive Income (FVOCI)

Financial assets that match both the "collect" business model as well as the "sppi" criterion for the contractual payment flows are assigned to this category. Equity instruments for which Gigaset uses the option of subsequent measurement with no effect on income are also presented in this category. In subsequent periods, these financial instruments are measured at fair value, with changes in value recognized in other comprehensive income (OCI). Upon the disposal of financial assets for changes in value were previously recognized in other comprehensive income (OCI), the cumulative changes in value must be reclassified to the profit or loss for the period, affecting net income ("recycling") insofar as these assets were also classified in this way beforehand. This does not apply to equity instruments under IFRS 9 for which no recycling is planned, where the measurement effects remain in equity.

Financial assets (hedge accounting)

Insofar as financial assets – in Gigaset's case, foreign currency derivatives – are recognized within the framework of the regulations of hedge accounting pursuant to IFRS 9, they must be accounted for according to the regulations for hedge accounting. Please see the discussion under "Derivative financial instruments" regarding the accounting treatment of derivative financial instruments within the framework of a hedge.

Derivative financial instruments

In accordance with IFRS 9, derivative financial instruments are measured at fair value as of 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 counterparty credit risk has to be taken into consideration.

If a contract contains one or more embedded derivatives that IFRS 9 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.

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.

Noncurrent 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.

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 as of 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 as of 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.

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 noncurrent liabilities and financial liabilities are measured at amortized cost in accordance with the effective interest method.

In accordance with IFRS 9, derivative financial instruments are measured at fair value as of 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.

The reportable segments of the Gigaset Group are the following:

- Gigaset
  - Germany
  - EU
  - 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.

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.

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.

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.

C. NOTES ON FINANCIAL INSTRUMENTS

New definitions of categories according to IFRS 9

New measurement categories were introduced due to the new implementation of IFRS 9 Financial Instruments. In this section, the categories are labeled using the abbreviations shown in parentheses below, particularly in tables.

Financial assets - categories per IFRS 9
At fair value through profit or loss (FVPL)
At fair value through other comprehensive income (FVOCI)
At amortized cost (AC)
Other financial assets (hedge accounting)

Financial liabilities - categories per IFRS 9
At amortized cost (AC)
At fair value through profit or loss (FVPL)
Other financial liabilities (hedge accounting)

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. Likewise, the term financial assets is also understood to include financial investments and derivatives held with positive market values. 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. The Company applies hedge accounting rules for hedging transactions with regard to the foreign currency risk for planned materials procurement.

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.

The following summaries present the financial assets by measurement categories along with any collateral received for them.

Balance sheet items	Measurement category	Maximum default risk (carrying amount)	Collateral held		Mathematical risk
12/31/2018		EUR'000	EUR'000	%	EUR'000
Noncurrent assets					
Financial assets	FVOCI	8,686	0	0.0%	8,686
Current assets					
Trade receivables	AC	21,208	15,912	75.0%	5,296
Trade receivables	FVPL	19,608	6,853	35.0%	12,755
Other assets	AC	18,941	0	0.0%	18,941
Other assets	Hedging	2,086	0	0.0%	2,086
Cash and cash equivalents	AC	36,939	0	0.0%	36,939
		107,468	**22,765**	**21.2%**	**84,703**

Balance sheet items	Measurement category	Maximum default risk (carrying amount)	Collateral held		Mathematical risk
1/1/2018		EUR'000	EUR'000	%	EUR'000
Noncurrent assets					
Financial assets	FVOCI	18,386	0	0.0%	18,386
Current assets					
Trade receivables	AC	20,356	19,906	97.8%	450
Trade receivables	FVPL	19,625	17,877	91.1%	1,748
Other assets	AC	16,336	3	0.0%	16,333
Other assets	Hedging	1	0	0.0%	1
Cash and cash equivalents	AC	49,097	0	0.0%	49,097
		123,801	**37,786**	**30.5%**	**86,015**

Balance sheet items	Carrying amount	Maximum default risk	Secured portion	2017[5]
12/31/2017 (IAS 39), EUR'000	EUR'000	EUR'000	EUR'000	%
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

5 With reference to the entire carrying amount

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

Financial assets	12/31/2018		1/1/2018	
	EUR'000	%	EUR'000	%
Germany	58,828	54.7	82,452	66.6
Europe (excluding Germany)	29,026	27.0	37,690	30.4
Rest of World	19,614	18.3	3,659	3.0
Total	**107,468**	**100.0**	**123,801**	**100.0**

12/31/2017 (IAS 39)	12/31/2017	
	EUR'000	%
Total	**56,258**	**100.0**
Germany	22,160	39.4
Europe (excluding Germany)	31,174	55.4
Rest of World	2,924	5.2

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 17 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.

A bank loan was taken out in the 2018 financial year in order to finance future growth and ensure the required liquidity for any retroactive tax payments that may accrue. The loan taken out had a value of EUR 13,500 thousand as of December 31, 2018. The loan agreement stipulates special terms with regard to financial ratios to be fulfilled ("financial covenants"). These include the EBITDA of the Gigaset Group, but using the definition of the credit agreement as a basis (specific additions or reductions). These were not fulfilled as of December 31, 2018. Gigaset notified the financing banks of the non-fulfillment of the financial ratios in good time in March 2019 and requested that the justified right of termination not be exercised. The financing banks raised the prospect of an agreement and a waiver of the right of termination until March 31, 2020, and have refrained to date from calling the loan. At the time when this report was prepared, a written agreement – possibly specifying conditions – was still pending. Thus, the existing loans were also presented under noncurrent financial liabilities at year-end. The loan was fully collateralized by the Company using real estate and buildings, other facilities and machine assets, as well as a storage assignment of the warehouse and pledge of the existing intangible assets.

In the table below, the financial liabilities are broken down by term to maturity. The non-derivative financial liabilities are measured at amortized cost as in the previous year, based on undiscounted cash flows:

12/31/2018 in EUR'000	Carrying amount	Total outflow	< 1 year	1-5 years	> 5 years
Non-derivative financial liabilities	60,941	62,602	48,011	14,591	0
Financial liabilities	13,500	15,161	570	14,591	0
Trade payables	47,352	47,352	47,352	0	0
Other liabilities	86	86	86	0	0
Derivative financial liabilities	172	172	172	0	0
Total	**61,113**	**62,774**	**48,183**	**14,591**	**0**

1/1/2018 / 12/31/2017 (IAS 39) 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
Financial liabilities	0	0	0	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**

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 as of the reporting date.

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:

	12/31/2018		01/01/2018 / 12/31/2017 (IAS 39)	
	EUR'000	%	EUR'000	%
Total	**61,113**	**100.0**	**58,522**	**100.0**
Germany	22,983	37.6	19,541	33.4
Europe (excluding Germany)	14,971	24.5	15,107	25.8
Rest of World	23,159	37.9	23,874	40.8

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 16,120 thousand (PY: EUR 20,037 thousand) consisted of financial assets denominated in foreign currencies and an amount of EUR 25,143 thousand (PY: EUR 28,856 thousand) consisted of financial liabilities denominated in foreign currencies.

The risk concentrations based on foreign currencies are presented in the table below:

	12/31/2018		12/31/2017	
Financial assets in	EUR'000	%	EUR'000	%
USD (US dollar)	3,271	20.4	3,883	19.3
RUB (Russian ruble)	3,171	19.7	3,004	15.0
TRL (Turkish lira)	2,801	17.4	3,400	17.0
GBP (British pound)	1,968	12.2	2,318	11.6
CHF (Swiss franc)	1,836	11.4	3,849	19.2
CNY (Chinese renminbi yuan)	1,804	11.2	741	3.7
PLN (Polish zloty)	522	3.2	864	4.3
SEK (Swedish krona)	520	3.2	544	2.7
JPY (Japanese yen)	118	0.7	960	4.8
NOK (Norwegian krone)	53	0.3	320	1.6
DKK (Danish krone)	56	0.3	154	0.8
Total	**16,120**	**100.0**	**20,037**	**100.0**

	12/31/2018		12/31/2017	
Financial liabilities in	EUR'000	%	EUR'000	%
USD (US dollar)	20,442	81.2	25,793	89.3
CNY (Chinese renminbi yuan)	2,379	9.5	1,660	5.8
PLN (Polish zloty)	670	2.7	264	0.9
CHF (Swiss franc)	523	2.1	268	0.9
TRL (Turkish lira)	352	1.4	363	1.3
GBP (British pound)	314	1.2	150	0.5
RUB (Russian ruble)	216	0.9	131	0.5
SEK (Swedish krona)	136	0.5	106	0.4
JPY (Japanese yen)	89	0.4	80	0.3
Other	22	0.1	41	0.1
Total	**25,143**	**100.0**	**28,856**	**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 as of the reporting date. For that purpose, it is assumed that the portfolio as of the reporting date is representative of the full year.

As of 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 as of December 31, 2018, the equity presented in the functional currency would have been EUR 846 thousand higher or EUR 1,036 thousand lower, respectively (PY: EUR 801 thousand higher or EUR 981 thousand lower).

The hypothetical effect on profit or loss (after taxes) of EUR 819 thousand (PY: EUR 801 thousand) or EUR -1,002 thousand (PY: EUR -981 thousand), respectively, is broken down in the table below on the basis of the corresponding currency sensitivities:

	2018		2017	
EUR'000	+ 10%	- 10%	+ 10%	- 10%
EUR/USD	1,561	-1,908	1,992	-2,434
EUR/CNY	52	-64	83	-102
EUR/PLN	13	-16	-67	81
EUR/CZK	0	0	1	-1
EUR/DKK	-3	4	-11	13
EUR/JPY	-3	3	-78	95
EUR/NOK	-5	6	-29	35
EUR/SEK	-35	43	-42	52
EUR/CHF	-119	146	-326	398
EUR/GBP	-150	184	-178	217
EUR/TRL	-223	272	-285	348
EUR/RUB	-269	328	-259	317
Total	**819**	**-1,002**	**801**	**-981**

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 the 2018 financial year and in the previous year, foreign currency derivatives were concluded primarily to hedge purchases in U.S. dollars (EUR/USD).

The Company uses hedge accounting regulations for foreign currency hedging in the Group. Representing foreign currency hedges based on hedge accounting regulations is intended to achieve a more adequate presentation 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.

Forward exchange contracts existing as of December 31, 2017 for which hedge accounting was used satisfy the requirements of IFRS 9 for cash flow hedges. The risk management strategies and the hedging documentation are harmonized with the regulations of IFRS 9. Therefore, the hedging relationships existing at year-end 2017 are considered continuing hedging relationships. Effectiveness was assessed at the time of designation of the hedging relationships based on a prospective effectiveness test. This test led to the result that the defined hedging relationships were to be considered effective.

As of the reporting date, an accumulated amount of EUR 1,023 thousand (PY: EUR -547 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 2,292 thousand (PY: EUR -3,391 thousand). Income taxes of EUR -722 thousand (PY: EUR 1,051 thousand) were recognized on this amount.

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.

As of the reporting date, the Group held 58 (PY: 24) foreign currency derivatives to hedge the exchange rate of the U.S. dollar against the euro, for a total notional amount of USD 58.9 million (PY: USD 68.5 million) with a term until mid-December 2019. As of the reporting date, the Group held 12 foreign currency derivatives to hedge the exchange rate of the euro against the Swiss franc, for a total notional amount of CHF 5.7 million (PY: CHF 0.0 million) with a term until mid-December 2019. At the last reporting date, the Group held one foreign currency swap with a nominal volume of TRY 0.3 million and a term until mid-January 2018 to hedge the exchange rate of the Turkish lira.

All USD and CHF foreign currency derivatives are designed as "plain vanilla" forward exchange contracts.

The regulations of hedge accounting are used as of the reporting date for 58 (PY: 18) foreign currency derivatives to hedge USD transactions. The volume of these forward contracts amounts to USD 58.9 million (PY: USD 39.0 million). The other forward contracts are measured at fair value through profit or loss (FVPL). The weighted average hedging rate for the USD amounts to 1.16 EUR/USD in the reporting year, and 1.15 EUR/USD in the previous reporting period.

As of the reporting date, the terms of the forward foreign exchange contracts run from January 2019 to December 2019 (PY: January 2018 to June 2019).

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	2019	2018
January	4.0	9.5
February	4.0	6.5
March	4.0	6.0
April	3.5	7.0
May	3.5	5.5
June	3.5	4.0
July	4.0	4.0
August	5.0	4.0
September	4.5	4.0
October	6.0	4.0
November	8.7	4.0
December	8.2	4.0
January (2019)		1.0
February (2019)		1.0
March (2019)		1.0
April (2019)		1.0
May (2019)		1.0
June (2019)		1.0
	58.9	**68.5**

As of the reporting date, the derivatives were measured at their fair value of EUR +2,086 thousand (PY: EUR +1 thousand) and EUR -172 thousand (PY: EUR -2,142 thousand), and are recognized under Other current assets or Other current liabilities.

The currency sensitivity analysis for the US dollar derivatives existing as of the reporting date yielded the result that a devaluation of the U.S. dollar by 10% would have led to a reduction in the fair value of EUR -5,057 thousand (PY: EUR -3,260 thousand), and an appreciation of the U.S. dollar by 10% would have led to an increase in the fair value of EUR 5,057 thousand (PY: EUR 2,125 thousand). Thus, equity (disregarding deferred taxes) would have been reduced by EUR 5,057 thousand (PY: EUR 3,260 thousand) if the U.S. dollar exchange rate had been 10 % higher, and increased by EUR 5,057 thousand (PY: EUR 2,125 thousand) if the U.S. dollar exchange rate had been 10 % lower.

The currency sensitivity analysis for the Swiss franc derivatives existing as of the reporting date yielded the result that a devaluation of the Swiss franc by 10% would have led to a reduction in the fair value of EUR -507 thousand and an appreciation of the Swiss franc by 10% would have led to an increase in the fair value of EUR 507 thousand. Thus, equity (disregarding deferred taxes) would have been reduced by EUR 507 thousand if the Swiss franc exchange rate had been 10 % higher, and increased by EUR 507 thousand if the Swiss franc exchange rate had been 10 % lower.

This information breaks down as follows for the reporting period with respect to the statements relevant to Gigaset pursuant to IFRS 7.24A and 7.24B:

EUR'000	12/31/2018
Carrying amount, derivatives hedging with positive carrying amount	2,086
Balance sheet item in which derivatives with a positive carrying amount are shown	Other assets (current)
Carrying amount, derivatives hedging with negative carrying amount	46
Balance sheet item in which derivatives with a negative carrying amount are shown	Other liabilities (current)
Change in fair value as basis for determining ineffectiveness	2,040
Change in fair value, underlying transaction	-2,040
Cumulative amount recorded in equity for cash flow hedges (factoring in deferred taxes)	1,023
Nominal value of the hedging transactions in USD	58,900

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 noncurrent financial assets or liabilities with variable interest rates existed as of the reporting date.

Long-term liabilities with fixed interest rates exist as of the reporting date. A theoretical fair value risk arises for the long-term liabilities insofar as the loan carried at amortized cost was to be redeemed prematurely at market value. The calculated fair value of the loan based on the current interest rate level as of the reporting date is EUR 13,998 thousand. In case of an increase in the interest rate level by 10%, the fair value would decline by EUR 18 thousand, while in case of a decrease in the interest rate level by 10%, the fair value would increase by EUR 18 thousand.

Both fixed interest rates and variable interest rates have been stipulated for current financial assets 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. As of the reporting date, however, the Gigaset Group did not hold shares in other exchange-listed companies that are not fully consolidated.

Classification

Due to the changed regulations of IFRS 9, additional statements are made in the following tables in order to reconcile the carried amounts and measurement categories as of December 31, 2017, pursuant to IAS 39 and the carried amounts and measurement categories at January 1, 2018, pursuant to IFRS 9.

No changes result from the assignment of financial liabilities to the measurement categories of IFRS 9. The labeling of the measurement categories was updated to reflect the wording of the new Standard. The reconciliation for the financial assets is presented in the following tables.

The analysis of the impairments to be recognized showed that no material deviations exist between the previous calculation method and the newly applicable regulations of IFRS 9 for trade receivables, which remain in the category "Amortized cost" (AC), and thus no adjustment was to be recognized at the time of transition to IFRS 9. This also applies to the calculated amounts for impairments for cash and cash equivalents.

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	Measurement categories per IFRS 9	Note	Carrying amount	Fair value	Amortized cost	Fair value recognized in equity without subsequent reclassification into the income statement	Fair value through profit and loss	Hedge Accounting	Statement of financial position measurement method per IAS 17
Assets									
Non-current assets									
Financial assets	FVOCI	15	8,686	8,686		8,686			
Current assets									
Trade receivables	AC	17	21,208	21,208	21,208				
	FVPL	17	19,608	19,608			19,608		
Other assets	AC, FVPL	18	21,027	21,027	18,941			2,086	
Cash and cash equivalents	AC	20	36,939	36,939	36,939				
Liabilities									
Non-current liabilities									
Financial liabilities	AC	24	13,500	13,998	13,500				
Current liabilities									
Trade payables	AC	26	47,352	47,352	47,352				
Other liabilities	AC, FVPL	28	258	258	86		127	45	

Carrying amounts, measurement methods and fair values by measurement category in EUR'000	Measurement categories per IFRS 9	Note	Carrying amount	Fair value	Amortized cost	Fair value recognized in equity without subsequent reclassification into the income statement	Fair value through profit and loss	Hedge Accounting	Statement of financial position measurement method per IAS 17
Thereof aggregated by measurement categories									
Financial assets									
At amortized cost (AC)			77,088	77,088					
At fair value through other comprehensive income (FVOCI)			8,686	8,686					
At fair value through profit or loss (FVPL)			19,608	19,608					
Financial assets (hedging)			2,086	2,086					
Financial liabilities									
At amortized cost (AC)			60,941	61,439					
At fair value through profit or loss (FVPL)			127	127					
Financial liabilities (hedging)			45	45					

Carrying amounts, measurement methods and fair values by measurement category at 12/31/2017 (pursuant to IAS 39) in EUR'000	Note	Measurement category per IAS 39	Carrying amount 2017	Measurement method per IAS 39: Fair value 2017	(Amortized) cost	Fair value recognized in equity	Fair value through profit and loss	Hedge Accounting
Assets								
Non-current assets								
Financial assets	15	AfS	18,386	n/a	18,386	0	0	0
Current assets								
Trade receivables	17	LaR	39,921	39,921	39,921	0	0	0
Other assets	18	LaR, FA-HfT	16,337	16,337	16,336	0	1	0
Cash and cash equivalents	20	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
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				

Transition of the financial assets from IAS 39 to IFRS 9 in EUR'000	Carrying amount 12/31/2017 (IAS 39)	Reclassifications[6]	Reclassifications into other comprehensive income	New measurements[6]	Carrying amount 1/1/2018 (IFRS 9)	Effect to be recognized in profit/loss carried forward 1/1/2018	Balance, impairment, other comprehensive income 1/1/2018
At fair value through profit or loss (FVPL)							
Closing balance, IAS 39	1				1		
Additions/disposals to IFRS 9 - at fair value through profit or loss (FVPL)							
Additions from IAS 39 - Loans and receivables (LaR)		19,565		60	19,625	60	
					19,626	60	0
At fair value through other comprehensive income (FVOCI)							
Closing balance, IAS 39	18,386				18,386		
Additions/disposals to IFRS 9 - At fair value through other comprehensive income (FVOCI)							
					18,386	0	0
At amortized cost (AC)							
Closing balance, IAS 39	105,354				105,354		
Additions/disposals to IFRS 9 - at fair value through profit or loss (FVPL)							
Disposals from IAS 39 - Loans and receivables (LaR)		-19,565			-19,565		
					85,789	0	0
Total	**123,741**	**0**	**0**	**60**	**123,801**	**60**	**0**

6 Carrying amount existing under IAS 39 that was reclassified from an IAS 39 category into a new IFRS 9 category.

Classes of financial instruments under IFRS 9 in EUR'000	Measurement categories per IAS 39	Measurement categories per IFRS 9	Carrying amount 12/31/2017 IAS 39	Carrying amount 1/1/2018 IFRS 9	Difference
Assets					
Non-current assets					
Financial assets	AfS	FVOCI	18,386	18,386	0
Current assets					
Trade receivables	LaR	AC	39,921	20,356	-19,565
		FVPL		19,625	19,625
Other assets	LaR	AC	16,336	16,336	0
	HfT	FVPL	1	1	0
Cash and cash equivalents	LaR	AC	49,097	49,097	0
Liabilities					
Current liabilities					
Trade payables	FL-AC	AC	56,114	56,114	0
Other liabilities	FL-AC	AC	266	266	0
	FL-HfT	FVPL	459	459	0
	Hedge Accounting	Hedge Accounting	1,683	1,683	0

Financial assets - categories per IAS 39

Loans and receivables (LaR)

Available-for-sale financial assets (AfS)

Financial assets held for trading (FA-HfT)

Financial assets (hedge accounting)

Financial liabilities - categories per IAS 39

Measured at amortized cost (FL-AC)

Financial liabilities held for trading (FL-HfT)

Other financial liabilities (hedge accounting)

Financial assets - categories per IFRS 9

At fair value through profit or loss (FVPL)

At fair value through other comprehensive income (FVOCI)

At amortized cost (AC)

Financial assets (hedge accounting)

Financial liabilities - categories per IFRS 9

Measured at amortized cost (AC)

At fair value through profit or loss (FVPL)

Other financial liabilities (hedge accounting)

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 financial year 2018 as supplemental information.

12/31/2018		Hierarchy level			
EUR'000	Category	1	2	3	Total
Financial assets					
Non-current financial assets	FVOCI	0	0	8,686	8,686
Derivative financial instruments	Hedging	0	2,086	0	2,086
Financial liabilities					
Non-current financial liabilities	AC	0	13,998	0	13,998
Derivative financial instruments	FVPL / Hedging	0	172	0	172

1/1/2018		Hierarchy level			
EUR'000	Category	1	2	3	Total
Financial assets					
Non-current financial assets[7]	FVOCI	0	0	18,386	18,386
Derivative financial instruments	Hedging	0	1	0	1
Financial liabilities					
Non-current financial liabilities	AC	0	0	0	0
Derivative financial instruments	FVPL / Hedging	0	2,142	0	2,142

12/31/2017 (IAS 39)	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

7 The item "Non-current financial assets" was included for better comparability at January 1, 2018. As of December 31, 2017, the asset under "Non-current financial assets" was measured at amortized acquisition and production costs in accordance with the regulations of IAS 39 and was therefore not listed in the table at this reporting date.

In the 2018 financial year, the category of other assets included current derivative financial assets in the amount of EUR 2,086 thousand (PY: EUR 1 thousand). The other liabilities included current derivative liabilities in the amount of EUR 172 thousand (PY: EUR 2,142 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 as of 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 IFRS 9 and are therefore presented separately. As in the previous year, however, there were no liabilities under finance leases as of the reporting date. Therefore, there is also no separate presentation of these items.

The noncurrent financial assets include the carrying amount of the investment in Gigaset Mobile Pte. Ltd., Singapore, which was assigned to the category "At fair value through other comprehensive income (FVOCI)". Since the shares in Gigaset Mobile Pte. Ltd. are equity instruments, Gigaset exercised the option allowed by IFRS 9.5.7.5 and irrevocably assigned these financial assets to the category "At fair value through other comprehensive income (FVOCI)". A multiple approach was used at the transition date of January 1, 2018, based on available information for the measurement. Since no separate peer group exists or could be defined for Gigaset Mobile Pte. Ltd., the peer group of Gigaset was used. The market value of Gigaset's 14.98% share was calculated based on a revenue multiple of 0.33 and average revenues for the years 2014 to 2017. The 2017 revenues are not based on the actual figures from the company, but rather on the most recently available values from the planning calculations of Gigaset Mobile Pte. Ltd. In accordance with IFRS 13, the calculation of the fair values was assigned to Level 3 of the measurement categories for the determination of fair values. New information was available from Gigaset Mobile Pte. Ltd. in the 2018 financial year. Due to the circumstance that no current planning was provided, Gigaset decided to measure the fair value based on the company's most recent audited annual financial statements and the derived claim to proportional equity. Due to the circumstance that this is a company operating in a foreign currency, the effects of changed exchange rates also had to be factored in. The changed measurement of Gigaset Mobile Pte. Ltd. led to an impairment of EUR 9,800 thousand, which was recognized directly in other comprehensive income due to its classification as FVOCI. In accordance with IFRS 13, the calculation of the fair values must be assigned to Level 3 of the measurement categories for the determination of fair values. If the equity of Gigaset Mobile Pte. Ltd. changed by 10%, then Gigaset's claim to the proportional equity would also change by 10%. The development of noncurrent financial assets is presented in the table below:

EUR'000	2018
Value at 1/1	**18,386**
Impairment (not affecting net income)	-9,800
Foreign currency effects (not affecting net income)	100
Value at 12/31	**8,686**

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 as of 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 noncurrent 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.

Net gains or losses under financial instruments

	From interest	From subsequent measurement			From disposal	
2018 (IFRS 9) in EUR'000		At fair value	Currency translation	Value adjustment		Net gain or loss
Financial assets						
AC	0	0	-74	-118	0	-192
FV	-408	0	0	0	0	-408
FVOCI (with no effect on income)	0	-9,800	100	0	0	-9,700
Financial liabilities						
AC	-321	0	-588	0	100	-809
Derivative financial instruments						
FV	0	332	0	0	0	332
Hedging (affecting net income)	0	0	0	0	1,431	1,431
Hedging (with no effect on income)	0	2,292	0	0	0	2,292
2017 (IAS 39) in EUR'000						
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

Interest from financial instruments is presented within other interest and similar income and interest and similar expenses (see Notes 8 and 9). 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 2018 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 decreased purchased goods and services by EUR 1,431 thousand and in the previous year they increased purchased goods and services by EUR 2,308 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 and amount to EUR 332 thousand in the reporting year (PY: EUR -458 thousand).

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 in Other operating income and Other operating expenses (see Notes 4 and 6).

Net gains or losses on assets carried at amortized cost (AC) include changes in impairments, gains or losses on currency translation, gains on disposal, and payments recovered and reversals of earlier impairments in loans and receivables.

Net gains or losses on financial liabilities at amortized cost (AC) 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 noncurrent 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 as of the reporting date, with due consideration given to book equity.

Change in the gearing ratio:

EUR'000	2018	2017
Non-current liabilities	92,170	88,713
Current liabilities	95,883	114,060
Liabilities	188,053	202,773
Equity	**25,021**	**24,088**
Gearing Ratio	**7.5**	**8.4**

D. NOTES TO THE INCOME STATEMENT

1. Revenues

Revenues of the Group resulted primarily from the sale of goods and breaks down as follows:

EUR'000	2018	2017
Trade revenues	39,513	40,656
Production revenues	240,818	252,640
Total	**280,331**	**293,296**

Revenues are distributed over the following business areas:

EUR'000	2018	2017
Phones	193,393	215,347
Professional	59,867	55,272
Smartphones	23,903	20,555
Smart Home	3,168	2,122
Total	**280,331**	**293,296**

The distribution of revenues by regions can be seen in the following breakdown:

2018 in EUR'000	Germany	France	Europe (excluding Germany and France)	Rest of World	Group
Phones	78,381	34,910	64,973	15,128	193,393
Professional	28,259	9,061	22,153	394	59,867
Smartphones	16,405	2,467	4,907	123	23,903
Smart Home	1,400	835	901	33	3,168
Total	**124,445**	**47,273**	**92,934**	**15,678**	**280,331**

There was no portfolio of unsatisfied performance obligations as of the reporting date.

2. Purchased goods and services

EUR'000	2018	2017
Raw materials and supplies	-114,103	-116,107
Purchased goods	-27,966	-28,487
Other	-4,587	-2,202
Total	**-146,656**	**-146,796**

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 positive effects of hedges of materials purchases in foreign currencies compared to the previous year in the amount of EUR 1,431 thousand (PY: negative effects of EUR 2,308 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.

4. Other operating income

EUR'000	2018	2017
Exchange rate gains	5,789	4,381
Reversal of provisions	2,910	6,308
Disposal of noncurrent assets	0	78
On-debiting	483	0
Income from the reversal of value adjustments	247	422
Miscellaneous operating income	4,274	4,819
Other operating income	**13,703**	**16,008**

The exchange rate gains of EUR 5.8 million (PY: EUR 4.3 million) included income from realized and unrealized foreign currency gains in the amount of EUR 5.5 million (PY: EUR 4.4 million) and derivative financial instruments in the amount of EUR 0.3 million (PY: EUR 1 thousand).

The reversals of provisions primarily include the reversal of provisions for licenses and for bonus provisions, each in the amount of EUR 1.2 million. In the previous year, the reversals of provisions were allocated to the reversal of provisions for restructuring in the amount of EUR 4.7 million, a bonus provision (EUR 0.6 million), a provision for compensation for loss or damage (EUR 0.3 million), and an anniversary provision (EUR 0.1 million).

The miscellaneous other operating income primarily relates to income from rents in the amount of EUR 1.1 million (PY: EUR 1.2 million).

5. Personnel expenses

EUR'000	2018	2017
Personnel expenses before restructuring	-60,301	-65,962
Personnel expenses from restructuring	-266	-1,347
Total (personnel expenses)	**-60,567**	**-67,309**

Total **personnel expenses** break down as follows:

EUR'000	2018	2017
Wages and salaries	-47,960	-53,393
Social security, pension expenses and other benefit expenses	-12,607	-13,916
Total	**-60,567**	**-67,309**

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

EUR'000	2018	2017
Gigaset Group	-59,656	-64,311
Holding company	-911	-2,998
Total	**-60,567**	**-67,309**

6. Other operating expenses

EUR'000	2018	2017
Marketing and entertainment expenses	-32,678	-25,558
Administrative expenses	-10,787	-11,094
Employee leasing	-8,324	-6,498
Outgoing freight / transport costs	-6,958	-6,788
Exchange rate changes	-6,120	-4,638
Advisory and audit fees	-2,905	-3,658
Expenses for land/buildings (including rent)	-2,862	-3,015
Patent and licensing fees	-2,393	-3,051
Maintenance of technical equipment, machinery, operational and office equipment	-1,846	-1,731
Other taxes	-1,337	-1,270
Addition to warranty provisions	-1,316	-1,130
Research and development expenses	-1,231	-1,229
Miscellaneous other operating expenses	-3,619	-3,855
Total	**-82,376**	**-73,515**

The marketing and entertainment expenses of EUR -32,678 thousand (PY: EUR -25,558 thousand) were primarily incurred at Gigaset Communication GmbH, at EUR -14,854 thousand. The increase in marketing expenses compared to the previous year can be explained primarily by the Smartphones segment as well as the introduction of the new SmartCare division to the market and the related marketing activities. In addition, increased investments were made in the 2018 financial year in the areas of social media and corporate communications, which are becoming increasingly important.

7. Depreciation, amortization and impairments

EUR'000	2018	2017
Depreciation and amortization	-13,607	-15,160
Impairments	0	-2,984
Total	**-13,607**	**-18,144**

Impairments in the amount of EUR 2,984 thousand were recognized for capitalized development expenses in the 2017 financial year. 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 were included in the Germany reporting segment.

8. Other interest and similar income

Other interest and similar income in the amount of EUR 179 thousand (PY: EUR 54 thousand) consisted mainly of interest on bank balances and the discounting of long-term provisions, which are measured at amortized cost.

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

9. Interest and similar expenses

Interest and similar expenses in the amount of EUR -1,244 thousand (PY: EUR -1,150 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 -453 thousand (PY: EUR -546 thousand), the interest expenses for factoring in the amount of EUR -408 thousand (PY: EUR -415 thousand), and the interest expenses from the financing concluded in 2018 in the amount of EUR -329 thousand. The interest expenses from factoring reduce the net result of the category "At fair value through profit or loss".

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

10. Income taxes

The income tax expenses of EUR -4,064 thousand (PY: EUR -3,247 thousand) break down as follows:

EUR'000	2018	2017
Current tax expenses	-4,963	-3,683
Deferred tax expenses (-) / income (+)	899	436
Total income tax expenses	**-4,064**	**-3,247**

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 multiplied 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	2018	2017
Result before income taxes	7,458	11,125
Applicable income tax rate	33.0%	33.0%
Expected income tax expenses (-) / income (+)	-2,460	-3,671
Tax rate changes	-1	303
Tax rate differences	274	293
Tax-exempt income	78	0
Non-deductible tax expenses	-1,086	-446
Change in value adjustment on deferred tax assets and non-recognized deferred tax assets for tax loss carry-forwards	-1,224	-292
Non-period current taxes	-107	-100
Other effects	462	666
Stated income tax expenses	**-4,064**	**-3,247**
Effective tax rate	-54.5%	-29.2%

11. Earnings per share

The basic and diluted earnings per share amounted to EUR 0.03 in financial year 2018 (PY: EUR 0.06), as per the following calculation:

EUR'000	2018	2017
PROFIT/LOSS		
Basis for **basic earnings** per share (share of period profit/ loss attributable to shareholders of the parent company)	3,394	7,878
Effect of potentially diluting common shares: Stock options	0	0
Basis for the **diluted earnings** per share	3,394	7,878
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)	0.03	0.06
Diluted earnings per share (in EUR)	0.03	0.06

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.

12. Dividend proposal

No dividend was paid to shareholders in 2018 for financial year 2017.

The net loss of Gigaset AG calculated in accordance with the German Commercial Code (GCC) amounted to EUR -52.7 million. The result is primarily influenced by amortization applied to the shares of GIG Holding GmbH, Munich, in the amount of EUR 45.8 million, as well as amortization applied to the shares of Gigaset Industries GmbH, Austria, in the amount of EUR 3.9 million. Taking the loss carry-forward of EUR -138.8 million into account, this resulted in a net loss of EUR -191.5 million. The Executive Board and the Supervisory Board will propose to the Annual General Meeting that the Company carry forward this amount to new account.

E. NOTES TO THE STATEMENT OF FINANCIAL POSITION

13. Intangible assets

EUR'000	Franchises, intellectual property rights, and similar rights and licenses	Other intangible assets	Advance payments	Total
Acquisition costs, 1/1/2018	**23,563**	**102,471**	**3,045**	**129,079**
Currency translation	-6	0	0	-6
Acquisitions	233	8,791	10	9,034
Disposals	-5	-8,794	0	-8,799
Transfers	10	0	-10	0
Balance at 12/31/2018	**23,795**	**102,468**	**3,035**	**129,298**
Amortization 1/1/2018	-14,296	-81,665	-3,035	-98,996
Currency translation	5	0	0	5
Acquisitions	-856	-7,294	0	-8,150
Impairments	0	0	0	0
Disposals	5	8,794	0	8,799
Balance at 12/31/2018	**-15,142**	**-80,165**	**-3,035**	**-98,342**
Net carrying amount 12/31/2018	**8,654**	**22,303**	**0**	**30,957**
Net carrying amount 12/31/2017	**9,267**	**20,806**	**10**	**30,083**
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
Impairments	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**

The item of franchises, intellectual property rights and similar rights was composed as follows:

in EUR'000	12/31/2018	12/31/2017
Brand names	8,399	8,399
Patents	0	803
Franchises	255	65
	8,654	**9,267**

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.

As of 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 as of December 31, 2018 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: three-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 4.5% p.a. and 4.9% p.a. (PY: 4.2% und 4.6% p.a.). Appropriate growth rates were applied for the period beyond the detailed planning period. The applied discount factor after taxes was 7.9% p.a. (PY: 8.2% 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 are meant to protect certain production processes of the Gigaset Group. They were recognized in the 2007 financial year within the framework of acquisition and the purchase price allocation carried out and are amortized on a straight-line basis over an average useful life of about 10 years.

The franchises in the amount of EUR 255 thousand (PY: EUR 65 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 22,303 thousand (PY: EUR 20,806 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 1,231 thousand (PY: EUR 1,229 thousand) were recognized as expenses in the 2018 financial year, primarily at Gigaset Communications GmbH. Impairments in the amount of EUR 2,984 thousand were recognized for capitalized development expenses in the 2017 financial year.

No capitalized goodwill existed as of the reporting date.

In addition, borrowing costs of EUR 197 thousand (PY: EUR 147 thousand) were capitalized in the reporting year. The underlying interest rate is 2.48% (PY: 2.03 %).

14. 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, 1/1/2018	**4,025**	**20,427**	**2,284**	**24,449**	**476**	**51,661**
Currency translation	0	0	-2	-27	0	-29
Acquisitions	0	0	357	5,112	0	5,469
Disposals	0	-775	-152	-8,677	0	-9,604
Transfers	0	0	0	396	-396	0
Balance at 12/31/2018	**4,025**	**19,652**	**2,487**	**21,253**	**80**	**47,497**
Amortization 1/1/2018	**0**	**-11,307**	**-1,250**	**-15,791**	**0**	**-28,348**
Currency translation	0	0	2	23	0	25
Acquisitions	0	-1,078	-349	-4,030	0	-5,457
Disposals	0	775	152	8,675	0	9,602
Balance at 12/31/2018	**0**	**-11,610**	**-1,445**	**-11,123**	**0**	**-24,178**
Net carrying amount 12/31/2018	**4,025**	**8,042**	**1,042**	**10,130**	**80**	**23,319**
Net carrying amount 12/31/2017	**4,025**	**9,120**	**1,034**	**8,658**	**476**	**23,313**
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**

As of 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 2018.

In the current year, as in the previous year, no borrowing costs were capitalized as property, plant and equipment.

15. Financial assets

The noncurrent financial assets include the carrying amount for the investment in Gigaset Mobile Pte. Ltd., Singapore, which was assigned to the category "At fair value through other comprehensive income (FVOCI)". Since the shares in Gigaset Mobile Pte. Ltd. are equity instruments, Gigaset exercised the option allowed by IFRS 9.5.7.5 and irrevocably assigned these financial assets to the category "At fair value through other comprehensive income (FVOCI)". A multiple approach was used at the transition date of January 1, 2018, based on available information for the measurement. Since no separate peer group exists or could be defined for Gigaset Mobile Pte. Ltd., the peer group of Gigaset was used. The market value of Gigaset's 14.98% share was calculated based on a revenue multiple of 0.33 and average revenues for the years 2014 to 2017. The 2017 revenues are not based on the actual figures from the company, but rather on the most recently available values from the planning calculations of Gigaset Mobile Pte. Ltd. In accordance with IFRS 13, the calculation of the fair values was assigned to Level 3 of the measurement categories for the determination of fair values. New information was available from Gigaset Mobile Pte. Ltd. in the 2018 financial year. Due to the circumstance that no current planning was provided, Gigaset decided to measure the fair value based on the company's most recent audited annual financial statements and the derived claim to proportional equity. Due to the circumstance that this is a company operating in a foreign currency, the effects of changed exchange rates also had to be factored in. The changed measurement of Gigaset Mobile Pte. Ltd. led to an impairment of EUR 9.7 million, which was recognized directly in other comprehensive income due to its classification as FVOCI. In accordance with IFRS 13, the calculation of the fair values must be assigned to Level 3 of the measurement categories for the determination of fair values.

16. Inventories

Inventories break down as follows:

EUR'000	12/31/2018	12/31/2017
Raw materials and supplies	10,288	7,172
Semi-finished goods, semi-finished services	1,252	1,423
Finished goods, trading stock and finished services	20,363	14,308
Advance payments	817	3,830
Total	**32,720**	**26,733**

Inventories are measured at the lower of acquisition or production cost and the net realizable value less costs to sell as of the reporting date. The value adjustments comprised within purchased goods and services amounted to EUR 2,331 thousand as of the reporting date (PY: EUR 187 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.

17. Trade receivables

EUR'000	12/31/2018	12/31/2017
Receivables before value adjustments	44,579	43,734
Individual value adjustments	-3,763	-3,813
Carrying amount of receivables	**40,816**	**39,921**

The value adjustments charged against trade receivables showed the following development:

EUR'000	2018	2017
01/01	3,813	3,938
Addition	318	327
Consumption	-121	-30
Reversal	-247	-422
12/31	**3,763**	**3,813**

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 as of 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 56,029 thousand (PY: EUR 44,762 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 IFRS 9, therefore, the companies recognized a so-called "continuing involvement" of EUR 183 thousand (PY: EUR 170 thousand), which was composed of the remaining interest rate risk in the amount of EUR 183 thousand (PY: EUR 170 thousand). The expenses in connection with factoring amounted to EUR 667 thousand in the financial year (PY: EUR 657 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 6,515 thousand (PY: EUR 4,666 thousand).

The age structure of trade receivables as of December 31, 2018 is presented in the table below:

EUR'000	2018	2017
Carrying amount	**40,816**	**39,921**
Thereof: neither value-adjusted nor past due as of the reporting date	30,379	31,535
Thereof: value-adjusted as of the reporting date	3,763	3,813
Thereof: not value-adjusted, but past due by the following time intervals as of the reporting date	6,674	4,573
Past due up to 90 days	3,427	2,658
Past due 90 days to 180 days	1,501	313
Past due more than 180 days	1,746	1,602

For Group companies that use factoring, the unsold trade receivables 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 mixed 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 they 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 receivables not subject to factoring are measured at amortized cost (AC). 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. This model measures the trade receivables that are neither individually value adjusted nor secured by collateral. The expected impairment is calculated using historically observable cumulative receivables from past-due items, actual defaults from past-due items, and past-due receivables that have recovered. This data is used to calculate probabilities of default that are based on a complete adjustment to macroeconomic expectations. Application of the impairment model leads to a lower need for impairments in the amount of EUR 17 thousand. Receivables without value adjustments that are not past due as of the reporting date are not subjected to impairments under the simplified approach since the measurement model does not result in any significant need for impairments.

2018 in EUR'000	Not past due	Past due 0 days to 30 days	Past due 31 days to 90 days	Past due 91 days to 180 days	Past due more than 180 days	Total
Expected loss rate	9.0%	27.0%	1.0%	2.0%	23.0%	
Trade receivables	34,701	2,713	725	1,501	4,932	44,572
Expected loss	-15	-2	0	0	0	-17

The application of the impairment model is not material for the Gigaset Group since the majority of the portfolio of trade receivables are tendered for sale within the framework of factoring.

The individual value adjustments are reconciled with the following measurement categories according to IFRS 9 as follows:

Value adjustments 2018	Measurement categories	EUR'000
As per IAS 39	LaR	-3,762
As per IFRS 9	FVPL	-3,349
As per IFRS 9	AC	-414

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 22,765 thousand (PY: EUR 37,786 thousand) as security for trade receivables and outstanding invoices in financial year 2018.

By reason of the international activity of the Gigaset Group, the following receivables denominated in foreign currencies were converted to the Group currency (EUR) as of December 31, 2018:

	12/31/2018		12/31/2017	
Foreign currency	EUR'000	%	EUR'000	%
RUB (Russian ruble)	2,297	28.3	2,682	29.2
TRL (Turkish lira)	2,095	26.1	2,732	29.8
GBP (British pound)	1,690	20.9	1,785	24.3
CNY (Chinese renminbi yuan)	1,022	12.7	308	0.7
USD (US dollar)	496	6.1	893	7.7
PLN (Polish zloty)	253	3.1	557	6.4
SEK (Swedish krona)	144	1.8	130	0.7
Other	81	1.0	96	0.5
Total	**8,078**	**100.0**	**9,183**	**100.0**

18. Other assets

The following amounts were comprised within the item of other assets:

EUR'000	12/31/2018	12/31/2017
Receivables from factoring	14,209	10,415
Tax receivables	5,076	7,290
Receivables from pension liability insurance	2,950	1,833
Derivatives	2,086	1
Recourse receivable	1,350	1,544
Accrual	542	408
Security deposits	432	2,453
Debit balances in vendor accounts	288	91
Personnel receivables	43	43
Other assets	2,040	1,600
Total	**29,016**	**25,678**

The receivables from factoring in 2018 consisted of both the outstanding portion of the purchase price receivables in the amount of EUR 12,105 thousand (PY: EUR 10,415 thousand) and receivables from offsetting in the amount of EUR 2,104 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 value sales tax refund claims in the amount of EUR 4,128 thousand (PY: EUR 7,007 thousand).

The recourse receivable relates to a former investment by the Group in Oxy Holding GmbH in the amount of EUR 1,350 thousand (PY: EUR 1,544 thousand).

The reduction in the security deposits from EUR 2,453 thousand to EUR 432 thousand is primarily attributable to the repayment of an escrowed derivative line within the framework of the hedging of foreign currency risks.

19. Tax refund claims

This item in the amount of EUR 471 thousand (PY: EUR 513 thousand) was composed exclusively of income tax refund claims, including an amount of EUR 468 thousand (PY: EUR 466 thousand) attributable to the Gigaset Group.

20. 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. The restricted cash has been pledged as security for credit facilities and for currency hedging transactions.

EUR'000	12/31/2018	12/31/2017
Cash in banks	33,842	44,646
Restricted cash	3,097	4,451
Total	**36,939**	**49,097**

21. 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 as of the reporting date of December 31, 2018 and none were held as of December 31, 2017.

Additional paid-in capital

Additional paid-in capital as of December 31, 2018 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 General Meeting of August 12, 2014 resolved to create an authorized capital account (Authorized Capital 2014). Pursuant to Article 4 (6) of the Articles of Association, 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 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 Association in accordance with the specific scope of the capital increase from the Authorized Capital 2014. As of December 31, 2018, the Authorized Capital 2014 remained unchanged at EUR 22,000,000.00.

Authorized Capital 2016

The Annual General 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 the previous years. Pursuant to the reworded Article 4 (5) of the Articles of Association, 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 Association in accordance with the specific scope of the capital increase from the Authorized Capital 2016. As of December 31, 2018, 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. As of December 31, 2018, 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 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. As of December 31, 2018, the Contingent Capital 2016 remained unchanged at EUR 29,700,000.00.

22. Pension obligations

22.1 Description of pension commitments

22.1.1 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 12/31/2018 (in EUR'000):

Country	Pension obligation	Plan assets	Net obligation
Germany	111,293	38,035	73,258
Switzerland[8]	2,477	2,416	61
Italy	106	0	106
Austria	32	0	32
Total	**113,908**	**40,451**	**73,457**

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	3,231	2,451	780
Italy	388	0	388
Austria	70	0	70
Total	**123,116**	**41,684**	**81,432**

Because Germany's share of the pension obligations is about 98% (PY: about 97%) and its share of the net obligations is about 99% (PY: about 98%), only the German pension plans and the risk factors for the German obligations will be described in more detail.

22.1.2 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

8 Asset ceiling for a portion of the pension obligations

can receive contributions to the new capital account plan, if funds are allocated to it by the Company. The Company can make a new decision on an allocation annually. For 2018, 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: 0.9%).

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.

22.1.3 Significant risk factors

The primary risk consists of the pension obligations from status of possession, since they constitute about 84% (PY: about 83%) 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 3%) 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 22.2.

22.1.3.1 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.

22.1.3.2 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.

22.1.3.3 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.

22.2 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 12/31/2018:	EUR 111,293 thousand
B	Weighted average duration of the obligation (Macaulay duration based on best-estimate assumptions):	17.0 years

C Significant actuarial assumptions at 12/31/2018

Parameter	Initial value	Sensitivity analysis	DBO in EUR'000
Discount rate	1.85%	+0.50%	102,586
Discount rate	1.85%	-0.50%	121,269
Inflation (pension trend)	1.80%	+0.25%	114,493
Inflation (pension trend)	1.80%	-0.25%	108,253
Longevity	Heubeck 2018 G	+1 Year	114,705
Longevity	Heubeck 2018 G	-1 Year	107,849

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

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).

22.3 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	12/31/2018	12/31/2017
Gigaset Group	72,616	79,711
Holding company	841	1,721
Total	**73,457**	**81,432**

The reduction in the pension provision compared to the previous year resulted mainly from an adjustment in the calculation methodology. Applying the new 2018 Heubeck life expectancy tables had the effect of increasing the pension obligations in Germany by about EUR 0.9 million. The projected pension increase, adjusted from 2.0% p.a. to 1.8% p.a. for Germany based on current projections, had a reducing effect in the amount of about EUR 2.6 million, as did the adjustment in the assumption of utilization of the possible disbursement options of the guaranteed pension payments based on current historical data, in the amount of about EUR 5.8 million.

The revaluation effects from defined benefit plans are recognized in "accumulated other comprehensive income" within equity, while the ongoing change in the period is presented 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	2018	2017
Balance at 01/01	**123,116**	**123,322**
Current service cost	1,513	1,799
Employee contributions	174	124
Interest expenses	2,213	2,218
Pension benefits paid	-2,971	-2,194
Pension benefits paid, plan settlements	0	-41
Actuarial gains/losses from demographic assumptions	-4,176	0
Actuarial gains/losses from financial assumptions	-3,165	-196
Actuarial gains/losses from experience values	-2,181	-1,849
Transfer of claims	-707	202
Foreign currency effects	92	-269
Balance at 12/31	**113,908**	**123,116**

The pension expenses recognized in the current financial year were composed of the following elements:

EUR'000	2018	2017
Current service cost	1,513	1,799
Net interest on net liability	1,486	1,468
Effects from plan settlements	0	-41
Total pension expenses	**2,999**	**3,226**

Pension expenses are presented as personnel expenses in the item of social security, pension and other benefits. The current income on plan assets was EUR 1,155 thousand (PY: EUR 335 thousand).

The revaluation effects from defined benefit plans are recognized in the item "accumulated other comprehensive income" within equity.

EUR'000	2018	2017
Balance at 01/01	**-55,765**	**-57,395**
Revaluation effects in current year	9,802	1,630
Balance at 12/31	**-45,963**	**-55,765**

The plan assets showed the following development:

EUR'000	2018	2017
Fair value of plan assets at 01/01	**41,684**	**42,579**
Expected net interest income	727	750
Difference between expected net interest income and actual net interest income	428	-415
Employer contributions	62	75
Employee contributions	178	118
Benefits paid	-1,848	-1,447
Transfer of claims	-725	192
Foreign currency effects	93	-168
Fair value of plan assets at 12/31	**40,599**	**41,684**

The plan assets for the current financial year break down as follows:

EUR'000	2018	2017
Special funds	37,476	39,067
Fixed-income securities	1,106	971
Equities	596	673
Real estate and real estate funds	539	481
Other	882	492
Total	**40,599**	**41,684**

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 plan assets do not contain any real estate that is used by Gigaset itself.

The expected contributions to plan assets for the following year totaled EUR 241 thousand (PY: EUR 194 thousand). The expected benefit payments in the following year are expected to total EUR 2,885 thousand (PY: EUR 2,522 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 4,443 thousand (PY: EUR 4,625 thousand) for the Group.

No payments were made in respect of defined-contribution plans, as in the previous year.

The calculation was based on the following weighted actuarial assumptions:

in %	2018	2017
Discount rate	1.83	1.82
Salary trend	2.24	2.24
Pension trend	1.76	1.94
Mortality tables:		
Germany	Heubeck 2018 G	Heubeck 2005 G
Switzerland	BVG 2005	BVG 2005
Italy	ISTAT 2017	ISTAT 2015
Austria	Pagler 2018 Generation Table, Salaried Employees	Pagler 2008 Generation Table, Salaried Employees

The provision for pension obligations was measured as follows:

EUR'000	2018	2017
Projected unit credit value of pension obligations	113,908	123,116
- internally financed	3,275	4,258
- externally financed	110,633	118,858
Fair value of plan assets	-40,599	-41,684
Assets not recognized	148	0
Total pension provisions	**73,457**	**81,432**

The provision showed the following development over time:

EUR'000	2018	2017
Pension provision at 1/1	**81,432**	**80,743**
Current service cost	1,513	1,799
Net interest expenses/income	1,486	1,468
Actuarial gains/losses from demographic assumptions	-4,176	0
Actuarial gains/losses from financial assumptions	-3,165	-196
Actuarial gains/losses from experience values	-2,181	-1,849
Difference between expected net interest income and actual net interest income from plan assets	-428	415
Pension benefits paid	-1,123	-747
Employer contributions	-62	-75
Employee contributions	-4	6
Plan settlements	0	-41
Change in assets not recognized	148	0
Carryover of claims	18	10
Foreign currency effects	-1	-101
Pension provision 12/31	**73,457**	**81,432**

23. Provisions

TEUR	Balance at 01/01/2018	Utilization	Reversal	Addition	Reclassification	Currency/interest effects	Balance at 12/31/2018
Restructuring	2,981	-2,803	-169	0		-9	0
Personnel	4,824	-2,455	-55	728		0	3,042
Warranties	3,519	-1,264	0	596		-4	2,847
Onerous contracts	487	-27	0	68		0	528
Customer bonus	6,822	-7,809	-810	8,773	449	-42	7,383
License costs	2,840	-1,021	-1,242	1,559		30	2,166
Other	6,274	-1,072	-487	1,794	-449	-51	6,020
Total	**27,900**	**-16,451**	**-2,763**	**13,518**	**0**	**-76**	**22,128**

Miscellaneous other provisions particularly include provisions for external audits, provisions for retention costs, annual general meeting expenses, and annual report expenses, as well as Supervisory Board compensation and legal disputes. In the previous year, miscellaneous other provisions also included the costs for customer bonuses and license costs, which are presented separately starting in the 2018 financial year.

The **warranty provisions** of EUR 2,847 thousand (PY: EUR 3,519 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	12/31/2018	12/31/2017
Partial early retirement	2,287	3,977
Service anniversary bonuses	755	847
Total	**3,042**	**4,824**

The **provisions for onerous contracts** related mainly to disadvantageous rental, usage and service agreements. They break down as follows:

EUR'000	12/31/2018	12/31/2017
Gigaset Group	68	6
Holding company	460	481
Total	**528**	**487**

The **maturity structure of provisions** is presented in the table below:

EUR'000	12/31/2018	12/31/2017
Non-current provisions	3,773	5,609
Current provisions	18,355	22,291
Total	**22.128**	**27,900**

Noncurrent provisions, which have a maturity of more than one year, were divided among the various categories as follows:

EUR'000	12/31/2018	12/31/2017
Personnel	1,995	3,735
Warranties	414	545
Onerous contracts	460	481
Environmental risks	132	146
Restructuring	0	25
Other	772	677
Total	**3,773**	**5,609**

24. Non-current financial liabilities

In April 2018, the Group signed a new credit facility in the amount of up to EUR 20.0 million. The funds available on this basis are intended to be used both to finance investments and also to cover the Company's financing needs. The accumulated drawdowns amount to EUR 13,500 thousand as of December 31, 2018 (PY: EUR 0 thousand). Starting in January 2020, repayment of the loan amount outstanding on that date will begin, in 34 monthly installments. Interest payments must be made at the end of each month. Accordingly, the current loan balance in the amount of EUR 13,500 thousand has a maturity of more than 1 year and less than 5 years.

The fixed-interest loan is granted in euros and has an effective annual interest rate of 3.98% p.a.; it is measured at amortized cost. Accordingly, it has no effect on the Group's position with regard to foreign currency and interest rate risks. Please see the discussion under Section C., Notes on Financial Instruments, for further discussion regarding the required statements for financial liabilities.

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	12/31/2018	12/31/2017
Deferred tax assets		
Intangible assets	51	68
Property, plant and equipment	1	6
Inventories	12	22
Receivables and other current assets	166	65
Provisions	20,790	22,530
Liabilities	447	491
Derivatives	55	681
Tax loss carry-forwards	196	375
Total deferred tax assets	**21,718**	**24,238**
thereof current	768	1,625
thereof noncurrent	20,950	22,613
Deferred tax liabilities		
Intangible assets	9,138	8,464
Property, plant and equipment	2,546	2,804
Inventories	164	308
Receivables and other current assets	88	121
Provisions	337	635
Derivatives	663	0
Liabilities	72	432
Total deferred tax liabilities	**13,008**	**12,764**
thereof current	1,243	2,164
thereof noncurrent	11,765	10,600
Net balance of deferred tax assets and liabilities	11,568	11,101
Stated amount of deferred tax assets	**10,150**	**13,137**
Stated amount of deferred tax liabilities	**1,440**	**1,663**

No deferred tax assets were recognized in respect of corporate income tax loss carry-forwards totaling EUR 54,888 thousand (PY: EUR 48,548 thousand) and trade tax loss carry-forwards totaling EUR 36,883 thousand (PY: EUR 29,978 thousand). Of the non-recognized corporate income tax loss carry-forwards, an amount of EUR 16,246 thousand related to foreign companies (PY: EUR 17,385 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 primarily relate to the Austrian subsidiary (PY: Austrian and Spanish subsidiaries).

Gigaset did not recognize deferred tax assets on temporary differences in the amount of EUR 1,669 thousand (PY: EUR 1,557 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 64.3 million (PY: EUR 83.9 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	12/31/2018	12/31/2017
Carrying amount	**47,355**	**56,114**
thereof due in the following time periods:		
< 30 days	35,351	39,032
30 – 90 days	12,002	16,255
90 – 180 days	2	758
180 days – 1 year	0	69

The largest amounts of trade payables were owed by the following corporate groups:

EUR'000	12/31/2018	12/31/2017
Gigaset Group	47,155	55,688
Holding company	200	426
Total	**47,355**	**56,114**

By reason of the international activity of the Gigaset Group, the trade payables as of December 31, 2018, included the following amounts denominated in foreign currencies, which have been translated to the euro, as the Group currency:

	12/31/2018		12/31/2017	
Foreign currency	EUR'000	%	EUR'000	%
USD (US dollar)	20,442	84.4	23,651	88.5
CNY (Chinese renminbi yuan)	2,241	9.3	1,660	6.2
CHF (Swiss franc)	434	1.8	264	1.0
TRL (Turkish lira)	332	1.4	268	1.0
GBP (British pound)	297	1.2	363	1.4
PLN (Polish zloty)	126	0.5	131	0.5
JPY (Japanese yen)	89	0.4	106	0.4
SEK (Swedish krona)	73	0.3	80	0.3
Other	165	0.7	191	0.7
Total	**24,199**	**100.0**	**26,714**	**100.0**

27. Tax liabilities

This item in the amount of EUR 15,005 thousand (PY: EUR 17,166 thousand) was composed exclusively of current income tax liabilities, including an amount of EUR 14,889 thousand (PY: EUR 17,046) attributable to Gigaset Communications GmbH and its subsidiaries.

28. Current other liabilities

EUR'000	12/31/2018	12/31/2017
Other personnel-related liabilities	5,805	5,659
Other taxes	3,752	3,568
Customs liabilities	2,940	4,536
Social security contributions	569	692
Advance payments received	218	243
Derivatives	172	2,142
Wages and salaries	85	266
Miscellaneous other liabilities	1,627	1,383
Total	**15,168**	**18,489**

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	12/31/2018	12/31/2017
Profit-based bonuses and other bonuses	1,799	1,926
Vacation leave not taken	1,659	1,874
Work time accounts	1,195	1,090
Miscellaneous personnel-related liabilities	1,152	769
Total	**5,805**	**5,659**

F. OTHER INFORMATION

29. Segment report

The segment report is based on geographical segments, in accordance with the Group's internal reporting system. 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 mainly 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.
- "EU"
  The "EU" (European Union) 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.

Until the end of May 2018, the relevant segment result was the result from the core business before depreciation and amortization. Starting in June 2018, the relevant segment result is the EBITDA. Both indicators are presented due to the change during the current year.

For purposes of internal segment reporting, revenues by country are reported both on the basis of the receiving entities and the registered head office of the respective company ("country of domicile").

Revenues by receiving entities represent 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 revenues are assigned to the region of "Europe – EU (excluding Germany)" in the presentation by receiving entities. In the table below, revenues are 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 2018 and the comparison period:

EUR'000	2018	2017
Germany	124,445	124,596
France	47,273	46,770
Europe (excluding Germany and France)	92,935	103,500
Rest of World	15,678	18,430
Total	**280,331**	**293,296**

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 revenues are assigned to the "Germany" region for purposes of the presentation by country of domicile. Revenues classified by country of domicile are presented in the following tables. Until the end of May 2018, the relevant segment result (result from the core business before depreciation and amortization) was determined on the basis of the results of the respective legal entities (country of origin). Since June 2018, the relevant segment result has been the EBITDA.

There were no significant individual customers, neither in the current year nor in the previous year, whose revenue share reached or exceeded 10 percent of total revenues.

Until May 2018, the segment report was presented in the same way as at the end of financial year 2017, in the following form (prior to adjustment of the structure of the income statement during the time when the consolidated financial statements were prepared):

January 1 to December 31, 2018 in EUR'000	Germany	EU	Rest of World	Gigaset TOTAL	Holding company	Group
Revenues	148,340	104,784	27,207	280,331	0	280,331
Earnings from core business before depreciation and amortization	21,333	1,398	448	23,179	-3,203	19,976
Depreciation and amortization	-13,497	-97	-13	-13,607	0	-13,607
Earnings from core business after depreciation and amortization	7,836	1,301	435	9,572	-3,203	6,369
Additional ordinary result	1,536	327	129	1,992	162	2,154
Operating result	9,372	1,628	564	11,564	-3,041	8,523
Other interest and similar income						179
Interest and similar expenses						-1,244
Financial result						-1,065
Result from ordinary activities						7,458
Income taxes						-4,064
Consolidated net income for the year						**3,394**

January 1 to December 31, 2017 in EUR'000	Germany	EU	Rest of World	Gigaset TOTAL	Holding company	Group
Revenues	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 and amortization	-15,053	-84	-23	-15,160	0	-15,160
Earnings from core business after depreciation and amortization	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**

Due to the change in the structure of the income statement during the time when the consolidated financial statements for the half year were prepared, the segment report was also adjusted accordingly. For better understanding, this segment reporting is presented below based on the new structure of the income statement.

January 1 to December 31, 2018 in EUR'000	Germany	EU	Rest of World	Gigaset TOTAL	Holding company	Group
Revenues	148,340	104,784	27,207	280,331	0	280,331
Segment result / EBITDA	**22,869**	**1,725**	**577**	**25,171**	**-3,041**	**22,130**
Depreciation and amortization	-13,497	-97	-13	-13,607	0	-13,607
Impairments	0	0	0	0	0	0
EBIT	**9,372**	**1,628**	**564**	**11,564**	**-3,041**	**8,523**
Other interest and similar income						179
Interest and similar expenses						-1,244
Financial result						**-1,065**
Result from ordinary activities						**7,458**
Income taxes						-4,064
Consolidated net income for the year						**3,394**

January 1 to December 31, 2017 in EUR'000	Germany	EU	Rest of World	Gigaset TOTAL	Holding company	Group
Revenues	156,106	106,245	30,945	293,296	0	293,296
Segment result / EBITDA	**32,024**	**1,276**	**200**	**33,500**	**-3,135**	**30,365**
Depreciation and amortization	-15,053	-84	-23	-15,160	0	-15,160
Impairments	-2,984	0	0	-2,984	0	-2,984
EBIT	**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**

The profit or loss effects of deconsolidations, where they exist, have been assigned to the respective segments.

In 2018, the revenues break down essentially into revenues from the Phones segment in the amount of EUR 193,393 thousand (PY: EUR 215,347 thousand) and the Professional segment in the amount of EUR 59,867 thousand (PY: EUR 55,272 thousand), as well as the segments Smartphones in the amount of EUR 23,903 thousand (PY: EUR 20,555 thousand), and Smart Home in the amount of EUR 3,168 thousand (PY: EUR 2,122 thousand).

In accordance with IFRS 8.33 b), **noncurrent assets** were divided among the following regions in financial year 2018 and the comparison period:

EUR'000	2018	2017
Germany	54,089	53,224
Europe (excluding Germany)	183	160
Rest of World	4	12
Total	**54,276**	**53,396**

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.

As presented in Section A. General Information and Presentation of the Consolidated Financial Statements - Adjustment of the Comparative Information in the Consolidated Financial Statements, the presentation of the interest payments was changed compared to the previous year. Since financial liabilities are shown in the form of bank loans starting in the 2018 financial year, the interest paid on them is shown in cash inflow/outflow from financing activities. In addition, the Company decided to likewise present the interest paid from factoring as well as other interest paid under cash inflow/outflow from financing activities since this leads to a more transparent and more adequate presentation of the cash inflows/outflows from financing activities from the perspective of the Company.

In accordance with IAS 7, cash flows are classified as cash flow from operating activities, investing activities and financing activities.

EUR'000	2018	2017
Cash flow statement		
Cash inflow (+)/outflow (-) from operating activities	-9,588	14,855
Cash outflow from investment activities	-14,489	-12,470
Free cash flow	-24,077	2,385
Cash inflow (+)/ outflow (-) from financing activities	11,970	-432
Change in cash and cash equivalents	**-12,107**	**1,953**

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 the 2018 financial year, as in the previous year.

The cash outflow from investment activities amounted to EUR 14,489 thousand in 2018, following EUR 12,470 thousand in the previous year. The cash outflows for investments in noncurrent assets in the amount of EUR 14,489 thousand (PY: EUR 12,516 thousand) break down as follows:

EUR'000	2018	2017
Cash outflows for investments in non-current assets		
Cash outflows for intangible assets	9,034	9,009
Cash outflows for property, plant and equipment	5,455	3,507
Total	**14,489**	**12,516**

In the current financial year, the cash inflow (+)/ outflow (-) from financing activities amounts to EUR 11,970 thousand, after EUR -432 thousand in the previous year. The interest paid in 2018 amounts to EUR -1,530 thousand, after EUR -432 thousand in the previous year. In the previous year, the interest paid from factoring in the amount of EUR -415 thousand was particularly presented in this item; in the current year, this amounts to EUR -408 thousand. The cash inflow from issuance of long-term financial liabilities amounts to EUR 13,500 thousand (PY: EUR 0 thousand), resulting from a new credit facility. No transactions affecting cash flows exist within the financing activities. There were also no changes in the scope of consolidation or foreign currency effects that would have had to have been recognized in the cash inflow from financing activities.

Cash and cash equivalents as of December 31, 2018 amounted to EUR 33,842 thousand (PY: EUR 44,646 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 3,097 thousand as of December 31, 2018 (PY: EUR 4,451 thousand). Thus, the total amount of cash and cash equivalents according to the Consolidated Statement of Financial Position amounted to EUR 36,939 thousand (PY: EUR 49,097 thousand).

31. Other financial commitments

The other financial obligations as of the reporting date of December 31, 2018 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:

2018 in EUR'000	Up to 1 year	1-5 years	Longer than 5 years	Total
Rental and lease commitments	1,720	3,740	2	5,462
Other commitments	1,195	156	0	1,351
Total	**2,915**	**3,896**	**2**	**6,813**

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**

The total rental and lease commitments amounted to EUR 5,462 thousand (PY: EUR 3,561 thousand). Of this amount, rental and lease agreements for land and buildings accounted for EUR 4,359 thousand (PY: EUR 2,491 thousand), and rental and lease agreements for other equipment, operational and office equipment accounted for EUR 1,102 thousand (PY: EUR 1,070 thousand).

The other financial commitments in the amount of EUR 1,432 thousand (PY: EUR 1,548 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 as of the reporting date, December 31, 2018, as in the previous year.

The leasing expenses in the 2018 financial year totaled EUR 3,124 thousand (PY: EUR 2,989 thousand), of which EUR 2,426 thousand (PY: EUR 2,439 thousand) was allocated to building rents and EUR 698 thousand (PY: EUR 550 thousand) to rents for the vehicle fleet.

32. Contingent liabilities

The contingent liabilities as of the reporting date of December 31, 2018 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) had been assumed in the amount of EUR 18.5 million, limited in time until April 11, 2018. No claims were asserted against Gigaset AG within the foregoing period, meaning that that risk has been eliminated.

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. Now that the tax authorities and the acquirer of the Golf House investment have reviewed the tax circumstances of the relevant years and the review did not lead to any objections, this risk is now eliminated.

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. Possible contractual claims became time-barred in June 2018. This risk is eliminated.

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.

33. Executive Board and Supervisory Board of Gigaset AG

The following persons served on the Executive Board in the 2018 financial year:

- **Klaus Weßing**, engineer, Borken (Chairman and, until December 13, 2018, board member in charge of Product Development, New Business Fields, Supply Chain, Quality, Service Assurance, Sales, Marketing, Strategy & Innovation, Human Resources, Investor Relations, Communication & Digital, starting December 14, 2018, sole member of the Executive Board) since December 15, 2015.

- **Stephan Mathys**, businessman, Haan (board member in charge of Finance, IT, Legal and Investor Relations) from February 1, 2018 to December 13, 2018.

The other executive activities of the Executive Board members Wessing and Mathys 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 General Meeting of August 17, 2017:

Bernhard Riedel (Chair)	As of 12/19/2013 Until 1/24/2019
Helvin (Hau Yan) Wong (Vice Chairman until 2/28/2019, Chairman since 2/28/2019)	As of 12/19/2013
Ulrich Burkhardt	As of 12/3/2014
Paolo Vittorio Di Fraia (Vice Chairman starting 2/28/2019)	As of 8/14/2013
Prof. Xiaojian Huang	As of 12/19/2013
Barbara Münch	As of 1/24/2019
Flora (Ka Yan) Shiu	As of 12/19/2013

The Chairman of the Supervisory Board, Mr. Bernhard Riedel, passed away on January 24, 2019. On the same day, the substitute member elected at the Annual General Meeting on August 17, 2017, Ms. Barbara Münch, automatically took her place on the Supervisory Board of the Company. On February 28, 2019, at its first meeting after the death of Chairman Bernhard Riedel, the Supervisory Board elected Mr. Helvin Wong as Chairman and Mr. Paolo Di Fraia as Vice Chairman. Consequently, the Supervisory Board at the time when these notes were prepared consists of Mr. Hau Yan Helvin Wong (Chairman), Mr. Paolo Vittorio Di Fraia (Vice Chairman), Mr. Ulrich Burkhardt, and Prof. Xiaojian Huang as well as Ms. Barbara Münch and Ms. Flora Shiu. The Supervisory Board members were elected by the 2017 Annual General Meeting for the time until the close of the Annual General 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.

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 until January 24, 2019, attorney, Munich

- Member of the Supervisory Board of Gigaset Communications GmbH from March 29, 2013, until January 24, 2019

Hau Yan Helvin Wong, lawyer, Vice Chairman, since February 28, 2019, 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.

Barbara Münch, managing director, Managing Director at Asset Metrix GmbH, Munich

- No seats were held on other supervisory boards and similar boards within the meaning of Section 125 (1) AktG.

Flora Ka Yan Shiu, member of management as head of Corporate Development, Goldin Real Estate Financial Holdings Limited, 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.

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 the 2018 financial year 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.

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 22, 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 General 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 General 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 the 2018 financial year is presented in the table below:

Payments granted to Executive Board members, in EUR	2017 (100 %)	2018 (100 %)	2018 (Min)	2018 (Max)
Fixed compensation	646,126	617,209		
Fringe benefits	34,433	25,202		
Total of fixed compensation components	680,559	642,411		
One-year variable compensation	50,000	50,000	0	250,000
Multi-year variable compensation	0	0	0	0
Total of fixed and variable compensation	730,559	692,411	642,411	892,411
Service cost	13,786	11,592	11,592	11,592
Total compensation	**744,345**	**704,003**	**654,003**	**904,003**

The recognized expenses for members of the Executive Board for the 2018 financial year break down as follows in accordance with the requirements of German Financial Accounting Standard (DRS) 17 (Reporting on the Compensation 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	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
All Executive Board members	617,209	646,126	25,202	34,433	50,000	50,000	11,592	13,786	704,003	744,345

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 772 thousand as of the reporting date (PY: EUR 800 thousand).

Expenses in the amount of EUR 130 thousand (PY: EUR 146 thousand) were recognized in the current year in connection with the termination of employment contracts with Executive Board members. In addition, 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 in the 2017 financial year.

Taking the creation of provisions into account, the total expense for Executive Board compensation amounts to EUR 834 thousand in the current financial year. In the previous year, the total expense for Executive Board compensation amounted to EUR 861 thousand, taking into account reversals of provisions and settlement payments.

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 2018 are presented in the table below:

Total inflow to Executive Board members, in EUR	2018	2017
Fixed compensation	617,209	669,460
Fringe benefits	25,202	37,233
Total fixed compensation components	642,411	706,693
Single year variable compensation	50,000	125,000
Multiyear variable compensation	0	0
Total fixed and variable compensation	692,411	831,693
Pension expenses	11,592	13,786
Total compensation	**704,003**	**845,479**

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 704 thousand in the reporting year (PY: EUR 845 thousand).

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 General 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 Association. Participation in the meeting by telephone as well as voting in writing pursuant to Article 9 (3)(2) of the Articles of Association 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 Association ("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.

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 General Meeting adopts a new regulation."

The compensation granted to members of the Supervisory Board of Gigaset AG in the 2018 financial year pursuant to Section 314 (6a) HGB is presented in the table below:

EUR	Paid	Provisions	Total expenses
Bernhard Riedel	132,000.00	28,000.00	160,000.00
Wong Hau Yan Helvin	103,500.00	12,000.00	115,500.00
Ulrich Burkhardt	73,000.00	--	73,000.00
Paolo Vittorio Di Fraia	55,000.00	22,000.00	77,000.00
Huang Xiaojian	58,000.00	23,000.00	81,000.00
Flora Shiu Ka Yan	70,000.00	7,000.00	77,000.00
Total	**491,500.00**	**92,000.00**	**583,500.00**

Accordingly, the total compensation granted to the Supervisory Board according to IAS 24 amounted to EUR 583,500.00 (PY: EUR 487,500.00).

The compensation granted to members of the Supervisory Board in subsidiaries of Gigaset AG in the 2018 financial year pursuant to Section 314 (6a) HGB is presented in the table below:

EUR	Paid	Provisions	Total expenses
Bernhard Riedel	106,000.00	22,000.00	128,000.00

Accordingly, the total compensation granted to the Supervisory Board of Gigaset Communications GmbH, Bocholt, according to IAS 24 amounted to EUR 128,000.00 (PY: EUR 80,000.00).

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.

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 as of the reporting date. According to his statement, Executive Board member Mathys did not hold any shares of Gigaset AG in the period after his appointment on February 1, 2018, to the time of his departure.

According to their statements, the members of the Supervisory Board together held 20,264 shares of Gigaset AG as of 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 12/31/2018 or at the resignation date	Number of shares at the date of preparation of the financial statements	Number of options at 12/31/2018 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
Stephan Mathys	0	0	0	0
Supervisory Board				
Bernhard Riedel	3,264	-	0	-
Ulrich Burkhardt	0	0	0	0
Paolo Vittorio Di Fraia	15,000	15,000	0	0
Hau Yan Helvin Wong	2,000	5,000	0	0
Flora Ka Yan Shiu	0	0	0	0
Xiaojian Huang	0	0	0	0
Barbara Münch (starting 1/24/2019)	-	0	-	0

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.

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 2018. 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 as of the reporting date break down as follows:

in EUR'000	Expenses 01/01-12/31/2018	Revenue/Income 01/01-12/31/2018	Receivables 12/31/2018	Liabilities 12/31/2018
Gigaset	0	387	1,335	6
Gigaset Mobile Pte. Ltd.	387	0	6	1,335

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

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 as of the reporting date break down as follows:

in EUR'000	Expenses 01/01-12/31/2018	Revenue/Income 01/01-12/31/2018	Receivables 12/31/2018	Liabilities 12/31/2018
Gigaset	0	96	114	10
Gigaset Mobile Europe GmbH	96	0	10	114

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

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 as of the reporting date break down as follows:

in EUR'000	Expenses 01/01-12/31/2018	Revenue/In-come 01/01-12/31/2018	Receivables 12/31/2018	Liabilities 12/31/2018
Gigaset	0	0	345	0
Gigaset Digital Technology	0	0	0	345

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

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

The following professional were incurred for the services of the independent auditor in financial year 2018:

EUR'000	2018	2017
Financial statement audit services	441	375
Other certification services	5	6
Total	**446**	**381**

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 comprise certifications in connection with the loan financing. In the previous year, they primarily comprised certifications for pension payments.

38. Employees

The Gigaset Group had an average of 844 employees in financial year 2018 (PY: 962 employees). The total number of employees as of the reporting date of December 31, 2018, was 888 (PY: 930 employees).

	Reporting date		Average	
EUR'000	12/31/2018	12/31/2017	2018	2017
Salaried employees	883	925	841	957
Apprentice-trainees	5	5	3	5
Total	**888**	**930**	**844**	**962**

39. Declaration of Conformity with the German Corporate Governance Code

On February 28, 2019, 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 2018.

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

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.

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. 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. 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. 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). Thereupon, 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 Munich Higher Regional Court has set the date for pronouncing its judgment on April 11, 2019. 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. 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 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 these 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 in the course of an advance distribution in the insolvency proceedings on the assets of OXY Holding GmbH as well as about EUR 194 million in the fourth quarter of 2018 from the final distribution in the insolvency proceedings on the assets of StS Equity Holding UG. The Company expects an additional EUR 1.3 million as part of the final distribution in the insolvency proceedings of OXY Holding GmbH. 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

The Chairman of the Supervisory Board of Gigaset AG, Mr. Bernhard Riedel, who was Chairman of the Supervisory Board since March 22, 2013, passed away on January 24, 2019. The Supervisory Board initially continued to carry out its duties under the leadership of the Vice Chairman, Mr. Helvin Wong, who was elected Chairman of the Supervisory Board of Gigaset AG on February 28, 2019. Ms. Barbara Münch is the substitute member elected by the Annual General Meeting, and a member of the Supervisory Board since January 24, 2019.

Gigaset notified the financing banks of the non-fulfillment of financial ratios in good time in March 2019 and requested that the justified right of termination not be exercised. The financing banks raised the prospect of an agreement and a waiver of the right of termination until March 31, 2020, and have refrained to date from calling the loan. At the time when this report was prepared, a written agreement – possibly specifying conditions – was still pending.

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 22, 2019. The Company's share-holders will have the right and option of amending the consolidated financial statements at the Annual General Meeting.

Munich, March 22, 2019
The Executive Board of Gigaset AG

Klaus Weßing

FURTHER INFORMATION

LIST OF SHAREHOLDINGS

	Location		Equity share direct	Equity share indirect	Currency ,000	Local equity 2018	local profit/loss 2018
Gigaset AG	Munich	Germany			EUR	98,722	-52,723
CFR Holding GmbH	Munich	Germany	100%		EUR	2[1]	-1[1]
GOH Holding GmbH	Munich	Germany	100%		EUR	307[1]	-8[1]
Gigaset Industries GmbH	Vienna	Austria	100%		EUR	6,513[1]	-3,758[1]
GIG Holding GmbH	Munich	Germany	89.9%	10.1%	EUR	68,941[1]	-83[1]
Gigaset Online GmbH	Bocholt	Germany		100%	EUR	20[1]	-2[1]
Gigaset Communications GmbH	Bocholt	Germany		100%	EUR	43,075[1]	7,297[1]
Gigaset International Sales & Services GmbH	Munich	Germany		100%	EUR	888[1]	529[1]
Gigaset Communications Schweiz GmbH	Solothurn	Switzerland		100%	CHF	1,832[1]	128[1]
Gigaset Communications Polska Sp. z o.o.	Warsaw	Poland		100%	PLN	2,672[1]	1,788[1]
Gigaset Communications UK Limited	Chester	Great Britain		100%	GBP	834[1]	56[1]
Gigaset İletişim Cihazlari A.Ş.	Istanbul	Turkey		100%	TRL	12,308[1]	1,382[1]
OOO Gigaset Communications	Moskow	Russia		100%	RUR	87,679[1]	9,411[1]
Gigaset Communications Austria GmbH	Vienna	Austria		100%	EUR	-7[1]	120[1]
Gigaset Communications (Shanghai) Limited	Shanghai	PR China		100%	CNY	-5,084[1]	-5,775[1]
Gigaset Communications France SAS	Courbevoie	France		100%	EUR	6,731[1]	344[1]
Gigaset Communications Italia S.R.L.	Milan	Italy		100%	EUR	750[1]	137[1]
Gigaset Communications Nederland B.V.	Zoetermeer	Netherlands		100%	EUR	879[1]	238[1]
Gigaset Communications Iberia S.L.	Madrid	Spain		100%	EUR	519[1]	121[1]
Gigaset Communications Sweden AB	Stockholm	Sweden		100%	SEK	2,061[1]	131[1]
Gigaset elements GmbH	Bocholt	Germany		100%	EUR	-16,822[1]	0[1]
Hortensienweg Management GmbH	Munich	Germany	100%		EUR	585[1]	2[1]

1 2018 final figures

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 2018, 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 2018, 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 2018. 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 2018, and of its financial performance for the financial year from 1 January to 31 December 2018 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.

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 2018. 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 EUR 73,5m (34,5 % 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 EUR 113,9m and the plan assets of EUR 40,4m. 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 22 to the consolidated financial statements.

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.

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 14 August 2018. We were engaged by the supervisory board on 20 January 2019. 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).

Düsseldorf, 22 March 2019

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Antje Schlotter	ppa. Denis Varosi
Wirtschaftsprüferin	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

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 22, 2019

The Executive Board of Gigaset AG

FINANCIAL CALENDAR 2019 (REMAINING)[2]

May 31, 2019

- First Quarter Report 2019

August 14, 2019

- Annual General Meeting 2019

August 30, 2019

- Interim Financial Report 2019 (Q2)

November 29, 2019

- Third Quarter Report 2019

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2 Subject to change

2018
ANNUAL REPORT

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