

Combined Management Report at December 31, 2010

The change of strategy

Three new members of the Supervisory Board together with the Chairman of the Supervisory Board were elected at the annual shareholders' meeting on August 26, 2010. As a result of this, Maik Brockmann was appointed to act as the sole member of the Executive Board of Gigaset AG*.

The new business model

After this, the Executive Board and Supervisory Board jointly drew up a new business model for Gigaset AG. At the extraordinary shareholders' meeting on December 20, 2010, the shareholders of ARQUES Industries AG voted by a large majority to change the business model and rename the company Gigaset AG. The new business model calls for the Company to focus on the telecommunications industry. Gigaset AG is the parent company of Gigaset Communications GmbH and hence one of the world's leading manufacturers of cordless phones and market leader for DECT phones in Europe.

The reasons for the change of strategy, and hence for discontinuing the previous business model of an equity investment company concentrating on the acquisition, turnaround and restructuring of companies in situations of transition, are many and varied. At the time of the change in the management team in August/September 2010, the Company no longer had adequately qualified managers, especially in the important Acquisition and Restructuring functions, following the departure of key staff. This made it impossible to carry out the essential restructuring projects that had been planned for the subsidiaries with the necessary force and in the timeframe set. In turn, this led to high losses in the corporate group, the consequence of which was a difficult liquidity situation that was countered by conducting fire sales. The ensuing loss of reputation, coupled with inadequate human resources in the acquisition team, made it almost impossible to acquire further subsidiaries.

In December 2010, there were three possible scenarios for the future of Gigaset AG:

- › Equity investment company focusing on restructuring
- › Conglomerate with the probability of high losses
- › Change of strategy to concentrate on Gigaset Communications GmbH and the telecommunications market complete with accessories

It was no longer an option to continue operating ARQUES Industries AG as an equity investment company due to the loss of reputation that would be hard to restore or to continue running the Company as a conglomerate facing the probability of high losses despite the streamlined portfolio. From the point of view of the Executive Board, the decision to concentrate on Gigaset Communications GmbH and the telecommunications and accessories segment in the future appears to be the best solution, as confirmed by the resolution adopted by the shareholders, for ensuring a stable and sustainably positive performance by the Company.

Focus on Gigaset

Gigaset Communications GmbH is the European market, technology and price leader in DECT telephony. DECT stands for Digital Enhanced Cordless Telecommunications, the most successful telecommunications standard in the world. More than 100 million terminals are sold on the average every year. Market researchers predict that the overall market will expand by almost 5% each year. Gigaset enjoys a brand awareness level of over 90% in Germany, where it is a premium vendor with revenues of around EUR 500 million. The Company ranks second in the world in its industry, employing 1,700 people in over 70 countries. All of its proprietary products are manufactured in the highly automated Bocholt plant, which has won several awards.

The turnaround and the huge potential of the Company had already become apparent in 2009. The ambitious annual targets published for both revenues and profits had even been exceeded by the end of fiscal 2010.

The aim is to continue this trend and growth moving forward by:

- › entering the business customer segment with the Gigaset Pro brand,
- › penetrating growth markets,
- › rolling out innovative new products such as new user interfaces and new accessories
- › entering into new partnerships, and
- › making complementary acquisitions.

*The current company name – Gigaset AG – is used throughout the Management Report, even if the company was still called ARQUES Industries AG at the date in question. The name Gigaset AG is used for the parent company and Gigaset Group for the parent company complete with subsidiaries.

The necessary groundwork for making further acquisitions was completed when the shareholders approved a new authorized capital increase at the extraordinary shareholders' meeting on December 20, 2010. Continuing to implement the ongoing restructuring program and to apply strict cost control is intended to boost profitability.

Implementing the new business model

Settling outstanding legal disputes was one of the first measures to be undertaken with a view to stabilizing the situation of the parent company and returning its focus to the future. High costs for external consultants in this regard again accrued in 2010.

After two months of intensive negotiations, a settlement was reached in the dispute with Siemens AG over outstanding purchase price installments arising from the acquisition of Gigaset Communications GmbH (still known at the time as SHC, Siemens Home and Office Communications Devices GmbH & Co KG) and unfulfilled payment commitments. All disputes were settled and all financial liabilities to third parties paid. The arbitration proceedings have been terminated. On December 14, 2010, Gigaset AG acquired the remaining 19.8% of the shares in the Gigaset Group that it did not already own, taking its holding to 100%.

In order to raise the liquidity required by the Company, a capital increase with a volume of EUR 13.0 million was carried out in October 2010 and a convertible bond of around EUR 23.8 million was issued in November 2010. The high level of acceptance for these two capital-raising measures, and the associated confidence of investors in the new company management team, was demonstrated by both capital-raising measures being clearly oversubscribed.

The costs incurred by the holding company have been significantly lowered by decreasing the financial burdens from continuing obligations and consulting fees – including the reduction in the cost of attorneys and external consultants mentioned above – as well as by renegotiating contracts and reducing IT spending.

Alongside the enhanced capital base and the lower costs, the complexity of the corporate structures has been decreased by reducing the number of (intermediate) companies from over 100 to around 40 today.

Finally, the sales of the Anvis Group, Concilium AG and at year-end Wanfried Druck Kalden and Carl Froh subsidiaries led to an inflow of cash and a further reduction of risk in the corporate group.

General economic climate and industry environment

General economic climate

The global economy rebounded strongly in 2010, with output rising around 5 percent overall worldwide, after contracting 0.6 percent in 2009. The main factor driving this strong recovery was the highly expansive monetary and fiscal policies pursued by governments and central banks, which led to unprecedentedly low interest rates. The various stimulus packages adopted in individual countries also played a major role in improving the situation by driving growth.

With growth of 3.0 percent, the industrialized nations enjoyed a somewhat slower recovery than the global economy as a whole. Within Europe, Germany played a special role in 2010. While industrial output in western Europe rose around 2 percent, Germany's gross domestic product expanded much faster, at 3.6 percent, thanks to the country's competitive export industry and very stable labor markets. Although gross domestic product did improve in the United States, rising 2.8 percent, persistently high levels of unemployment joined forces with the massive public deficit and fears of renewed new recession to prevent faster expansion. The Japanese economy grew 4.3 percent thanks to its robust industrial sector. The heavily export-driven industrialized nations of Germany and Japan were thus able to recover much more strongly than the United States. At the same time, though, they were more heavily affected by the recession in 2009.

Global economic growth in 2010 was driven primarily by the newly industrializing nations, whose aggregate output rose by a good 7 percent. The fast-expanding regions of Asia (without Japan), Latin America and Africa/the Middle East recorded a strong increase in economic output, with double-digit rises even being enjoyed in some places. This trend was observed notably in China, India and Brazil. Whereas India and Brazil expanded primarily on the back of a robust domestic economy, China recorded strong growth in both exports and domestic demand. Eastern Europe fell back somewhat by comparison. Russia, which benefited from rising commodity prices as well, was one of the more dynamic economies within the region, expanding around 3.5 percent.

Driven by the strong recovery in the global economy, commodity prices increased across a broad front during the course of 2010. The price of oil (WTI) rose from a good \$81 at the start of 2010 to more than \$91 by year-end. With the recovery in the US economy tending to fall flat, the dollar fell from 1.44 to the

Euro to 1.33 to the Euro during the same period, even touching 1.19 at one point.

Industry situation and development – telecommunications industry

The successful activities of Gigaset Communications GmbH in 2010 were accompanied by a stable overall market for cordless phones. The global market amounted to more than 100 million units. 77% percent of this market is attributable to the most successful DECT technology. The market volume totaled around EUR 2.7 billion, which was down a slight 2.3% year-on-year. Despite this minor contraction in the overall market, Gigaset succeeded in performing well and generating further growth.

Gigaset Communications GmbH succeeded in defending its market share in its core market of Europe, where it generates around two-thirds of its revenues. All in all, the three biggest competitors in the European DECT market each gained three percentage points. It is important to bear in mind in this context, however, that Gigaset has successfully positioned itself as a premium vendor in the high-margin middle and high-end segment, where it expanded its market share. The market shares gained by competitors can essentially be attributed to the low-end-segment where margins are low.

Significant events in fiscal 2010

Preliminary comments

2010 was a year of new beginnings for Gigaset AG.

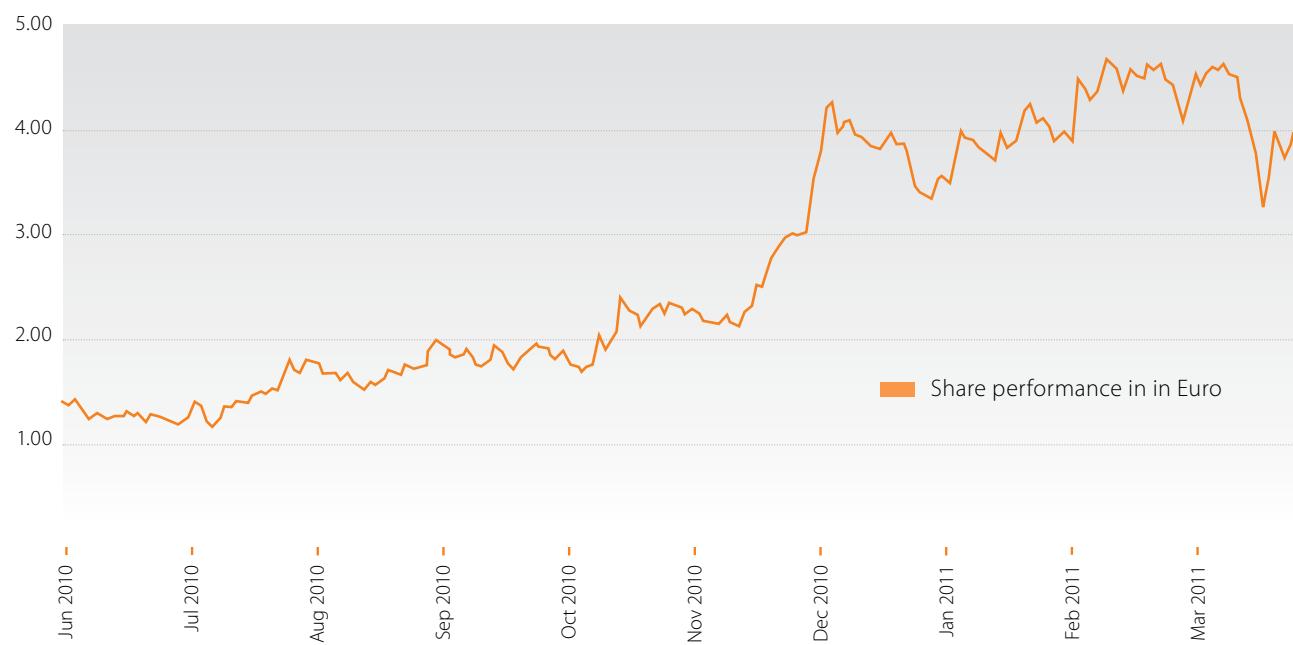
In the early spring of 2010, Gigaset AG started working intensively on realigning its corporate strategy, which was finally approved by the extraordinary shareholders' meeting on December 20, 2010.

The parent company was able to record a net profit for the year for the first time since 2007, thanks primarily to the contribution of company shares to a subsidiary. Although the consolidated net loss has declined compared with 2009, it is still large. Not for the first time, depreciation charges and other writedowns taken in conjunction with the disposal of companies have served to offset the positive operating performance in both sets of accounts.

The performance in the first quarter of 2011 indicates a continuation of the positive development at Gigaset AG.

Performance of the share

The capital market has responded positively to the realignment of the company and the strong performance of Gigaset AG. After the shares of Gigaset AG briefly traded as penny stocks in June 2010 under the old business model, the share price has in the meantime stabilized at around the EUR 4.00 mark. This increase resulted in Gigaset AG being added to the TecDAX index on March 21, 2011.



Sale of subsidiaries to various investors

The following subsidiaries were sold during 2010 while streamlining the portfolio and realigning the strategy of Gigaset AG:

- › The Fritz Berger Group was sold to a strategic investor in April 2010.
- › Golf House was sold to a strategic investor in July 2010.
- › The Anvis Group was sold to a financial investor in December 2010.
- › The Carl Froh and Wanfried Druck Kalden subsidiaries were similarly sold to their respective management teams at year-end.

Changes in the Executive Board of Gigaset AG

Following the conclusion of the annual shareholders' meeting on August 26, 2010, the members of the Executive Board Hans Gisbert Ulmke and Michael Hütten left the Executive Board. Maik Brockmann has been the only member of the Company's Executive Board since September 1.

Annual shareholders' meetings of Gigaset AG

A majority of the resolutions on the agenda of the annual shareholders' meeting of Gigaset AG held in Munich on August 26, 2010 were adopted by the shareholders represented. The actions of the Executive Board were not approved, however. The shareholders' meeting also elected a new Supervisory Board. For more information about the annual shareholders' meeting, please refer to the section of this report entitled "Report pursuant to Sections 289 (4) and 315 (4) HGB" and our homepage at www.gigaset.ag.

Extraordinary shareholders' meeting of Gigaset AG on December 20, 2010

Among other things, the change of strategy and the change of company name to Gigaset AG were approved at the extraordinary shareholders' meeting and a new authorized capital created.

Anti-trust proceedings against calcium carbide producers

In July 2009, the European Commission imposed total fines of EUR 61.1 million in connection with its anti-trust investigations of various European companies operating in the calcium carbide sector. In this connection, a total fine of EUR 13.3

million was levied against SKW Stahl-Metallurgie Holding AG, Gigaset AG, and SKW Stahl-Metallurgie GmbH, with each of them bearing joint and several liability. Gigaset AG filed an appeal against this ruling. Notwithstanding the appeal that has been filed, Gigaset AG reached agreement with the European Commission in October 2009 on the payment procedures for the 50% of the total fine of EUR 6.65 million provisionally apportioned to Gigaset AG. At the reporting date December 31, 2010, the fine apportioned to Gigaset AG had been paid in full, complete with interest.

Gigaset AG has filed suit against the SKW Group in this context with a view to obtaining the reimbursement of fines paid. The SKW Group became part of the 'calcium carbide cartel' without the knowledge of the respective parent companies, Evonik and later Gigaset AG. In this context, the EU commission imposed fines on both Gigaset AG and Evonik as owners, without fault, as well as SKW. Evonik has also filed suit with Munich District Court against the SKW Group on account of the same matter.

Arbitration proceedings with Siemens AG

Gigaset AG succeeded in reaching a comprehensive out-of-court settlement in the arbitration proceedings with Siemens AG on December 10, 2010.

Siemens AG had filed for arbitration proceedings against Gigaset Communications GmbH and Gigaset AG with the German Institute of Arbitration (DIS), essentially requesting the following: payment of a purchase price installment of EUR 15.0 million by Gigaset AG to Siemens AG originally scheduled for September 30, 2010 but later disputed on account of a certain agreement and a ruling to the effect that Gigaset AG should also pay the further purchase price installments to Siemens AG without withdrawing money from Gigaset Communications GmbH for this purpose. In addition, it demanded a ruling to the effect that Gigaset AG and not Gigaset Communications GmbH should account for the deferred portion of the purchase price. Furthermore, it demanded the fulfillment of a payment commitment (EUR 19.6 million) by Gigaset AG to Gigaset Communications GmbH, the reason and amount of which is disputed.

The arbitration proceedings were officially concluded in the first quarter of 2011 with a ruling in line with the overall settlement reached by the parties involved.

Assets, financial position and earnings of Gigaset AG and the Gigaset Group

Assets, financial position and earnings of the Gigaset AG

Annual financial statements

Business development, portfolio optimization and change of business model

The main features of fiscal 2010 for Gigaset AG were a difficult course of business on account of the portfolio optimization coupled with a change to the business model adopted by an extraordinary shareholders' meeting on December 20, 2010. The new business model calls for the company to concentrate on the telecommunications industry.

The Fritz Berger Group, the Golf House Group, the Wanfried Group, and the Anvis Group were sold in fiscal 2010. The sub-

sidiaries Carl Froh and Oxxynova have been sold in 2011; van Netten will be sold in the near future.

The process of eliminating the debt of the holding company was successfully completed by means of the capital increase that was carried out in 2010. However, the majority of this capital increase as well as the funds raised from the convertible bond were used to reinforce the capital base of Gigaset Communications GmbH, which in turn was then in a position to meet its obligations arising as part of the overall settlement between Gigaset AG, Gigaset Communications GmbH and Siemens AG.

The risks built up over the last few years were largely reduced and the portfolio of investments consistently streamlined.

The "quoad sortem" transfer of shares in GIG Holding GmbH to a subsidiary generated income that helped to produce a strong net profit for the year.

Key indicators of assets, financial position and earnings

		2010	2009
Cash and cash equivalents		EUR 2.4 million	EUR 4.2 million
Current financial liabilities		EUR 0.0 million	EUR 5.7 million
Equity ratio	Equity / total assets	80.2%	30.9%
Return on equity	Net profit / equity	77.9%	negative
Return on capital employed	Net profit / total assets	62.5%	negative

Assets

The **total assets** of Gigaset AG amounted to auf EUR 226.0 million at December 31, 2010, which is almost three times more than at December 31, 2009.

Non-current assets have increased by EUR 169.2 million to EUR 216.5 million. Shares in affiliated companies have risen by a factor of almost five, from EUR 46.9 million to EUR 216.5 million, and now account for nearly 96% of total assets.

Current assets total EUR 9.4 million, down EUR 25.7 million year-on-year. Most of this decline – EUR 24.8 million – is attributable to loan receivables from affiliated companies, much of which was derecognized during the consolidation of the portfolio of subsidiaries. Current assets account for only 4.2% of total assets.

Liabilities due to banks have been completely eliminated since last year.

A **convertible bond** of EUR 23.8 million was issued in 2010. This has been recognized between shareholders' equity and debt.

Only current **liabilities** of EUR 13.5 million exist (2009: total liabilities of EUR 41.0 million), with liabilities of EUR 10.5 million payable to affiliated companies representing the largest item.

Provisions of EUR 5.4 million for legal disputes, claims for compensation and liability risks represent the largest single item within **other provisions** of EUR 7.4 million (2009: EUR 16.1 million).

The **shareholders' equity** of Gigaset AG totaled EUR 181.3 million at December 31, 2010 (2009: EUR 25.5 million), giving rise to an equity ratio of just under 80.2% (2009: 30.9%).

Financial position and financing

Gigaset AG repaid all loans extended by banks by year-end.

The cash inflows in fiscal 2010 resulted mainly from company disposals and to a lesser extent Group cost allocations. In addition, a capital increase was carried out in fiscal 2010 and a convertible bond issued.

Most of these funds were used to repay debt and to reinforce the capital base of the biggest subsidiaries.

By way of a resolution of the Executive Board dated February 10, 2011 and with the consent of the Supervisory Board, it was decided to convert these convertible bonds on June 30, 2011 in accordance with the bond conditions. This will serve to reinforce Gigaset AG's capital base.

Earnings

The Company generated **revenues** of EUR 1.7 million in fiscal 2010 (2009: EUR 6.3 million). These result from consulting services performed for portfolio companies.

Other operating income totaled EUR 188.6 million, which was EUR 175.2 million higher than in 2009. The main factors behind this sharp rise were income from the disposal of subsidiaries and non-recurring effects arising from the reorganization of the corporate structure.

Purchased goods and services amounted to EUR 2.0 million (2009: EUR 2.1 million), consisting of services purchased from external consultants.

Personnel expenses declined EUR 3.0 million year-on-year to EUR 3.6 million. The main reason for this is the sharp reduction in the headcount at the holding company.

The **write-downs on investments** of EUR 17.0 million (2009: EUR 16.2 million) essentially relate to writedowns taken on the Anvis Group (EUR 9.1 million) and the Carl Froh Group (EUR 6.3 million).

Other operating expenses decreased EUR 3.3 million year-on-year to EUR 15.8 million. After legal and consulting costs of EUR 4.1 million, losses of EUR 2.4 million on the sale of loans represent the biggest single item.

Gigaset AG did not collect any dividends from portfolio companies in fiscal 2010.

The net profit for the year amounted to EUR 141.2 million after a net loss of EUR 45.3 million in 2009. This represents a year-on-year improvement of EUR 186.5 million.

Assets, financial position and earnings of the Gigaset Group

Consolidated financial statements

Discussion of the economic position in 2010

The change of the business model to concentrate on the telecommunications industry resulted in a major consolidation of the Gigaset Group portfolio, especially toward the end of fiscal 2010. Thus, the Group disposed of the Fritz Berger Group, the Golf House Group (all from the Retail segment) and, similarly in the last quarter, the Wanfried Group (Print segment) and the Anvis Group (Automotive segment) during the past fiscal year.

Alongside the Gigaset Group, the Group **portfolio** consisted of the Carl Froh Group (Steel segment), the Oxbynova Group (Specialty Chemistry segment) and the van Netten Group (Industrial Production segment) at the reporting date. A sale agreement for the Carl Froh Group was signed in December, which led to the shares being transferred in January 2011. The Oxbynova Group was sold in the first quarter of 2011. The van Netten Group is similarly expected to be sold shortly, which explains why it is also shown as a discontinued operation in the consolidated financial statements. Also disclosed as a discontinued operation is the Home Media segment which, although it forms part of the Communications segment, is earmarked for discontinuation. The restructuring measures carried out in

the future core "Gigaset" segment yielded considerable success in fiscal 2010, which is reflected by the fact that the annual budget of the Gigaset Group for 2010 was comfortably beaten in all significant areas.

Assets

The total **assets** of the Gigaset Group amounted to EUR 345.6 million at December 31, 2010, down almost half on December 31, 2009. This is due primarily to the strict portfolio streamlining and the associated deconsolidations.

Non-current assets declined EUR 165.5 million to EUR 91.0 million, mainly on account of the deconsolidations mentioned above. The non-current assets of the Carl Froh Group, the Oxxynova Group and the van Netten Group of EUR 32.3 million (after impairments) are classified as held for sale and shown separately.

Current assets amounted to EUR 254.6 million, of which EUR 63.0 million relate to assets held for sale. Current assets account for 73.7% of total assets.

Total debt amounted to EUR 310.5 million, of which 78.7% are due within one year. The Group's total debt has been reduced by EUR 226.0 million since December 31, 2009.

In November 2010, Gigaset AG issued a **convertible bond** with a total nominal volume of EUR 23.8 million. This was fully subscribed and is disclosed separately in the consolidated financial statements under non-current liabilities of EUR 23.1 million. By way of a resolution of the Executive Board dated February 10, 2011 and with the consent of the Supervisory Board, it was decided to convert these convertible bonds on June 30, 2011 in accordance with the bond conditions.

Other **financial liabilities**, all of which are due within one year, amounted to EUR 4.7 million. Financial liabilities declined a net EUR 83.0 million compared with December 31, 2009, meaning that they have almost completely been repaid or sold within the framework of company disposals.

The **shareholders' equity** of the Gigaset Group totaled EUR 35.0 million at December 31, 2010. This represents an equity ratio of 10.1%. The conversion of the convertible bond will serve to improve the Group's equity ratio accordingly.

Finanzlage

The following table shows the cash flow of the Company:

EURm	2010	2009	Change
Cash flow from operating activities	-36.9	-59.7	+38.2%
Cash flow from investing activities	-4.7	-9.2	+48.9%
Free cash flow	-41.6	-68.9	+39.6%
Cash flow from financing activities	4.9	-10.9	n.a.

In fiscal 2010, the Gigaset Group generated a **net cash outflow from operating activities** of EUR 36.9 million (compared with a negative cash outflow of EUR 59.7 million in 2009). Above all the success of the restructuring measures carried out at the Gigaset Group had a positive effect in 2010 compared with the negative trend from the companies sold. In 2009, the funds required for the restructuring measures at the Gigaset Group resulted in a major outflow.

The **cash outflow from investing activities** totaled EUR 4.7 million (2009: cash outflow of EUR 9.2 million), primarily reflecting investments in non-current assets as well as non-recurring effects arising from changes in the portfolio. The changes in the portfolio led to cash inflows of EUR 17.2 million and cash outflows of EUR 15.8 million. The disposal of the shares held in the Anvis Brazil joint venture (Vibracoustic do Brasil Industria e Comercio de Artefatos de Borracha Ltda.) contributed EUR 4.5 million and other sales of real estate EUR 3.0 million to the cash flow from investing activities.

The **free cash flow** thus amounted to a negative EUR 41.6 million compared with a negative EUR 68.9 million in 2009.

The **cash inflow from financing activities** amounted to EUR 4.9 million (2009: cash outflow of EUR 10.9 million). The cash inflow essentially reflects the capital increases that were carried out and the issue of the convertible bond together with the reduction of current and non-current financial liabilities using these funds.

The **cash and cash equivalents** declined EUR 36.7 million during the reporting period to total EUR 29.8 million at December 31, 2010.

Please refer to the discussion of economic risks in the Report on opportunities and risks in the Combined Management Report for more information about risks in connection with liquidity and financing.

Earnings

The Gigaset Group generated **revenues** of EUR 1,009.5 million in fiscal 2010, down 71.1% on the year-ago figure. EUR 505.8 million of this total relates to discontinued and deconsolidation operations. The revenues of the continuing operations were provided almost exclusively by the core Gigaset segment. The Gigaset Group recorded a slight 7.6% decline in revenues in 2010 on account of the sale of the broadband activities in fiscal 2009. In its core business, however, the Gigaset Group achieved an increase of EUR 13.0 million in its revenues.

Revenues in EURm	2010	2009
Steel	37.2	34.2
Print	29.4	45.7
Industrial Production	48.9	56.3
IT	0	2,287.5
Automotive	241.9	213.3
Retail	46.6	98.4
Specialty Chemistry	91.8	59.0
Gigaset	503.7	544.9
Home Media	10.0	6.2
Holding	0	0
Service	0	146.5
Total	1,009.5	3,492.0
thereof: continuing operations	503.7	544.9
thereof: discontinued operations	505.8	2,947.1

Other operating income amounted to EUR 53.4 million, down EUR 31.3 million on 2009. The main items in this total are exchange rate gains of EUR 18.6 million and income of EUR 12.5 million from the reversal of provisions and write-downs.

The **cost of materials** (raw materials, suppliers, merchandise and purchased services) amounted to EUR 611.6 million, 78.2% lower than the year-ago figure. The material usage rate has fallen from 80.4% to 60.6%.

Personnel expenses (wages, salaries, social security and pension expenses) totaled EUR 225.5 million, which is 42.1% below the 2009 figure of EUR 389.7 million.

Other operating expenses amounted to EUR 245.2 million in the reporting period. This total notably includes general administration expenses, shipping and freight expenses, consulting and marketing expenses, rental expense and foreign exchange losses as well as losses of EUR 39.3 million upon deconsolidation.

The **EBITDA** for fiscal 2010 totaled EUR 3.5 million, after EUR 17.8 million in 2009. The main reason for the deterioration is that the losses of EUR 39.3 million upon deconsolidation caused by the portfolio streamlining were much higher than in the same period of 2009 (EUR 13.2 million). Whereas the discontinued operations contributed a net loss of EUR 34.0 million, the continuing operations generated a net gain of EUR 37.5 million.

EBITDA in EURm	2010	2009
Steel	0.2	-2.2
Print	0.1	3.0
Industrial Production	3.6	2.5
IT	0	31.1
Automotive	-24.7	1.7
Retail	-3.7	-2.5
Specialty Chemistry	4.2	-3.5
Gigaset	50.2	12.0
Home Media	-13.7	0.4
Holding	-12.7	-25.4
Service	0	-0.7
Total	3.5	17.7
thereof: continuing operations	37.5	-13.4
thereof: discontinued operations	-34.0	31.1

Current depreciation and write-downs are summarized in this list.

Depreciation amounted to EUR 57.9 million, of which around 60% relates to the continuing operation Gigaset. (Extraordinary) **Impairments** totaled EUR 28.9 million, relating exclusively to the discontinued operations. The impairments were taken in light of the gains likely to be generated upon the disposal of the subsidiaries held for sale. The main gains upon disposal included in this item are EUR 18.0 million on van Netten Group and EUR 7.7 million on the Carl Froh Group.

EBIT in EURm	2010	2009
Steel	-10.7	-5.3
Print	-1.9	-5.7
Industrial Production	-17.6	-1.1
IT	0	-19.2
Automotive	-37.5	-18.1
Retail	-7.9	-19.0
Specialty Chemistry	3.3	-5.1
Gigaset	15.6	-38.7
Home Media	-13.7	0.4
Holding	-12.9	-26.9
Service	0	-1.1
Total	-83.3	-139.8
thereof:		
continuing operations	2.7	-65.6
thereof:		
discontinued operations	-86.0	-74.2

The **net financial expense** of EUR 11.3 million was EUR 13.6 million better than in 2009. This results mainly from the strict reduction in debt by the Group.

The **consolidated net loss for the year** after minority interests totaled EUR 99.2 million after EUR 145.4 million in 2009.

This gives rise to **earnings per share** (basic/diluted) of minus EUR 3.45 (2009: minus EUR 5.51).

Summary assessment of assets, financial position and earnings

In both 2010 and 2009, the earnings of the Gigaset Group were shaped by the portfolio streamlining and the realignment of the Company, which resulted in it recording a consolidated net loss for the year. On the positive side, the portfolio streamlining has essentially been completed and the Gigaset Group has performed far better than originally planned. In particular, this is reflected by the EBITDA generated by the continuing operations. Therefore, the earnings position is expected to improve greatly in the coming fiscal year, 2011, once the portfolio streamlining and realignment of the Gigaset Group have been completed.

Key indicators of assets, financial position and earnings

		2010	2009
Equity ratio	Equity / total assets	10.1%	18.5%
Asset intensity	PP&E and intangible assets / total assets	25.2%	37.2%
Structure of liabilities	Current liabilities / liabilities	78.7%	73.9%
Return on sales	EBIT / revenues	negative	negative
Return on equity	Consolidated net profit / equity	negative	negative
Return on capital employed	Consolidated net profit / total revenues	negative	negative

Employees

The Gigaset Group had an average of 4,988 employees in fiscal 2010 (2009: 9,417). Of this number, 1,820 were hourly wage workers (2009: 3,169), 3,079 salaried employees (2009: 6,079) and 89 vocational apprentices (2009: 169). At the reporting date of December 31, 2010, the Gigaset Group had 2,333 employees (2009: 5,049). The employees of the companies that were added or removed in 2010 are included on a pro rata basis.

Report on the development of Gigaset's subsidiaries

Summary of subsidiaries of Gigaset AG at December 31, 2010:

Subsidiary	Acquisition date (signing)	Industry
Gigaset Communications	August 2008	Telecommunications
Oxxynova	September 2006	Specialty chemicals
van Netten	April 2007	Candy producer / industry
SM Electronic	November 2007	Consumer electronic distributor
Carl Froh	April 2008	Steel processor / automotive supplier

The performance of Gigaset AG's subsidiaries in fiscal 2010 and of the Anvis, Golf House and Fritz Berger subsidiaries that were sold in 2010 up until the time of their disposal is described below.

This main focus of this discussion arises from the change of strategy in the Gigaset Communications segment.

Gigaset Communications GmbH – the European market leader

Gigaset Communications is more closely associated with fixed-line telephony than just about any other company. Based in Munich and with its main production facility in Bocholt, Germany, the Company is one of the biggest manufacturers of cordless phones in the world and Europe's clear market leader for DECT telephones. Its market share by volume in its core market of Europe totals around 33% (measured by revenues). DECT stands for Digital Enhanced Cordless Telephony, the most widespread and successful technical standard for cordless telephony in the world today. The Company is a genuine global player: Gigaset Communications sells its products in 70 countries throughout the world and has a workforce of 1700.

The Gigaset portfolio comprises fixed-line telephones, voice-over-IP models and more recently also IP system telephones and IP telephone systems for professional use in small and medium-sized enterprises. The Company's sole production facility is in Bocholt, Germany, where the Gigaset products are manufactured to the very highest quality and environmental standards.

Gigaset combines decades of experience in top quality "Made in Germany" with an outstanding market presence. A Gigaset

telephone is found in every other German home and in one in four European homes, reflecting the strong trust consumers place in the brand. Gigaset Communications bases its premium strategy on this strong demand. Gigaset Communications achieves far higher average sales prices in the market than its competitors: they are more than EUR 10 higher than those of other manufacturers, representing a constantly attractive source of income for retailers as well.

Gigaset can build upon decades of experience in R&D and innovation in the telephony sector. A product of Siemens AG, the Gigaset name helped to shape the emerging world of cordless telephony, especially in the 1990s. Still operating as a telephony division of Siemens AG at that time, Gigaset Communications made a decisive contribution to the development of cordless telephony. Among other things, this included the DECT standard, which is now established worldwide, as well as functions that are taken for granted today including integrated answering machines, text messages in the fixed-line network and hands-free operation. A connection to the data world was built into Gigaset telephones at an early stage, based first on DECT and later on HomeRF.

One of the key new developments of the past few years is ECO-DECT, to which the entire portfolio has in the meantime been converted. The telephones are especially energy-efficient and low-emission as a result. Gigaset Communications has assumed a leading role in IP telephony and IP services on user-friendly hybrid telephones operating on both the fixed-line network and LAN lines. For more information on research and development spending and the capitalization of the cost of development activities, please refer to the comments in the notes to the consolidated financial statements (Note 14).

Numerous innovations facilitated a new quality of telephone call in the home, helping Gigaset products to become established in millions of households. In October 2008, Gigaset AG first acquired 80.2 percent of the shares in Siemens Home and Office Communications Devices GmbH & Co KG (SHC), a former Siemens company. The Siemens Gigaset brand, which was a household name at that time, served as the consequential basis for renaming the new company to Gigaset Communications GmbH. In December 2010, Gigaset AG finally acquired the whole company.

Quality "Made in Germany"

Independent product tests and reader surveys regularly confirm that Gigaset products lead the field in terms of quality, features and user-friendliness. The vast majority of customers also ascribe top quality and reliability to the "Made in Germany" label – a fact that pays dividends and underscores the Company's premium strategy.

Gigaset Communications is implementing these high expectations directly in its manufacturing processes: from handmade prototype through to terminal delivery, wide-ranging checks are carried out by the in-house quality lab. Employees in Bocholt employ a specially developed test assembly to assess the durability of a Gigaset telephone in the lab in conditions that are as close to real life as possible. Among other things, this involves subjecting the telephones to dirt, dust, cold and heat and reproducing everyday situations. Thus the "jeans pocket test" simulates the action of putting the phone into and removing it from jeans pockets, complete with crumbs and dust. In the "drop test," the telephone is dropped onto a hard flagstone 16 times from a height of 1.52 meters. The "shake test" reproduces a ride on a truck and gives the telephone a thorough shaking. A robot arm places the Gigaset into the recharger 25,000 times and takes it back out again in order to check the batteries. Finally, an acoustic test is performed in a soundproof room using a head simulator to ensure top voice quality.

Quality is demonstrated in several ways at Gigaset Communications:

- › Convincing products: high-quality materials, reliability, user-friendliness, functional design, products modified to reflect demographic trends
- › Awards for its products: Stiftung Warentest test winner, technical journal Connect's approved list
- › Decades of telephony experience: first telephones manufactured in Bocholt in 1948; Gigaset cordless phones produced since 1993

- › Seamless controls: careful quality assurance, quality controls in various production phases, principle of dual control applied in commercial functions and quality management
- › Product testing: very high quality standards (e.g. drop tests, keypad longevity test, fault-free operation, etc.)
- › Comprehensive service: pre- and after-sales service (only offered by very few manufacturers)

Strict cost and change management secure competitive advantages

The Company manufactures a majority of the Gigaset products at its German production facility in Bocholt in compliance with high quality and environment standards. In 2009, the Gigaset plant was named "Factory of the Year/Global Excellence of Operations" by business journal Produktion and management consultancy A.T. Kearney in the "Outstanding change management" category. Gigaset Communications was the clear category winner in this long-standing, hard industry benchmark. The Company views this accolade as affirmation of its claim to deliver top-drawer products as market leader, to cultivate its technical inheritance and to develop its expertise. Core features of the production facility in Bocholt include:

- › Strict, consistent cost management complete with a reduction of plant overhead structures and productivity enhancements in production
- › Good interlinking of production and development
- › Good supplier integration

Sustainable production, environmental awareness and service mentality form part of the corporate culture, as confirmed by the ISO 14001 and ISO 9001 certificates awarded each year by the TÜV technical inspection agency. Customer service and support processes also reflect the strong quality promise: device returns are examined individually and, wherever possible, repaired instead of being scrapped. Efficient, sustainable operation is a key success factor for Gigaset Communications, as customers around the world reward the high quality of Gigaset products "Made in Germany." Outside of Europe in particular, interest is constantly rising in energy-saving, low-emission products that have been manufactured to exacting environmental standards. The main production facility of Gigaset Communications in Bocholt has already been named "Factory of the Year" on several occasions. It now boasts annual capacity of around 16 million devices for worldwide distribution.

Market proximity

The Bocholt facility provides short transport paths and times through production in the heart of Gigaset's main market of Europe. This makes it possible to respond quickly to sudden rises in demand in consumer activities and to avoid harmful merchandise density (with the consequence of price erosion). This option is not open to a simple importer of consumer goods from Asia, for instance, as it has a relatively long reaction time on account of the six-week shipping time and can only react by way of price.

Having its main production facility in Bocholt gives the Company proximity to customers in its core market of Europe. Keeping quality and change in harmony means constantly implementing and regularly reviewing in-house values in production: reliability, simplicity, speed and cost-efficiency. The advantages of production in Germany and core features of the production facility in Bocholt are:

- › Know-how development
- › High level of on-time delivery: > 95%
- › High level of delivery capability: > 90%
- › Fast order fulfillment lead time: < 3 days (time from order receipt to shipment)
- › Fast order confirmation lead time: > 95% within 24 hours (how quickly orders are confirmed)

Environmentally friendly production and products

Gigaset Communications has been certified compliant with DIN EN ISO 14001 since 2007, reflecting its particularly good environmental management record. The development of energy-saving, low-emission products goes hand in hand with the constant optimization of energy and material usage in production and logistics at Gigaset. The employees are constantly involved in these processes as part of quality management programs, enabling them to achieve considerable success in terms of power and material consumption in recent years.

Gigaset Communications has systematically geared its production processes to environmentally friendly methods. These include:

- › Efficient use of materials: thin-wall technology
- › Intelligent packaging: optimization of packaging size and weight
- › Effective production: compliance with all environmental regulations, exploitation of automation effects
- › Outstanding distribution: efficient and secure merchandise shipping

- › Sophisticated disposal: strict separation of packaging and scrap metal (disposal of old devices in accordance with the EU's Waste Electrical and Electronic Equipment Directive (WEEE – Directive 2002/96/EC)

Europe's leading manufacturer of cordless telephones is doing its bit for the environment and efficiency with intelligent packaging concepts. By optimizing the packaging used for its telephones, Gigaset Communications has saved around 150 tons of paper each year since 2010 and considerably reduced its logistics and process costs at the same time.

An important milestone was reached in 2010 with the tangible reduction in telephone packaging for A and C class models, large number of which are sold on the market. Improved workflows in the assembly of sets featuring several handsets together with new, narrower designs for the base stations and rechargers for the A and C class portfolio in 2010 laid the foundation for optimizing the packaging. This made it possible to reduce the packaging by 24 percent for systems (base and handset), 44 percent for trios (sets with one base station and three mobile handsets) and an impressive 51 percent for quattros (sets with one base station and four handsets). The annual paper saving amounted to around 120 tons this year, rising to 150 tons from 2011.

Gigaset Communications has implemented measures that also considerably reduce its logistics and process costs as well as its paper consumption. A single, non-reusable pallet now accommodates 192 telephones (systems) instead of 144, for instance. Expanded over the portfolio as a whole, this means that 31 percent of truck movements can be eliminated. All in all, this represents a reduction of 240 tons of carbon from the annual carbon balance, or as much as 40,000 trees or 40 hectares of woods consume every day.

Quality pays off: The Gigaset telephones have been won accolades from many magazines and independent institutions.

Moreover, numerous products have received design awards, including the IF award. Millions of people affirm their satisfaction each year by buying a Gigaset telephone.

Performance in 2010

The past fiscal year proved very successful for Gigaset Communications Group. It exceeded its own profit forecasts and generated revenues of EUR 504.0 million in 2010 with a reported EBITDA of just under EUR 51.0 million. At the extraordinary shareholders' meeting of Gigaset AG in December 2010, the Executive Board assumed that EBITDA would total EUR 45.0 million (up 13%), the main reason being strong demand in the core markets. New products and strong partnerships with distribution partners helped Gigaset Communications to boost its sales in Europe over the year as a whole.

Revenues declined from EUR 556.0 million in 2009 to EUR 504.0 million (down 9%) in 2010, although the year-ago total included the non-core broadband, WiMAX and home media activities that have since been sold. Like-for-like revenues in the core business rose from EUR 491.0 million to EUR 504.0 million, up 3% year-on-year. This means that Gigaset Communications has achieved growth in its core segment.

The Executive Board attributes this pleasing development to the successful realignment of the Company together with a high level of new product acceptance in terms of both technology and design. The settlement of the dispute with Siemens has also removed uncertainty in the retail trade. The final months of the year in particular greatly exceeded expectations.

Company performance better than budgeted

Gigaset Communications GmbH vastly exceeded its budgeted targets in 2010 on the back of strong demand. At EUR 504.0 million, aggregate annual revenues beat the budget by EUR 5.2 million. Above all, revenues in the core European markets developed better than planned, whereas the revenues budgeted for North America remained well below the budgeted level on account of a difficult market situation. On aggregate, the core markets were able to more than offset the revenue losses in the United States.

The positive revenue development can be attributed primarily to the fact that the consumer climate brightened increasingly in the wake of the financial crisis and Gigaset Communications could benefit from its strong market position. In addition, Gigaset Communications boosted its sales volume with successful, innovative new products, a better presence with its distribution partners and greater acceptance of the Gigaset brand at an already high level.

Numerous new models

Gigaset Communications launched a product offensive featuring numerous new models in its core business of cordless telephony (including the Gigaset models SL400, E500, E300, C300, A400 and A600) during fiscal 2010. The premium Gigaset SL400, dubbed the "smallest Gigaset in the world," received numerous awards: among others, the readers of the technical journal Connect voted the telephone "Product of the Year". A real metal frame and keypad give the flattest and smallest Gigaset telephone to date a particularly upmarket appearance. The high-class but also functional product design, combined with a fresh menu and sound concept, persuaded the iF Commission and the Chicago Athenaeum to give the phone an "if designaward" and a "Good Design Award," respectively.

The Gigaset E500 and E500A models that Gigaset launched in the fall are characterized by elegant design together with top user convenience. Great emphasis was placed in the new telephones on generous proportions for the keys, display and letters as well as outstanding sound quality, including in hands-free mode or in connection with hearing aids or headsets.

At the same time, the Company rolled out new table-top telephones for professional users in home and central offices (Gigaset DX800, DX600 and DL500). It unveiled the Gigaset DX800A, a new highlight for professional use in small enterprises and offices with three to six employees. With a range of uses for making calls by VoIP or fixed ISDN or analog lines, the DX800A represents a future-proof all-in-one solution that can grow with an enterprise as it expands.

In a further step, Gigaset Communications prepared to enter the market for professional solutions for small and medium-sized enterprises (SMEs) in 2011. The Company expects both revenues and profits in this segment to grow considerably in the coming years.

In its cordless telephones, Gigaset Communications places great emphasis on what are known as eco-functions, such as energy-saving power units and variable functions to reduce transmission power. The base station in new-generation Gigaset models shuts down transmission when it goes into standby mode. Aside from innovative new product developments, Gigaset Communications also rolled out a new software program used to synchronize data between Gigaset phones and the computer. For product launches, Gigaset Communications relies on specific marketing activities aimed at the relevant target group and does not attend costly major events.

Development in relation to the industry

Gigaset Communications has continued to dominate the market in its core business of cordless voice and defended its leading position in Europe, where it holds down 33 percent of the market in terms of sales volume. The gap between Gigaset as number one in the European market and Panasonic as number two remains unchanged at 11 percentage points. At the same time, consolidation among market players has persisted. So-called B-brands and local brands are increasingly losing market share.

Markets, lines of business, products

In its core business of cordless voice, Gigaset has systematically refined its product range with a focus on environmental friendliness, design and quality. New flagship products like the Gigaset SL400 ("The slimmest designer phone with highest technology"), the Gigaset E500 ("Easy and instinctive to use, this phone increases the joy of staying in touch") and the Gigaset C300 ("The sophisticated phone with best-in-class performance") have expanded the product range or replaced existing products. They have new standards and trends on the market that have received an outstanding welcome from end customers. Technology, design and quality leadership have been visibly expanded.

The systematic disposal of the non-core broadband and WiMax activities was also successfully completed and outstanding processing activities terminated.

The planned physical expansion in the North American market proved sporadic and failed to match expectations. Consequently, Gigaset Communications closely analyzed its business activities locally and adjusted its structures accordingly. Gigaset Communications will concentrate primarily on the premium segment in the United States and Canada in the future. Activities in the Mexican market are being reinforced.

In Europe, the expansion in Britain and Russia proved very successful. Gigaset Communications has been able to clearly increase its revenues and market share in both regions. The sustainable growth course for Russia was strengthened by setting up a separate legal entity and a local storage facility in the country in order to be able to serve the Russian market even faster and more flexibly.

Development of results

The successful performance of the Gigaset Communications Group is also reflected in a much better operating result. The Group increased its EBITDA from EUR 12.4 million in 2009 to EUR 50.2 million in 2010. Although this represents a jump of around 400%, the figure is not directly comparable with the year-ago amount as numerous non-recurring effects impacted on the result in both 2009 and 2010. These included workforce restructuring and the disposal of the broadband, WiMax and home media activities.

The commercial success is nonetheless reflected very clearly in the results, as the non-recurring effects are by no means large enough to hide the improvement in Gigaset Communications' operations. The success is built around optimized processes and systems together with a much lower headcount. This combination yielded a massive leap in the profitability of Gigaset Communications as it concentrated on its core business and constantly improved its earnings power through strict cost management.

The plans for EBITDA in 2010 were exceeded. This essentially results from the successful implementation of a premium-price strategy together with the continuation of cost-cutting measures. The EBITDA is around EUR 2.2 million higher than planned, even though negative foreign currency effects had an impact as against the budgeted total and a restructuring provision of EUR 7.2 million was set up for a round of downsizing to be carried out at the start of 2011.

One-off and non-recurring effects

The biggest non-recurring effects disclosed are of actual charges of around EUR 10.5 million arising from workforce restructuring or EUR 13.5 million compared with the budget.

The restructuring of the company was systematically continued and advanced in 2010. An operating profit (EBITDA) was generated thanks above all to the clear focus on the high-margin cordless voice segment and consistent cost management. At the time of acquisition by the former ARQUES Industries AG, Gigaset Communications was still weighed down by its legacy corporate structures and operating at a large loss. All processes have in the meantime been streamlined, the product portfolio adjusted, the repositioning of the brand initiated, costs sharply reduced and the legacy corporate structures adapted to reflect the requirements of a medium-sized company.

Commercial operations

Restructuring progress (restructuring/growth)

Gigaset Communications has succeeded in enhancing both efficiency and competitiveness in its commercial operations. In 2010, the Company continued its policy of eliminating further parallel structures and simplifying its processes and procedures. At the same time, Gigaset Communications extended its product lifecycles from 24 to 36 months in response to positive experience on the market. An enhanced cost structure was achieved in part by strengthening the cost-efficient Gigaset development facility in Poland. In Germany, the discussions with the employee representatives required for the workforce reduction were concluded and communicated to the workforce. Meetings with the affected employees were conducted in January 2011. The goal is to complete the downsizing process by the end of March 2011.

Clear cost advantages are provided by the new supplementary collective bargaining agreement that was successfully negotiated with the employee representatives in 2010. The agreement secures considerable savings in personnel expenses over a period of four years starting April 2011. This is achieved by means of pay waivers and unpaid overtime. This measure will also help to greatly reinforce the competitiveness of Gigaset Communications.

The transition of the brand from Siemens Gigaset to the standalone Gigaset brand is progressing as planned. The migration of the brand strategy is being implemented, and a significant budget and a project team have been set up. The license agreement with Siemens remains in place until the end of September 2011. The brand migration has been initiated in all processes, functions and countries.

Implemented and initiated measures

Gigaset Communications has created a competitive and efficient sales organization spanning the globe. The country structures have been modified toward lean local distribution companies (work in progress). The following measures were implemented and initiated during 2010 with a view to boosting both competitiveness and efficiency:

- › Expansion of the internal Shared Service Center accommodating highly repetitive administration processes (trade liabilities, trade receivables, sales orders)
- › Workforce adjustments in 2011 with a view to creating mid-sized corporate structures for Gigaset (already initiated and partly implemented)
- › Further simplification of the IT infrastructure and application landscape, including change of SAP provider, busi-

ness warehouse migration (initiated and partly implemented)

- › Brand migration (ongoing)
- › Launch of new innovations (e.g. in the "hands-free talking" segment)
- › Launch of the new Gigaset Pro product segment (solutions for SMEs and freelancers)
- › Product developments (portfolio expanded or reduced), R&D programs

2010 was characterized by the roll-out of numerous new products, including the flagship Gigaset SL400A. The Company also laid the foundations for entering the new Gigaset Pro segment at the start of 2011. The main developments on the product side included:

- › Launch of the wide-ranging product portfolio in 2010
- › Accessories
- › Lengthening of product lifecycles from 24 to 36 months
- › Development of a Gigaset Professional portfolio (Gigaset Pro) for the new Small Office/Home Office (SoHo) customer group and SMEs
- › Sales and marketing activities (e.g. trade fairs, CRM)

The marketing activities of the Gigaset Group focused primarily on market communications targeting specific customer groups and direct sales-promotion activities. The decision was taken to refrain from large-scale, cost-intensive campaigns on TV as well as participating at major events and trade fairs like CeBIT and IFA. Instead, Gigaset Communications opted for in-house events for specific target groups at the same time as an efficient and effective tool.

Financing:

capital requirements, credit policy, source of funds

The Company applied efficient liquidity management in order to secure the funds it needed to operate successfully. The business activities were essentially funded by means of the following measures:

- › The conclusion and utilization of a factoring agreement with Coface for receivables of Gigaset Communications acted as a short-term financing instrument. Preparations are under way for expanding the factoring arrangements to five local companies, and closing is scheduled for the start of 2011.
- › A loan of EUR 16.0 million extended by DB Lux was utilized to finance the workforce restructuring program in 2009. (The term was set for three years.) The loan was repaid with interest in December 2010. This means that Gigaset Communications is now free of bank debt.

The cash flow from operating activities also covers the short-term demand for finance. In particular, the original capital base at the time of disposal by Siemens AG provides the solid foundation for this.

The agreement to set aside all disputes between Siemens AG on the one hand and Gigaset AG and Gigaset Communications on the other helped the Company's shareholders' equity to increase considerably. This was due to the transfer to additional paid-in capital at Gigaset at the same time as the payment of the purchase price liabilities to Siemens. This served to strengthen the capital base of Gigaset Communications by more than EUR 40.0 million.

Investment programs and closure of production units (outsourcing and insourcing)

The investment rate was increased in 2010 in order to secure the sustained development of the Company. At the same time, Gigaset Communications optimized the resources at its main facility in Bocholt, Germany: production machinery released by the sale of the broadband and WiMAX activities in 2009 has been specifically redeployed to replace older units in other production lines. .

Development of administration

At its heart, the realignment of Gigaset Communications concentrated on creating a dynamic, globally active, mid-sized enterprise. The administrative structures have been simplified throughout the world. The focus was on removing parallel structures on the administration side and simplifying the processes and procedures on the IT side. At the same time, the Company continued the policy it initiated in 2009 of replacing further suppliers from the Siemens Group with new, external service providers suitable for a medium-sized company (e.g. for SAP operation).

Customer and order development, utilization of plant and machine capacity

Gigaset Communications has one of its major strengths in its well-developed distribution network, especially among general and specialist retailers. Its long-standing business relations mean that the Company enjoys a stable customer portfolio in its core business of cordless voice. This direct and indirect retail business has been reinforced compared with the business involving diverse telecoms providers in various markets.

Gigaset, the undisputed market leader, increased its European sales volume sharply in September and October, shipping more units than ever before during this period. Traditionally, the months after the summer break are always the period during which the retail trade stocks up for the upcoming Christmas season. The increase in sales volume can be attributed primarily to an innovative, high-quality product portfolio, a better presence among distribution partners and even greater acceptance of the Gigaset brand at an already high level.

Capacity utilization at the Gigaset plant in Bocholt varied greatly during 2010 on account of differing seasonal production cycles. Utilization levels regularly decline over the summer in line with seasonal factors, whereas capacity is fully employed during the following months – September to November – in response to the strong pre-Christmas demand. By planning properly in advance, Gigaset Communications ensures that delivery bottlenecks are almost impossible in terms of materials and capacity. Having its own production facility in Germany represents a major competitive advantage as this ensures short response times in light of such pronounced cycles and the fluctuations in demand that occur at short notice.

Development of new international markets, opening and closure of subsidiaries and representative offices

Efforts to expand in new international market regions met with varied success. Whereas the Company enjoyed good progress in Europe, the activities employed to tap the North American market failed badly to live up to expectations. The plan was to roll out the standalone Gigaset brand for the first time. However, the combination of a relatively low level of brand awareness in the United States and extremely aggressive pricing by Asian competitors caused sales to remain at dissatisfactory levels. As a consequence of this, Gigaset Communications revised its North America strategy. In the future, the focus in the United States and Canada will be on the premium segment. The local structures have also been adjusted in Mexico, strengthening the business there as a result.

Expansion in the UK and Russia, on the other hand, ran much better than planned. Gigaset Communications was able to gain significant shares of both markets. In Russia, the foundation was laid for further growth by switching the business model for the Russian subsidiary to proprietary business.

The global setup of Gigaset Communications remained unchanged. No subsidiaries were closed or set up.

Tapping new segments

2010 represented a further milestone for Gigaset Communications in terms of developing new lines of business. The foundations were laid for successfully entering the new segment of professional IP system telephones and telephone systems at the start of 2011. Gigaset Pro (Gigaset Professional) is a new product line designed to tap a new customer segment outside of the traditional core business: small and medium-sized enterprises (SMEs). This means that Gigaset Communications will have a presence in a second customer segment offering huge potential for revenue growth alongside the traditional private customer segment. The relevant organizational changes have been approved and partially implemented. Gigaset Pro will be rolled out in a number of European focus countries at first (the Netherlands, Britain and Germany, among others). The Company is hiring new employees in places in order to create the necessary sales setup and provide the appropriate capacity for the distribution channels.

Beyond the SME segment, no further entry into the large-enterprise segment or similar is planned. The reasons for this are the high level of complexity involved, excessive competition and corresponding market maturity.

Following on from the intensive preparations, Gigaset Pro is intended to evolve into a second pillar for the Gigaset Group over the next few years and provide for constant revenue growth.

Formation of new subsidiaries and cooperation agreements

The Company retained its global setup in the year under review. No new subsidiaries were set up. New product and distribution cooperation agreements were signed in connection with the new Gigaset Pro segment (Gigaset Professional).

Produktionskosten

Gigaset Communications succeeded in reducing its production costs again in 2010. The continuous improvement is based on massive cost-cutting measures at the production plant combined with active design-to-cost measures. Special attention is paid to the process of drawing up the annual portfolio, when it is ensured that Gigaset Communications achieves a better cost position with its successor products.

IT landscape (hardware, software)

A company's IT setup always represents a major cost factor. In implementing cost-efficient solutions in this field, Gigaset Communications has enhanced its competitiveness by:

- › further simplifying the consolidation landscape by concentrating on the Cognos consolidation system and the cost summary method,
- › changing the handling of SAP, and
- › introducing VoIP in the Gigaset company headquarters in Munich and country offices.

Changes in situations under company law

As one of the leading manufacturers of the cordless phones in the world and Europe's clear market leader in DECT telephones, Gigaset Communications has operations throughout the world. The Gigaset Group currently encompasses 23 operating and strategic subsidiaries in Germany and abroad.

Outlook for the Gigaset Communications Group

A new product portfolio combined with strong demand and a business strategy consistently geared to DECT telephony has given Gigaset Communications a good springboard. Together, they ensured that Company was able to defend its leading market position. The strict cost management program that was introduced after Gigaset Communications was acquired by Gigaset AG and that took full effect in 2010 additionally improved the Company's earnings position. The establishment of a standalone, mid-sized corporate structure has in the meantime been completed. The restructuring of the Company together with the establishment of new internal processes has been largely completed and a downsizing program to be carried out in 2011 initiated. The Gigaset Communications Group was almost completely free of bank debt by year-end 2010 and could start the new fiscal year (2011) with cash and cash equivalents of just under EUR 35.0 million.

The disposal of activities that did not form part of the core business of Gigaset Communications has largely been completed.

The workforce restructuring program has been in full swing since the beginning of 2011 and should be completed by the end of the first quarter. This had already been negotiated and prepared with the employee representatives in 2010 as a consequence of further process and system simplifications.

Targeted growth will be achieved during the course of 2011 by rolling out innovative products and implementing the annual product change in line with the product roadmap. In this

context, the Company will continue to focus in its product development on environmental compatibility, design and quality, and technical innovation.

Building on the clear commitment to the profitable core business involving voice products (cordless phones, voice-over-IP and fixed-line telephones), Gigaset Communications will press ahead with its activities in the segment covering professional applications for small and medium-sized enterprises. Gigaset Communications expects its entry into the Pro segment for professional users in SMEs to yield further revenue growth. The expansion into the new segment, professional solutions and further product innovations for the retail segment will cause revenues to rise and simultaneously profitability to increase in 2011. Revenues are expected to increase again in 2012, especially in the Gigaset Professional segment (Gigaset Pro), and profitability to rise on account of the full-year effect from restructuring carried out in 2011. As in 2011, special investments will be made in brand migration in order to reflect the switch to the standalone "Gigaset" brand and to secure market share.

With the development of new products and the integration of SM Electronic into the Gigaset Group, the corporate group sees considerable potential for expanding its operations in the accessories segment for telephone, mobile and multimedia technology by Gigaset Communications benefiting from the many years of experience gained by SM Electronic's purchasing department in Asia.

In terms of regional markets, Gigaset Communications is looking to expand further in Russia and the UK. Both regions are expected to provide revenue growth in the core business of cordless voice.

The Company's profitability, and notably the quality of its sales margins, is being reinforced. This is being achieved by ensuring stable pricing combined with enhanced product costs and a change in the product mix in favor of a larger proportion of high-end products.

SM Electronic

Based in Stapelfeld near Hamburg, SM Electronic is a fast-growing company that distributes satellite and antenna receivers (digital TV) under the Skymaster brand as well as electronic accessories for audio, video, home entertainment and multimedia applications, among others.

Alongside the Skymaster brand that has been sold by specialist retailers, supermarkets and home-improvement stores

for 20 years, the company also distributes products including Telefunken receivers, set-top boxes and other multimedia and telecommunications accessories under license. Furthermore, SM Electronic supplies Grundig TV reception accessories to the trade only. SM Electronic carries out product development, design and software programming in Germany.

Industry analysis

Nach Angaben des Branchenverbands EITO (European Information Technology Observation) ist der Umsatz mit Produkten der Consumer Electronics (CE) im Vergleich zum Vorjahr gewachsen. Der deutsche Markt für digitale Consumer Electronics wird sich 2011 laut BITKOM im Europäischen Vergleich sehr gut entwickeln.

Company situation, business developments, restructuring and development measures

Despite the success of initial restructuring measures, SM Electronic failed to reduce its losses year-on-year. Revenues were less than in 2009 after streamlining the product portfolio, terminating loss-making customer contracts and taking account of the economic situation. The company is undergoing a period of restructuring aimed at producing a sustainable, profitable increase in revenues while simultaneously reducing operating costs.

Outlook

With its access to Asian suppliers and its facilities in Hamburg and Asia, SM Electronic provides huge strategic synergy potential for Gigaset Communications. Its outstanding access to the Asian market makes SM Electronic the ideal complement to the logistics and procurement network of Gigaset Communications, helping to close a gap that the European market leader for DECT telephony has long suffered.

SM Electronic's facility in Hamburg in particular opens up a new strategic new dimension in supply chain management for Gigaset Communications. SM Electronic expects its revenues to expand 13% in 2011 alone, although this figure does not include synergy effects with Gigaset Communications. Besides exploiting the Asian market for Gigaset Communications and providing joint access to the logistics network, two further important points are at the heart of the future collaboration between the two companies. Joining up Skymaster and Gigaset will enable common point-of-sale marketing teams to be deployed for both companies, allowing product presentation to be better coordinated and optimized in retail outlets.

The acquisition by Gigaset AG brings together under a single roof two excellent departments for research, product design and development in Germany and the established brands together with SM Electronic's Purchasing department in Asia that boasts over 20 years of experience. Gigaset AG is gaining a powerful center of competence for wireless and multi-media technology with expertise that is perfectly geared to the future growth segments in the telecommunications and multimedia market.

van Netten

van Netten is a manufacturer of innovative, high-quality candies. Its principal customers are various retail companies in Germany and abroad. All products are manufactured at the production plant in Dortmund.

van Netten generated revenues of EUR 48.9 million in fiscal 2010 and generated an EBITDA of EUR 3.6 million.

van Netten will be sold in the spring of 2011.

Fritz Berger

Fritz Berger is a leading distributor of caravanning, camping and leisure products in Europe, focusing primarily on Germany where it has a nationwide presence with more than 40 stores and sales partners. Besides the specialist outlets, the products are distributed by the company's mail-order operation and online. In addition, Fritz Berger operates six Jack Wolfskin stores.

Up until the time of its sale, Fritz Berger had recorded revenues of EUR 13.8 million and generated an EBITDA of EUR 0.2 million.

Fritz Berger was sold in the spring of 2010.

Golf House

Golf House is the leading specialist retailer of golfing products and services in Germany, with a nationwide presence of 14 outlets. Golf House also operates a classical mail-order business and an online store.

Up until the time of its sale, Golf House had recorded revenues of EUR 13.4 million and generated an EBITDA of EUR 0.2 million.

Golf House was sold in the summer of 2010.

Anvis

The Anvis Group is a primary developer and manufacturer of functional solutions for the motion stability, comfort and safety of motor vehicles. The Group's product line encompasses the complete process chain with respect to anti-vibration systems, from the initial idea to serial production.

Up until it was sold, the Anvis Group had generated a negative EBITDA of 24.7 million (albeit dampened by the high loss upon deconsolidation) on the back of revenues of EUR 241.9 million.

Gigaset AG sold its interest in the Anvis Group on December 3, 2010.

Carl Froh

Based in Sundern (in the Sauerland region of Germany), Carl Froh is a manufacturer of precision steel tubes and components built to customer specifications. The company produces low-tolerance precision-welded steel tubes designed to meet special demands and develops comprehensive solutions for high-quality components and modules for a diverse range of applications.

The company generated a negative EBITDA of EUR 0.2 million in 2010 on the back of revenues of EUR 37.2 million.

The subsidiary was sold to its management at the start of 2011.

Wanfried Druck Kalden

Wanfried-Druck specializes in the production and printing of high-quality packaging and labels. It produces beverage systems packages, folding boxes and paper labels, for example.

Up until it was sold, Wanfried Druck had generated revenues of EUR 29.3 million and an EBITDA of EUR 0.1 million.

The subsidiary was sold to its management at year-end 2010.

Oxxynova

Oxxynova produces liquid dimethyl terephthalate (DMT), an input material used in polyester production. Among other things, DMT is used in the production of textile fibers, technical fibers, films, raw materials for paint and glue products, and technical plastics.

The company generated revenues of EUR 91.8 million and an EBITDA of EUR 4.2 million in 2010.

The company was sold in the first quarter of 2011.

Report on opportunities and risks in 2010

The change of the business model of Gigaset AG away from an equity investment company that specialized in the acquisition, restructuring and subsequent sale of companies in transitional situations (e.g., traditional turnaround candidates, corporate spin-offs, unresolved succession arrangements) and into an equity investment company that concentrates on the 'telecommunications and accessories' segment, and that only acquires and holds companies or investments to reinforce and promote these activities, has fundamentally altered the opportunity and risk profile of Gigaset AG.

Opportunities and risks of future development

So long as Gigaset Communications GmbH remains the only significant subsidiary of Gigaset AG, the future opportunities and risks of the corporate group can essentially be derived from the opportunity and risk profile of this company and its subsidiaries. This is discussed below.

Gigaset Communications operates in the market for consumer terminal devices (telecommunications terminals), and specifically in the markets for cordless and analog telephones. Gigaset Communications holds a very strong position in the retail segment by virtue of its strong brand name and its well-balanced product assortment. The Company occupies a leading place in the DECT telephony market worldwide (Digital Enhanced Cordless Telecommunications, a leading standard for cordless phones) and is the clear market leader in western Europe.

The products of Gigaset Communications are widely used and appreciated by customers in the retail distribution sector on account of the Company's strong brand name and its innovative product portfolio. In the final analysis, the very good market positioning reflects this high level of product acceptance. Because the Company normally cooperates with such customers on the basis of steady, long-standing partnerships, the dependence on individual retailers and distributors is generally minor. When venturing into new markets, however, the Company may be subject to greater dependence on individual customers at first. For its sourcing of raw materials and supplies, the Company generally works with at least two suppliers. Gigaset Communications has established a Supplier Management Center in Shanghai to manage and control its suppliers in Asia. Gigaset Communications attempts to avoid becoming dependent upon individual suppliers with respect to units shipped and innovation by cultivating a broad supplier base.

Furthermore, a large number of components required for the Company's production operations are sourced in the dollar area, giving rise to currency risk. Such risk is hedged primarily by means of forward currency contracts.

There is a risk associated with the fact that Gigaset Communications' production activities are concentrated at a single production facility in Bocholt.

The stagnation of target markets essentially gives rise to the risk of general price erosion and of a decline in market volume in the medium term. This risk will be countered in 2011 by means of consistent cost management and an innovative product portfolio in a uniform corporate design. However, where budgeted cost savings and restructuring measures cannot be implemented in the timeframe or scope planned, there is an overhead risk and hence an earnings risk for Gigaset Communications. Underutilization of production capacity on account of poorer sales figures in the current economic situation could lead to further earnings risk, particularly in the highly automated plant in Bocholt.

Gigaset Communications is allowed to use the familiar Siemens brand name for its products up until September 30, 2011. Thereafter, there is a risk that the loss of licensing rights to the Siemens brand name could have a negative impact on familiarity with the products and hence on the Company's market position, especially in regions outside of Europe, due to the strong international competition that prevails in those regions. The Company intends to engage in targeted PR and marketing activities to familiarize a broad swath of the public with the Gigaset brand and thereby protect its market position. The slow transition from the Siemens Gigaset brand to the (standalone) Gigaset brand will continue in the period through 2011.

The Company counters the risk of losses on receivables by carrying trade credit insurance and applying strict receivables management and a robust reminder system. Based on historical data, the risk of losses on receivables is considered low. Gigaset Communications is subject to relatively strong seasonal liquidity fluctuations. The Company has adequate cash, current receivables and assets to meet its current payment obligations. As a general rule, the Company is subject to the risk of general price erosion for its product assortment and the risk that its market will shrink over the medium term.

Proactive management of R&D programs will help to cut costs and simultaneously accelerate technological progress in future-looking segments like Voice over IP telephony (VoIP).

The Company sees business opportunities in the Gigaset Pro project. Alongside the traditional customer segment of consumers, the Company is trying with Gigaset Pro to exploit a new customer segment comprising small and medium-sized enterprises and to leverage the related potential for revenue growth. Appropriate organizational changes have already been approved and partially implemented. Gigaset Pro is intended to evolve into a second pillar for the Gigaset Group. Furthermore, the Company is aiming to exploit further opportunities by tapping regional growth markets (e.g. Russia, the UK and Asia) using the established Gigaset brand and the existing global distribution network. Gigaset has the expertise required in the field of research and development to meet the rising technical demands of the market and to roll out product innovations itself.

Reinforcing regional market positions is a key prerequisite for benefiting from the forecast growth. At the same time, the targeted growth is geared to a very price-sensitive segment. Gigaset Communications closely analyzed the market determinants during the year under review and has already initiated measures aimed at reinforcing and expanding its market position. Should it prove impossible to strengthen the market presence and acceptance to the extent envisaged, weaker sales figures would present a risk to earnings.

SM Electronic distributes satellite and antenna receivers (digital TV) under the Skymaster brand as well as electronic accessories for audio, video, home cinema, car hi-fi, navigation and multimedia applications, among others. The company based in Stapelfeld near Hamburg has a relatively broad customer base and supplies large specialist outlets, department stores and retail chains in Germany and the rest of Europe. The company is thus exposed to the general fluctuations in consumer purchasing patterns. The company has long-term contracts with major customers. SM Electronic is constantly adding new lines and segments to its business activities with a view to developing the existing product and customer portfolio. The German consumer electronics market is characterized by a large number of participants and strong downward pressure on prices. Purchasing is exposed to fluctuations in the US dollar exchange rate.

As is usual for the industry, the company is dependent on its management in the purchasing and sales functions. There are large fluctuations in new orders received. SM Electronic is looking to exploit major business opportunities by optimizing its product portfolio and reorganizing its international operations. SM Electronic will be able to greatly enhance its cost structure sustainably by optimizing its internal processes, modernizing its IT systems and centralizing the services it provides.

Exploiting synergies with Gigaset Communications represents a major opportunity for SM Electronic to enhance its business activities. These synergies can be realized by optimizing shared supply chain management and shared logistics, consolidating administrative processes and pooling purchasing activities. In addition, there is potential on the sale side arising from the complementary customer base of the two companies and the deployment of common point-of-sale marketing teams.

Changes in the opportunity and risk profile arising from the change of business model

The opportunity and risk profile of the corporate group has changed greatly on account of the concentration on the telecommunications segment and possible strategic acquisitions only in this or related fields.

General economic risk

Economic risk

The general economic climate in Germany, the European Union and worldwide influences the operating performance of the Company in a variety of ways.

The, in places, massive economic downturn triggered by the financial crisis, together with restrained consumption and investment across the globe, had an effect on the business activity and above all on the orders and earnings position of the Gigaset Group companies in 2009. The global economy developed much more positively in 2010. However, the Gigaset Group was only able to benefit from this with the very strong performance at Gigaset Communications. With the exception of Gigaset Communications, the subsidiaries all suffered from the reticence of the banks to extend credit. This led to the further postponement of investment projects and to persistently high requirements in terms of liquidity management.

Industry risk

Industry risk is the risk that affects a particular market or sector. Given the mixed nature of the portfolio under the old business model, this could take very different forms and have very different effects in the former subsidiaries. Basically all industries are exposed to changes in commodity prices and the risk of new, aggressive competitors entering the market.

In a reflection of the broad range of industries represented in the former investment portfolio, the degree to which the various subsidiaries were affected by cyclical fluctuations varied greatly.

The old business model called for industry risk to be countered with appropriate operational measures at the level of, and under the responsibility of, the respective subsidiaries.

Company-related risk

Risk is a fundamental component of all business activity. It comprises the danger that corporate objectives will not be achieved as a result of external or internal events, actions or decisions, and in extreme cases that the continued existence of the company is in jeopardy.

Acquisitions

The Gigaset Group used to specialize in the acquisition, restructuring and subsequent sale of companies in transitional situations (e.g., traditional turnaround candidates, corporate spin-offs, unresolved succession arrangements). In most cases, these companies had already been generating losses for some time when they were acquired by Gigaset AG. Despite careful analysis, Gigaset AG was still subject to the risk of purchasing a company that cannot be restructured successfully, or only at a high cost in terms of effort and resources (risk of unsuccessful acquisitions). In such a case, Gigaset AG would seek to sell the company ahead of plan, with the result that those financial resources invested by the Company for the acquisition and financing of the subsidiary which were not recovered by the sale proceeds would have been written off. The risk of losing the total amount invested existed in the case of high purchases prices.

The change of the business model to an equity investment company that concentrates on the 'telecommunications and accessories' segment, and that only acquires and holds companies or investments to reinforce and promote these activities, has fundamentally altered the opportunity and risk profile of Gigaset AG. Future acquisitions will only be made with a strategic purpose in mind and with a view to tapping synergies. The risk of unsuccessful acquisitions is greatly reduced by applying thorough industry knowledge and refraining from only acquiring restructuring cases.

Restructuring / integration

The company's goal under the old business model was always to achieve the fastest possible restructuring of the subsidiary in order to keep its liquidity needs, above all, and its operating losses as low as possible after the acquisition. This could fail if, for example, it became evident that the restructuring costs were too high, the market position of the industry deteriorated or the management made mistakes in the restructuring process. In the worst case, the subsidiary could have become insolvent. In the future, the focus in the acquisition of subsidiaries by Gigaset AG will be on tapping synergies and perma-

nently integrating the companies into the Gigaset Group. The risk in this context lies in the successful implementation of the integration measures. The change of strategy has greatly reduced the risk of losing all of the financial resources invested.

Exits / holding

With regard to selling restructured subsidiaries, the risk under the old business model was that no buyer would be found for a given subsidiary. Another risk in company sales, which continues to exist in general terms, is the possibility that the buyer would, after the sale is completed, seek to invoke any warranties issued as part of the purchase contract in order to lower the agreed purchase price. These risks no longer apply under the new strategic approach of acquiring new subsidiaries with a view to integrating them into the corporate group.

Information systems and reporting structure

Reliable, consistent and meaningful information systems and reporting structures are required to monitor and manage the corporate group and run the subsidiaries. Gigaset AG possesses professional accounting, controlling, information and risk management systems and has established a regular system of subsidiary controlling and risk management throughout the company. Appropriate IT support is provided around the clock to ensure that the systems are available at all times. The Executive Board is kept regularly informed about sustainable developments in the subsidiaries promptly.

Nevertheless, it is not inconceivable that the information system could fail at some specific point, or will not be operated properly by the employees concerned and negative economic developments in a subsidiary would therefore not be flagged promptly.

Other company-related risks

With regard to receivables of some Gigaset companies in relation to other Group companies, the Group would be exposed to default risk if the company owing such obligations were unable to meet them. With the exception of the contingent liabilities presented in the notes to the financial statements, there are no legal grounds on which Gigaset could be compelled to stand for the liabilities of the subsidiaries.

Financial risk

In general, liquidity risk is managed, and the liquidity planning and financing structures are reviewed, by the subsidiaries locally, in consultation with the Corporate Finance Department.

Liquidity of Gigaset Communications GmbH

Due to the special position of Gigaset Communications GmbH, the following comments relate explicitly to this com-

pany. Its commercial activities are financed largely by equity capital. The cash flow from operating activities covers the short-term demand for finance. The factoring of trade receivables that was commenced on October 1, 2008 was again used as a financing instrument.

The sharp decline in amounts owed to banks essentially stems from the repayment of the restructuring loan of EUR 16.1 million plus interest in December 2010. Following the repayment of this loan, Gigaset Communications is free of bank debt. Repayment formed part of the overall agreement between Gigaset AG, Gigaset Communication GmbH and Siemens AG.

Debt and liquidity of Gigaset AG

As of the reporting date, Gigaset AG was free of financial liabilities payable to third parties. Existing financial liabilities within the corporate group can and will be negotiated bilaterally.

The debt of the parent company has been systematically reduced over the last three fiscal years.

Gigaset AG has also demonstrated its ability to obtain fresh funds from the capital markets. The massively oversubscribed capital increase and convertible bond issue are an expression of this new attractiveness for our shareholders and creditors.

Interest rate, currency and liquidity risk

Gigaset AG continually optimizes its corporate financing system and limits its financing risk in order to preserve the Group's financial independence. In 2010, Gigaset AG succeeded in paying back almost all of its financial liabilities and reaching a comprehensive settlement with Siemens at corporate level, which served to reduce the liquidity risk compared with previous years. The financing risks are tracked by the risk management system and also monitored closely as part of liquidity management.

The companies of the Gigaset Group generate income in foreign currencies. The associated foreign currency risk is generally hedged by means of currency-matched financing of the international activities in question or other currency hedges. Changes in capital market interest rates could lead to changes in the market value of fixed-income securities and unc�헤d receivables and in the plan assets used to fund pension obligations. Gigaset AG conducts customary banking transactions to hedge its interest rate risk on a case-by-case basis.

To hedge its cash flow risk and protect the Group's liquidity, Gigaset AT employs various instruments to fund and protect

its receivables, including factoring and credit default insurance, for example.

Interest rate, currency and liquidity risk is generally managed by the individual subsidiaries locally, in consultation with the Corporate Finance Department.

For more information on this subject, please refer to the detailed comments regarding IFRS 7 in the notes to the consolidated financial statements. Gigaset AG itself did not employ any financial instruments in fiscal 2010 or fiscal 2009.

Tax risk

Like all other operating risks, tax risk is isolated at the level of the individual subsidiaries and is not aggregated at holding company level by way of intercompany tax relationships or Group-level taxation, for instance. By exploiting the frequently available tax loss carry-forwards, the Company succeeds in obtaining below-average rates of taxation. Income from the sale of subsidiaries is still largely tax-exempt. The Company obtains expert advice on tax issue in order to minimize any possible risk.

Risks arising from contingent liabilities and legal disputes

Guarantees of the parent company

Gigaset AG issued various guarantees as part of corporate disposals in the past. Furthermore, the parent company issued guarantees for subsidiaries in the past. The latent risks arising from these guarantees could be largely removed in the reporting year. It is considered unlikely or very unlikely that the remaining guarantees will be utilized.

Legal risk

In connection with its ordinary activities, Gigaset AG is involved in, or may in the future be involved in, various lawsuits and judicial administrative proceedings, or such proceedings may be initiated or pursued in the future. Although the outcome of the individual proceedings cannot be predicted with any certainty, given the imponderability generally associated with legal disputes, it is believed, based on current assessments, that these proceedings will not have a seriously adverse effect on the Group's earnings performance, beyond the risks accounted for as liabilities or provisions in the present financial statements.

Siemens AG had filed for arbitration proceedings against Gigaset Communications GmbH and Gigaset AG with the German Institute of Arbitration (DIS). After the comprehensive out-of-court settlement was reached by the parties on De-

ember 10, 2010, an arbitration ruling confirming this settlement was published in the spring of 2011.

In July 2009, the European Commission imposed total fines of EUR 61.1 million in connection with its anti-trust investigations of various European companies operating in the calcium carbide sector. In this connection, a total fine of EUR 13.3 million was levied against SKW Stahl-Metallurgie Holding AG, Gigaset AG, and SKW Stahl-Metallurgie GmbH, with each of them bearing joint and several liability. Gigaset AG filed an appeal against this ruling. Notwithstanding the appeal that has been filed, Gigaset AG reached agreement with the European Commission in October 2009 on the payment procedures for the 50% of the total fine of EUR 6.7 million provisionally apportioned to Gigaset AG. At the reporting date December 31, 2010, the fine apportioned to Gigaset AG had been paid in full, complete with interest.

Gigaset AG has, however, appealed the ruling and in October 2010 filed suit against SKW Stahl-Metallurgie GmbH.

Report on the opportunities and risks of discontinued operations

The operations of the Gigaset Group that have been, or are to be, discontinued operate in various markets with different products. Consequently, the segment-specific risk within the Gigaset Group was diversified. The economic development of every subsidiary can be negatively impacted by a variety of factors besides the customary vagaries of the business cycle. In theory, for instance, the market situation of a given industry could deteriorate very quickly, leading in the worst case to the insolvency of a subsidiary operating in that industry, without there being anything the management of that subsidiary could do to prevent it. As a general rule, the specific risks applicable to each subsidiary are managed on a decentralized basis by the companies themselves.

Subsidiaries to be sold in 2011

van Netten is a confectionery manufacturer based in Dortmund that supplies large retail chains and discount retailers mainly with private label and trade brand products. The company has a few major customers, giving rise to the associated dependencies. The loss of a major customer would have a sustained negative impact on van Netten's business development. The downward pressure on prices is high owing to strong competition. Other factors such as the rising cost of energy, logistics and raw materials continue to put pressure on the company's cost structure. van Netten has a broad supplier base at its disposal, so there is hardly any dependence on individual suppliers.

The company has modern production and development equipment and is therefore capable of completely satisfying individual customer requests. Accordingly, van Netten is seeking to expand its existing customer relationships with newly developed confectionery, among other things, and to advance the internationalization of its operations.

Subsidiaries already sold in 2010 and 2011

The opportunities and risks associated with the subsidiaries that have been sold deconsolidation are reflected in the present consolidated financial statements. The opportunities and risks associated with the commercial operations of the sold subsidiaries were fully eliminated by the disposal in each case. With the exception of the contingent liabilities of the sold subsidiaries presented in the notes to the financial statements, there are no legal grounds or risks that could compel Gigaset to stand for the liabilities of the sold subsidiaries.

Description of the main features of the internal control and risk management system with regard to the accounting process of Gigaset AG and the Gigaset Group (Section 289 (5) and Section 315 (2) No. 5 HGB)

Internal control and management using Group-wide planning and reporting processes

The internal control system in the Gigaset Group encompasses all the principles, procedures and measures implemented with a view to guaranteeing the efficiency, regularity and effectiveness of the accounting system employed and securing compliance with all legal provisions.

As a private equity firm, it is especially important for Gigaset to monitor and manage the development and the risks in the individual subsidiaries promptly and consistently. This takes the form of a regular planning and reporting process built around uniform Group-wide accounting guidelines (Gigaset Accounting Manual).

The timely availability of high-quality, consistent information is essential for this to happen. The accounting and controlling units in the individual subsidiaries and the holding company are responsible for providing the requisite data resources. Appropriate processes and process-integrated and process-neutral monitoring activities are implemented in line with the respective company situation and industry. This process ensures rapid access to the information required for the Group management.

The preparation and analysis of the information from the subsidiaries are essentially performed at Gigaset by the Subsidiary Controlling, Financial Accounting and Reporting, Liquidity Management and Risk Controlling units of the Finance Department. The completeness and correctness of the accounting data are verified on a regular basis. The independent auditors and other audit bodies are integrated in the control environment of the Gigaset Group by means of process-neutral audit activities. In particular, the audit of the consolidated financial statements by the independent auditors and the audit of the separate financial statements of the Group companies that are consolidated form the main process-neutral monitoring measures with regard to the consolidated accounting process.

The Supervisory Board of Gigaset AG, represented notably by the Audit Committee, is also integrated in the internal monitoring system of Gigaset AG with process-neutral audit activities.

The bookkeeping and accounting processes are of a general nature and are clearly defined by the following measures, among others, within the framework of the annual and quarterly financial statements in particular:

Structural information:

- › Accounting at Gigaset AG is carried out locally in the respective subsidiaries and in the holding company for matters relating to the holding company.
- › The separate financial statements are prepared in accordance with the local accounting provisions and adjusted to match the provisions of the International Financial Reporting Standards (IFRS) as applicable in the EU for the purposes of consolidated accounting and the provisions of commercial law in accordance with Section 315a (1) HGB.
- › The Gigaset Accounting Manual ensures that uniform accounting and valuation methods are applied throughout the corporate group.
- › Accounting events are recorded in individually selected professional accounting systems that have been adapted to meet local requirements such as DATEV and SAP.

Process and control information:

- › Central and local tasks and responsibilities are defined.
- › Control mechanisms, such as the principle of dual control, computerized validation, manual controls and change notices are implemented.
- › Schedules and process plans for separate and consolidated financial statements are drawn up and distributed or made generally available.

- › The reporting packages submitted by the Group companies are analyzed and, where necessary, corrected.
- › Technical plausibility checks are carried out at Group level.
- › There is a single-stage consolidation process involving a professional consolidation system.
- › Standardized, complete sets of forms are used.
- › Experienced, skilled staff are deployed.
- › The independent auditors perform a control function as a process-neutral instrument within the framework of their statutory audit assignment.

When required, special reports and ad hoc analyses are created promptly. Furthermore, the Executive Board always has the option of directly approaching employees from the Finance department or the respective subsidiary manager locally.

The Gigaset AG planning and reporting process is based on a professional, standardized consolidation and reporting system, in which the data is entered manually or using automatic interfaces. The system is available to the corporate departments for administration purposes. Qualitative analysis and monitoring functions are ensured by internal reports and a user-friendly interface.

Group-wide systematic risk management

Risk management at Gigaset AG forms an integral part of company management and planning. The purpose of risk management is to help achieve the goals set as part of the business strategy by systematically and promptly identifying, recording, reporting upon and managing risks at all levels and in all units. This makes it possible to avoid developments that might jeopardize the company's continued existence and to make best use of the available business opportunities.

In this context, the risk profile and the risk management process are defined, coordinated and monitored at corporate level and implemented on the ground in the holding company and the individual subsidiaries. The risks are identified, systematically recorded and assessed, and measures defined, wherever the greatest expertise and assessment capability exist.

Uniform standards for risk recording, documentation and monitoring exist throughout the corporate group, as documented in the Gigaset Risk Management Manual. The central risk manager monitors compliance with the provisions it contains.

Gigaset AG employs a systematic, web-based risk management system known as ArqRisk to record all risks throughout

the corporate group and to show the risks separated for each subsidiary or in consolidated form from the corporate viewpoint. This system makes it possible to already control and manage the individual risks efficiently at subsidiary level and at the same time to provide a current, complete picture of risk situation in the Group. The outcome is the best possible way of ensuring compliance with, and monitoring of, the risk strategy defined for the Gigaset Group by the Executive Board.

The corporate risk manager is tasked with constantly refining and improving the system, monitoring and coordinating the Group-wide risk management system and reporting to company management.

The Risk Atlas shows the areas to which risks can typically be allocated at Gigaset, in accordance with the following structure.

- › Market risk (economy/industry/competition, products/patents/certificates, legal environment, customers)
- › Company/process risk (research/development, procurement, production, sales/marketing, delivery/after-sales, accounting/finance/controlling, organization/internal audit/IT, HR, insurance, special events, acquisition/operations/exit)
- › Finance risk (earnings, liquidity, debt/financing, equity, taxes, other financial risks)
- › Contingent liabilities (guarantees/contingent liabilities, other financial commitments, legal disputes, liability for executive bodies)

A 4x4 matrix is used to assess risks on a quantitative basis for the factors of probability of occurrence and extent of loss or damage. This relates to the possible impact on earnings of a negative event over a time horizon of 12 months. Appropriate risk-mitigation or risk-avoidance measures and the name of the risk manager are recorded for each individual risk alongside the rationale for the evaluation. The extent of the damage or loss is assessed after measures have been implemented but not before. The results of the classification are correlated in a so-called risk map or visualized in a portfolio.

Reports on the current situation of all the subsidiaries are submitted to the Executive Board on a regular basis.

The risk situation is fully updated on a quarterly basis. Furthermore, the emergence of substantial new risks or the materialization of substantial existing risks are documented and reported immediately to the Executive Board, regardless of the normal reporting schedule. The Executive Board, in turn, informs the Company's Supervisory Board about the risk situation and risk management at regular intervals.

The business responsibility for the risk management process lies with the operating units at the level of the subsidiaries. The operational risk management system is based in these units accordingly. Moreover, every employee is responsible for identifying and managing risk within his or her immediate area of responsibility. The management of every subsidiary is responsible for coordinating and tracking risk. All risks and information deemed to be significant on the basis of risk management criteria must be reported immediately to the management as well as the Corporate Group Executive Board and the corporate risk manager, where appropriate.

Other risk management activities include personal visits by members of the Executive Board to the subsidiaries on a regular basis in order to obtain a first-hand impression of their current development and the integration of risk considerations in the annual planning rounds.

In parallel to the risk management process, the Subsidiary Controlling department carries out monthly actual vs. planned comparisons, adjusting the budget and ongoing forecast promptly, where required. Weekly periods are reviewed with regard to liquidity management. The timely provision of information to the Executive Board and the subsidiary management makes it possible to draw up and implement necessary counter-measures at short notice.

Qualifying comments

The internal control and risk management system makes it possible to fully track, collate and assess company-related issues and present them in the consolidated financial statements. It is, however, fundamentally impossible to completely exclude the possibility of personal discretionary decisions, defective controls, human error or other circumstances, any or all of which may serve to reduce the effectiveness of the control and risk management system employed.

Summary of the opportunity and risk situation

The realignment of Gigaset AG has also greatly altered the relevant risk landscape. Operational opportunities and risks in the telecommunications industry have become the focal point, superimposed on the risks under the old business model.

In the year of transition, Gigaset AG succeeded in consistently streamlining the portfolio eliminating the associated risks, despite a persistent shortage of liquidity in the first half of the year.

Immediately after the annual shareholders' meeting in August 2010, work started on laying the foundation for Gigaset AG to operate successfully in the telecommunications industry in the future. The settlement with Siemens represented an essential condition for this. After this had been reached in December 2010, Gigaset AG was able to deliberately use the funds obtained as part of the capital increase and the convertible bond to reinforce the biggest subsidiary, Gigaset Communications GmbH.

The Executive Board believes that the targets set for 2011 and 2012 will be met. Alongside the targeted organic growth, opportunities are seen in particular in possible additional acquisitions in the telecommunications industry.

Report pursuant to Sections 289 (4) and 315 (4) HGB

Number 1: The subscribed capital of Gigaset AG amounts to EUR 39,666,670.00 and is divided into 39,666,670 no-par bearer shares, each representing an imputed portion of the company's share capital of EUR 1.00 per share. Each share conveys the same rights and one vote.

Number 2: Generally speaking, the company's shares are freely transferable within the limits of the relevant laws and regulations. Certain restrictions on voting rights may arise from the provisions of the German Stock Corporations Act (AktG) and other laws. For example, shareholders may be subject to a voting prohibition under certain conditions (Section 136 AktG). Furthermore, the company derives no rights and therefore no voting rights from its holdings in treasury shares (Section 71b AktG). The Executive Board is not aware of any restrictions on the voting rights or transferability of the company's shares. However, reference is made to the fact that the members of the Executive Board, other employees and other persons who have access to insider information are subject to the restrictions set forth in the company's insider trading guidelines.

Number 3: At the reporting date, the company had received no notification regarding a holding in the company's capital in excess of the 10% threshold.

Number 4: At the reporting date, there were no shares endowed with special features that would confer rights of control.

Number 5: There are no arrangements pertaining to a coordinated exercise of the voting rights held by employees by virtue of holding shares in the company.

Number 6: The rules governing the appointment and dismissal of Executive Board members are conformant with Sections 84 et seq. AktG. By virtue of Article 5 (1) of the company's Articles of Incorporation, the Supervisory Board only determines the exact number of Executive Board members. The rules governing the responsibility and requirements for amending the Articles of Incorporation are conformant with Sections 179-181 AktG. At the present time, more extensive or specific rules within the company's Articles of Incorporation are not deemed necessary. The other applicable laws and regulations are set forth in the German Stock Corporations Act (AktG). The applicable provisions of the Articles of Incorporation are set forth in Section II (Executive Board), Section III (Supervisory Board) and Article 16 of the Articles of Incorporation.

Number 7:

Conditional Capital 2008/I

For the purpose of fulfilling a "Stock Option Plan 2008," the possibility was created, by resolution of the annual shareholders' meeting of Gigaset AG of July 3, 2008, of granting subscription rights ("options") for new bearer shares to members of the Executive Board, selected employees of the company and members of the management of affiliated companies. The shares to be issued when the options are exercised can be provided from the Conditional Capital. In addition, the Executive Board is authorized to serve the exercised options from the company's treasury shares. The company was further authorized to grant a cash settlement for the purpose of fulfilling its obligations under the options.

Specifically, the annual shareholders' meeting of July 3, 2008 adopted the following resolution:

(a) The share capital of the company shall be increased conditionally by a nominal amount of up to EUR 1,300,000.00 through the issuance of up to 1,300,000 new bearer shares ("Conditional Capital 2008/I"). The conditional capital increase is authorized exclusively for the purpose of granting subscription rights ("options") to members of the Executive Board, selected employees of the company and members of the management of affiliated companies ("beneficiaries") in connection with the "Gigaset AG Stock Option Plan 2008" ("Stock Option Plan"). The conditional capital increase shall be carried out only to the extent that options are granted in connection with the Stock Option Plan, the beneficiaries make use of such options and the company does not issue any treasury shares or grant a cash settlement for the purpose of fulfilling the options. The new shares shall qualify for dividends from the begin-

ning of the fiscal year in which they are created by way of issuance. If they are issued before the annual shareholders' meeting, such shares shall also qualify for dividends from the profit of the last complete fiscal year.

The Executive Board shall be authorized, with the consent of the Supervisory Board, to grant options to qualified beneficiaries in the time until June 30, 2012. The responsibility for granting shares to members of the Executive Board of the company shall lie exclusively with the Supervisory Board of the company.

(b) The Stock Option plan entails the following key points:

1. Content of the options

Every option entitles the holder to purchase one share of Gigaset AG ("Gigaset share").

2. Group of beneficiaries

Under the Stock Option Plan, options for new bearer shares shall be granted to members of the Executive Board, selected employees of the company and members of the management of affiliated companies. The total number of options that can be granted to all groups in the time until June 30, 2012 is up to 1,300,000 options ("total volume"). The options shall be divided among the individual groups of beneficiaries as follows:

(a) For members of the Executive Board, no more than 600,000 options (representing up to approx. 46%),

(b) For selected employees of the company or members of the management of an affiliated company, no more than 500,000 options (representing up to approx. 38.5%),

(c) For members of the management of affiliated companies, no more than 200,000 options (representing up to 15.5%).

3. Purchase periods

The options may be granted on one occasion or in several tranches within 45 (forty five) days of the date of announcement of the results of the past fiscal year, or within 45 (forty five) days of the date of announcement of the results of the first, second or third quarter of a current fiscal year, but not later than two weeks before the end of the respective quarter in every case.

The date of allotment of the options ("allotment date") shall be uniform for the tranches. Insofar as members of the Executive Board are concerned, the allotment dates shall be set by the Supervisory Board, and otherwise by the Executive Board.

4. Life of the options, restricted periods

The options shall have a total life of ten years from the allotment date and can be exercised for the first time after expiration of a vesting period. The vesting period shall be at least two years. Any options that are not exercised before the end of their lives shall expire without replacement or compensation.

No options may be exercised in the period beginning on the 15th calendar day prior to the publication of the quarterly results or the annual results and ending on the first trading day inclusive after the publication of the quarterly results or annual results ("restricted periods").

Otherwise, the beneficiaries shall be bound to observe the restrictions arising from general laws and regulations, such as the German Securities Trading Act, for example (insider trading).

5. Success targets and execution price

(a) Success targets

The determining factor for setting the success targets shall be the unweighted opening price of the Gigaset share in the XETRA trading system (or comparable successor system) of the Frankfurt Stock Exchange on the option exercise date or, in the case of the relative success target, additionally the status of the MDAX (or comparable successor index) on the allotment date and on the option exercise date.

The options can only be exercised

- if the opening price of the Gigaset share in the XETRA trading system (or comparable successor system) on the Frankfurt Stock Exchange on the option exercise date is at least 15% higher than the exercise price ("absolute success target"), and
- if the price of the Gigaset share in the XETRA trading system (or comparable successor system) on the Frankfurt Stock Exchange performs better than the MDAX (or comparable successor index) during the period from the allotment date to the option exercise date ("relative success target").

If both the absolute and the relative success target are met, any option can be exercised within its lifetime (with due consideration given to Section 3).

(b) Exercise price

The exercise price for a Gigaset share when an option is exercised shall be equal to the unweighted

average of the opening price of the Gigaset share on the Frankfurt Stock Exchange in the XETRA trading system (or comparable successor system) on the 10 (ten) trading days of the Frankfurt Stock Exchange prior to the respective allotment date for the option. At a minimum, the lowest issue amount according to the definition of Section 9 (1) AktG shall be paid as the exercise price.

6. Capital and structural measures, protection against dilution

If the company increases its share capital during the life of the option while granting a direct or indirect subscription right to the shareholders, the exercise price shall be reduced in accordance with the option terms and conditions. The exercise price shall not be reduced if the beneficiary is given a direct or indirect subscription right to the new shares, that would put him in a position as though he had already exercised the options under the Stock Option Plan. The option terms and conditions may stipulate adjustment rules for such cases of capital, structural or comparable measures. Section 9 AktG remains unaffected.

In the event of extraordinary, unforeseen development of the kind mentioned in the German Corporate Governance Code in its latest applicable version, the company shall be entitled to set an appropriate maximum limit on option gains. The company shall be similarly entitled in the event that option gains would lead to an inappropriate overall remuneration of the individual beneficiary.

7. Non-transferrability

The options are not transferrable and can only be exercised by the beneficiaries. In case of death, the options may be bequeathed to the spouse or life partner, the children or other heirs of the beneficiary. The exercise terms and conditions may stipulate that the heir or heirs of the beneficiary must exercise the options within three months of the inheritance, but not before expiration of the vesting period.

8. Fulfillment of the options

The beneficiaries may be offered the chance to purchase treasury shares or receive a cash settlement in lieu of having Gigaset shares issued to them from the Conditional Capital 2008/I created for this purpose.

The decision as to which alternative will be offered to the beneficiaries in every particular case shall be made by the Supervisory Board, insofar as the beneficiaries are members of the Executive Board of the company,

and otherwise by the Executive Board. In making this decision, the Executive Board and Supervisory Board shall be guided by no other considerations than the interests of the shareholders and the company. The option terms and conditions shall be formulated in such a way as to create this option for the company. The cash settlement shall be equal to the difference between the exercise price and the opening price of the Gigaset share in the XETRA trading system (or comparable successor system) on the option exercise date.

9. Other rules and regulations

The other detailed rules applicable to the granting and fulfillment of options and the other exercise terms and conditions shall be adopted by the Supervisory Board, to the extent that members of the Executive Board of the company are concerned, and otherwise by the Executive Board.

The other rules and regulations shall include the following, in particular:

- (a) The determination of the number of options granted to individual beneficiaries or groups of beneficiaries;
- (b) The adoption of provisions appropriate to the execution of the Stock Option Plan;
- (c) The procedures for granting and exercising the options;
- (d) The adoption of vesting periods beyond the minimum vesting period of two years, including the adoption of staggered vesting periods for specific sub-sets of options, and the modification of vesting periods in connection with the statutory requirements to be fulfilled in special cases, such as a change of control over the company;
- (e) The rules applicable to the treatment and exercise of options in special cases, such as, for example, the departure of the beneficiary from the company, change of control over the company or conduct of a "squeeze-out" process

10. Taxation

All taxes payable in connection with the exercise of the options or the sale of Gigaset shares by the beneficiaries shall be borne by the beneficiaries.

11. Reporting obligation

The Executive Board and Supervisory Board shall report on the utilization of the Stock Option Plan and the options granted to the beneficiaries in every year in the annual report for that year.

Conditional Capital 2009

The annual shareholders' meeting of August 5, 2009 adopted a resolution permitting the issue of warrant bonds and/or convertible bonds.

The resolution specifically states:

Authorization of the Executive Board to issue warrant bonds and/or convertible bonds

a) Authorization period, nominal amount, number of shares

The Executive Board is authorized - subject to the consent of the Supervisory Board - up until August 4, 2014 to do the following once or more than once:

- issue warrant bonds and/or convertible bonds in an aggregate amount of up to EUR 100,000,000.00 ("bonds") via the company or companies where the company holds a majority interest, directly or indirectly ("subordinate group companies"), and
- take over the guarantee for such bonds issued by group companies subordinate to the company, and
- issue to the bond holders warrant rights or conversion rights totaling up to 11,925,000 registered no-par value shares in the company with a prorated amount in the share capital of up to EUR 11,925,000.00 as defined in more detail in the relevant terms and conditions for the bonds.

Each of the issues may be divided into partial debentures of equal rank.

In the event of issuance of convertible bonds, the conversion ratio results from the division of the nominal amount of a partial debenture by the fixed conversion price for one registered no-par value share in the company. The conversion ratio is rounded to four decimal places. The terms and conditions of the bond may establish an additional payment to be made in cash and provide that unconvertible fractional amounts are pooled and/or compensated in cash. The terms and conditions of the bond may also provide an obligation of conversion.

b) Subscription right, exclusion of subscription right

The shareholders are basically entitled to a subscription right to the bonds; the bonds may as well be taken over by a bank or a banking syndicate with the instruction to offer them for subscription to the shareholders. However, the Executive Board is authorized - subject to the consent of the Supervisory Board - to exclude the shareholders' subscription right to the bonds

- if they are issued for cash contribution and the issue price is not significantly below the theoretical market value of the bonds calculated on acknowledged methods of financial mathematics, which is only ap-

plicable, however, to the extent that the shares issued to service the warrant rights and/or conversion rights thereby constituted will not in the aggregate exceed 10% of the share capital by any of either the effective date or the time of exercising this authorization. The prorated amount of the share capital allocable to shares issued or sold from August 5, 2009 until the end of the term of this authorization with the exclusion of the subscription right directly or accordingly applying Section 186 (3) sentence 4 of the AktG shall be deducted from this amount of 10% of the share capital. Furthermore, the prorated amount of the share capital allocable to the shares issued or yet to be issued to service conversion rights or warrant rights or obligations of conversion shall be deducted from the said amount, provided that the underlying bonds were issued during the term of this authorization with the exclusion of the subscription right pursuant to Section 186 (3) sentence 4 of the AktG; or

c) Exercise or conversion price, protection against dilution

The exercise price or conversion price shall be calculated on the following basis:

aa) Where the bonds do not establish any obligation of conversion, the exercise price or conversion price is equivalent to 150% of the arithmetic mean of the closing price of the company's shares in the Xetra trading system at the Frankfurt Stock Exchange (or a similar successor system) on the last five stock exchange trading days prior to the date of fixing the issue amount of the bonds. This arithmetic mean of the closing prices is further referred to as "reference price."

bb) In the event of issuance of bonds establishing an obligation of conversion, the conversion price will be equivalent to the following amount:

- 100% of the reference price, provided that the arithmetic mean of the closing prices of the company's shares in the Xetra trading system at the Frankfurt Stock Exchange (or a similar successor system) is less than or equal to the reference price on the twenty stock exchange trading days ending on the third day prior to the date of conversion;
- 115% of the reference price, provided that the arithmetic mean of the closing prices of the company's shares in the Xetra trading system

at the Frankfurt Stock Exchange (or a similar successor system) is higher than or equal to 115% of the reference price on the twenty stock exchange trading days ending on the third trading day prior to the date of conversion;

- the arithmetic mean of the closing prices of the company's shares in the Xetra trading system at the Frankfurt Stock Exchange (or a similar successor system) on the twenty stock exchange trading days ending on the third trading day prior to the date of conversion, provided that such value exceeds the reference price and is lower than 115% of the reference price;
- notwithstanding the provisions above, 150% of the reference price, provided that the holders of the bonds exercise an existing conversion right prior to the occurrence of the obligation of conversion.

cc) Notwithstanding Section 9 (1) of the AktG, the exercise price and/or conversion price can be reduced on the basis of an anti-dilution clause as defined in more detail in the terms and conditions, where the company increases the share capital until the expiration of the exercise period and/or conversion period granting a subscription right to its shareholders or issues or guarantees further bonds and, in doing so, does not grant any subscription rights to the holders of warrant rights or the creditors of convertible bonds. The terms and conditions may also provide a value-preserving adjustment of the exercise price and/or conversion price in case of other events suitable to dilute the value of the warrant rights and/or the conversion rights.

dd) By any means the prorated amount in the share capital of the shares to be subscribed to per bond must not exceed the nominal amount of the bonds.

Sections 9 (1) and 199 of the AktG remain unaffected.

d) Other configuration options

The Executive Board is authorized - with the consent of the Supervisory Board and taking into account the above requirements - to determine the further details of the issue and features of the bonds and their terms and con-

ditions by itself and/or in consultation with the bodies of the subordinate group company issuing the bonds, especially interest rate, issue price, term and division of shares, constitution of an obligation of conversion, fixing of an additional cash payment, compensation or pooling of fractional amounts, cash payment instead of delivery of shares, delivery of existing shares instead of issuing new shares, protection against dilution and exercise period and/or conversion period.

Conditional capital increase

The share capital is conditionally increased by up to EUR 11,925,000.00 by issuing up to 11,925,000 new registered no-par value shares with profit participation from the beginning of the financial year when they are issued. The purpose of the conditional capital increase is to grant shares to the holders of warrant bonds and/or creditors of convertible bonds which are issued for cash contribution by the company or a subordinate group company based on the authorization of the annual shareholders' meeting on August 5, 2009. The issue of new shares shall be made at the exercise price and/or conversion price as fixed in the above authorization. The conditional capital increase shall only be performed to the extent in which the warrant rights and/or conversion rights conferred by the bonds are exercised or obligations of conversion under the bonds are complied with, respectively, and provided that no cash compensation is granted or treasury shares are used to effect the service. The Executive Board is authorized - subject to the consent of the Supervisory Board - to determine the further details for the implementation of the conditional capital increase (Conditional Capital 2009).

The Executive Board made use of this option by way of resolution dated November 11, 2010 and issued, with the consent of the Supervisory Board, convertible bonds bearing interest of 9% p.a. divided into up to 11,900,001 partial debentures. These were fully subscribed. By way of a resolution of the Executive Board dated February 10, 2011 and with the consent of the Supervisory Board, it was decided to convert these convertible bonds on June 30, 2011 in accordance with the bond conditions.

Authorized capital

Authorized Capital 2010

With regard to the issuance of new shares, the Executive Board is authorized, by virtue of Article 4 (5) of the company's

Articles of Incorporation, to increase the share capital, with the consent of the Supervisory Board, by a total of up to EUR 19,833,335 by issuing new bearer shares entitled to a share of net income from the start of the year of issue in exchange for cash or in-kind contributions, on one or more occasions up to December 20, 2015 (Authorized Capital 2010). The existing shareholders are in principle entitled to a subscription right.

The new shares may also be taken over by one or several credit institution(s) with the instruction to offer them to the shareholders for subscription (indirect subscription right).

The Executive Board shall be authorized, with the consent of the Supervisory Board, to stipulate the share rights and terms of issuance and to adopt the details governing the execution of the capital increase.

The Executive Board shall also be authorized, with the consent of the Supervisory Board, to exclude the statutory subscription right of existing shareholders in the following cases:

- a) When the capital increase is effected in exchange for cash contributions, the issue price of the new shares is not significantly less than the listed price of the exchange-traded shares of the same class and features at the time of final adoption of the issue price and the proportion of the share capital represented by the new shares issued in exchange for cash contributions under letter a) of the present authorization excluding subscription rights does not exceed 10% of the share capital, either at the effective date or at the exercise date of this authorization. The pro-rated amount of the share capital allocable to the shares is to be deducted from this amount of 10% of the share capital
- (i) issued or sold from December 20, 2010 until the term of this authorization with the exclusion of subscription rights directly or accordingly applying Section 186 (3) 4 AktG; or
- (ii) issued or yet to be issued to service conversion or option rights or conversion obligations, provided that the underlying bonds were issued during the term of this authorization with the exclusion of the subscrip-

- tion right pursuant to Section 186 (3) 4 AktG; or
- (iii) sold by the Company (treasury shares), provided the disposal took place on account of an authorization with the exclusion of the subscription right applicable when the authorized capital was exercised;
- b) Insofar as the exclusion of the subscription right is necessary to grant a subscription right to the holders of convertible bonds or warrants issued by the company or subordinated subsidiaries, in the necessary amount that will allow them to exercise their warrant or conversion rights or fulfill the conversion obligation;
- c) Insofar as the capital increase in exchange for in-kind contributions serves the purpose of either acquiring companies (including indirectly), parts of companies, investments in companies or other assets;
- d) To remove fractional amounts from the subscription right. The Supervisory Board is further authorized to amend the Articles of Incorporation to reflect the respective amount of the capital increase arising from the Authorized Capital 2010.

Share buyback authorization

The annual shareholders' meeting on July 3, 2008 resolved the following authorization:

- a) The existing authorization to purchase and utilize treasury shares that had been resolved by the annual shareholders' meeting of June 21, 2007 under Agenda Item 10 shall be annulled for the period of effect of the following authorization.
- b) In accordance with Section 71 (1) (8) AktG, the company shall be authorized, in the time from July 4, 2008 to January 3, 2010, to purchase treasury shares representing up to 10% of the share capital in effect at the time of the resolution for other purposes than for securities trading.

This authorization expired on January 3, 2010.

Number 8: not available

Number 9: No agreements exist between the company and the members of its Executive Board or its employees that would call for compensation in the event of a takeover offer.

German Corporate Governance Code – Gigaset AG complies with Code recommendations

Corporate governance is an issue that Gigaset AG takes very seriously. In the year under review the Executive Board and the Supervisory Board dealt with issues relating to compliance with the German Corporate Governance Code's rules (the "Code"), notably including the new recommendations added to the Code in the revised version dated May 26, 2010. Gigaset AG complies with the recommendations of the Code issued in 2002 and most recently amended on May 26, 2010 with only a few exceptions. Gigaset AG views corporate governance as a process that is constantly being developed and improved.

The Executive Board and Supervisory Board of Gigaset AG have issued the Statement of Compliance with the revised version of German Corporate Governance Code dated May 26, 2010 required by Section 161 AktG. In addition, the statement has been made permanently available to the shareholders on the Company's homepage (www.gigaset.ag). The deviations from the German Corporate Governance Code are documented accordingly.

Statement of Compliance

The Statement of Compliance with the German Corporate Governance Code pursuant to Section 161 AktG has been made permanently available to the shareholders: "The Executive Board and Supervisory Board of Gigaset AG state their compliance with the recommendations of the German Commission on corporate management and supervision as amended on May 26, 2010, and published in the electronic version of the Federal Gazette (Bundesanzeiger), with the exception of the points outlined below. The deviations are explained in the following statement."

D&O insurance for members of the Supervisory Board

Contrary to Section 3.8, no excess of at least 10% of the damage was agreed when the D&O insurance policy was concluded for members of the Supervisory Board.

The Company believes that the members of the Supervisory Board of Gigaset AG perform their duties with the necessary care and attention, even without a corresponding excess being agreed.

Composition of the Executive Board

Contrary to Section 4.2.1, the Executive Board has consisted of only one member since September 1, 2010.

This reflects the sale of various subsidiaries together with the realignment of the business and the focus on the telecommunications and accessories segment.

Compensation of members of the Executive Board

Contrary to Section 4.2.3, the variable component of pay for the member of the Executive Board Maik Brockmann does not include a multi-year assessment.

Mr. Brockmann's Management Board contract only runs for a period of two years, meaning that, in the opinion of the Company, defining a multi-year assessment does not provide any additional protection or value.

Contrary to Section 4.2.3, the subsequent modification of the performance targets or the benchmark parameters is not excluded.

With regard to the payment of a bonus to Mr. Brockmann, a contractual agreement is in place stating that the Supervisory Board will decide on whether such a bonus will be paid, and also the amount and timing of such a payment. In the opinion of the Company, this makes it possible to flexibly and optimally reflect a positive or negative development of the Company.

Contrary to Section 4.2.3, no cap is envisaged for the variable component of pay for the member of the Executive Board Maik Brockmann.

However, the Supervisory Board decides on whether a bonus will be paid, and also the amount and timing of such a payment. When determining the amount involved, any disbursement relating to an increase in the value of the virtual share portfolio is to be taken into account accordingly. The Company believes that, on account of the correlation between bonus payments and disbursements on account of increases in the value of the virtual share portfolio, the Supervisory Board may take account of a high payment due to a higher share price by reducing the size of, or refraining from making, the bonus payment, and that the short contract already provides for adequate protection against excessive variable compensation being paid to members of the Executive Board.

Contrary to Section 4.2.3, no severance payment cap has been agreed with the member of the Executive Board Maik Brockmann.

The Company believes that the short contractual term of just two years already provides adequate protection against inappropriate severance payments.

Succession planning

Contrary to Section 5.1.2, no age limit has been specified for the members of the Executive Board. There has not yet been any succession planning.

The Company believes that an age limit per se does not represent a useful/proper exclusion criterion for exercising a function on the Executive Board, not least as this could be construed as discrimination. An appointment to the Company's Executive Board is based primarily on the knowledge, skills and professional experience of the candidate in question.

Given the terms and conditions of the Executive Board contracts, succession does not appear necessary at the present time.

By-laws of the Supervisory Board

Contrary to Section 5.1.3, the Supervisory Board has not established any by-laws for itself.

On account of the good cooperation and close coordination between members of the Supervisory Board in the past, Gigaset AG does not currently see the absolute need for by-laws.

Age limit for members of the Supervisory Board

Contrary to Section 5.4.1, no age limit has been specified for the members of the Supervisory Board.

The Company believes that an age limit per se does not represent a useful/proper exclusion criterion for exercising a function on the Supervisory Board, not least as this could be construed as discrimination. Candidates are proposed at the annual shareholders' meeting for election primarily on the basis of the knowledge, skills and professional experience of the candidate in question.

Supervisory Board compensation

Contrary to Section 5.4.6 of the Code, the members of the Supervisory Board are paid a fixed salary. The compensation does not include a profit-based component.

The Company believes that the fixed salary reinforces the independence of the members of the Supervisory Board, prevents potential conflicts of interest and yet enables the obligations of the Supervisory Board to be guaranteed in full.

Supervisory Board committees

Contrary to Sections 5.3.1 and 5.3.3, the Supervisory Board has not established any committees with the exception of the Audit Committee.

The present composition of the Supervisory Board ensures efficient operation and in-depth discussion of both strategic topics and detailed issues. In addition, the size of the Supervisory Board means that setting up committees could not be expected to increase efficiency any further. A nomination committee has not been set up as only representatives of the shareholders sit on the Supervisory Board.

Composition and goals of the Supervisory Board

Contrary to Section 5.4.1, the Supervisory Board has not set any concrete goals for its composition.

The Supervisory Board is elected by the annual shareholders' meeting. Gigaset AG believes that it is up to the shareholders of the Company alone to decide upon the suitability of candidates.

The reasons for not complying with the Code recommendations were published on the internet at www.gigaset.ag at the end of March 2011.

Report on corporate governance at Gigaset AG

Functioning of the Executive Board

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

The Executive Board defines the goals and strategies for the corporate group, its sub-groups and subsidiaries and sets the guidelines and principles for the corporate policy derived from this. 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.

Where more than one person has been appointed to the Executive Board, the members of the Executive Board have joint responsibility for managing the company as a whole. 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 distribution of tasks to the members of the Executive Board is defined in a written schedule of responsibilities. 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. The Executive Board's by-laws specify the measures that must be dealt with and decided upon by the Executive Board as a whole. 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. In the event of a tie, the Chairman has the casting vote. According to the Executive Board's by-laws and schedule of responsibilities, the Chairman of the Executive Board is specifically responsible for leading and coordinating the Group Executive Board. It represents the company and corporate group vis-à-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.

Supervisory Board: guidance and supervision

The Supervisory Board is tasked with supervising and advising the Executive Board. It consists of six members. The Supervisory Board is directly involved in decisions of fundamental importance for the company; it also agrees 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 body's work and chairs its meetings. The Executive Board keeps the Supervisory Board constantly informed 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 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.

Supervisory Board committees

Audit Committee: The Audit Committee comprises three members. Dr. Rudolf Falter, who was a member of the Audit Committee in the year under review, meets the statutory requirements regarding independence and expertise in the field of accounting and auditing that are expected of a member of the Supervisory Board and the Audit Committee.

The Audit Committee met four times during 2010. Among other things, its 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 the unappropriated net profit of Gigaset AG, and the quarterly reports and interim management reports of the Gigaset Group. 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 the annual financial statements of Gigaset AG and the consolidated financial statements of the Gigaset Group, and the combined management report. The Audit Committee is also responsible for the company's relations with the independent auditors. The committee submits a proposal regarding the election of the independent auditors to the Supervisory Board, prepares the assignment of the audit assignment for the independent auditors elected by the annual shareholders' meeting, suggests focal points for the audit and sets the fees payable to the independent auditors. Furthermore, the committee monitors the independence, qualification, rotation and efficiency of the independent auditors. In addition, the Audit Committee looks at the company's internal control system, the procedures used to record, control and manage risk and the internal audit system. The Audit Committee is also responsible for compliance issues and dealing with any new developments in this field.

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

Stock transactions involving members of the Executive Board and Supervisory Board

Under Section 15a of the German Stock Trading Act (Wertpapierhandelsgesetz), members of the Executive Board and the Supervisory Board, together with related parties, are obliged to disclose the purchase or sale of shares of Gigaset AG if the total value of such transactions reaches or exceeds EUR 5,000 in a given calendar year. Gigaset publishes information regarding such transactions immediately on its homepage and notifies the German Federal Financial Supervisory

Authority (Bundesanstalt für Finanzdienstleistungsaufsicht) in writing accordingly; the information is submitted to the Commercial Register for archiving. Gigaset AG was notified of the following such transactions in fiscal 2010:

Person subject to notification requirement	Function	Transaction date	Name of financial instrument	Transaction type	Price (EUR)	Volume (shares)	Volume (EUR)
Dr. Rudolf Falter	Member of the Supervisory Board	Oct. 18, 2010	No-par bearer share DE0005156004	Purchase	1.10	538	591.80
Dr. Dr. Peter Löw	Chairman of the Supervisory Board (since Aug. 26, 2010)	Nov. 01, 2010	No-par bearer share DE0005156004	Purchase	1.10	232,537	255,790.70
Hubertus Prinz zu Hohenlohe-Langenburg	Member of the Supervisory Board (since Aug. 26, 2010)	Nov. 02, 2010	No-par bearer share DE0005156004	Purchase	1.10	612	673.20

Corporate compliance

Our commercial activities are based on the legal systems in 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 act in conformity with legal and ethical norms in their day-to-day activities. Indeed, every single employee influences the company's reputation by his or her professional behavior. A constant dialog and close monitoring lays the foundation for conducting our business activities responsibly and in compliance with the applicable law.

Detailed reporting

In order to ensure a high level of transparency, we notify our shareholders, financial analysts, media and other interested parties at regular intervals about the state of the company and key commercial developments. Gigaset informs its shareholders four times a year about the course of business, the company's assets, financial position and earnings together with the associated risks. In accordance with the statutory obligation, the members of the company's Executive Board confirm that, to the best of their knowledge, the annual financial statements, the consolidated financial statements and the combined management report provide a true and fair view of the company. The annual financial statements of Gigaset AG, the consolidated financial statements of the Gigaset Group and the combined management report will be published within 90 days of the end of the respective fiscal year in the future. Shareholders and third parties receive further information during the course of the year from the semi-annual

financial report and quarterly financial reports for the first and third quarters. In addition, Gigaset releases information in press and analyst conferences. Gigaset also employs 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 financial reports and the annual shareholders' meeting. In line with the principle of fair disclosure, we treat all shareholders and key target groups alike when providing information. We use appropriate media channels to make information about important new circumstances available to a broad public without delay. Besides the regular reporting cycle, we release ad hoc notifications about circumstances that are not publicly known that could significantly affect the price of the Gigaset share were they to be disclosed.

Principles of the compensation system for executives of Gigaset AG

Compensation paid to members of the Executive Board

The responsibilities and duties of the respective Executive Board member are taken into account when setting the compensation. The compensation granted in fiscal 2010 consisted of a fixed annual salary and success-related components. The variable components consist of bonus agreements for all active members of the Executive Board during the reporting period which are tied to the capital appreciation of a virtual share portfolio (and thus dependent on the company's success) and to the fulfillment of certain goals established for each Executive Board division (and thus dependent on the success of that division).

Specifically, the Executive Board compensation is composed of the following elements:

- › The fixed compensation is paid in the form of a monthly salary.
- › The variable compensation consists in part of a special bonus, the amount of which is determined with reference to the capital appreciation of a "virtual share portfolio," and in part of an individual bonus agreement for all active members of the Executive Board during the reporting period.

The basis for calculating the variable compensation with respect to the virtual share portfolio for all active members of the Executive Board during the reporting period is a specific number of shares in Gigaset AG ("virtual share portfolio") valued at a specific share price ("initial value"). The amount of variable compensation is calculated in each case from the possible appreciation of the virtual share portfolio over a specific period - that is, relative to a pre-determined future date ("valuation date"). The difference between the value of the virtual share portfolio valued at the share price on the valuation date and its initial value ("capital appreciation") yields the amount of variable compensation. The general policy is to settle the capital appreciation in cash, converted at the share price at the valuation date.

The Executive Board contracts with Mr. Ulmke and Mr. Hütten contained individual bonus agreements based on the income from ordinary activities disclosed in the consolidated financial statements, but with a minimum bonus as a floor.

The Executive Board contract with Mr. Brockmann contains an individual bonus agreement under which he may receive variable compensation, set at the discretion of the Supervisory Board, for successfully carrying out his duties.

Compensation paid to members of the Supervisory Board

The annual shareholders' meeting held on August 5, 2009 adopted a new system of compensation system for the Supervisory Board as follows: Each member of the Supervisory Board receives a fixed fee of EUR 1,000 per month as well as a meeting fee of EUR 1,000 for each Supervisory Board meeting or committee meeting attended. The Chairman of the Supervisory Board receives fixed fee of EUR 1,500 per month as well as a meeting fee of EUR 1,500 for each Supervisory Board meeting or committee meeting attended.

The fee becomes payable after the end of the annual shareholders' meeting adopting a resolution to approve the actions of the Supervisory Board for the previous fiscal year.

Significant events after the reporting date

The shares in the Carl Froh Group, which was assigned to the Steel segment, were sold for a symbolic price in January 2011. The Carl Froh Group contributed EUR 37.1 million to consolidated revenues and EUR 0.2 million to consolidated EBITDA in fiscal 2010.

Shares in the SM Electronic Group were acquired in February 2011. SM Electronic specializes in the sourcing and distribution of telecommunications and multimedia accessories produced in Asia. Gigaset expects to exploit synergy potential – especially in its logistics and purchasing network – by gaining access to Asian suppliers and the company's facilities in Hamburg and Asia.

The shares held in the Oxxynova Group, which was assigned to the Specialty Chemistry segment, were sold for a symbolic price in the first quarter of 2011. The Oxxynova Group contributed EUR 91.8 million to consolidated revenues and EUR 4.2 million to consolidated EBITDA in fiscal 2010.

By way of a resolution of the Executive Board dated February 10, 2011 and with the consent of the Supervisory Board, it was decided to convert the convertible bonds on June 30, 2011 in accordance with the bond conditions.

Forecast report / outlook

Future business strategy: focus on the telecommunications industry

Against the backdrop of the ongoing recovery in the global economy, Gigaset AG expects the strong operating performance of its remaining subsidiaries that already became apparent in 2010 to continue, particularly at the Gigaset Group. There are several factors encouraging Gigaset AG to expect profitable organic and also inorganic growth in 2011 and 2012, should the right opportunity for an acquisition arise: the change of business model and the associated reduction of risk in the corporate group; the restructuring measures that have been completed and approved in the Gigaset Communications Group; the innovative product portfolio; the new business segments, especially including Gigaset Pro; and consistent cost management in the holding companies and

the subsidiaries. Gigaset AG is already conducting interesting and promising negotiations with regard to possible acquisitions. The company expects to be able to make full use of the opportunities and potential presented by the new business model.

The Gigaset Group as the key to success

Strong turnaround in the Gigaset Group

The strict cost management that Gigaset AG introduced following its acquisition of Gigaset Communications Group, which had its full effect for the first time in 2010, helped to permanently improve the earnings position of the Gigaset Communications Group. The restructuring of the Gigaset Communications Group together with the establishment of new internal processes was concluded during 2010 and measures still needed in 2011 to reduce personnel were prepared; these factors are no longer expected to depress earnings in 2011. Following the settlement with Siemens AG and the related payments and repayment of bank debt, the Gigaset Group was almost completely free of debt at the end of 2010 and could start the new fiscal year (2011) with cash and cash equivalents of just under EUR 35.0 million.

The disposal of activities that did not form part of Gigaset Communications's core business is largely completed.

Building on the clear commitment to the profitable core business involving voice products (cordless, Voice-over-IP and fixed-line telephones), the Gigaset Group will press ahead with its activities in the segment covering professional applications for small and medium-sized enterprises. The Gigaset Group expects its entry into the Pro segment for professional users in SMEs to yield further revenue growth. The expansion into the new segment, professional solutions and further product innovations for the retail segment will cause revenues to rise and simultaneously profitability to increase in 2011. Revenues are expected to increase again in 2012, especially in the Gigaset Pro segment, and profitability to rise on account of the first full-year effect from restructuring in 2011.

It will prove possible to solidify the profitability of the Gigaset Group, especially by increasing the contribution margin of each unit. This will be achieved by means of stable pricing combined with a further reduction in manufacturing costs and the planned expansion of the proportion of high-end products.

Innovative product portfolio and market leadership

A new product portfolio together with strong demand and a business strategy consistently aligned to DECT telephony have given the Gigaset Communications Group a good springboard. These factors ensured that the Company could reinforce its leading market position.

Growth will also be generated moving forward by rolling out new, innovative products and completing the annual product change process. In this context, the Gigaset Communications Group is continuing in its product development to concentrate on environmental friendliness, design, quality and technical innovation.

Tapping new segments

In 2010, the Gigaset Group already laid the foundations for successfully entering the new segment of professional IP system telephones and telephone systems. Gigaset Pro (Gigaset Professional) is a new product line designed to tap a new customer segment outside of the traditional core business: small and medium-sized enterprises. This means that Gigaset Communications will have a presence in a second customer segment offering huge potential for revenue growth alongside the traditional private customer segment. Gigaset Pro will be rolled out in a number of European focus countries at first (including the Netherlands, the UK and Germany).

Developing new products and integrating SM Electronic into the Gigaset Communications Group affords the Group huge potential to expand its activities in the field of accessories for telephone, wireless and multimedia technology.

With its access to Asian suppliers and its facilities in Hamburg and Asia, SM Electronic gives the Gigaset Communications Group and Asia an opportunity to ideally complement its own logistics and procurement network.

SM Electronic's facility in Hamburg in particular opens up a new strategic new dimension for Gigaset Communications GmbH. A partially shared organization in Germany and Europe gives rise to large potential and good market penetration. SM Electronic expects its revenues to expand 13% in 2011 alone, although this figure does not include synergy effects with the Gigaset Communications Group. Besides exploiting the Asian market for Gigaset Communications and providing joint access to the logistics network, two further important points are at the heart of the future collaboration between the two companies. Joining up Skymaster, the best-known

proprietary brand of SM Electronic, and Gigaset will enable common point-of-sale marketing teams to be deployed for both companies, allowing product presentation to be better coordinated and optimized in retail outlets.

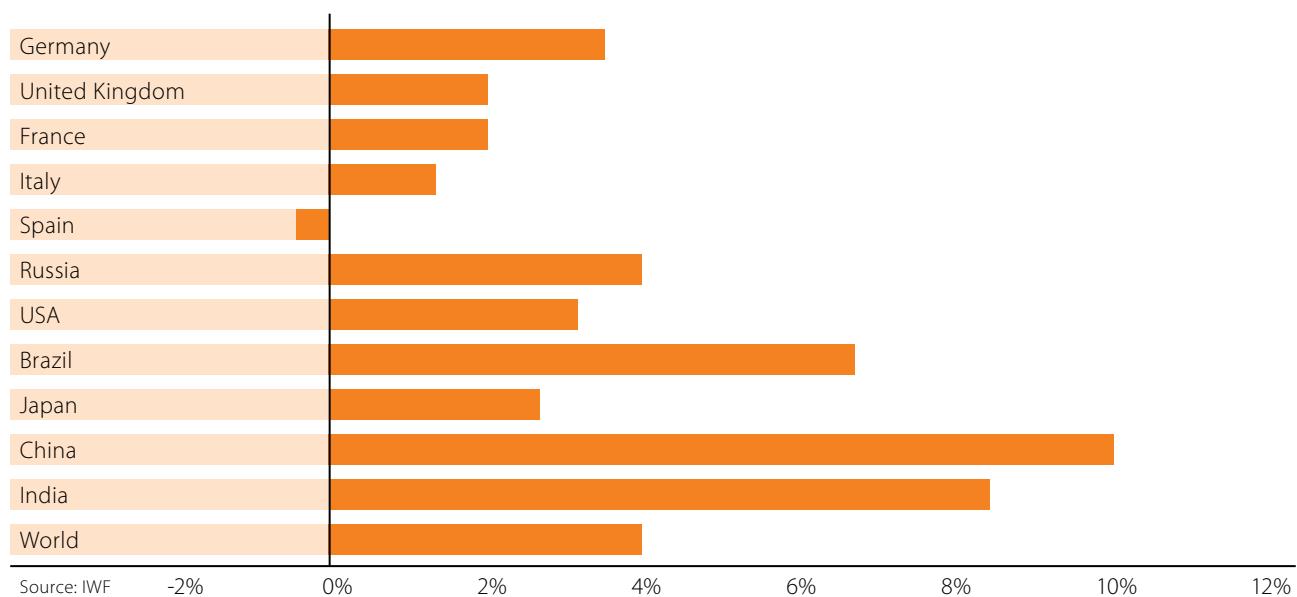
Positive outlook for the development of profitability and liquidity

With the restructuring largely completed and the operational side performing well, the Gigaset Communications Group was almost completely free of bank debt by year-end 2010. This has made it increasingly possible for the Group to consider alternative forms of finance that could accelerate further growth.

This option was not open to Gigaset AG until the early fall of 2010. The situation did not change until after the annual shareholders' meeting in August 2010 and the subsequent realignment of the Gigaset Group. For the first time in a long while, it proved possible to sell some subsidiaries at significantly positive sales prices, and a capital increase and a convertible bond could be placed successfully on the market with a substantial volume in each case. The funds this raised were used to repay bank debt, settle the outstanding amount of the fine arising from the SKW calcium carbide antitrust proceedings payable by Gigaset AG and above all to underpin the financial side of the settlement with Siemens AG.

In the last quarter of 2010 in particular, Gigaset AG thus demonstrated that it is capable of sustainably developing and managing companies.

Gross domestic product 2010, real year-on-year change (%)



Furthermore, the structures in the holding company have been greatly simplified, which has helped to considerably reduce costs.

Gigaset's strategic objective

Consequently, the overarching strategic objective of Gigaset AG for 2011 and 2012 can be summarized as follows:

To sustainably increase revenues and profitability by leveraging innovative products and new lines of business, flanked by complementary acquisitions and exploitation of synergy effects.

General economic conditions

Global economic recovery in 2010

Whereas the market researchers still spoke very cautiously about global economic recovery in the first half of 2010, the upturn accelerated across a broad front in the second half of the year. The main factors driving the economic recovery were infrastructure measures and stimulus packages under financial and fiscal policy in some countries coupled with the strong rebound in global trade, from which German export industry profited in particular. It became apparent that economic expansion picked up pace not only in the already fast-growing emerging markets, led by China, Russia, India and Brazil, but also in the industrialized nations, with Germany performing especially well. The global economy is likely to have expanded a good 4% overall after emerging from the earlier recession.

Global economic expansion to continue in 2011

Following the unexpected cold snap in December and dampened growth expectations in the construction industry in particular, the German economy picked up pace again at the start of 2011. In its economic barometer published on February 23, 2011, the German Institute for Economic Research (DIW) forecast that gross domestic product would rise 0.6% in the first quarter of 2011, adjusted for price and seasonal factors. Although industrial production had weakened somewhat, expanding workforces and a decline in unemployment should, however, have helped to stabilize private consumption.

The leading economic forecasters expect gross domestic product to increase between 2.0 and 2.5%, adjusted for price and seasonal factors, over 2011 as a whole. The growth forecasts for 2012 are slightly lower. In its latest economic report „Recovery in Germany – securing tomorrow's prosperity“, the German government predicts growth of 1.8%. The main driver of growth is domestic demand. The disposable incomes of private households will increase sharply on account of a broad-based expansion in employment. The ECB's expansionary monetary policy will continue to provide negative real interest rates and hence an investment-friendly climate in Germany.

Whereas economic growth in the Euro area will not change much during the current year, the unstable development of the labor and real estate markets suggests, if anything, that the growth is set to slow in the United States.

Projected development of the telecommunications industry

As a result of the economic situation, the global market for cordless phones marked time in 2010 after suffering a decline in the preceding years. Starting in 2011, replacement purchases for an ever larger installed base of cordless phones and the projected economic recovery suggest that the market will return to significant growth. In terms of value, the market in Europe has remained pretty much constant since 2009, with the market in western Europe expected to remain stable in terms of both units shipped and value. In eastern Europe, the rising number of products shipped on account of greater price erosion will similarly lead to a constant market in value terms.

The market in North America was dominated by consolidation up to and including 2010. Starting in 2011, the market is expected to expand again slightly in terms of units shipped. With prices predicted to erode to a minor extent as of 2011,

the North American market is likely to stabilize at the present level. The product segment served by Gigaset will exhibit double-digit growth rates over the next few years as a result of the substitution of analog and other digital transmission technologies by DECT technology and the expected complete penetration of the North American market for cordless fixed-line phones by 2014. In terms of revenue, growth for DECT telephones in the US market is predicted to average around 10% in 2011. The market segment for DECT telephones is anticipated to continue growing through 2013, also in revenue terms. Thus the market in North America provides plenty of potential for Gigaset to expand. The challenge for the Company consists primarily in strengthening its own market position, which is not at the targeted level at the present time. Appropriate measures were already initiated in fiscal 2010 with a view to reinforcing the Company's market presence in the United States in particular in order to create a sound springboard for exploiting the forecast market growth.

The markets in the Middle East, Africa, Asia and South America represent further potential areas of growth. The Asia-Pacific market is expected to grow again from 2011 in terms of units shipped. The rapid decline in analog transmission technologies is leading to an increase in digital telephones, and notably DECT telephones, thus helping the market segment targeted by Gigaset to develop positively. The forecasts also call for the market in South America to start expanding again as of 2011. Alongside general growth in cordless fixed-line phones, the segment for DECT telephones will expand faster than the overall market on account of technology substitution. Unit growth across all technologies is also anticipated for the markets in the Middle East and Africa over the next few years. The segment for DECT telephones will expand faster than that for analog and other digital technologies in the MEA region, meaning that the target segment for Gigaset will grow in revenue terms as well.

Market growth as of 2011 in North and South America, Asia and Africa, generated primarily by the substitution of analog transmission technologies by DECT, represents a major opportunity for Gigaset.

The market for professional telephones served by Gigaset Pro divides into corded and cordless phones. Sales of cordless DECT telephones in the professional segment have stagnated in recent years at around 1.3 million units shipped, with DECT telephones representing the dominant technology. In the period from 2007 to 2010, the number of units shipped declined from 1.43 million to 1.25 million on account of the financial crisis, among other factors. The worldwide market is

expected to grow to 1.49 million units over the period from 2010 to 2015 on account of new products, the economic recovery and rising demand for mobile solutions. The biggest market is EMEA with a market share of around 81%, followed by APAC with 10.3% and the Americas with 8.7%. The market for WLAN cordless phones in the professional segment totaled around 0.4 million units in 2009. Growth to around 1.5 million units in 2015 is expected at this low level over the next few years. The market share of North and South America for WLAN telephones totals 77%, followed by EMEA with 16.3% and APAC with 6.6%.

The market for corded professional telephones is characterized by a change of technology in favor of IP-based devices. Thus the market for IP telephones is expected to increase from 19 million units shipped in 2010 to around 30 million in 2014. Western Europe accounted for 5.2 million units shipped in 2010, and IP telephones are expected to total 8.0 million units shipped in 2014 at the expense of non-IP-capable telephones. The market in eastern Europe is still small, with 0.7 million units shipped in 2010, although it is predicted to expand at a faster pace to total 1.8 million units shipped by 2014. The market for IP telephones outside of Europe totaled around 13.1 million units in 2010, with 20.5 million units shipped anticipated in 2014. The market outside of Europe is not currently addressed by Gigaset Pro.

Outlook for the Gigaset Group

Expected revenues and earnings: sharp increase in operating profit (EBITDA) planned for 2011

Once the realignment of the Company has been completed, we expect consolidated revenues to total EUR 540 million and EUR 580 million in 2011. We also anticipate further organic revenue growth in 2012.

As already mentioned above, based on the operating performance to date of our subsidiaries we expect to record a much better EBITDA in 2011, which from today's standpoint is likely to total between EUR 50 million and EUR 60 million. Gigaset does not expect to record any high non-recurring charges (write-downs or impairments of subsidiaries) in either 2011 or 2012, meaning that we anticipate a much better post-tax result in both years.

Moreover, Gigaset AG is planning for inorganic and sustainably profitable growth in 2011 and 2012 in the wake of acquisitions in the telecommunications sector. The prime intention behind such acquisitions is to expand the international market leadership enjoyed by Gigaset AG and add further strategic segments to the operations of Gigaset AG. Gigaset AG is already in promising talks regarding potential acquisitions.

Contrary to the forecast we made last year, the consolidated results for 2010 have not improved to the extent envisaged. The main reasons for this are the final non-recurring charges resulting from the sale of subsidiaries as reflected in impairments, writedowns and deconsolidation losses.

Expected development of financial position and liquidity

The positive development of our subsidiaries will make it possible to finance investments from own cash flows and factoring. The financial base for our subsidiaries is secure.

The Gigaset Communications Group is budgeting for a significant rise in cash flows from operating activities in 2011 while retaining factoring in Germany and introducing factoring in other core European countries. Together with the continued focusing on the core business, the workforce restructuring exercise to be concluded in the first half of 2011 will help to expand profitability and the cash flow from operating activities. The liquidity plan contains the non-recurring charges for the roll-out of the standalone Gigaset brand in 2011. The revenue growth from Gigaset Pro and stable core business will

Outlook for Gigaset AG

Expected revenues and earnings: net profit targeted for 2011

After the costs of the holding company were reduced as planned and no more non-recurring effects from the portfolio-streamlining process are expected, we anticipate roughly breaking even in 2011 on a slight decline in revenues. Compared with 2011, we are looking to increase our net profit for the year in 2012.

Expected financial position and liquidity development

Following the complete elimination of our massive debt over the last three years, the Company is free of bank debt as of December 31, 2010. Given this situation together with the associated financing options it opens up and the authorized capital increase that has been approved, we consider the financial base of the holding company to be secure.

make it possible to build up available funds, which in turn are earmarked for specific investments to expand the business.

Overall view of the Executive Board regarding the likely development of the company

The Executive Board of Gigaset AG shares the view of the economic experts that the global economy will recover sustainably. We expect this to have a markedly positive effect on our operations. This provides opportunities to significantly increase our earnings and additionally improve our equity ratio. Following the completion of the portfolio streamlining process and the associated downward effects on earnings in 2010, the Executive Board believes that the consolidated net income will improve sharply in 2011. In addition, the Executive Board expects the path of profitable growth starting in 2010 to continue in 2011 and beyond.

Munich, March 28, 2011

Gigaset AG

The Executive Board

**Gigaset AG
Munich**

Consolidated Financial Statements at December 31, 2010

Consolidated Income Statement for the period from January 1 to December 31, 2010

EUR'000	Note	01/01 – 12/31/2010			01/01 – 12/31/2009		
		Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Revenues	1	503,650	505,812	1,009,462	544,934	2,947,038	3,491,972
Change in inventories of finished and unfinished goods		-4,295	6,826	2,531	-9,172	-3,633	-12,805
Other internal production capitalized	2	17,859	2,631	20,490	15,207	8,510	23,717
Other operating income	3	33,975	19,398	53,373	27,062	57,620	84,682
Purchased goods and services	4	-253,805	-357,825	-611,630	-293,216	-2,514,842	-2,808,058
Personnel expenses	5	-127,574	-97,973	-225,547	-148,677	-241,042	-389,719
Other operating expenses	6	-132,362	-112,835	-245,197	-149,511	-222,533	-372,044
EBITDA		37,448	-33,966	3,482	-13,373	31,118	17,745
Depreciation and amortization		-34,800	-23,059	-57,859	-41,367	-38,400	-79,767
Impairment losses	7	0	-28,932	-28,932	-10,805	-66,948	-77,753
EBIT		2,648	-85,957	-83,309	-65,545	-74,230	-139,775
Income/expenses from non-current financial assets accounted for by the equity method	8	0	149	149	0	53	53
Other interest and similar income	9	349	240	589	1,934	917	2,851
Interest and similar expenses	9	-7,366	-4,664	-12,030	-11,611	-16,180	-27,791
Net financial expenses		-7,017	-4,275	-11,292	-9,677	-15,210	-24,887
Income from ordinary activities		-4,369	-90,232	-94,601	-75,222	-89,440	-164,662
Income taxes	10	-3,054	-2,916	-5,970	13,255	-1,593	11,662
Consolidated loss for the year		-7,423	-93,148	-100,571	-61,967	-91,033	-153,000
Share of consolidated loss attributable to non-controlling interests	11	0	-1,326	-1,326	77	-7,716	-7,639
Share of consolidated loss attributable to shareholders of Gigaset AG	11	-7,423	-91,822	-99,245	-62,044	-83,317	-145,361
Earnings per common share	12						
- Basic earnings per share, in EUR		-0.26	-3.19	-3.45	-2.35	-3.16	-5.51
- Diluted earnings per share, in EUR		-0.26	-3.19	-3.45	-2.35	-3.16	-5.51

Consolidated Statement of Financial Position at December 31, 2010

ASSETS	Note	12/31/2010	12/31/2009
EUR'000			
Non-current assets			
Intangible assets	14	38,322	60,181
Property, plant and equipment	15	48,680	184,599
Investment property	16	0	226
Non-current financial assets accounted for by the equity method	17	0	4,828
Financial assets	18	0	2,905
Other non-current assets	19	0	18
Deferred tax assets	34	3,985	3,693
Total non-current assets		90,987	256,450
Current assets			
Inventories	20	36,498	93,669
Trade receivables	21	83,355	131,283
Available-for-sale financial assets	22	0	636
Other assets	23	33,631	78,216
Current tax assets	24	1,495	3,744
Cash and cash equivalents	25	36,608	74,915
		191,587	382,463
Non-current assets held for sale	26	62,989	19,037
Total current assets		254,576	401,500
Total assets		345,563	657,950
EQUITY AND LIABILITIES			
EUR'000		12/31/2010	12/31/2009
Equity			
Subscribed capital		39,629	26,402
Additional paid-in capital		74,606	73,580
Retained earnings		20,290	20,290
Accumulated other comprehensive income		-99,580	-1,920
		34,945	118,352
Non-controlling interests		95	3,109
Total equity		35,040	121,461
Non-current liabilities			
Convertible bonds	28	23,092	0
Pension obligations	29	8,188	32,285
Provisions	30	10,439	32,231
Financial liabilities	31	0	37,989
Liabilities under finance leases	32	8	2,782
Other liabilities	33	10,120	16,870
Deferred tax liabilities	34	14,142	17,944
Total non-current liabilities		65,989	140,101
Current liabilities			
Provisions	30	37,147	37,302
Financial liabilities	35	4,726	49,704
Liabilities under finance leases	32	50	1,666
Trade payables	36	89,798	180,398
Current tax liabilities	37	3,268	7,864
Other liabilities	38	45,072	100,417
		180,061	377,351
Liabilities related to assets held for sale	26	64,473	19,037
Total current liabilities		244,534	396,388
Total equity and liabilities		345,563	657,950

Consolidated Statement of Changes in Equity at December 31, 2010

EUR'000	Subscribed capital	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Adjustment items for non-controlling interests	Consolidated equity
December 31, 2008	26,402	73,580	20,290	136,662	9,464	266,398
1 Appropriation to retained earnings	0	0	0	0	0	0
2 Stock Option Plan	0	0	0	607	0	607
3 Changes in non-controlling interests	0	0	0	4,015	1,284	5,299
4 Other changes	0	0	0	0	0	0
5 Total transactions with shareholders	0	0	0	4,622	1,284	5,906
6 Consolidated loss 2009	0	0	0	-145,361	0	-145,361
7 Non-controlling interests	0	0	0	0	-7,639	-7,639
Consolidated loss after non-controlling interests	0	0	0	-145,361	-7,639	-153,000
9 Currency translation differences	0	0	0	2,157	0	2,157
Total changes not recognized in the income statement	0	0	0	2,157	0	2,157
11 Total net income (8+10)	0	0	0	-143,204	-7,639	-150,843
12 Treasury shares	0	0	0	0	0	0
December 31, 2009	26,402	73,580	20,290	-1,920	3,109	121,461
1 Capital increase	13,217	1,002	0	0	0	14,219
2 Appropriation to retained earnings	0	0	0	0	0	0
Withdrawal from additional paid-in capital	0	0	0	0	0	0
3 Stock option program	0	0	0	32	0	32
5 Changes in non-controlling interests	0	0	0	0	-1,688	-1,688
6 Other changes	0	0	0	0	0	0
7 Total transactions with shareholders	0	0	0	32	-1,688	-1,656
8 Consolidated loss 2010	0	0	0	-99,245	0	-99,245
9 Non-controlling interests	0	0	0	0	-1,326	-1,326
Consolidated loss after non-controlling interests	0	0	0	-99,245	-1,326	-100,571
11 Currency translation differences	0	0	0	1,553	0	1,553
Total changes not recognized in the income statement	0	0	0	1,553	0	1,553
13 Total net income (10+12)	0	0	0	-97,692	-1,326	-99,018
14 Treasury shares	10	24	0	0	0	34
12/31/2010	39,629	74,606	20,290	-99,580	95	35,040

Consolidated Cash Flow Statement for the Period from January 1 to December 31, 2010

EUR'000	01/01 - 12/31 2010	01/01 - 12/31 2009
Earnings before taxes (EBT)	-94,601	-164,662
Reversal of negative goodwill	0	-11,336
Depreciation and amortization of property, plant and equipment and intangible assets	57,859	79,767
Impairment losses	28,932	77,753
Increase (+)/decrease (-) in pension provisions	2,224	1,067
Gain (-)/loss (+) on the sale of non-current assets	397	1,269
Gain (-)/loss (+) on deconsolidation	38,395	4,564
Gain (-)/loss (+) on currency translation	3,769	-5,401
Issuance of stock options	32	607
At-equity valuation result	-149	-53
Other non-cash income and expenses	-20,467	-25,225
Net interest income	11,441	24,940
Interest received	413	1,663
Interest paid	-5,977	-15,125
Income taxes paid	-2,722	-12,547
Increase (-)/ decrease (+) in inventories	890	-4,496
Increase (-)/ decrease (+) in trade receivables and other receivables	13,044	58,562
Increase (+)/ decrease (-) in trade payables, other liabilities and other provisions	-70,686	-85,076
Increase (+)/ decrease (-) in other balance sheet items	283	14,059
Cash inflow (+)/ outflow (-) from operating activities (net cash flow)	-36,923	-59,670
Payments for shares in companies	0	-774
Cash acquired with the acquisition of shares in companies	0	1,712
Proceeds from the sale of shares in companies	17,165	59,741
Cash transferred with the sale of shares in companies	-15,805	-54,654
Proceeds from the sale of non-current assets	7,469	1,927
Payments for investments in non-current assets	-13,522	-17,190
Cash inflow (+)/ outflow (-) from investing activities	-4,693	-9,238
Free cash flow	-41,616	-68,908
Cash flows from the borrowing (+)/ repayment (-) of current financial liabilities	-12,753	-17,440
Cash flows from the borrowing of non-current financial liabilities	24,064	16,569
Repayment of non-current financial liabilities	-18,395	-6,461
Payments related to liabilities under finance leases	-1,156	-3,563
Capital increase	14,062	0
Sale of treasury shares	34	0
Payments to non-controlling interest	-981	0
Cash inflow (+)/ outflow (-) from financing activities	4,875	-10,895
Net funds at beginning of period	61,359	123,790
Changes due to exchange rate differences	-2,010	-1,951
Net funds at beginning of period, measured at prior-year exchange rate	63,369	125,741
Increase (-)/ decrease (+) in restricted cash	5,169	19,382
Change in cash and cash equivalents	-36,741	-79,803
Net funds at end of period	29,787	63,369
Restricted cash	8,960	14,129
Cash and cash equivalents	38,747	77,498
Cash presented within the balance sheet item of "assets held for sale"	2,139	2,583
Cash and cash equivalents presented in the balance sheet	36,608	74,915

Statement of Comprehensive Income for the Period from January 1 to December 31, 2010

EUR'000	01/01 – 12/31/2010			01/01 – 12/31/2009		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Consolidated loss for the year	-7,423	-93,148	-100,571	-61,967	-91,033	-153,000
Currency translation differences	3,084	-1,531	1,553	-1,056	3,213	2,157
Total changes not recognized in the income statement	3,084	-1,531	1,553	-1,056	3,213	2,157
Total comprehensive income and expenses	-4,339	-94,679	-99,018	-63,023	-87,820	-150,843
thereof attributable to non-controlling interests	0	-1,326	-1,326	77	-7,716	-7,639
thereof attributable to shareholders of Gigaset AG	-4,339	-93,353	-97,692	-63,100	-80,104	-143,204

**Gigaset AG
Munich**

Notes to the Consolidated Financial Statements at December 31, 2010

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A. GENERAL INFORMATION AND PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

Renaming to Gigaset AG

Gigaset AG (or the "company") is a joint stock corporation under German law, has its head office and principal place of business in Munich as per its Articles of Incorporation, and is filed in the Commercial Register with Munich District Court under entry no. HRB 146911. The company's offices are located at Hofmannstrasse 61 in 81379 Munich. At the extraordinary shareholder's meeting on 12/20/2010 in Munich, the shareholders of ARQUES Industries AG adopted a resolution to change the business activity and rename the company to Gigaset AG. This change in the company's name was entered in the Commercial Register on 2/17/2011.

Business activities

The new business model of Gigaset provides for a concentration on the telecommunications industry and thus for the investment in Gigaset Communications GmbH. Gigaset Communications GmbH is a profitable SME global player, the European market and technology leader, and the price leader in DECT telephony. In Germany, the Gigaset Group has a 90% level of brand recognition as a premium provider. Represented in more than 70 countries with 1,700 employees, the company is in second place in its industry segment worldwide.

Please see the group management report for further details on business activities.

The company's shares are traded on the Regulated Market (Prime Standard) of the Frankfurt Stock Exchange and are currently listed in TecDAX.

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 income statement is prepared in accordance with the nature of expense method.

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

In accordance with IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations), a distinction is made between continuing and discontinued operations, and non-current assets held for sale. Continuing and discontinued operations are shown separately in the income statement and cash flow statement for the year under review and the prior year. In addition, a combined presentation is made in the income statement and cash flow statement, where the individual items for both continuing and discontinued operations are shown.

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

Subsequently, "Gigaset" refers to the Gigaset consolidated financial statement whereas "Gigaset Group" refers to the continued operations of the corresponding segment. As far as the separate financial statements of the "Gigaset AG" are concerned, they are indicated as such.

Accounting principles

The consolidated financial statements of Gigaset for fiscal 2010 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 Interpretations Committee (IFRIC), as applicable in the European Union.

Furthermore, the German commercial regulations to be applied additionally in accordance with Section 315a (1) of the German Commercial Code (HGB) were observed. All the standards in effect and applicable to fiscal 2010 have been observed. They help to provide a true and fair view of the financial position, liquidity, and financial performance of Gigaset.

Application of the following standards and interpretations revised and newly issued by the IASB was obligatory starting from fiscal 2010:

- Amendments to IFRS 1 (First-Time Adoption of IFRS and Additional Exceptions for First-Time adopters)
- Amendments to IFRS 2 (Share-based Payment)
- Amendments to IFRS 3 (Business Combinations)
- Amendments to IAS 27 (Consolidated and Separate Financial Statements)
- Amendments to IAS 39 (Financial Instruments: Recognition and Measurement) and IFRIC 9 (Reassessment of Embedded Derivatives)
- Amendments to IAS 39 (Financial Instruments: Recognition and Measurement)
- IFRIC 12 (Service Concession Arrangements)
- IFRIC 15 (Agreements for the Construction of Real Estate)
- IFRIC 16 (Hedges of a Net Investment in a Foreign Operation)
- IFRIC 17 (Distributions of Non-cash Assets to Owners)
- IFRIC 18 (Transfers of Assets from Customers)
- Collective Standard "Improvements to IFRS" (2009)

The amendments to IFRS 1 "First-Time Adoption of IFRS" relate first to the formal structure of IFRS 1. For this purpose, the general regulations were separated from the specific regulations in the standard. The new structure is intended to improve the clarity and applicability of IFRS 1. Second, additional amendments to IFRS 1 relate to the retrospective application of IFRS in special situations and are intended to ensure that companies do not incur disproportionately high costs in the conversion to IFRS. In addition, amendments to IFRS 1 lead to two new exceptions for first-time adopters with regard to assets in the oil and gas industry and with regard to the determination of whether an agreement includes a lease. Application of the amendments was first obligatory for fiscal years starting on or after January 1, 2010. They had no effect on the consolidated financial statements.

The amendments to IFRS 2 "Share-based Payment" relate to accounting for transactions in which a subsidiary receives goods or services from employees or suppliers who are paid by the parent company or another group company. A company that receives goods or services within the scope of a share-based payment agreement must recognize them regardless of which company within the group satisfies the related obligation and regardless of whether the obligation was satisfied in shares or in cash. The amendments of IFRS 2 also include regulations in the standard that were formerly contained in IFRIC 8 and IFRIC 11. Therefore, the IASB has withdrawn IFRIC 8 and IFRIC 11.

The amended IFRS 3 "Business Combinations" newly regulates the application of the acquisition method for business combinations. Significant innovations relate to the valuation of non-controlling interests, the entry of successive company acquisitions, and the treatment of conditional portions of the purchase price and incidental acquisition costs. For the treatment of non-controlling interests on the statement of financial position, the new version of IFRS 3 provides for a right to elect to apply valuation at the fair value or the proportionate identifiable net assets. For successive company acquisitions, a revaluation of already existing shares in the acquired company occurs at the moment control is acquired, with an effect on net income. Application of the amendments was first obligatory for fiscal years starting on or after July 1, 2009. They had no effect on the consolidated financial statements.

The amendments to IAS 27 "Consolidated and Separate Financial Statements" relate primarily to the recognition of transactions in which a company continues to retain control as well as transactions where control is lost. Transactions that do not lead to a loss of control are to be recognized in equity without affecting net income. Remaining shares must be measured at fair value at the moment control is lost. Disclosure of negative balances is permitted for non-controlling interests, meaning that in the future, losses will be assigned without limitation in proportion to an investment. Application of the amendments was first obligatory for fiscal years starting on or after January 1, 2010. They had no effect on the consolidated financial statements.

The amendments to IAS 39 "Financial Instruments: Recognition and Measurement" and IFRIC 9 "Reassessment of Embedded Derivatives" relate to clarification of the recognition of embedded derivatives in case of reclassification of hybrid financial instruments out of the "Fair Value through Profit and Loss" category. Application of the amendments was first obligatory for fiscal years starting on or after June 30, 2009. They had no effect on the consolidated financial statements.

The amendments to IAS 39 "Financial Instruments: Recognition and Measurement" clarify the treatment of the inflation risk of an underlying financial transaction as well as the unilateral risk of an underlying transaction with regard to hedge accounting. Application of the amendments was first obligatory for fiscal years starting on or after July 1, 2009. They had no effect on the consolidated financial statements.

IFRIC 12 "Service Concession Arrangements" clarifies particular circumstances regarding recognition of such service concession arrangements. This involves arrangements in which a government or another institution grants orders to private operators in order to make public services available (e.g., streets, energy supply, hospitals, etc.). Application of IFRIC 12 was first obligatory for fiscal years starting on or after April 1, 2009. This had no effect on the consolidated financial statements.

IFRIC 15 "Agreements for the Construction of Real Estate" clarifies when agreements for the construction of real estate fall under the regulations of IAS 11 or IAS 18. Secondly, IFRIC 15 contains guidelines as to when sales recognition must be applied in agreements for the construction of real estate that fall within the scope of regulation of IAS 18. Application of IFRIC 15 was first obligatory for fiscal years starting on or after January 1, 2010. This had no effect on the consolidated financial statements.

IFRIC 16 "Hedges of a Net Investment in a Foreign Operation": The purpose of the interpretation is to clarify two circumstances that arise in the context of the two standards; IAS 21 "The Effects of Changes in Foreign Exchange Rates" and IAS 39 "Financial Instruments: Recognition and Measurement" in connection with the recognition of hedging activity for foreign currency risks within a company and its foreign operations. Application of IFRIC 16 was first obligatory for fiscal years starting on or after July 01, 2009. They had no effect on the consolidated financial statements.

IFRIC 17 "Distributions of Non-cash Assets to Owners": This interpretation regulates issues of how a company must recognize as cash other assets that it transfers to the shareholders as a profit distribution. Application of IFRIC 17 was first obligatory for fiscal years starting on or after July 1, 2009. They had no effect on the consolidated financial statements.

IFRIC 18 "Transfers of Assets from Customers": IFRIC 18 is particularly relevant to utilities (e.g., energy supply companies). This interpretation clarifies how circumstances are to be recognized in which a company receives assets from a customer and must use them either in order to connect the customer with a network or to provide the customer with permanent access to goods or services (e.g., energy, gas, or water). Application of IFRIC 18 was first obligatory for transfers of assets that occur on or after July 1, 2009. They had no effect on the consolidated financial statements.

In April 2009, the IASB published "Improvements to IFRSs" - a collection of non-urgent but necessary amendments to existing IFRSs. This is the second pronouncement in conjunction with the Annual Improvements Project and contains amendments to twelve existing standards and interpretations. Beyond the amendments presented here, the application of the "Improvements to IFRSs" (2009) had no significant effect on the consolidated financial statements.

The obligatory application of amendments to standards or interpretations resulted in no significant effect on the financial position, liquidity, and financial performance of Gigaset.

Application of the following revised and newly issued standards and interpretations already adopted by the IASB was not yet mandatory in fiscal 2010:

		Application mandatory from	Adopted by EU Commission
Standards			
IFRS 1	Limited exception relating to comparative information in IFRS 7 for first-time adopters	7/1/2010	Yes
IFRS 1	Strong hyperinflation and withdrawal of fixed times of initial application for first-time IFRS appliers	7/1/2011	No
IFRS 7	Disclosures - Transfer of financial assets	7/1/2011	No
IFRS 9	Financial instruments: Classification and impairment of financial assets	1/1/2013	No
IAS 12	Deferred taxes: Realization of underlying assets	1/1/2012	No
IAS 24	Related Party Disclosures	1/1/2011	Yes
IAS 32	Classification of preemptive rights	1/1/2011	Yes
various	Annual Improvement Project (2010)	primarily 1/1/2011	Yes
Interpretations			
IFRIC 14	Advance contribution payments for existing minimum funding requirements	1/1/2011	Yes
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	1/1/2011	Yes

The effects of the first-time application of these revised or newly issued standards and interpretations cannot be reliably estimated at the present time.

Scope and method of consolidation

The present consolidated financial statements at December 31, 2010 include the separate financial statements of the parent company, Gigaset AG, and its subsidiaries, where appropriate together with special purpose entities.

Subsidiaries are all companies whose financial and business policies are controlled by the Group, usually accompanied by a share of voting rights in excess of 50%. The existence and effect of potential voting rights which can be exercised in the present or converted are also taken into account when determining whether such control exists. 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. Special-purpose entities for which the Group does not hold a majority of the voting rights are nevertheless included in the group of subsidiaries, provided the Group obtains a majority of the benefits from the activities of the special purpose entity or bears a majority of the risk.

Capital consolidation of the subsidiaries is carried out in accordance with IAS 27 (Consolidated and Separate Financial Statements according to IFRS) in conjunction with IFRS 3 (Business Combinations) by eliminating the carrying amount of the investment against the parent's share of equity in the subsidiary, which is remeasured at the date of acquisition (re-measurement method).

The 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, plus the directly allocable transaction costs. 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 costs 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 income statement after conducting an additional review.

The effects of all significant intercompany transactions are eliminated. This involves offsetting income, expenses, receivables, and liabilities between Group companies. Intercompany profits and losses arising from intercompany 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 profits or losses of the subsidiaries acquired or sold during the year are included in the consolidated income statement from the time when the Group's control over the subsidiary began to the time when it ended. Intercompany transactions, balances, and unrealized profits and losses on transactions between Group companies are eliminated. In the event of unrealized losses, the transferred assets are tested for impairment.

Non-controlling interests in the consolidated equity and profits are presented separately from the parent's share of equity and profit. Changes in non-controlling interests resulting from disposals give rise to profits and losses that are recognized in the consolidated income statement.

Besides the parent company, 59 subsidiaries – consisting of 25 domestic and 34 foreign companies – were included in the consolidated financial statements of Gigaset at December 31, 2010. Compared with the previous year, one company was added to the consolidation group or acquired, and 44 companies were deconsolidated or sold in fiscal 2010. Four companies have been accounted for by the equity method at 12/31/2010.

Three companies whose effect on the financial position, liquidity, and financial performance is not significant either individually or on aggregate have not been consolidated. These subsidiaries are carried at amortized cost.

Details of the subsidiaries that belong to the consolidation group are included in the list of shareholdings (Section 313 (4) German Commercial Code (HGB)), which is presented as an annex to the consolidated financial statements at the end of the notes.

The financial statements of the subsidiaries are prepared at December 31, which is the reporting date for 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 Gigaset. 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 on the reporting date. In contrast, income, expenses, profits, and losses are translated at the average exchange rate. All currency translation differences are recognized as a separate item within equity.

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

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

		Exchange rate at ^{*)}		Average exchange rate ^{*)}	
		12/31/2010	12/31/2009	2010	2009
United Arab Emirates	AED	4.8687	5.2658	4.8782	5.1238
Argentina	ARS	5.2722	5.4761	5.2047	5.2209
Azerbaijan	AZN	1.0581	1.1511	1.0664	1.1209
Bosnia	BAM	1.9543	1.9560	1.9565	1.9568
Bulgaria	BGN	1.9558	1.9558	1.9558	1.9558
Brazil	BRL	2.2177	2.5113	2.3344	2.5566
Belarus	BYR	4,024.9400	4,103.6200	3,978.6824	3,893.6807
Canada	CAD	1.3322	1.5128	1.3665	1.5852
Switzerland	CHF	1.2504	1.4836	1.3823	1.5099
China	CNY	8.8220	9.8350	8.9805	9.5174
Czech Republic	CZK	25.0610	26.4730	25.2939	26.4548
Denmark	DKK	7.4535	7.4418	7.4472	7.4463
Estonia	EEK	15.6466	15.6466	15.6466	15.6466
United Kingdom	GBP	0.8608	0.8881	0.8582	0.8911
Hong Kong	HKD	10.3856	11.1709	10.3077	10.7997
Croatia	HRK	7.3830	7.3000	7.2887	7.3413
Hungary	HUF	277.9500	270.4200	275.3567	280.5442
Japan	JPY	108.6500	133.1600	116.4567	130.2333
Korea	KRW	1,499.0600	1,666.9700	1,532.5125	1,772.8008
Lithuania	LTL	3.4528	3.4528	3.4528	3.4528
Latvia	LVL	0.7094	0.7093	0.7087	0.7058
Mexico	MXN	16.5475	18.9223	16.7532	18.7841
Norway	NOK	7.8000	8.3000	8.0060	8.7288
Poland	PLN	3.9750	4.1045	3.9950	4.3298
Romania	RON	4.2620	4.2363	4.2106	4.2396
Serbia	RSD	106.0890	96.7741	103.5025	94.5408
Russia	RUB	40.8200	43.1540	40.2780	44.1391
Sweden	SEK	8.9655	10.2520	9.5469	10.6200
Turkey	TRL	2.0694	2.1547	1.9973	2.1623
Ukraine	UAH	10.6933	11.6374	10.6896	11.3604
USA	USD	1.3362	1.4406	1.3268	1.3933
South Africa	ZAR	8.8625	10.6660	9.7135	11.6863

^{*)} Equivalent for EUR 1

B. SUMMARY OF 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, except for available-for-sale financial assets, derivative financial instruments, and purchased shareholder loans, which are measured at fair value through profit and loss.

The principal accounting and valuation methods applied when preparing the present consolidated financial statements are described below.

Recognition of income and expenses

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

The income from the reversal of negative goodwill is presented as other operating income and is therefore included in the earnings before interest, taxes, depreciation and amortization (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 capitalized expenses cover the cost of materials, direct labor costs, and the directly allocable general overhead, provided these serve to make the asset available for use. 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 disclosed at production cost, less cumulative amortization and impairments.

Income and expenses arising from construction contracts

In accordance with IAS 11 (Construction Contracts), income and expenses arising from construction contracts are recognized in accordance with the percentage-of-completion method, when the outcome of a construction contract can be reliably estimated. The revenues and costs are recognized as income and expenses by reference to the percentage of completion at the reporting date. The percentage of completion is generally determined as the ratio of order costs incurred for the work performed at the reporting date to the estimated total contract costs, unless that method does not accurately reflect the percentage of completion. Payments for changes in the contract scope, subsequent requests, and bonuses are included in the contract revenues. A receivable is recognized for all ongoing construction contracts under which the sum of costs incurred plus recognized profits is greater than the sum of interim invoices. A liability is recognized for all ongoing construction contracts under which the sum of the interim invoices exceeds the costs incurred plus recognized profits. If the outcome of a construction contract cannot be reliably estimated, revenue is only recognized in the amount of the incurred contract costs (zero profit method). Contract costs are recognized as expenses in the period in which they occur. If it is probable that the total contract costs will exceed the total contract revenues, the anticipated loss is recognized immediately as an expense.

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.

Net financial income/expenses

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.

Actuarial methods are used to divide the payments received under finance leases into interest and principal portions.

Income taxes

The corporate tax rate totals 33.0% in the year under review (prior year 29.0%). The change in tax rate from the prior year resulted from the increase in the weighted trade tax rate of the parent company due to the relocation of the company's offices to Munich.

A uniform rate of 15.0% for corporate income tax plus a solidarity surcharge of 5.5% is applied to distributed and retained profits when calculating current taxes in Germany. Local trade tax is levied on profits generated in Germany, as is corporate income tax. The local trade tax charge ranges from 14.35% to 17.15%.

The profit generated by international Group subsidiaries is determined on the basis of local tax law and is taxed at the rate relevant for the country of domicile. The applicable country-specific income tax rates vary between 15.8% and 35.0%.

Profits on the sale of shares in subsidiaries or other associated companies under the Group's management control are treated as tax-exempt because, in such cases, Gigaset has not realized a short-term trading profit, but a restructuring profit resulting from its entrepreneurial activities.

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. When deferred tax assets and liabilities are calculated, tax rates are assumed that are applicable when the asset is realized or the liability settled.

In consideration of the specific aspects of the Gigaset business model, the recognition of deferred tax assets on tax loss carry-forwards is subject to the following rules:

- In cases when the acquired company is in need of restructuring, deferred tax assets are not recognized, as a rule, on tax loss carry-forwards at the acquisition date, except in amounts up to the amount of deferred tax liabilities that have been recognized, provided that netting is permissible.
- In the case of companies that have a history of generating losses instead of profits, deferred tax assets are recognized even after the acquisition date only up to the amount required to offset deferred tax liabilities.
- Deferred tax assets are recognized on existing tax loss carry-forwards only if the companies have a history of generating profits with an expectation of positive results in the future.

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.

Deferred tax assets and liabilities relating to items recognized directly in equity are disclosed 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 relate to income taxes regarding the same taxable entity that 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 profit by the average weighted number of shares outstanding during the fiscal year. Diluted earnings per share exist when equity instruments were also issued from capital stock besides ordinary and preferred shares, which could lead to an increase in the number of shares in the future. This diluting effect is determined and disclosed accordingly.

Goodwill

The goodwill arising on consolidation represents the excess of the acquisition cost of a company acquisition over the Group's share of the fair value of the identifiable assets, liabilities, and contingent liabilities of a subsidiary or jointly managed company at the date of acquisition. According to IFRS 3 (Business Combinations), goodwill is not subject to scheduled amortization. Instead, IAS 36 (Impairment of Assets) states that an impairment test should be carried out once a year, and also when there is any indication of impairment. If necessary, the goodwill is written down to its recoverable amount. Every impairment loss is recognized immediately in income and original values may not be reinstated at a later time. When a subsidiary or jointly controlled company is sold, the attributable amount of goodwill is included in the calculation of the profit or loss on the sale.

For purposes of the impairment test, goodwill is allocated to cash-generating units or groups of such cash-generating units that are expected to derive a benefit from the underlying business combination.

Other intangible assets

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

The following estimated useful lives are applied within the Group:

- Patents, utility designs, trademarks, publication rights/copyrights/performer 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 fair value or the value in use is less than the carrying amount, the impairment is recognized as an expense in the income statement.

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 and written down to the lower recoverable amount in accordance with IAS 36.

Internally generated intangible assets

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

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

Property, plant and equipment

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

ured. All other repair and maintenance expenses are recognized as expenses in the income statement for the fiscal 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, including investment property: 10-50 years
- Technical plant and machinery: 5-15 years
- Operational and business equipment: 2-10 years

The residual carrying amounts and economic lives are reviewed every year on the reporting date and adjusted as necessary. If the carrying amount of an asset exceeds its estimated recoverable amount, it is immediately written down to the latter value. Profits 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 the income statement.

Investment property

Investment property is real estate and buildings held for the purpose of generating rental income and/or capital appreciation, and is not used as part of normal business activities. Real estate produced or developed for future use as investment property shall also be carried as investment property. It is measured at acquisition or production cost minus accumulated depreciation and impairment losses (acquisition cost model). The fair value at the reporting date is disclosed in the notes to the consolidated statement of financial position.

Borrowing costs

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

- Is a qualified asset for which the capitalization of the acquisition or production costs was begun on or after January 1, 2009, 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, investment property during the production phase, intangible assets during the development phase, or customer-specific inventories.

Non-current financial assets accounted for by the equity method

Interests in associated companies and joint ventures are accounted for by the equity method.

Associated companies are companies over which the Group exercises significant influence but which it does not control. Such a relationship is usually accompanied by 20% to 50% of the voting rights.

A joint venture is a jointly controlled company that exists when the Group concludes legal agreements with one or more contracting parties regarding economic activities generally performed by companies controlled jointly by the parties to the agreement.

The equity method defined under IAS 28 requires that differences arising on initial consolidation be treated in accordance with the same principles as full consolidation, which in turn causes investments accounted for using the equity method to be measured initially at cost. The Group's interest in associated companies and joint ventures includes the goodwill constituted upon acquisition, less cumulative impairments.

The Group's share of the profits or losses of associated companies is recognized in the net financial income or expenses shown in the consolidated income statement from the date of acquisition. Accumulated changes after acquisition resulting from dividend payouts or other changes in the investment's equity not recognized in profit or loss are set off against the carrying amount of the investment.

Unrealized profits and losses on transactions between Group companies and associated companies are eliminated in proportion to the Group's share of equity in the subsidiary. In the event of unrealized losses, the transferred assets are tested for impairment.

Special purpose entities

Special purpose entities are created to fulfill a single, well-defined purpose. They are consolidated if the Group can exercise a controlling influence over the special purpose entity. This is determined by assessing the following criteria:

- Are the activities of the special purpose entity being conducted on behalf of the Group according to its specific business needs so that the Group obtains benefits from the special purpose entity's operations?

- Does the Group have the decision-making powers to obtain the majority of the benefits of the activities of the special purpose entity?
- Does the Group have right to obtain the majority of the benefits of the special purpose entity and therefore may be exposed to risks incident to the activities of the special purpose entity?
- Does the Group retain the majority of the residual or ownership risks or assets related to the special purpose entity or its assets in order to obtain benefits from its business activities?

The special purpose entity is included in the consolidated financial statements if a controlling influence is identified in this way.

Non-current assets held for sale

Non-current assets (and groups of assets) classified as held for sale are measured at the lower of amortized cost or fair value less costs to sell. Non-current assets and groups of assets, including the liabilities directly allocable to these groups, are classified as held for sale if they are intended to be disposed of. 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 impairment annually and when there are indications of possible impairment. Assets qualifying for scheduled depreciation are tested for impairment when certain events or changed circumstances indicate that the carrying amount may no longer be recoverable. An impairment loss is recognized in the amount by which the carrying amount exceeds the recoverable amount. The recoverable amount is the higher amount of the asset's value in use and its fair value minus its costs to sell. For the impairment test, assets are aggregated at the lowest level at which cash flows can be identified separately (cash-generating units).

If an impairment loss is later reversed, the carrying amount of the asset (or cash-generating unit) is increased to the newly estimated recoverable amount. The increase in the carrying amount is limited to the amortized value that would have resulted if no impairment loss had been recognized in prior years for the asset (or cash-generating unit). Reversals of impairment losses are recognized immediately in profit or loss for the period. Impairment losses in goodwill are not reversed.

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 operate leases.

An asset that was rented or leased and is the economic property of the respective Group company (finance lease) is capitalized at the present value of the minimum lease payments or at the lower fair value in accordance with IAS 17 and depreciated over its useful life. If it is not sufficiently certain at the inception of the lease that ownership will transfer to the lessee, the asset is depreciated in full over the shorter of the lease term or the useful life.

The corresponding liability to the lessor is recognized in the statement of financial position as an obligation under finance leases within liabilities due to other creditors. The lease payments are divided into an interest portion and a lease obligation repayment portion in such a way as to ensure a constant rate of interest on the outstanding liability.

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

When Gigaset is the lessor under a finance lease, it recognizes a lease receivable due from the lessee in the statement of financial position, instead of an asset. The amount of the lease receivable corresponds to the lessor's net investment in the leased item at the time of recognition as an asset. The income received under finance leases is recognized over time in a pattern that reflects a constant periodic rate of return on the lessor's net investment from the lease relationship. Rental income received under operating leases is recognized in the income statement on a straight-line basis over the term of the respective lease.

Inventories

Inventories are measured at the lower of acquisition/production cost or the 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, valuation allowances are charged to account for overstocking, obsolescence, and reduced salability.

Trade receivables

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

Factoring

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

Interest and del credere risk due to purchase price retentions are recognized as trade receivables, classified as "continuing involvement." This continuing involvement is offset by a corresponding provision covering the additional risk of a potential loss of the receivables from the factor arising from the purchase price retentions.

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 the net financial income/expenses. Administrative fees are recognized as other operating expenses.

Receivables measured at fair value through profit and loss

Purchased receivables under shareholder loans are classified as financial instruments measured at fair value through profit or loss at the time of initial recognition. In accordance with IAS 39, these receivables are classified on the basis of the fair values according to the documented risk and portfolio management strategy of these receivables and their future performance capacity.

In the consolidated financial statements of Gigaset AG, a considerable quantity of receivables under shareholder loans is eliminated in the consolidation process. If the receivables in question were not classified in this way, but were instead measured at amortized acquisition and production cost, only the purchase price paid for those receivables at the acquisition date would be recognized when the company owing the receivables would be transitionally accounted for by some other consolidation method than full consolidation or would be deconsolidated. Because the purchase price paid for such receivables is usually only a symbolic amount, any appreciation in the receivables resulting from successful restructuring of that company would not be adequately presented. This treatment serves to enhance the relevance of the information contained in the consolidated financial statements of Gigaset AG.

Purchased receivables are measured on the basis of contractually agreed repayment plans which are based on market rates of interest, plus an appropriate risk premium. Changes in the fair value of such assets are recognized in profit or loss. The carrying amounts of such assets are reviewed at the reporting date or whenever circumstances indicate a change in the value of such assets.

Non-consolidated receivables measured at fair value through profit or loss are recognized under other assets.

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. Used overdraft facilities are recognized as liabilities due to banks under current liabilities.

Financial assets

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

Financial assets at fair value through profit or loss

This category has two subcategories: financial assets classified as held for trading from the outset and financial assets classified at fair value through profit or loss from the outset. A financial asset is assigned to this category if it was purchased with the intention of selling it immediately or in the near term or if it was so designated by management. Derivatives also belong to this category. Assets in this category are presented as current assets if they are either held for trading or are expected to be recovered within 12 months of the reporting date.

Loans and receivables

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

Financial assets held to maturity

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

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially measured at fair value and subsequently at amortized cost calculated in accordance with the effective interest method, less any impairments. If loans are due in more than twelve months, they are presented as non-current assets. They are presented as current assets when they are due in not more than twelve months of the reporting date or, if they should be due in more than twelve months, when they are normally recovered in the ordinary course of business. Financial assets held to maturity are recognized at amortized cost calculated in accordance with the effective interest method.

Financial assets available for sale

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

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

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

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

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

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

Derivative financial instruments

In accordance with IAS 39, derivative financial instruments are measured at fair value at the reporting date, if the fair value can be reliably measured. Changes in the fair value of such financial instruments are recognized in profit or loss.

Shareholders' equity

Shares are classified as equity. Costs directly allocable to the issuance of new shares or options are recognized in equity on an after-tax basis 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 (on an after-tax basis) are deducted from the shareholders' equity until such time as the shares are withdrawn, re-issued, or resold. When such shares are subsequently re-issued or sold, the consideration received – after deduction of directly allocable transaction costs and the corresponding income taxes – is recognized in shareholders' equity.

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 established if a detailed restructuring plan exists.

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

Non-current provisions are discounted to present value if the effect is significant. 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 Gigaset – albeit exclusively in the subsidiaries and not at the parent company – 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 Gigaset, depending on the subsidiary concerned. Essentially, these benefits comprise:

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

The provision for defined benefit plans recognized in the consolidated statement of financial position is based on the present value of the pension obligation less the fair value of the pension plan assets at the reporting date, with due consideration given to actuarial gains and losses and service time cost to be recognized in subsequent periods.

The pension provisions for the company's pension plan are measured in accordance with the projected unit credit method prescribed in IAS 19 (Employee Benefits). They are measured anew by independent actuaries at each reporting date. Under this expectancy cash value method, the pension provisions are calculated on the basis of the known pensions and the vested pension rights at the reporting date and the anticipated future increases in salaries and pensions. The pension plan assets of Gigaset consist of the employer's pension liability insurance, which has been pledged to the pension beneficiaries, and other assets which meet the definition of plan assets according to IAS 19. The cumulative actuarial gains or losses over the years resulting from the difference between the expected and the actual pension obligations and plan assets at year-end are only recognized if they differ from the maximum pension obligation or plan assets by 10 percent. In such a case, the excess amount is divided by the average remaining employment period of the qualifying employees and recognized as additional income or expense. Past service costs for not yet vested pension rights are recognized over the period of employment remaining until the pension rights are vested. The expense for already vested pension rights is recognized immediately. Reduced performance in connection with already earned pension rights must be recognized in the corresponding amount as negative past service cost. The interest portion of the additions to provisions recognized as pension expenses (interest costs for pension obligations and expected income from pension plan assets) is recognized as interest expenses within financial net income or expenses.

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

Share-based payment

In fiscal 2006, Gigaset established a share-based payment plan for its executive officers under which compensation is rendered by issuing treasury shares. This plan was continued in 2010. In accordance with IFRS 2, the fair value of the services rendered by the employees in exchange for the granting of options is recognized as an expense. The total cost, which is recognized as an expense over the vesting period, is measured as the fair value of the options (likely to be) exercisable. The fair value of the options is measured once by means of a Monte Carlo simulation at the respective grant dates. Non-market-based barriers to exercising options are reflected in the assumptions concerning the anticipated number of options to be exercised. The estimated number of options that can be exercised is reassessed at each reporting date. The effects of any changes made to the original estimates are recognized in the income statement and by making a corresponding adjustment in equity over the time remaining until the shares become vested.

Share purchases by subsidiary managers

In accordance with the "subsidiary manager" model practiced at Gigaset, the Company offers selected employees the opportunity to purchase shares in companies to be restructured. In most cases, the subsidiary manager will purchase such shares concurrently with Gigaset's acquisition of the company in question, but may also purchase shares at a later time. The fair value is determined at the grant date and compared with the purchase price paid by the subsidiary manager. If this gives rise to an expense, the difference is recognized directly in equity in the reporting period in accordance with IFRS 2. The fair value of the shares is determined with reference to the proportional enterprise value of the subsidiary concerned at the transfer date. If the transfer occurs concurrently with the share purchase, Gigaset applies the purchase price as the fair value. With regard to company disposals, the subsidiary managers are generally obliged to sell their interests as well when certain contractually agreed ratios are achieved. No rights to tender to Gigaset exist. Similarly, there are generally no contractually agreed preemptive rights regarding the non-controlling interests held by the subsidiary managers. As part of the selling process, the subsidiary managers generally also contribute to the costs to sell on a proportional basis. The individual contractual arrangements are based on the local, country-specific conditions in each case.

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. Termination benefits that fall due more than twelve months after the reporting date are discounted to present value. Termination benefits payable are presented with the personnel provisions. Also, the employee benefits payable under the German model of partial early retirement known as *Altersteilzeit* are stated within this item.

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 income statement on the basis of a measurement procedure that takes into account the profit to which the Group shareholders are entitled, after certain adjustments. The Group recognizes a provision when it has a contractual obligation or a constructive obligation based on past business practices.

Liabilities

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

ance with the effective interest method. Liabilities under finance leases are measured at the present value of the future minimum lease payments.

In accordance with the definition given in IAS 32, assets can be designated as equity from the company's perspective only when there is no requirement to repay those assets or provide other financial assets instead. The company's assets may be subject to repayment obligations if (non-controlling) shareholders hold a right of redemption and when the exercise of this right establishes a claim for compensation from the company. Such capital made available to non-controlling interests is recognized as a liability under IAS 32 even when it is classified as shareholders' equity under the laws and regulations of a given country.

Segment reporting

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 may earn income and incur expenses, whose financial performance is reviewed regularly by the responsible corporate instance to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available. The responsible corporate instance is the Executive Board of the company.

In segment reporting, the Group's operating divisions are structured according to their principal activities (primary segmentation).

The primary segments of Gigaset are:

- Steel (discontinued)
- Print (discontinued)
- Industrial Production (discontinued)
- Gigaset
- Home Media (discontinued)
- Specialty Chemistry (discontinued)
- Holding
- Automotive (discontinued)
- IT (discontinued)
- Retail (discontinued)
- Service (discontinued)

Legal disputes and claims for damages

Companies of Gigaset are involved in various litigation and administrative proceedings in connection with their ordinary business, or it is possible that such litigation or administrative proceedings could be commenced or asserted in the future. Even if the outcome of the individual proceedings cannot be predicted with certainty, considering the imponderability of legal disputes, it is the current estimation of management that the matters in question will not have a significant adverse effect on 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

When 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 statement of financial position. Such assumptions and estimates relate mainly to the recognition and measurement of intangible assets, the adoption of uniform group-wide economic 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 management's control would differ from the assumptions made, the actual performance figures may 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 accounting policies.

Estimates made for the purposes of purchase price allocation

Estimates are usually made to determine the fair value of assets and liabilities acquired in the context of business combinations. Land, buildings, technical plant, and machinery are typically appraised by an independent expert, whereas marketable securities are measured at their market value. Expert appraisals of the market values of property, plant and equipment are subject to a certain degree of uncertainty as a result of assumptions necessarily applied for this purpose. Depending on the type of asset and difficulty of the measurement, Gigaset determines the fair values of any intangible assets either by consulting an independent expert or by measuring the fair value internally, using an appropriate evaluation method. Depending on the type of asset and availability of pertinent information, we apply different valuation techniques based on cost, market price, or income approaches. The capitalized income approach is preferred to measure the value of intangible assets due to its particular significance. For example, the relief-from-royalty method is used to measure the value of brands and licenses. Under this method, we estimate the cost savings resulting from the fact that the company owns the brands and licenses itself and does not have to pay any fees to a licensor. The after-tax cost savings are then discounted to present value and applied as the value of the intangible asset. When determining the values of intangible assets, it is necessary to make estimates concerning future revenues and earnings as well as the economic lives of those assets, in particular, which are subject to a certain degree of uncertainty as a result of the assumptions applied for this purpose. Similarly, when determining the fair values of contingent liabilities, assumptions need to be made with regard to the probability of the corresponding liabilities having to be settled in the future. By their nature, such assumptions are subject to a certain degree of uncertainty as well. Gigaset considers the estimates made with respect to the useful lives of certain assets, the assumptions regarding general economic conditions and developments in the industries in which Gigaset operates, and the estimated present values of future cash flows to be reasonable. Nonetheless, changes in the relevant assumptions or circumstances may necessitate correction in the future, which could, in turn, result in additional impairment losses in the future if the developments anticipated by Gigaset do not materialize. Additional effects may result from provisional purchase price allocations that are based on the best information available at the reporting date, which may change due to new information coming to light in subsequent periods.

Estimates made in connection with impairment tests

In accordance with IAS 36 (Impairment of Assets) and IAS 38 (Intangible Assets), goodwill as well as intangible assets with an indefinite useful life is tested for possible impairment once a year or more often if events or changed circumstances indicate the possibility of impairment. The systematic amortization of goodwill is prohibited. For purposes of the impairment tests, the net carrying amounts of each individual cash-generating unit within Gigaset is compared with the recoverable amount, defined as the higher of the net realizable value or the value in use. In accordance with the relevant definition, the smallest identifiable business units, which are the lowest level at Gigaset at which goodwill is monitored for internal management purposes and 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 impairment loss calculated in this way is first deducted from the goodwill of the strategic business unit concerned. Any remaining amount is then deducted from the other assets of the strategic business unit concerned in proportion to their carrying amounts, provided this falls within the scope of IAS 36.

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 current business plans of Gigaset. The cost of capital at Gigaset is calculated as the weighted average cost of capital (WACC), 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 20 years, to calculate the cost of debt capital.

Estimates made with regard to receivables measured at fair value

The fair value of receivables is measured on the basis of contractually agreed repayment plans. The assumptions made with regard to actual future payments are generally based on the free cash flows available to the company that owes the receivable. These free cash flows are based on assumptions and estimates that are based on the budget of the company that owes the receivable. The budgets are subject to planning risks and uncertainties, which are reflected in the credit risk of the companies in question. The credit risk is accounted for by means of adequate discount rates and risk margins in relation to the company's progress in the restructuring process. The discount rate is determined as the current EURIBOR plus a safety margin suited to the creditor in question. The fair values calculated on this basis are subject to a certain degree of uncertainty as a result of the necessary assumptions and estimates made for this purpose. If these assumptions and estimates applied for the purpose of fair value measurement undergo changes in subsequent periods, the values are adjusted accordingly.

Income taxes

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

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

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

Furthermore, uncertainties are inherent in the interpretation of complex tax regulations and the amount and timing of future taxable income. Particularly due to the wide-ranging international activities of the Group, any differences between the actual profits or losses generated and 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 when 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 present value of pension obligations very much depends on the choice of discount rate to be applied and the underlying actuarial assumptions, which are determined anew at the end of each fiscal 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 and 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.

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

C. NOTES ON FINANCIAL INSTRUMENTS

The prior year disclosures regarding liquidity risk, foreign currency risks and net gains and losses have been adjusted.

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.

At fiscal year-end, Gigaset is still composed of companies from a wide range of different industries. In the ordinary course of business, these companies enter into numerous contractual agreements that give rise to financial assets or financial liabilities.

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

The amendments to IFRS 7, which must be applied in fiscal years that begin on or after January 1, 2010, impose the following requirements:

- The introduction of a three-level hierarchy for fair value measurement and the disclosure of the hierarchical level to which conducted measurements are assigned. Reclassifications between hierarchical levels and every change of method for measuring fair values must also be disclosed, along with the reasons for such reclassifications and changes.
- The maturity analysis of derivative financial liabilities must be presented on the basis of contractual terms to maturity. The maturity analysis also covers contracts for issued financial guarantees.

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. Such hedging transactions are not subject to hedge accounting rules.

Credit risk/ default risk

The subsidiaries of Gigaset still operate in a wide range of industries, supplying different kinds of products to 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 possibly associated credit rating and liquidity risks, all significant subsidiaries arrange to have a trade credit insurance company conduct credit checks of their 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 significant Gigaset subsidiaries employ adequate credit management systems (including credit scoring systems to categorize the risks of customer receivables) to limit default risk. An internal rating and an internal credit limit are established for every customer on the basis of detailed, ongoing credit assessments.

Of the loans and receivables presented for the Group at the end of 2010 in the total amount of EUR 93,589 thousand (PY: EUR 177,527 thousand), an amount of EUR 42,603 thousand or 54.5% (PY: EUR 60,538 thousand or 34.1%) was insured. Trade credit insurance has been used as the security instrument for most of the receivables. Other forms of security exist in the form of letters of credit, customer deposits and bank guarantees.

The default risk equal to the carrying amounts of loans and receivables (EUR 93,589 thousand, PY: EUR 177,527 thousand) is limited by trade credit insurance, letters of credit and other credit improvements to a maximum default risk of EUR 50,986 thousand (PY: EUR 116,989 thousand).

2010 in EUR'000	Carrying amount	Maximum default risk	Secured portion	%
Total	93,589	42,603	50,986	54.5
Trade receivables	83,355	32,789	50,566	54.0
Loans	0	0	0	0.0
Receivables from construction contracts	0	0	0	0.0
Other receivables	10,234	9,814	420	0.5

2009 in EUR'000	Carrying amount	Maximum default risk	Secured portion	%
Total	177,527	116,989	60,538	34.1
Trade receivables	131,283	71,339	59,944	33.8
Loans	2,905	2,586	319	0.2
Receivables from construction contracts	0	0	0	0.0
Other receivables	43,339	43,064	275	0.2

As in the prior year, Gigaset did not receive any collateral security in 2010.

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

	2010		2009	
	EUR'000	%	EUR'000	%
Total	93,589	100.0	177,527	100.0
Germany	18,809	20.1	64,240	36.2
Europe: EU	52,298	55.9	77,623	43.7
Europe: Other	3,568	3.8	7,733	4.4
Rest of world	18,914	20.2	27,931	15.7

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 21 Trade receivables.

Liquidity risk

In Gigaset, 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 in which the Group operates, the goal of Corporate Finance is to preserve the necessary financing flexibility by keeping unused credit facilities available. The credit facilities have been committed by various banks, either until further notice or for twelve months at a time.

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

2010 in EUR'000	Carrying amount	Total outflow	< 1 year	1-5 years	> 5 years
Non-derivative financial liabilities	128,724	135,212	97,894	37,229	89
Trade payables	89,798	89,798	89,709	0	89
Liabilities to banks	4,373	4,373	4,373	0	0
Other financial liabilities	353	353	353	0	0
Convertible bonds	23,092	28,084	0	28,084	0
Other liabilities	11,108	12,605	3,459	9,145	0
Derivative financial liabilities	0	0	0	0	0
Total	128,724	135,212	97,894	37,229	89

The Executive Board adopted a resolution on 2/10/2011 with the consent of the Supervisory Board to convert the mandatory convertible bond at 6/30/2011 in accordance with the instrument's terms and conditions. The cash flows presented above are based on the circumstances at the reporting date and represent the cash flows that would result if no conversion to stock would occur.

2009 in EUR'000	Carrying amount	Total outflow	< 1 year	1-5 years	> 5 years
Non-derivative financial liabilities	321,268	331,615	272,625	53,051	5,815
Trade payables	180,398	180,398	180,398	0	0
Liabilities to banks	70,150	74,400	44,488	26,346	3,566
Other financial liabilities	17,542	20,738	9,661	8,828	2,249
Other liabilities	53,178	55,955	38,078	17,877	0
Derivative financial liabilities	124	124	124	0	0
Total	321,392	331,739	272,749	53,051	5,815

A more detailed presentation of current liabilities to banks and current financial liabilities in the maturity range "< 1 year" is provided in Note 35 Current financial liabilities; the same for trade payables is provided in Note 36 Trade payables, and the same for derivative financial liabilities is provided in Note 38 "Current other liabilities."

The expected outflow from obligations from finance lease in the prior year within one year amounted to EUR 2,801 thousand and within one and five years EUR 3,981 thousand.

In the past fiscal year, one company had a loan agreement term to match a specific EBITDA rate which was achieved by the company.

Of the total financial liabilities presented for the Group at year-end 2010 in the amount of EUR 128,724 thousand (PY: EUR 321,392 thousand), an amount of EUR 15,821 thousand or 12.3% (PY: EUR 72,288 thousand or 22.5%) is secured. The security items are broken down in the table below:

2010 EUR'000	Intangible assets	Land and buildings	Other property, plant and equipment	Inventories	Trade receivables	Other security	%
Trade payables	0	0	4,342	1,551	4,182	2,227	9.6
Liabilities to banks	0	1,305	1,703	0	0	0	2.3
Other financial liabilities	0	0	0	0	0	511	0.4
Other liabilities	0	0	0	0	0	0	0.0
Total	0	1,305	6,045	1,551	4,182	2,738	12.3

2009 in EUR'000	Intangible assets	Land and buildings	Other property, plant and equipment	Inventories	Trade receivables	Other security	%
Trade payables	0	0	18,457	6,935	5,189	6,257	11.5
Liabilities to banks	540	15,024	5,061	2,453	2,276	4,286	9.2
Other financial liabilities	2,596	220	2,006	0	0	710	1.7
Other liabilities	0	0	0	0		278	0.1
Total	3,136	15,244	25,524	9,388	7,465	11,531	22.5

The category of "other security" is mainly composed of bank guaranties, deficiency guaranties and patents. Furthermore, most of the subsidiaries receive goods under country-specific retentions of title.

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

	2010		2009	
	EUR'000	%	EUR'000	%
Total	128,724	100.0	321,392	100.0
Germany	61,235	47.6	174,188	54.2
Europe: EU (excluding Germany)	14,669	11.4	95,270	29.6
Europe: Other	11,436	8.9	4,450	1.4
Rest of world	41,384	32.1	47,484	14.8

Market price risk

By reason of the business activities of the various subsidiaries and 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 and the liabilities under finance leases are subject to a theoretical interest rate risk. Especially those subsidiaries that purchase commodities for their manufacturing operations are subject to price risks.

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. At the reporting date, however, no such forward exchange deals or other exchange rate hedging derivatives were used in Gigaset.

Of the financial instruments presented for the Group, an amount of EUR 44,831 thousand (PY: EUR 55,108 thousand) consisted of financial assets denominated in foreign currencies and an amount of EUR 49,917 thousand (PY: EUR 73,013 thousand) consisted of financial liabilities denominated in foreign currencies. The risk concentrations based on foreign currencies are presented in the table below:

	2010		2009	
	EUR'000	%	EUR'000	%
Financial assets in				
BRL (Brazilian reales)	7,538	16.7	11,671	21.2
USD (U.S. dollars)	6,405	14.3	10,991	19.9
TRL (Turkish lira)	4,488	10.0	2,844	5.2
ARS (Argentine pesos)	4,470	10.0	3,974	7.2
CNY (Chinese renminbi yuan)	4,393	9.8	10,024	18.2
CHF (Swiss francs)	3,624	8.1	3,913	7.1
GBP (British pounds)	3,375	7.5	3,119	5.7
RUB (Russian rubles)	3,002	6.7	519	0.9
PLN (Polish zloty)	2,255	5.0	3,824	6.9
SEK (Swedish krona)	1,642	3.7	1,853	3.4
CAD (Canadian dollars)	1,213	2.7	0	0.0
NOK (Norwegian krone)	762	1.7	1,084	2.0
DKK (Danish krone)	444	1.0	388	0.7
JPY (Japanese yen)	409	0.9	0	0.0
AED (United Arab Emirates dirham)	157	0.4	294	0.5
RON (Romanian lei)	0	0.0	134	0.2
MXN (Mexican pesos)	0	0.0	233	0.4
ZAR (South African rand)	0	0.0	172	0.3
CZK (Czech krone)	0	0.0	29	0.1
Other	654	1.5	42	0.1
Total	44,831	100.0	55,108	100.0
Financial liabilities in				
	2010		2009	
	EUR'000	%	EUR'000	%
USD (U.S. dollars)	43,764	87.8	59,295	81,2
JPY (Japanese yen)	1,299	2.6	1,513	2,1
CNY (Chinese renminbi yuan)	924	1.9	4,872	6,7
TRL (Turkish lira)	861	1.7	567	0,6
BRL (Brazilian reales)	572	1.1	1,513	2,1
SEK (Swedish krona)	496	1.0	267	0,4
GBP (British pounds)	438	0.9	250	0,3
RUB (Russian rubles)	382	0.8	380	0,5
CHF (Swiss francs)	350	0.7	257	0,4
PLN (Polish zloty)	272	0.5	326	0,4
ARS (Argentine pesos)	259	0.5	1,930	2,6
AED (United Arab Emirates dirham)	209	0.4	198	0,3
NOK (Norwegian krone)	73	0.1	39	0,1
HUF (Hungarian forints)	16	0.0	0	0,0
DKK (Danish krone)	2	0.0	5	0,0
RON (Romanian lei)	0	0.0	1,029	1,4
MXN (Mexican pesos)	0	0.0	330	0,5
CZK (Czech krone)	0	0.0	194	0,3
ZAR (South African rand)	0	0.0	41	0,1
CAD (Canadian dollars)	0	0.0	7	0,0
Other	0	0.0	0	0,0
Total	49,917	100.0	73,013	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, Gigaset is subject to interest rate risks and price risks in the subsidiaries. The periodic effects are determined by applying the hypothetical changes in risk variables to the portfolio of financial instruments at the reporting date. For that purpose, it is assumed that the portfolio at the reporting date is representative of the full year.

At the reporting date, Gigaset 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 Gigaset operates had been 10% higher or 10% lower at December 31, 2010, the equity presented in the functional currency would have been EUR 522 thousand higher or EUR 639 thousand lower, respectively (December 31, 2009: EUR 1,631 thousand higher or EUR 1,993 thousand lower, respectively).

The hypothetical effect on profit or loss (after taxes) of EUR +522 thousand (PY: EUR +1,631 thousand) or EUR -639 thousand (PY: EUR -1,993 thousand), respectively, is broken down in the table below on the basis of the corresponding currency sensitivities:

EUR'000	2010		2009	
	+ 10%	- 10%	+ 10%	- 10%
EUR/USD:	3,396	-4,151	4,391	-5,367
EUR/JPY:	81	-99	138	-168
EUR/AED:	5	-6	-9	11
EUR/HUF:	1	-2	0	0
EUR/RON:	0	0	81	-99
EUR/CZK:	0	0	15	-18
EUR/MXN:	0	0	9	-11
EUR/BGN:	0	0	0	0
EUR/ZAR:	0	0	-12	15
EUR/DKK:	-40	49	-35	43
EUR/NOK:	-63	77	-95	116
EUR/SEK:	-104	127	-144	176
EUR/CAD:	-110	135	1	-1
EUR/PLN:	-180	220	-318	389
EUR/RUB:	-238	291	-13	15
EUR/GBP:	-267	326	-261	319
EUR/CHF:	-298	364	-332	406
EUR/CNY:	-315	385	-468	572
EUR/TRL:	-330	403	-207	253
EUR/ARS:	-383	468	-186	227
EUR/BRL:	-633	774	-924	1,129

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.

The interest rate sensitivity analyses have been based on the following assumptions:

Fixed interest rates have been stipulated for most interest-bearing receivables and liabilities. Market interest rate risks 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.

In the past year, sensitivity analyses under IFRS 7 did not lead to any effects on profit and loss. In the prior year, the sensitivity analyses were conducted for variable-yield financial liabilities and loan receivables, available-for-sale financial assets, variable-yield purchase price liabilities and derivative financial instruments, and yielded the following result: If the level of market interest rates had been higher (or lower) by 100 basis points at December 31, 2009, the profit or loss would have been higher by EUR 19 thousand or lower by EUR 13 thousand, respectively.

Other price risks

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

Classification

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

Carrying amounts, measurement methods and fair values by measurement category

12/31/2010	EUR'000	Note	Measure- ment cate- gory per IAS 39	Carrying amount	Measurement method per IAS 39			Statement of financial position measurement method per IAS 17					
					Fair value	Amortized cost	Fair value recognized in equity						
Assets													
Non-current assets													
Financial assets	18	LaR		0	0	0	0	0					
Other non-current assets	19	AfS		0	0	0	0	0					
Current assets													
Trade receivables	21	LaR		83.355	83.355	83.355	0	0					
Available-for-sale financial assets	22	AfS		0	0	0	0	0					
Other assets	23	LaR		10.234	10.234	10.234	0	0					
Cash and cash equivalents	25	LaR		36.608	36.608	36.608	0	0					
Liabilities													
Non-current liabilities													
Financial liabilities	31	FL-AC		23.092	23.800	23.092	0	0					
Liabilities under finance leases	32			8	8	-	-	8					
Other liabilities	33	FL-AC		8.846	8.436	8.846	0	0					
Current liabilities													
Current financial liabilities	35	FL-AC		4.726	4.726	4.726	-	0					
Liabilities under finance leases	32			50	50	-	-	50					
Trade payables	36	FL-AC		89.798	89.798	89.798	0	0					
Other liabilities	38	FL-AC		2.262	2.262	2.262	0	0					
thereof aggregated by measurement category according to IAS 39:				Carrying amount 2010	Fair value 2010								
Financial assets													
Loans and receivables (LaR)				130.197	130.197								
Held-to-maturity financial investments (HtM)				0	0								
Available-for-sale financial assets (AfS)				0	0								
Financial assets held for trading (FA-HfT)				0	0								
Financial assets designated at fair value (FA-FVO)				0	0								
Financial liabilities													
Measured at amortized cost (FL-AC)				128.724	129.022								
Financial liabilities held for trading (FL-HfT)				0	0								

12/31/2009	EUR'000	Note	Measure- ment cate- gory per IAS 39	Carrying amount	Fair value	Measurement method per IAS 39			Statement of financial position measurement method per IAS 17
						Amortized cost	Fair value recognized in equity	Fair value through profit and loss	
Assets									
Non-current assets									
Financial assets	18	LaR		2,905	2,876	2,905	0	0	0
Other non-current assets	19	AfS ¹⁾		18	18	18	0	0	0
Current assets									
Trade receivables	21	LaR		131,283	131,283	131,283	0	0	0
Available-for-sale financial assets	22	AfS ¹		636	636	636	0	0	0
Other assets	23	LaR, HfT		43,617	43,617	43,339	0	278	0
Cash and cash equivalents	25	LaR		74,915	74,915	74,915	0	0	0
Liabilities									
Non-current liabilities									
Financial liabilities	31	FL-AC		37,989	36,392	37,989	0	0	0
Liabilities under finance leases	32			2,782	2,782	-	-	-	2,782
Other liabilities	33	FL-AC, HfT		15,223	14,122	15,099	0	124	0
Current liabilities									
Current financial liabilities	35	FL-AC		49,704	49,704	49,704	-	-	0
Liabilities under finance leases	32			1,666	1,666	-	-	-	1,666
Trade payables	36	FL-AC		180,398	180,398	180,398	0	0	0
Other liabilities	38	FL-AC		38,078	38,078	38,078	0	0	0
thereof aggregated by measurement category according to IAS 39:				Carrying amount 2009	Fair value 2009				
Financial assets									
Loans and receivables (LaR)				252,442	252,413				
Held-to-maturity financial investments (HtM)				0	0				
Available-for-sale financial assets (AfS)				654	654				
Financial assets held for trading (FA-HfT)				278	278				
Financial assets designated at fair value (FA-FVO)				0	0				
Financial liabilities									
Measured at amortized cost (FL-AC)				321,392	318,694				
Financial liabilities held for trading (FL-HfT)				124	124				

¹⁾ The available-for-sale financial assets (AfS) do not include non-exchange-listed equity instruments, the fair values of which could not be determined reliably and which therefore were recognized at amortized cost at December 31, 2009 in the amount of EUR 654 thousand.

The category of other assets included no derivative financial assets in fiscal year 2010 (PY: EUR 278 thousand). The item of other liabilities included no long-term derivative liabilities (PY: EUR 124 thousand) and no derivative liabilities of a short-term nature (PY: EUR 0 thousand).

The fair values of derivative financial instruments are calculated by means of present value and option price models. To the extent possible, the relevant market prices and interest rates observed at the reporting date, which are taken from recognized external sources, are applied as the input parameters for these models. In accordance with IFRS 7, the calculation of these fair values is assigned to Level 2 of the measurement categories for the determination of fair values.

Liabilities under finance leases do not fall within the scope of IAS 39 and are therefore presented separately.

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

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

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

With regard to the shares in unincorporated partnerships and non-exchange-listed corporations in the amount of EUR 654 thousand, it was assumed that the carrying amount is equal to the market value because it would have been possible to reliably determine a market value only in connection with concrete sale negotiations. At 12/31/2010, no such financial assets remained.

The disclosure of carrying amounts, measurement methods and fair values by measurement category for financial instruments within disposal groups in accordance with IFRS 5 are presented separately in Note 26.

Net gains or losses under financial instruments

EUR'000	From interest	From subsequent measurement			From disposal	Net gain or loss	
		At fair value	Currency translation	Impairment		2010	2009
Financial assets							
Loans and receivables	37	0	-678	-2,778	-1,013	-4,432	12,925
Held to maturity	0	0	0	0	0	0	0
Available for sale	0	0	0	0	0	0	0
Designated at fair value	0	0	0	0	0	0	0
Financial liabilities							
Measured at amortized cost	-8,569	0	-1,740	0	0	-10,309	-7,770
Derivative financial instruments							
Held for trading	0	127	0	0	247	374	2,869

The interest from financial instruments is presented as part of net interest income/expenses (see Note 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 on financial assets which had been written down in 2010 ("unwinding").

The other components of the net gain or loss are recognized as other operating income and expenses (see Notes 3 and 6).

Net gains or losses on loans and receivables 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 are composed of interest expenses, income and expenses from currency translation and income from the waiver of amounts owed to suppliers.

Net gains or losses on financial instruments held for trading included income and expenses from changes in market values in the amount of EUR 127 thousand (PY: EUR 2,869 thousand).

Capital management

Gigaset's new business model provides for a concentration on the telecommunications industry and accessories. Due to the planned further growth, the primary goal of capital management is to secure the survival of all Gigaset as a going concern during expansion and then to optimize the ratio of equity to debt for the benefit of all shareholders. The capital structures are managed in Gigaset and the remaining holding companies. 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 Gigaset.

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

Change in the gearing ratio:

	2010 EUR'000	2009 EUR'000
Non-current liabilities	65,989	140,101
Current liabilities	244,534	396,388
Liabilities	310,523	536,489
Equity	35,040	121,461
Gearing ratio in %	8.9	4.4

D. NOTES TO THE INCOME STATEMENT

1. Revenues

The consolidated revenues of the Group break down as follows:

	2010			2009		
	EUR'000			EUR'000		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Revenues from sales of goods	503,650	505,812	1,009,462	544,934	2,935,015	3,479,949
Revenues from long-term construction contracts	0	0	0	0	2,478	2,478
Revenues from sales of services	0	0	0	0	9,545	9,545
Total	503,650	505,812	1,009,462	544,934	2,947,038	3,491,972

The total revenues break down as follows:

	2010		2009	
	EUR'000		EUR'000	
	Continuing operations	Discontinued operations	Continuing operations	Discontinued operations
Trading revenues			75,937	2,385,926
Production revenues			933,525	1,106,046
Total			1,009,462	3,491,972

For a breakdown of revenues by geographic regions and operating segments, please refer to the notes on the Segment Report.

2. Other internal production capitalized

The internal production capitalized consisted of capitalized development costs and the recognition of internally generated intangible assets, as follows:

	2010			2009		
	EUR'000			EUR'000		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Gigaset Group (excluding Home Media)	17,859	0	17,859	15,207	0	15,207
Anvis Group	0	2,631	2,631	0	7,569	7,569
Actebis Group	0	0	0	0	712	712
ddp Group	0	0	0	0	217	217
Other	0	0	0	0	12	12
Total	17,859	2,631	20,490	15,207	8,510	23,717

3. Other operating income

The other operating income breaks down as follows:

	2010			2009		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Exchange rate changes	13,526	5,078	18,604	12,083	3,729	15,812
Deconsolidations	928	0	928	0	8,673	8,673
Reversal of negative goodwill	0	0	0	0	11,336	11,336
Reversal of provisions	7,002	3,134	10,136	1,715	3,108	4,823
Costs charged to third parties and cost reimbursements	0	223	223	0	4,186	4,186
Charge-off of liabilities	3,740	221	3,961	36	3,287	3,323
Reversal of valuation allowances	1,175	1,212	2,387	1,096	948	2,044
Income from derivatives	1,669	127	1,796	1,028	1,142	2,170
Rental income	38	442	480	265	1,844	2,109
Payments in compensation of loss or damage	36	39	75	0	1,422	1,422
Disposal of property, plant and equipment	44	1,034	1,078	133	1,097	1,230
Miscellaneous operating income	5,817	7,888	13,705	10,706	16,848	27,554
Total	33,975	19,398	53,373	27,062	57,620	84,682

The disclosure of income from the reversals of negative goodwill in the prior year in the amount of EUR 11,336 thousand resulted from the acquisition of the BSM Group, which was resold already at the end of 2009 and attributed to the discontinued operations segment of "Service."

The income from deconsolidation in 2010 is allocated to the companies in the Holding segment that were sold in the context of the reorganization of the Group, as well as income earned from the sale of the non-controlling shares of the Eurostyle Group that remained in the Group.

	2010		
	Continuing operations	Discontinued operations	Total
Eurostyle	599	0	599
Other	329	0	329
Total	928	0	928

	Continuing operations	Discontinued operations	2009 EUR'000 Total
BSM Group	0	3,098	3,098
BEA Group	0	2,390	2,390
weberbenteli Group	0	1,291	1,291
Evotape Group	0	568	568
Auto Windscreens	0	506	506
Other	0	820	820
Total	0	8,673	8,673

4. Purchased goods and services

	2010 EUR'000			2009 EUR'000		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Raw materials and supplies	226,901	257,525	484,426	251,041	259,422	510,463
Purchased goods	21,530	52,631	74,161	43,544	2,158,796	2,202,340
Purchased services	3,419	17,247	20,666	3,665	80,146	83,811
Other	1,955	30,422	32,377	-5,034	16,478	11,444
Total	253,805	357,825	611,630	293,216	2,514,842	2,808,058

The other purchased goods and services of the continuing operations for the past fiscal year consist of reversal of write-down of inventories of EUR 1,272 thousand (PY: EUR 8,249 thousand) and EUR 231 thousand (PY: EUR 2,772 thousand) for discontinued operations.

The individual items of purchased goods derived from the following companies:

	2010 EUR'000	2009 EUR'000
Gigaset Group (excluding Home Media)	251,833	291,085
Anvis Group	161,329	138,388
Oxxynova Group	70,757	41,398
van Netten Group	30,259	35,517
Carl Froh Group	26,349	22,482
Gigaset Group (Home Media)	25,024	5,191
Wanfried Druck Group	16,921	17,888
SME Group	11,424	13,191
Fritz Berger Group	8,132	27,082
Golf House Group	7,629	15,632
Actebis Group	0	2,025,562
Tiscon Group	0	105,476
Rohe Group	0	5,845
Sommer Group	0	2,636
Other	1,973	60,685
Total	611,630	2,808,058

The expenses for raw materials and supplies derived from the following corporate groups:

	2010 EUR'000	2009 EUR'000
Gigaset Group (excluding Home Media)	226,901	251,041
Anvis Group	125,346	108,124
Oxxynova Group	57,884	31,812
van Netten Group	27,373	32,633
Carl Froh Group	21,094	17,268
Wanfried Druck Group	14,794	15,917
SME Group	11,034	15,634
weberbenteli Group	0	6,606
Rohe Group	0	2,190
Sommer Group	0	2,565
Other	0	26,673
Total	484,426	510,463

The expenses for purchased goods derived from the following groups:

	2010 EUR'000	2009 EUR'000
Gigaset Group (excluding Home Media)	21,529	43,544
Anvis Group	18,409	13,976
Gigaset Group (Home Media)	16,148	5,191
Fritz Berger Group	8,132	27,082
Golf House Group	7,629	15,632
Carl Froh Group	831	795
Oxxynova Group	639	955
Wanfried Druck Group	519	508
SME Group	288	194
van Netten Group	37	35
Actebis Group	0	1,988,153
Tiscon Group	0	105,203
Other	0	1,072
Total	74,161	2,202,340

Purchased services were recognized in the following corporate groups:

	2010 EUR'000	2009 EUR'000
Anvis Group	12,624	11,046
Carl Froh Group	3,334	3,020
Holding	1,972	2,132
Gigaset Group (excluding Home Media)	1,447	1,533
Wanfried Druck Group	1,037	898
Oxxynova Group	226	0
SME Group	26	42
Actebis Group	0	36,256
ASM Group	0	19,712
BSM Group	0	4,912
Rohe Group	0	2,886
DDP Group	0	258
BEA TDL	0	235
Other	0	881
Total	20,666	83,811

As in the prior year, the other purchased goods and services consisted mainly of energy supply costs.

5. Personnel expenses

	2010 EUR'000			2009 EUR'000		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Wages and salaries	111,444	78,946	190,390	132,796	202,937	335,733
Social security, pension and other benefit costs	16,130	19,027	35,157	15,881	38,105	53,986
Total	127,574	97,973	225,547	148,677	241,042	389,719

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

	2010 EUR'000	2009 EUR'000
Gigaset Group (excluding Home Media)	123,574	142,197
Anvis Group	50,848	48,470
Oxxynova Group	9,957	9,203
van Netten Group	9,311	10,576
Carl Froh Group	8,935	8,775
Wanfried Druck Group	7,850	8,702
SME Group	4,987	7,278
Holding	4,000	6,480
Golf House Group	2,567	4,892
Fritz Berger Group	2,480	7,773
Gigaset Group (Home Media)	1,038	91
Actebis Group	0	61,033
Tiscon Group	0	4,983
Rohe Group	0	3,467
Sommer Group	0	1,431
Other	0	64,368
Total	225,547	389,719

The wages and salaries contained expenses of EUR 107 thousand (PY: EUR 437 thousand) for share-based payments.

6. Other operating expenses

The other operating expenses break down as follows:

	2010			2009		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Administrative expenses	22,371	17,485	39,856	44,024	56,727	100,751
Losses on deconsolidations	6	39,317	39,323	3,429	9,808	13,237
Marketing and representation expenses	28,340	4,949	33,289	26,278	22,002	48,280
Outgoing freight/transport costs	13,384	14,188	27,572	12,203	38,768	50,971
Exchange rate changes	18,543	3,830	22,373	5,364	5,047	10,411
Consulting expenses	11,841	4,772	16,613	16,197	9,136	25,333
Addition to warranty provisions	12,024	598	12,622	16,188	650	16,838
Expenses for land/buildings (including rent)	4,444	6,774	11,218	5,342	40,062	45,404
Maintenance of technical equipment, machinery and operational and office equipment	781	7,751	8,532	1,208	8,995	10,203
Valuation allowances on receivables and losses on receivables	3,746	1,419	5,165	6,608	4,586	11,194
Other taxes	2,940	2,012	4,952	1,444	3,684	5,128
Patent fees and royalties	1,429	2,056	3,485	1,470	1,963	3,433
Losses on the disposal of non-current assets	1,260	215	1,475	1,710	789	2,499
Expenses for financial derivatives	1,422	0	1,422	0	699	699
Addition to imminent loss provision	505	1,058	1,563	6,957	437	7,394
Official proceedings and liabilities for additional contributions	0	0	0	0	1,650	1,650
Other operating expenses	9,326	6,411	15,737	1,089	17,530	18,619
Total	132,362	112,835	245,197	149,511	222,533	372,044

The losses on deconsolidations derived from the following companies that were sold:

	2010		
	Continuing operations	Discontinued operations	Total
Anvis	0	36,736	36,736
Wanfried Group	0	2,581	2,581
Other	6	0	6
Total	6	39,317	39,323

	2009 EUR'000		
	Continuing operations	Discontinued operations	Total
Sommer Group	0	4,914	4,914
Rohner Group	0	3,117	3,117
Ibería Group	2,030	0	2,030
ASM Group	0	1,333	1,333
Revitalization Group	304	0	304
DDP Group	0	238	238
Capresa Group	0	94	94
Actebis Group	0	92	92
Tiscon Group	0	28	28
Other deconsolidation losses	1,095	-8	1,087
Total	3,429	9,808	13,237

7. Impairment losses

The impairment losses break down as follows:

	2010 EUR'000			2009 EUR'000		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
van Netten Group	0	17,973	17,973	0	0	0
Carl Froh Group	0	7,748	7,748	0	32	32
Fritz Berger Group	0	5,174	5,174	0	3,066	3,066
Golf House Group	0	1,809	1,809	0	0	0
Anvis Group	0	42	42	0	6,488	6,488
Gigaset Group	0	0	0	9,495	0	9,495
Holding	0	0	0	1,310	0	1,310
Wanfried Druck Group	0	0	0	0	4,968	4,968
Oxxynova Group	0	-715	-715	0	0	0
SME Group	0	-3,099	-3,099	0	11,859	11,859
Tiscon Group	0	0	0	0	1,646	1,646
Actebis Group	0	0	0	0	38,889	38,889
Total	0	28,932	28,932	10,805	66,948	77,753

The impairment losses recognized in the van Netten Group and the Carl Froh Group result from the difference between the reclassified net asset values pursuant to IFRS 5 and the fair value less cost to sell expected to be received for these groups, which corresponds to the sales price less cost to sell expected to be received. The net asset values were reclassified individually into assets held for sale or liabilities in connection with assets held for sale. At the time of reclassification, the assets were subjected to an impairment test. Impairment losses were recognized in a total amount of EUR 25,721 thousand based on the total assets and liabilities held for sale compared to the fair value less costs to sell, which applied to the van Netten Group at EUR 17,973 thousand and the Carl Froh Group at EUR 7,748 thousand. For details on the relevant items, please refer to our comments in Note 26 (Non-current Assets Held for Sale and Discontinued Operations). The van Netten Group is part of the Industrial Production segment, while the Carl Froh Group is part of the Steel segment.

Gigaset divested itself of the camping outfitter Fritz Berger effective April 30, 2010. Disclosure of the assets and liabilities as assets held for sale or as liabilities in connection with assets held for sale occurred already in the first quarter. An impairment of EUR 5,174 thousand was recognized due to the expected fair value less cost to sell which corresponded to the expected sales price less cost to sell.

Effective July 7, 2010, Gigaset divested itself of the Golf House Group. Disclosure of the assets and liabilities as assets held for sale or as liabilities in connection with assets held for sale occurred already in the second quarter. An impairment of EUR 1,809 thousand was recognized due to the expected fair value less cost to sell which corresponded to the expected sales price less cost to sell.

The SM Electronics Group was classified as a disposal group in the fourth quarter of 2009. Therefore, disclosure of the assets and liabilities as assets held for sale or as liabilities in connection with assets held for sale occurred already in the fourth quarter of 2009. Based on the fair value less costs to sell, impairment losses of EUR 11,859 thousand were recognized in the prior year. The presented write-up in the amount of EUR 3,099 thousand reflects the change in the assets and liabilities included up to the time of deconsolidation in September.

8. Income/expenses from non-current financial assets accounted for by the equity method

The income from financial assets accounted for by the equity method amounted to EUR 149 thousand (PY: EUR 53 thousand), as follows:

	2010			2009		
	EUR'000		Total	EUR'000		Total
	Continuing operations	Discontinued operations		Continuing operations	Discontinued operations	
Joint ventures	0	149	149	0	30	30
Associated companies	0	0	0	0	23	23
Total	0	149	149	0	53	53

The income from financial assets accounted for by the equity method resulted from the joint ventures of the Anvis Group, in the amount of EUR 149 thousand (PY: EUR 30 thousand), and from an associated company of the Actebis Group, in the amount of EUR 23 thousand in the prior year. For the past fiscal year, the SME Group sustained a loss and is also measured at EUR 0 thousand according to the equity method. Thus, the result of the SME Group has not been accounted for in the consolidated statements but is carried forward in an auxiliary calculation.

9. Net interest income/expenses

	2010			2009		
	EUR'000		Total	EUR'000		Total
	Continuing operations	Discontinued operations		Continuing operations	Discontinued operations	
Other interest and similar income	349	240	589	1,934	917	2,851
Interest and similar expenses	-7,366	-4,664	-12,030	-11,611	-16,180	-27,791
Net interest expenses	-7,017	-4,424	-11,441	-9,677	-15,263	-24,940

Other interest and similar income in the amount of EUR 589 thousand (PY: EUR 2,851 thousand) consisted mainly of interest on loans extended, current account balances and term deposits, which are assigned to the category of loans and receivables.

Interest and similar expenses in the amount of EUR 12,030 thousand (PY: EUR 27,791 thousand) were mainly composed of interest payments to banks on loans received, which are assigned to the category of financial liabilities at amortized cost. This item also included interest expenses under finance leases in the amount of EUR 371 thousand (PY: EUR 510 thousand) and interest expenses on receivables under factoring arrangements, which reduced the net result of the loans and receivables category by EUR 1,227 thousand (PY: EUR 2,751 thousand). Moreover, interest expenses due to discounting provisions amounted to EUR 607 thousand in the past year (PY: EUR 1,008 thousand).

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

10. Income taxes

The income tax expenses break down as follows:

	2010			2009		
	EUR'000			EUR'000		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Current tax expenses	-4,504	-2,440	-6,944	-2,868	-7,592	-10,460
Deferred tax income	1,450	-476	974	16,123	5,999	22,122
Total income tax expenses/income	-3,054	-2,916	-5,970	13,255	-1,593	11,662

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 profit 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: 29.0%).

	2010	2009
	EUR'000	EUR'000
Profit/loss before income taxes	-94,601	-164,662
expected income tax rate	33.0%	29.0%
expected income tax expenses	-31,218	-47,752
Effect of income from reversals of negative goodwill recognized in the income statement	0	-3,288
Valuation at equity	-49	-15
Tax rate changes	-575	-346
Tax rate differences	-1,594	-489
Tax-exempt income	-4,089	-1,254
Non-deductible expenses	4,852	3,296
Change in value adjustment for deferred tax assets and unrecognized deferred tax assets in respect of tax loss carry-forwards	38,677	38,506
Non-period current taxes	-582	565
Tax credits	5	-290
Other effects	543	-595
Income tax expenses (+) / income (-) recognized in the income statement	5,970	-11,662
Effective tax rate	-6.31%	7.08%

11. Non-controlling interests in consolidated loss

The consolidated loss of EUR -100,571 thousand (PY: EUR -153,000 thousand) comprised non-controlling interests of EUR -1,326 thousand (PY: EUR -7,639 thousand).

12. Earnings per common share

The earnings per share (diluted/basic) for fiscal year 2010 amounted to EUR -3.45 (PY: EUR -5.51), as per the following calculation:

	2010			2009		
	EUR'000			EUR'000		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
PROFIT/LOSS						
Basis for the basic earnings per share (share of period profit or loss attributable to shareholders of the parent company)	-7,423	-91,822	-99,245	-62,044	-83,317	-145,361
Effect of potentially diluting common shares	0	0	0	0	0	0
Basis for the diluted earnings per share	-7,423	-91,822	-99,245	-62,044	-83,317	-145,361
NUMBER OF SHARES						
Weighted average common shares for the basic earnings per share	28,782,304	28,782,304	28,782,304	26,401,882	26,401,882	26,401,882
Effect of potentially diluting common shares: stock options	0	0	0	0	0	0
Weighted average common shares for the diluted earnings per share	28,782,304	28,782,304	28,782,304	26,401,882	26,401,882	26,401,882
Basic earnings per share (in EUR)	-0.26	-3.19	-3.45	-2.35	-3.16	-5.51
Diluted earnings per share (in EUR)	-0.26	-3.19	-3.45	-2.35	-3.16	-5.51

Due to the negative result, no diluted earnings per share were determined for 2010 or 2009 pursuant to IAS 33. If positive results are achieved in future years, there might be dilutive effects due to the convertible bond.

13. Dividend proposal

No dividend was distributed to shareholders for fiscal year 2009.

The Supervisory Board and Executive Board of Gigaset AG propose to the annual shareholders' meeting that the net income of Gigaset AG in the amount of EUR 141,249 thousand be offset against the net gain for the fiscal year 2007, appropriation of which had not been decided, net loss for the prior year as well as withdrawals from the reserve for treasury shares and that the remaining net income in the amount of EUR 46,121 thousand be carried forward to new account without disbursement of a dividend for fiscal 2010.

E. NOTES TO THE STATEMENT OF FINANCIAL POSITION

14. Intangible assets

EUR'000	Franchises, intellectual property rights, and similar rights and licenses	Goodwill	Other intangible assets	Advance payments	Total
Acquisition cost at 1/1/2010	63,796	5,716	42,857	2,670	115,039
Companies added to consolidation group	0	0	0	0	0
Companies removed from consolidation group	-19,419	-46	-16,169	-3,500	-39,134
Currency translation	14	0	287	0	301
Additions	1,005	0	15,560	1,080	17,645
Disposals	-69	0	0	-2	-71
Transfers	-15,831	-5,670	0	-230	-21,731
Balance at 12/31/2010	29,496	0	42,535	18	72,049
Amortization at 1/1/2010	-27,765	-5,282	-21,811	0	-54,858
Companies removed from consolidation group	13,022	0	10,879	0	23,901
Currency translation	-7	0	-223	0	-230
Additions	-7,036	0	-13,092	0	-20,128
Impairments (IAS 36)	0	0	0	0	0
Reversal of impairments	0	0	0	0	0
Disposals	59	0	0	0	59
Transfers	12,247	5,282	0	0	17,259
Balance at 12/31/2010	-9,480	0	-24,247	0	-33,727
Net carrying amounts at 12/31/2009	36,031	434	21,046	2,670	60,181
Net carrying amounts at 12/31/2010	20,016	0	18,288	18	38,322
EUR'000	Franchises, intellectual property rights, and similar rights and licenses	Goodwill	Other intangible assets	Advance payments	Total
Acquisition cost at 1/1/2009	123,003	35,582	36,132	2,339	197,056
Companies added to consolidation group	2,736	0	0	0	2,736
Companies removed from consolidation group	-17,937	-4,144	0	0	-22,081
Currency translation	56	0	0	0	56
Additions	1,869	0	14,045	2,390	18,304
Disposals	-765	0	-3,962	-13	-4,740
Transfers	-45,166	-25,722	-3,358	-2,046	-76,292
Balance at 12/31/2009	63,796	5,716	42,857	2,670	115,039
Amortization at 1/1/2009	-45,445	-4,277	-13,664	-41	-63,427
Companies removed from consolidation group	10,111	4,144	0	0	14,255
Currency translation	-39	0	0	0	-39
Additions	-14,375	0	-11,395	0	-25,770
Impairments (IAS 36)	-2,404	-5,149	0	0	-7,553
Reversal of impairments	3,708	0	0	0	3,708
Disposals	751	0	2,665	0	3,416
Transfers	19,928	0	583	41	20,552
Balance at 12/31/2009	-27,765	-5,282	-21,811	0	-54,858
Net carrying amounts at 12/31/2008	77,558	31,305	22,468	2,298	133,629
Net carrying amounts at 12/31/2009	36,031	434	21,046	2,670	60,181

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

Concessions, industrial property rights and similar rights	12/31/2010	12/31/2009
	EUR'000	EUR'000
Customer bases	710	10,816
Brand names	8,399	8,399
Advantageous contracts	839	1,957
Franchises	1,775	4,615
Patents	8,293	9,363
Similar rights	0	881
Total	20,016	36,031

The **customer bases** related to the following companies:

Customer bases	12/31/2010	12/31/2009
	EUR'000	EUR'000
Gigaset Group	710	1,021
Anvis Group	0	3,708
Carl Froh GmbH	0	3,328
Wanfried Group	0	2,759
Total	710	10,816

Customer bases of the Gigaset Group are depreciated linearly over a useful life of 3 to 5 years.

The brand names acquired in connection with business combinations were capitalized on the books of the respective acquiring companies, 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 this brand on the basis of past experience data and the estimations of the management regarding the future development of this brand. The factors considered in making this determination included the anticipated usage of the brand, typical product life cycles, possible commercial obsolescence, competition, the industry environment, the level of brand maintenance expenditures, legal or similar usage restrictions and the influence of the company's other assets on the useful life of the brand in question.

At the reporting date, the brand name Gigaset was presented in the amount of EUR 8,399 thousand (PY: EUR 8,399 thousand). The brand name was subjected to an impairment test at December 31, 2010 on the basis of the fair value less costs to sell. The calculation was conducted on the basis of a four-year cash flow plan. Appropriate growth rates were applied for the period thereafter. The applied discount factor after taxes was 9.90%. Based on the detailed business plan, the growth discount was set at 0.5%. 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 loss.

The franchises mainly consisted of software licenses for the following companies:

Franchises	12/31/2010	12/31/2009
	EUR'000	EUR'000
Gigaset Group	1,753	2,276
Anvis	0	1,059
Other	22	1,280
Total	1,775	4,615

The patents presented in the statement of financial position are meant to protect certain production processes of Gigaset and are depreciated linearly over an average useful life of ten years.

Capitalized development expenses are presented within the item of other intangible assets. They were divided among the following companies:

Capitalized development expenses	12/31/2010	12/31/2009
	EUR'000	EUR'000
Gigaset Group	18,288	14,274
Anvis Group	0	6,772
Total	18,288	21,046

The development activities of Gigaset represent capitalized product developments. Research and development expenses of EUR 31,345 thousand (PY: EUR 46,669 thousand) were recognized as expenses in fiscal year 2010, primarily at Gigaset.

No capitalized goodwill existed at the reporting date. In the prior year, this item related to the Golf House Group, which was sold in 2010, at EUR 388 thousand, and to other goodwill at EUR 46 thousand that likewise related to companies that were sold in 2010.

In the past fiscal year, the item of "companies removed from the consolidation group" was mainly composed of accumulated acquisition and production costs and accumulated amortization due to deconsolidations. This item also contained smaller disposals that have not been presented individually due to their subordinate importance for Gigaset.

Intangible assets in the amount of EUR 0 thousand (PY: EUR 3,136 thousand) have been pledged as security for financial liabilities. Additional information on assets pledged as security can be found in the notes on financial instruments in the section entitled "Liquidity risk."

15. Property, plant and equipment

EUR'000	Land, leasehold rights	Buildings, including buildings on non-owned land (excluding finance leases)	Buildings, including buildings on non-owned land (finance leases)	Technical equipment, plant and equipment, machinery (excluding finance leases)	Technical equipment, plant and equipment, machinery (excluding finance leases)	Other operational equipment, and office equipment (excluding finance leases)	Other operational equipment, and office equipment (excluding finance leases)	Advance payments and construction in progress	Total
Acquisition cost at 1/1/2010									
	22,954	67,198	0	135,597	6,281	61,839	343	2,806	297,018
Companies removed from consolidation group	-5,821	-23,847	0	-55,611	-2,516	-6,576	-332	-4,219	-98,922
Currency translation	299	373	0	1,064	5	443	1	95	2,280
Additions	-13	498	0	6,594	346	12,640	154	3,458	23,677
Disposals	-2,061	-2,883	0	-9,879	0	-7,735	-14	-458	-23,030
Transfers	-11,333	-20,830	0	-67,995	-4,116	-9,978	-94	-1,373	-115,719
Balance at 12/31/2010	4,025	20,509	0	9,770	0	50,633	58	309	85,304
Depreciation at 1/1/2010									
	-2,449	-14,131	0	-67,244	-1,339	-27,131	-184	59	-112,419
Companies removed from consolidation group	1,161	7,401	0	24,454	356	3,176	214	-109	36,653
Currency translation	-76	-154	0	-794	-2	-336	-1	0	-1,363
Additions	-149	-3,270	0	-14,402	-848	-19,021	-29	0	-37,719
Impairments (IAS 36)	0	0	0	0	0	0	0	-42	-42
Reversal of impairments	0	0	0	715	0	0	0	0	715
Disposals	0	727	0	7,384	0	7,541	0	0	15,652
Transfers	1,513	6,589	0	45,491	1,833	6,381	0	92	61,899
Balance at 12/31/2010	0	-2,838	0	-4,396	0	-29,390	0	0	-36,624
Net carrying amount at 12/31/2009	20,505	53,067	0	68,353	4,942	34,708	159	2,865	184,599
Net carrying amount at 12/31/2010	4,025	17,671	0	5,374	0	21,243	58	309	48,680

	Land, leasehold rights	Buildings, including buildings on non-owned land (excluding finance leases)	Buildings, including buildings on non-owned land (finance leases)	Technical equipment, machinery (excluding finance leases)	Other plant and equipment, machinery (excluding finance leases)	Technical operational equipment, plant and equipment (excluding finance leases)	Other operational equipment and office equipment (excluding finance leases)	Advance payments and assets under construction	Total
EUR'000									
Acquisition cost at 1/1/2009	30,334	100,899	156	155,218	37,102	105,873	8,837	9,665	448,084
Companies added to consolidation group	0	1,756	0	0	0	2,112	0	0	3,868
Companies removed from consolidation group	-6,145	-30,104	-156	-14,635	-30,091	-8,725	-2,562	-3,423	-95,841
Currency translation	-110	-293	0	-164	-532	-140	-60	-48	-1,347
Additions	76	668	0	5,796	758	13,930	4	2,761	23,993
Disposals	0	-1,374	0	-7,095	-431	-17,704	-30	-619	-27,253
Transfers	-1,201	-4,354	0	-3,523	-525	-33,507	-5,846	-5,530	-54,486
Balance at 12/31/2009	22,954	67,198	0	135,597	6,281	61,839	343	2,806	297,018
Depreciation at 1/1/2009	-1,155	-13,725	-18	-64,380	-20,112	-29,251	-2,369	-46	-131,056
Companies removed from consolidation group	1,333	2,365	18	12,414	19,637	4,268	560	74	40,669
Currency translation	73	111	0	390	317	50	9	1	951
Additions	-712	-4,661	0	-18,115	-1,499	-28,395	-603	0	-53,985
Impairments (IAS 36)	-1,988	-1,719	0	-7,490	0	-1,423	-24	0	-12,644
Disposals	0	974	0	6,414	0	17,567	0	30	24,985
Transfers	0	2,524	0	3,523	318	10,053	2,243	0	18,661
Balance at 12/31/2009	-2,449	-14,131	0	-67,244	-1,339	-27,131	-184	59	-112,419
Net carrying amount at 12/31/2008	29,179	87,174	138	90,838	16,990	76,622	6,468	9,619	317,028
Net carrying amount at 12/31/2009	20,505	53,067	0	68,353	4,942	34,708	159	2,865	184,599

In the reporting year, the property, plant and equipment no longer included leased assets of EUR 58 thousand for which the Group was considered to be the beneficial owner by virtue of the underlying lease agreements (PY: EUR 5,101 thousand).

Finance leases	12/31/2010 EUR'000	12/31/2009 EUR'000
Technical equipment, plant and machinery	0	4,942
Other equipment, operational and office equipment	58	159
Total	58	5,101

Impairment losses of EUR 42 thousand were recognized in property, plant and equipment in fiscal year 2010 (PY: EUR 12,644 thousand). For details on impairment losses, please refer to the section entitled "Impairment losses."

Property, plant and equipment in the amount of EUR 7,350 thousand (PY: EUR 40,768 thousand) have been pledged as security for financial liabilities. For additional information on security, please refer to the notes on financial instruments in the section entitled "Liquidity risk."

16. Investment property

	2010 EUR'000	2009 EUR'000
Acquisition cost at 1/1	2,330	2,330
Disposals	-2,330	0
Acquisition cost at 12/31	0	2,330
Depreciation on 1/1	-2,104	-2,092
Additions	-12	-12
Disposals	2,116	0
Depreciation at 12/31	0	-2,104
Net carrying amount at 12/31	0	226

The item of investment property consisted of a developed piece of land owned by Gigaset AG in Burnhaupt le Haupt, France. The land was sold in December 2010 for a purchase price of EUR 200 thousand.

In the past fiscal year income from rental amounted to EUR 36 thousand (PY: EUR 32 thousand)

17. Non-current financial assets accounted for by the equity method

Financial assets accounted for by the equity method showed the following development in the past fiscal year:

	2010 EUR'000	2009 EUR'000
Balance at 1/1	4,828	5,000
Company removed from consolidation group	-1,325	-225
Proportional share of profit/loss for the year	149	53
Disposal	-3,652	0
Balance at 12/31	0	4,828

The companies accounted for by the equity method generated a profit of EUR 149 thousand in fiscal year 2010 (PY: EUR 53 thousand), as follows:

	12/31/2010 EUR'000	12/31/2009 EUR'000
Anvis South Africa / Brasil	149	30
Fulfilment Plus GmbH	0	23
Total	149	53

The share in the joint venture Anvis Brazil (Vibracoustic do Brasil Industria e Comercio de Artefatos de Borracha Ltda.) was sold in January 2010.

The share in the joint venture Anvis South Africa (BEL-Anvis ANTIVIBRATIONSSYSTEMS (Pty.) Ltd.) was deconsolidated in the context of the sale of the ANVIS Group.

The financial assets measured using the equity method include the shares in the SM Electronic Group in the amount of EUR 0 thousand. At 12/31/2010, the assets amounted to EUR 25,825 thousand (PY: EUR 32,860 thousand) and the liabilities amounted to EUR 31,145 thousand (PY: EUR 31,330 thousand). The revenues amounted to EUR 26,117 thousand (PY: EUR 25,772 thousand) and the profit/loss for the year amounted to EUR -7,885 thousand (PY: EUR 31 thousand).

As part of the Actebis Group, the company Fulfilment Plus GmbH was sold in connection with the deconsolidation of the Actebis Group in 2009.

18. Financial assets

The financial assets included loans extended with a term of more than one year. All loans were measured at amortized cost. These loans showed the following development in fiscal year 2010:

	2010 EUR'000	2009 EUR'000
Balance at 1/1	2,905	3,190
Changes in consolidation group	-3,100	-409
Additions	195	461
Disposals	0	-140
Transfers	0	-197
Reversal of impairment loss	0	0
Balance at 12/31	0	2,905

The individual items of financial assets were divided among the following companies of Gigaset in 2009:

	12/31/2010 EUR'000	12/31/2009 EUR'000
Anvis Group	0	2,603
Wanfried Group	0	283
Other	0	19
Total	0	2,905

19. Other non-current assets

The other non-current assets included shares in non-consolidated companies in 2009.

20. Inventories

The inventories break down as follows:

	12/31/2010 EUR'000	12/31/2009 EUR'000
Finished goods and services, merchandise for resale	24,551	55,080
Semi-finished goods and services	1,548	7,913
Raw materials and supplies	8,968	19,206
Advance payments rendered	1,431	11,470
Total	36,498	93,669

Inventories are measured at the lower of acquisition or production cost and the net realizable value less costs to sell at the reporting date. The valuation allowances comprised within purchased goods and services amounted to EUR 10,377 thousand at the reporting date (PY: EUR 8,318 thousand). The valuation allowances were mainly charged to account for slow-moving inventories and insufficient salability.

The amounts of finished goods and services and merchandise for resale were divided among the subsidiaries of Gigaset as follows:

	12/31/2010 EUR'000	12/31/2009 EUR'000
Merchandise for resale		
Fritz Berger Group	0	9,511
Golf House Group	0	4,536
Total	0	14,047

	12/31/2010 EUR'000	12/31/2009 EUR'000
Finished goods and services		
Gigaset Group	24,551	26,941
Anvis Group	0	7,097
van Netten Group	0	2,151
Wanfried Group	0	1,693
Carl Froh Group	0	1,585
Oxxynova Group	0	1,566
Total	24,551	41,033

The companies of the Fritz Berger Group, the Golf House Group, the Anvis Group and the Wanfried Group, which had been presented in the prior-year financial statements, were deconsolidated at the reporting date.

In accordance with the provisions of IFRS 5, the finished goods and services of the van Netten Group, the Carl Froh Group and the Oxxynova Group were presented within the disposal group under the item of "assets held for sale" at the reporting date.

The semi-finished goods and services were divided among the various sub-groups as follows:

	12/31/2010 EUR'000	12/31/2009 EUR'000
Semi-finished goods and services		
Gigaset Group	1,548	2,011
Anvis Group	0	4,431
Carl Froh Group	0	845
van Netten Group	0	447
Wanfried Group	0	179
Total	1,548	7,913

The companies of the Anvis Group and the Wanfried Group, which had been presented in the prior-year financial statements, were deconsolidated at the reporting date.

In accordance with the provisions of IFRS 5, the semi-finished goods and finished services of the Carl Froh Group and the van Netten Group were presented within the disposal group under the item of "assets held for sale" at the reporting date.

The breakdown of the most important constituents of raw materials and supplies among the subsidiaries of Gigaset is presented in the table below:

	12/31/2010 EUR'000	12/31/2009 EUR'000
Raw materials and supplies		
Gigaset Group	8,968	6,768
Anvis Group	0	5,417
Oxxynova Group	0	3,356
Carl Froh Group	0	1,983
van Netten Group	0	954
Wanfried Group	0	718
Golf House Group	0	10
Total	8,968	19,206

The companies of the Anvis Group, the Wanfried Group, and the Golf House Group, which had been presented in the prior-year financial statements, were deconsolidated at the reporting date.

In accordance with the provisions of IFRS 5, the raw materials and supplies of the Oxxynova Group, the Carl Froh Group, and the van Netten Group were presented within the disposal group under the item of "assets held for sale" at the reporting date.

The advance payments rendered were divided among the various companies as follows:

Advance payments rendered	12/31/2010 EUR'000	12/31/2009 EUR'000
Gigaset Group	1,431	10,567
Anvis Group	0	901
Wanfried Group	0	2
Total	1,431	11,470

The companies of the Anvis Group and the Wanfried Group, which had been presented in the prior-year financial statements, were deconsolidated at the reporting date.

Inventories in the amount of EUR 1,551 thousand have been pledged as security for financial liabilities (PY: EUR 9,388 thousand). A detailed presentation of security can be found in the notes on financial instruments in the section entitled "Liquidity risk."

21. Trade receivables

	12/31/2010 EUR'000	12/31/2009 EUR'000
Receivables before valuation allowances	85,297	140,319
Valuation allowances	-1,942	-9,036
Carrying amount of receivables	83,355	131,283

The valuation allowances charged against trade payables showed the following development:

	2010 EUR'000	2009 EUR'000
01/01	9,036	16,295
Addition	1,124	6,817
Utilization	-10	-6,725
Reversal	-359	-2,044
Changes in consolidation group	-7,849	-5,307
12/31	1,942	9,036

No interest income was collected in the reporting period on trade payables against which valuation allowances had been charged.

Some companies of Gigaset assigned a portion of their trade receivables to a financing company. The maximum volume of factoring agreements concluded at the reporting date was EUR 80,000 thousand (PY: EUR 84,375 thousand). However, the maximum volume was not utilized at the reporting date. Receivables in the amount of EUR 31,864 thousand (PY: EUR 39,126 thousand) were sold. Based on the contractual formulation of some factoring agreements, it can neither be assumed that the corresponding receivables were completely transferred, nor that the risks and rewards of the receivables remained completely with the company. In accordance with IAS 39, therefore, the companies recognized a so-called "continuing involvement" of EUR 496 thousand (PY: EUR 636 thousand), which was composed of the remaining interest rate risk in the amount of EUR 248 thousand (PY: EUR 326 thousand) and the del credere risk remaining with the company by virtue of the purchase price retention, in the amount of EUR 248 thousand (PY: EUR 310 thousand).

In addition, the trade payables also comprised receivables due from the respective factor in connection with the purchase price retentions in the amount of EUR 4,369 thousand (PY: EUR 8,240 thousand). This does not include those companies that were carried within the disposal group in the item "assets held for sale" pursuant to the regulations of IFRS 5.

The age structure of trade receivables at December 31, 2010 is presented in the table below:

	12/31/2010 EUR'000	12/31/2009 EUR'000
Carrying amount	83,355	131,283
thereof: neither impaired nor past due at the reporting date	60,229	96,013
thereof: impaired at the reporting date	3,663	15,929
thereof: not impaired, but past due by the following time intervals at the reporting date	19,463	19,341
Past due up to 90 days	17,865	13,844
Past due 90 days to 180 days	857	3,721
Past due 180 days to one year	148	976
Past due by more than one year	593	800

Of the total trade receivables presented in the statement of financial position, an amount of EUR 4,182 thousand (PY: EUR 7,465 thousand) has been pledged as security for financial liabilities. A detailed presentation of security can be found in the notes on financial instruments in the section entitled "Liquidity risk."

With regard to the receivables that were neither impaired nor past due, there were no indications that payments will not be made when due.

Gigaset neither received security and other credit improvements as security for trade receivables, nor accepted still outstanding invoices as security in fiscal year 2010.

The largest constituent items within trade receivables were divided among the sub-groups as follows:

	12/31/2010 EUR'000	12/31/2009 EUR'000
Gigaset Group	82,374	90,526
ANVIS Group	0	33,682
Oxxynova Group	0	2,916
Wanfried Group	0	525
Other	981	3,634
Total	83,355	131,283

The companies of the Anvis Group and the Wanfried Group, which had been presented in the prior-year financial statements, were deconsolidated at the reporting date.

In accordance with the provisions of IFRS 5, the trade accounts receivable of the Oxxynova Group were presented within the item of "assets held for sale" at the reporting date.

By reason of the international activity of Gigaset, the following receivables denominated in foreign currencies were converted to the Group currency (EUR) at December 31, 2010:

Foreign currency		12/31/2010		12/31/2009	
		EUR'000	%	EUR'000	%
Brazilian reales	BRL	5,999	22.2	7,825	23.7
U.S. dollars	USD	5,060	18.7	9,238	28.0
Turkish lira	TRL	4,066	15.0	1,876	5.7
British pounds	GBP	2,905	10.7	1,244	3.8
Swiss francs	CHF	2,345	8.6	1,546	4.7
Argentine pesos	ARS	1,937	7.1	2,513	7.6
Swedish krona	SEK	1,410	5.2	837	2.5
Russian rubles	RUB	1,133	4.2	0	0.0
Polish zloty	PLN	916	3.4	1,461	4.4
Canadian dollars	CAD	615	2.3	0	0.0
Norwegian krone	NOK	466	1.7	807	2.4
Danish krone	DKK	251	0.9	388	1.2
Chinese renminbi yuan	CNY	11	0.0	4,781	14.5
Other		0	0.0	533	1.6
Total		27,114	100.0	33,049	100.0

22. Available-for-sale financial assets

In the prior year, available-for-sale financial assets in the amount of EUR 636 thousand represented the balance of financial assets that were not assigned to any other valuation category according to IAS 39. In Gigaset, this category consists only of interest-bearing and non-interest-bearing securities, as well as equity instruments.

The items comprised within this position are measured at fair value upon initial recognition. Because the securities in question are shares in companies that are not listed on a stock exchange, the fair value cannot be reliably determined in subsequent periods and is therefore assumed to be the same as the carrying amount. Therefore, no changes in the fair value were recognized within Accumulated other comprehensive income.

In fiscal year 2010, no interest income or interest expenses were recognized (PY: EUR 0 thousand).

23. Other assets

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

	12/31/2010	12/31/2009
	EUR'000	EUR'000
Tax receivables	21,135	18,533
Receivables from factoring	7,282	10,691
Refunds due	646	332
Receivables due from former shareholders	607	20,003
Current loans	548	957
Prepaid expenses	467	2,012
Security deposits	273	1,373
Debit balances in vendor accounts	186	150
Receivables from pension liability insurance	49	3,688
Other personnel receivables	37	451
Purchase price receivables	0	8,393
Other assets	2,401	11,633
Total	33,631	78,216

The tax receivables do not include income tax receivables because those are presented separately. The tax receivables presented in this item were mainly composed of sales tax refund claims in the amount of EUR 19,932 thousand (PY: EUR 15,044 thousand), most of which attributable, in turn, to Gigaset, in the amount of EUR 19,652 thousand (PY: EUR 9,907 thousand).

The receivables from factoring consisted in 2010 mainly of the outstanding portion of the purchase price receivable within the Gigaset Group in the amount of EUR 7,282 thousand and in the prior year mainly the outstanding portion of the purchase price of the Gigaset Group in the amount of EUR 8,475 thousand.

24. Current tax assets

This item was composed exclusively of current income tax assets, which were divided up as follows:

	12/31/2010 EUR'000	12/31/2009 EUR'000
Gigaset Group	1,495	3,249
Anvis Group	0	373
Other	0	122
Total	1,495	3,744

25. Cash and cash equivalents

This item comprises cash on hand, cash in banks for deposits that are due in less than three months, and financial instruments with an original term to maturity of less than three months. Of the total amount presented herein, an amount of EUR 8,960 thousand (PY: EUR 14,129 thousand) has been pledged as security for credit facilities and for currency hedging transactions (restricted cash).

	12/31/2010 EUR'000	12/31/2009 EUR'000
Cash on hand and cash at banks	27,648	60,786
Restricted cash	8,960	14,129
Total	36,608	74,915

26. Non-current disposal groups held for sale and discontinued operations

In accordance with IFRS 5, non-current assets and disposal groups are presented separately in the statement of financial position as "held for sale" if they can be sold in their current condition and the sale is highly probable. Assets classified as "held for sale" are measured at fair value less costs to sell, if that amount is less than the carrying amount. Based on this classification, liabilities that are directly related to such assets are presented separately in the statement of financial position as liabilities "held for sale."

A change in the business model was adopted at the extraordinary general shareholders' meeting of Gigaset AG on 12/20/2010. The new business model of Gigaset AG provides for a concentration on the telecommunications industry and thus for the investment in Gigaset Communications GmbH. The remaining investments that still belonged to Gigaset AG at 12/31/2010 are to be sold in the near future. Because the criteria of IFRS 5 were thus satisfied for the investments in the van Netten Group, Carl Froh GmbH, and the Oxxynova Group, the assets and liabilities of these investments were classified as "held for sale."

A contract of sale for the shares in Carl Froh GmbH was signed in December 2010 with the subsidiary manager for a symbolic amount. Due to the occurrence of agreed upon conditions, the shares still held by Gigaset AG were transferred to the subsidiary manager at the beginning of January 2011.

The assets and liabilities of the disposal groups Carl Froh GmbH (Steel segment), the van Netten Group (Industrial Production segment), and the Oxxynova Group (Specialty Chemistry segment) at December 31, 2010, break down as follows:

Assets	Amount before impairment	Impairment pursuant to IFRS 5	Amount after impairment
	EUR'000	EUR'000	EUR'000
Intangible assets	3,631	-1,676	1,955
Property, plant and equipment	49,925	-24,045	25,880
Deferred tax assets	4,536	0	4,536
Inventories	14,649	0	14,649
Current receivables and other assets	13,830	0	13,830
Cash and cash equivalents	2,139	0	2,139
Total	88,710	-25,721	62,989

Liabilities			
Interest-bearing liabilities	15,423	0	15,423
Provisions	19,259	0	19,259
Other liabilities	24,210	0	24,210
Deferred tax liabilities	5,581	0	5,581
Total	64,473	0	64,473

Because IFRS 5 requires that impairments be recognized if the fair value less costs to sell is less than the carrying amount, an impairment loss of EUR 25,721 thousand was recognized for the disposal groups.

The following additional disclosures are made with regard to discontinued operations: During the course of fiscal year 2010, Gigaset completely divested itself of its "Retail," "Print," and "Automotive" segments. Therefore, the assets and liabilities of these former operating segments were no longer presented in the statement of financial position at December 31, 2010 because they were deconsolidated. The operations "Specialty Chemistry" and "Industrial Production" will most probably likewise be sold in 2011. The operation "Steel" was already sold at the date of publication and the operation "Home Media" was already discontinued in 2010, meaning that these operations will also be classified as discontinued operations. The profits and losses of all of these segments will be shown in the consolidated income statement as discontinued operations in all presented reporting timeframes.

The cash and cash equivalents attributable to discontinued operations are presented in the table below:

	01/01 - 12/31 2010	01/01 - 12/31 2009
	EUR'000	EUR'000
Cash inflow (+)/ outflow (-) from operating activities	-9,598	-25,586
Cash inflow (+)/ outflow (-) from investing activities	-1,412	-1,289
Cash inflow (+)/ outflow (-) from financing activities	-3,401	-32,750
Change in cash and cash equivalents	-14,411	-59,625

The disclosure for financial instruments according to IAS 39 is presented in the following table below:

Carrying amounts, measurement methods and fair values by measurement category

12/31/2010	EUR'000	Measurement category per IAS 39	Measurement method per IAS 39				Statement of financial position measurement method per IAS 17
			Carrying amount	Fair value	Amortized cost	Fair value recognized in equity	
Assets							
Current assets		LaR	5,377	5,377	5,377	0	0
Trade receivables		LaR	1,582	1,582	1,582	0	0
Other assets		LaR	2,139	2,139	2,139	0	0
Cash and cash equivalents							
Liabilities							
Non-current liabilities							
Financial liabilities		FL-AC	8,420	8,420	8,420	0	0
Liabilities under finance leases			1,914	1,914	-	-	1,914
Other liabilities		HfT	214	214	0	0	214
Current liabilities							
Current financial liabilities		FL-AC	6,245	6,245	6,245		0
Liabilities under finance leases			620	620	-	-	620
Trade payables		FL-AC	19,580	19,580	19,580	0	0
Other liabilities		FL-AC	399	399	399	0	0

thereof aggregated by measurement category according to IAS 39:

	Carrying amount	Fair value
Financial assets		
Loans and receivables (LaR)	9,098	9,098
Held-to-maturity financial investments (HtM)	0	0
Available-for-sale financial assets (AfS)	0	0
Financial assets held for trading (FA-HfT)	0	0
Financial assets designated at fair value (FA-FVO)	0	0
Financial liabilities		
Measured at amortized cost (FL-AC)	34,858	34,858
Financial liabilities held for trading (FL-HfT)	214	214

27. Equity

Subscribed capital

The company's share capital is EUR 39,666,670.00 (PY: EUR 26,450,000.00) and is divided into 39,666,670 (PY: 26,450,000) no-par bearer shares. The shares are bearer shares. Thus, every no-par share represents EUR 1.00 of the company's share capital.

The number of no-par bearer shares has increased due to the capital increase in the past fiscal year by 13,216,670 shares.

In accordance with IAS 32, the nominal amount of the 38,118 treasury shares at the reporting date of December 31, 2010 (PY: 48,118 shares) was deducted from subscribed capital. 10,000 treasury shares were sold in 2010, and no treasury shares were purchased.

Additional paid-in capital

Because, in accordance with IAS 32, the cost in excess of the nominal value of treasury shares purchased or issued was deducted from additional paid-in capital, the additional paid-in capital at the reporting date of December 31, 2010 amounted to EUR 74,606 thousand (PY: EUR 73,580 thousand). The increase in additional paid-in capital results from the capital increases implemented in 2010. The transaction costs in connection with the capital increase amounted to EUR 477 thousand.

Retained earnings

The retained earnings have not changed in comparison to the prior period and amount to EUR 20,290 thousand.

Non-controlling interests

The adjustment entry for non-controlling interests related mainly to the segments of "Specialty Chemistry" and "Industrial Production." The changes related primarily to the disposed-of non-controlling interests of deconsolidated companies and the acquisition of a non-controlling interest in a company in the "Holding" segment.

Authorized Capital

Pursuant to Article 4 (5) of the Articles of Incorporation, the Executive Board is authorized to increase the Company's capital stock by issuing new shares in the period through December 20, 2015, with the consent of the Supervisory Board, by a total of up to EUR 19,833,335, all at once or in partial amounts, through the issuance of new bearer shares that participate in profits starting at the beginning of the year of issue, against cash or in-kind capital contributions (Authorized Capital 2010). The existing shareholders are fundamentally entitled to a subscription right, but it can be excluded under certain circumstances.

The new shares can 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 is 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 is further authorized to amend the wording of the Articles of Incorporation in accordance with the specific scope of the capital increase from the Authorized Capital 2010.

Stock options

Gigaset AG introduced a stock option program in fiscal year 2005. Under this program, stock options were granted in 2010 for a total of 400,000 shares (PY: 750,000 shares) of Gigaset AG in two different tranches, which were recognized as cash-settled. Unlike standard stock options, these stock options do not feature fixed exercise prices. Instead, the stock option beneficiary can request delivery of a certain number of common shares in Gigaset AG on any one of up to three delivery dates. The number of shares to be delivered on a given delivery date is determined on the basis of the performance of the Gigaset AG share since the start date (calculation for the first tranche) or on the final valuation date (i.e., the final exercise date). If the share price has decreased during that time, no shares are delivered. As a rule, the stock options expire if the employee would leave the Group before the stock options become vested.

The valuation results of the various cash-settled tranches are presented in the table below:

Tranche	Grant date	Starting price	Delivery date	Closing price 12/31/2010	Interest rate	Volatility	Fair value of grant	Fair value at reporting date
1 I / 2010	9/2/2010	€ 2.00	8/31/2011	€ 3.42	0.50%	82.07%	€ 0,23	€ 1.62
1 II / 2010	9/2/2010	-	8/31/2012	€ 3.42	0.77%	68.37%	€ 0,63	€ 0.94

A total of 430,000 (30,000 equity-settled and 400,000 cash-settled) stock options were outstanding at the reporting date (PY: 835,000 (85,000 equity-settled and 750,000 cash-settled)), of which 430,000 were not yet exercisable. At the reporting date, the average weighted exercise price of the outstanding stock options was EUR 1.94 (PY: EUR 2.06). The stock options were measured by means of a Monte-Carlo simulation. For this purpose, a simulation of the lognormal-distributed process was conducted for the price of the Gigaset AG share in order to measure the performance of the share between two valuation dates. The stock options granted are composed of up to three sub-options. Each sub-option is measured separately in the simulation model. The fair value of each stock option is calculated as the sum of the sub-options.

The cash-settled tranches were measured at the reporting date on the basis of the interest rates calculated on the basis of the yield curves for German government bonds for the individual measurement periods.

For purposes of the Monte-Carlo simulation, discrete dividends were assumed. The following dividend estimates were applied for calculating the cash-settled tranches at the reporting date. (For the equity-settled tranches, the dividends expected at each grant date were applied during the course of the year).

Year (payment)	2011	2012	2013
Dividend	€ 0.00	€ 0.00	€ 0.00

The decision regarding the dividend proposal for 2010 will be made at the statement of financial position meeting of the Supervisory Board on March 30, 2011, and then published along with the annual financial statements approved by the Supervisory Board and the final annual report for fiscal year 2010. A dividend higher than the amounted presented above would lead to a decrease in the value of the stock options. However, the information available on the grant date represents the determining basis for calculating the value of the stock options. Consequently, the calculation has not been adjusted, but will be considered for the purpose of future calculations.

Traded options or similar products of Gigaset AG did not exist at the time when the expert appraisal was conducted, for which reason the implied volatility could not be determined. The historical volatility applied was based on daily closing prices. The life span of the stock options was applied as the relevant period for determining the historical volatility. Because there were no special events that would have necessitated an adjustment, no such adjustment was made for individual days.

Gigaset has the option of settling the claims of stock option beneficiaries either in cash or in shares of the company. With the exception of the tranches reserved for the Executive Board, Gigaset settles those claims in shares, as a general rule.

No stock options (PY: 250,000 stock options) were exercised in fiscal year 2010. The fair value of the cash-settled stock options at the reporting date was EUR 139 thousand (PY: EUR 64 thousand) and is presented as "other liabilities."

In 2010, there were a total of 805,000 (PY: 895,000) expired or forfeited stock options, with an average exercise price of EUR 2.08 (PY: EUR 13.11).

In 2010, the Group recognized expenses of EUR 32 thousand (PY: EUR 607 thousand) in connection with share-based payments to be settled with equity instruments and recognized expenses of EUR 75 thousand (PY: income of EUR 170 thousand) for cash-settled stock options. The average remaining life of the stock options, based on the first possible exercise date, is six months (PY: four months) for the equity-settled stock options and 14.0 months (PY: 15.5 months) for the cash-settled stock options.

The stock options were included in the calculation of the diluted earnings per share based on the consolidated net loss.

28. Convertible bonds

The annual shareholders' meeting of Gigaset AG on 8/5/2009, created the authority to issue warrant-linked and/or convertible bonds.

Based on this resolution of the annual shareholders' meeting, the Executive Board of Gigaset AG resolved on 11/11/2010, to issue an unsubordinated and unsecured mandatory convertible bond with a total nominal amount of up to EUR 23,800,002. The convertible bond was issued to further strengthen the liquidity of the Company.

The convertible bond is subdivided into up to 11,900,001 fractional bearer bonds ranking pari passu with a par value or issue price of EUR 2.00 each. They earn interest at a rate of 9% p.a. and can be converted into up to 11,900,001 shares of the Company.

The term of the convertible bond commences on 12/1/2010 and terminates on 12/31/2012. The Company has the right to convert the convertible bond into shares of the Company in whole or in part on 6/30/2011, 12/31/2011, and 6/30/2012. If Gigaset AG does not exercise its conversion right, the convertible bond will be converted into shares of the Company at maturity. The conversion price lies between 100% and 115% of the reference price, depending on the amount of the arithmetic mean of the closing prices of shares of the Company in XETRA trading on the Frankfurt Stock Exchange on the twenty exchange trading days prior to the individual conversion dates. The reference price is determined by the arithmetic mean of the closing prices of shares of Gigaset in XETRA trading on the Frankfurt Stock Exchange on the last five exchange trading days prior to the date of fixing the issue price of the fractional bonds.

The shareholders of the Company were granted a subscription right. The Company offered its shareholders the opportunity to subscribe the fractional bonds at a subscription ratio of 10:3, meaning that each 10 shares owned entitles the shareholder to subscribe 3 fractional bonds. The subscription right was excluded for fractional amounts.

In addition to the subscription allocation based on shares held according to the subscription ratio, each entitled shareholder was able to issue a binding offer to acquire additional fractional bonds within the subscription period at the unchanged issue price of EUR 2.00 per fractional bond. No provision was made for stock exchange trading in subscription rights.

It was possible to completely place the mandatory convertible bond. The amount of the liability recognized as a long-term liability was EUR 23,092 thousand at 12/31/2010 (PY: EUR 0 thousand).

The Executive Board adopted a resolution on 2/10/2011 with the consent of the Supervisory Board to convert this convertible bond at 6/30/2011 in accordance with the instrument's terms and conditions.

The conversion requirement itself does neither constitute a separate derivative nor an embedded derivative that must be separated in accordance with IAS 39.

29. Pension obligations

Provisions for pensions and similar obligations have been recognized for a total of two (PY: seven) Group companies. The total amount of pension provisions was divided up among the following companies:

	12/31/2010 EUR'000	12/31/2009 EUR'000
Gigaset Group	8,157	6,553
Carl Froh	0	11,628
Anvis	0	7,850
Oxxynova	0	3,870
Wanfried Druck	0	2,036
van Netten	0	95
Other	31	253
Total	8,188	32,285

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:

	2010 EUR'000	2009 EUR'000
Balance at 01/01	72,192	169,899
Companies added to consolidation group	0	0
Companies removed from consolidation group	-8,688	-101,948
Reclassifications	0	0
Current service cost	1,348	1,834
Subsequent service cost	0	0
Employee contributions	16	31
Interest expenses	3,736	4,011
Pension benefits paid	-1,665	-2,559
Plan adjustments	0	-277
Plan compensation	-39	0
Actuarial gains/ losses	4,049	1,199
Foreign currency effects	99	2
Balance at 12/31	71,048	72,192

The provision for pension obligations was measured as follows:

Provision	2010 EUR'000	2009 EUR'000
Projected unit credit value	71,048	72,192
- internally financed	17,815	26,064
- externally financed	53,233	46,128
Unrecognized actuarial gains/ losses	-10,217	-4,694
Unrecognized subsequent service cost	-3	0
Fair value of plan assets	-37,533	-35,213
Unrecognized assets as per IAS 19.58 (b)	640	0
Pension provisions	23,935	32,285
Pension provisions related to assets held for sale	-15,747	0
Total pension provisions	8,188	32,285

The pension expenses recognized in fiscal year 2010 were composed of the following elements:

Pension expenses	2010 EUR'000	2009 EUR'000
Current service cost	1,348	1,834
Expected income from plan assets	-2,270	-180
Compounding of expected pension obligation	3,736	4,010
Amortization of actuarial gains/ losses	298	85
Amortization of subsequent service cost	0	0
Effects of plan adjustments (pension plan reduction or settlement)	0	-277
Effects of unrecognized assets as per IAS 19.58 (b)	1	0
Total pension expenses	3,113	5,472

Pension expenses are presented as personnel expenses in the item of social security, pension and other benefits. The actual return on plan assets has been presented as EUR 23 thousand (PY: EUR 491 thousand).

The plan assets showed the following development:

Plan assets	2010 EUR'000	2009 EUR'000
Fair value at 01/01	35,213	83,452
Acquisitions	0	0
Divestitures	0	-80,332
Expected income from plan assets	2,270	80
Actuarial gains/ losses	470	312
Employer contributions	74	31,681
Employee contributions	18	31
Benefits paid	-518	-13
Foreign currency effects	6	2
Fair value at 12/31	37,533	35,213

The breakdown of plan assets in fiscal year 2010 is presented in the table below:

Plan assets	2010 EUR'000	2009 EUR'000
Spezialfonds investment funds	36,564	34,646
Fixed-income securities	727	197
Equities	122	121
Real estate and real estate funds	62	98
Other	58	151
Total	37,533	35,213

Additional information at December 31, 2010:

	2010 EUR'000	2009 EUR'000	2008 EUR'000	2007 EUR'000
Projected unit credit value	71,048	72,192	169,899	104,279
Market value of plan assets	37,533	35,213	83,452	75,026
Surplus (+) / deficit (-)	-33,515	-36,979	-86,447	-29,253
Experience-based adjustment of plan liabilities	1,361	-790	525	31
Experience-based adjustment of plan assets	470	-312	-9,506	-150

The expected contributions to plan assets and the benefit payments in the following year totaled EUR 97 thousand (PY: EUR 1,577 thousand).

The current employer's contributions to the statutory pension insurance system are recognized as operating expenses in the respective year. In fiscal year 2010, they amounted to EUR 9,742 thousand (PY: EUR 10,022 thousand) for the Group.

The payments for defined contribution plans amounted to EUR 49 thousand.

The calculation was based on the following actuarial assumptions:

in %	2010	2009
Discount factor	5.39	3.0 - 11.3
Salary trend	2.13	2.0 - 8.0
Pension trend	1.78	2.0 - 4.5
Employee turnover	*	*
Return on plan assets	3.80	5.0 - 11.5

*depending on age

Various interest rates result from the individual durations of the balances and by factoring in the individual currency zones; these interest rates were specified in ranges in the prior year and using weighted average values in the reporting year.

The expected return on plan assets of the companies corresponds to the expected income from plan assets, after taking the expected contributions and disbursements into account. It is composed of interest, dividends and other income earned on the investment of plan assets, including realized and unrealized gains in assets, less expenses for administering the plan and any taxes to be paid by the plan.

30. Provisions

EUR'000	Changes in					Currency/ interest effects	Balance at 12/31/2010
	Balance at 01/01/2010	group	Utilization	Reversal	Addition		
Restructuring	733	-136	-729	-507	7,752	0	105
Environmental risks	7,987	-6,091	-731	-907	0	0	0
Warranties	18,218	-806	-15,871	-365	12,622	0	299
Onerous contracts	14,354	-646	-3,170	-1,442	1,563	-2,050	17
Personnel	6,480	-894	-1,963	-102	987	-864	23
Other	21,761	-1,436	-11,243	-6,813	15,565	-4,800	686
Total	69,533	-10,009	-33,707	-10,136	38,489	-7,714	1,130
							47,586

The individual categories of provisions are presented in the table below:

Restructuring	12/31/2010		12/31/2009	
	EUR'000	EUR'000	EUR'000	EUR'000
Layoff mitigation plans and severance awards		7,218		702
Termination of rental/ lease agreements		0		30
Other		0		1
Total		7,218		733

The provisions for environmental risks resulted mainly from the clean-up of residual pollution on the operating premises of the Anvis Group.

Environmental risks	12/31/2010		12/31/2009	
	EUR'000	EUR'000	EUR'000	EUR'000
Clean-up of residual pollution	0		7,987	
Other	258		0	
Total	258		7,987	

As in the prior year, the warranty provisions derived mainly from the Gigaset Group:

Warranty provisions	12/31/2010 EUR'000	12/31/2009 EUR'000
Gigaset Group	14,097	17,365
Anvis Group	0	654
Other	0	199
Total	14,097	18,218

The provisions for onerous contracts related mainly to disadvantageous rental, usage and service agreements.

Provisions for onerous contracts	12/31/2010 EUR'000	12/31/2009 EUR'000
Gigaset Group	7,949	10,796
Fritz Berger Group	0	2,892
Anvis Group	0	295
Other	677	371
Total	8,626	14,354

The personnel provisions in the two past fiscal years are presented in the table below:

Personnel	12/31/2010 EUR'000	12/31/2009 EUR'000
Early partial retirement (<i>Altersteilzeit</i>)	341	2,629
Service anniversary bonuses	3,326	3,851
Total	3,667	6,480

The other provisions related mainly to potential additional payments of trade taxes and customs penalties (EUR 3,402 thousand) as well as commissions (EUR 2,818 thousand) in the Gigaset Group, aside from a considerable number of smaller transactions in the Group.

The maturity structure of provisions is presented below:

	12/31/2010 EUR'000	12/31/2009 EUR'000
Non-current provisions	10,439	32,231
Current provisions	37,147	37,302
Total	47,586	69,533

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

	12/31/2010 EUR'000	12/31/2009 EUR'000
Warranties	3,949	7,603
Personnel	2,983	6,430
Onerous contracts	677	3,699
Restructuring	286	175
Environmental risks	243	7,967
Other	2,301	6,357
Total	10,439	32,231

31. Non-current financial liabilities

	12/31/2010 EUR'000	12/31/2009 EUR'000
Liabilities to banks	0	29,420
Other non-current financial liabilities	0	8,569
Total	0	37,989

In the prior year, the liabilities to banks in the amount of EUR 29,420 thousand related to Gigaset Communication GmbH (EUR 16,170 thousand), Wanfried Druck Kalden GmbH (EUR 5,715 thousand), van Netten GmbH (EUR 3,928 thousand) and Anvis S.A.S (EUR 3,607 thousand).

The liabilities of Gigaset Communication GmbH were repaid in 2010. The Wanfried Group and the Anvis Group were deconsolidated in 2010. The liabilities of van Netten GmbH were reclassified into liabilities in connection with assets held for sale due to the planned sale.

The other financial liabilities of the prior year in the amount of EUR 8,569 thousand resulted mainly from a fixed-interest loan extended to Anvis Deutschland GmbH by AML Leasing GmbH in the amount of EUR 3,288 thousand, and loans owed by Van Netten GmbH to the non-controlling interest in the amount of EUR 3,280 thousand. The Anvis Group was deconsolidated in 2010. The liabilities of Van Netten GmbH were reclassified into liabilities in connection with assets held for sale due to the planned sale.

Transaction costs incurred in connection with the borrowing of new non-current financial liabilities are distributed over the term of the liability by application of the effective interest method and are included in the amount presented in the statement of financial position.

32. Liabilities under finance leases

By reason of the construction of the underlying leases, the Group is deemed to be the beneficial owner of some items of other equipment, operational and office equipment. The Group's liabilities under the corresponding finance leases are presented in the table below:

	2010			2009		
	Nominal value EUR'000	Discount EUR'000	Present value EUR'000	Nominal value EUR'000	Discount EUR'000	Present value EUR'000
Due in up to 1 year	50	0	50	2,801	1,135	1,666
Due in 1 to 5 years	8	0	8	3,981	1,199	2,782
Due in more than 5 years	0	0	0	0	0	0
Total	58	0	58	6,782	2,334	4,448

No discounting was applied to the minimum lease payments for the finance lease obligation in the amount of EUR 58 thousand for reasons of materiality.

The liabilities under finance leases developed as follows in the two past fiscal years:

	12/31/2010		12/31/2009	
	Present value EUR'000	Present value EUR'000	Present value EUR'000	Present value EUR'000
Gigaset Group		58		0
Carl Froh Group		0		2,685
Anvis Group		0		935
van Netten Group		0		443
Wanfried Group		0		385
Total		58		4,448

The companies of the Anvis Group and the Wanfried Group, which had been presented in the prior-year financial statements, were deconsolidated at the reporting date.

In accordance with the provisions of IFRS 5, the liabilities under finance leases of the van Netten Group and the Carl Froh Group were presented within the disposal group under the item of "assets held for sale" at the reporting date.

33. Other non-current liabilities

	12/31/2010 EUR'000	12/31/2009 EUR'000
Purchase price liabilities	8,846	15,000
Personnel-related liabilities	1,242	508
Deferred income	0	252
Miscellaneous other liabilities	32	1,110
Total	10,120	16,870

The purchase price liabilities in the amount of EUR 8,846 thousand resulted from the acquisition of the Gigaset Group (PY: EUR 15,000 thousand).

34. 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:

	12/31/2010 EUR'000	12/31/2009 EUR'000
Deferred tax assets		
Intangible assets	270	263
Property, plant and equipment	11	46
Financial assets	3	5
Inventories	403	149
Receivables and other current assets	418	204
Provisions	664	2,864
Liabilities	4,158	4,446
Tax loss carry-forwards	3,026	9,494
Total deferred tax assets	8,953	17,471
thereof current	4,856	4,744
thereof non-current	4,097	12,727
Deferred tax liabilities		
Intangible assets	11,100	13,567
Property, plant and equipment	5,342	13,813
Financial assets	0	146
Inventories	36	367
Receivables and other current assets	1,161	1,093
Non-current assets held for sale	0	0
Provisions	1,399	924
Liabilities	73	1,812
Total deferred tax liabilities	19,110	31,722
thereof current	2,639	1,841
thereof non-current	16,471	29,881
Netting of deferred tax assets and liabilities	4,968	13,778
Deferred tax assets recognized in the balance sheet	3,985	3,693
Deferred tax liabilities recognized in the balance sheet	14,142	17,944

No deferred tax assets were recognized in respect of certain amounts of corporate income tax loss carry-forwards totaling EUR 166,650 thousand (PY: EUR 251,102 thousand) and certain amounts of trade tax loss carry-forwards totaling EUR 107,044 thousand (PY: EUR 153,787 thousand). Of the not recognized corporate income tax loss carry-forwards, EUR 61,298 thousand related to foreign companies (PY: EUR 87,305 thousand). EUR 4,661 thousand of which will expire in 5 to 20 years. With regard to German companies, it should be noted that share transfers of 25% to 50% result in a proportional reduction of existing tax loss carry-forwards, while share transfers of more than 50% lead to the complete loss of existing tax loss carry-forwards.

No deferred tax liabilities were recognized in respect of temporary differences related to shares in subsidiaries and associated companies in the amount of EUR 22,157 thousand (PY: EUR 63,372 thousand).

For more information on this subject, please refer to the presentation of accounting and valuation methods and the explanations provided in Section 10.

35. Current financial liabilities

	12/31/2010 EUR'000	12/31/2009 EUR'000
Liabilities to banks	4,373	40,730
Other current financial liabilities	353	8,974
Total	4,726	49,704

Based on the usual payment terms agreed with banks and other business partners, the due dates and the corresponding cash outflows of current financial liabilities are as follows:

Carrying amount	12/31/2010 EUR'000	12/31/2009 EUR'000
thereof due in the following time periods:		
< 30 days	749	25,072
30 - 90 days	0	520
90 - 180 days	0	4,577
180 days - 1 year	3,977	19,535

The current liabilities to banks consisted mainly of current account overdrafts, most of which were owed by the following corporate groups:

	12/31/2010 EUR'000	12/31/2009 EUR'000
AT Operations 2 GmbH	3,624	7,673
Gigaset Group	391	0
Hortensienweg	358	3,207
Anvis Group	0	20,640
Gigaset AG	0	5,718
Wanfried Group	0	3,032
Other	0	460
Total	4,373	40,730

The Anvis Group and the Wanfried Group were deconsolidated in 2010.

The outstanding loans to bank are fixed-interest loans and were charged at interest rate between 3.83% and 5% p.a.

The current liabilities to banks included liabilities denominated in U.S. dollars in the amount of EUR 398 thousand (PY: EUR 143 thousand).

The other current financial liabilities consisted of loan liabilities payable to third parties. The breakdown of most liabilities comprised in this item among the individual companies is presented in the table below:

	12/31/2010 EUR'000	12/31/2009 EUR'000
Gigaset AG	273	500
Oxxynova Group	0	7,472
Anvis Group	0	441
Carl Froh Group	0	265
Wanfried Group	0	220
Other	80	76
Total	353	8,974

The Anvis Group and the Wanfried Group were deconsolidated in 2010. The liabilities of the Oxxynova Group and the Carl Froh Group were carried under liabilities in connection with assets held for sale due to the planned sale.

The other current financial liabilities contained liabilities denominated in Swiss francs in the amount of EUR 80 thousand (PY: EUR 67 thousand), after conversion to the Group currency.

36. 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:

	12/31/2010	12/31/2009
	EUR'000	EUR'000
Carrying amount	89,798	180,398
thereof due in the following time periods:		
< 30 days	41,017	120,837
30 - 90 days	43,503	53,666
90 - 180 days	821	1,864
180 days - 1 year	4,457	4,031

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

	12/31/2010	12/31/2009
	EUR'000	EUR'000
Gigaset Group	86,062	126,907
ANVIS Group	0	27,492
Other	3,736	25,999
Total	89,798	180,398

The Anvis Group, which had been presented in the prior-year financial statements, was deconsolidated at the reporting date.

By reason of the international activity of the Gigaset Group, the trade payables at December 31, 2010 included the following amounts denominated in foreign currencies, which have been translated to the euro as the Group currency:

		12/31/2010		12/31/2009	
		EUR'000	%	EUR'000	%
USD	U.S. dollars	42,312	87.3	44,982	74.4
JPY	Japanese yen	1,299	2.7	1,513	2.5
CNY	Chinese renminbi yuan	924	1.9	4,872	8.1
TRL	Turkish lira	861	1.8	410	0.7
BRL	Brazilian reales	572	1.2	1,513	2.5
SEK	Swedish krona	496	1.0	1,655	2.7
GBP	British pounds	438	0.9	250	0.4
RUR	Russian rubles	382	0.8	246	0.4
CHF	Swiss francs	350	0.7	208	0.3
PLN	Polish zloty	272	0.6	326	0.5
ARS	Argentine pesos	259	0.5	1,930	3.2
AED	United Arab Emirates dirham	209	0.4	2	0.0
NOK	Norwegian krone	73	0.2	39	0.1
	Other	2	0.0	2,482	4.1
Total		48,449	100.0	60,428	100.0

Of the trade payables presented in the balance sheet, an amount of EUR 4,342 thousand (PY: EUR 18,457 thousand) is secured by machinery and other operational equipment, EUR 1,551 thousand (PY: EUR 6,935 thousand) by inventories, EUR 4,182 thousand (PY: EUR 5,189 thousand) by trade receivables and EUR 2,227 thousand (PY: EUR 6,257 thousand) by other forms of security.

37. Tax liabilities

This item consisted exclusively of liabilities under income taxes and was divided among the sub-groups as follows:

	12/31/2010 EUR'000	12/31/2009 EUR'000
Gigaset Group	2,888	1,891
Anvis Group	0	5,685
Other	380	288
Total	3,268	7,864

38. Current other liabilities

	12/31/2010 EUR'000	12/31/2009 EUR'000
Other personnel-related liabilities	19,439	23,098
Customs duties	13,737	1,291
Other taxes	5,238	8,942
Advance payments received	1,945	1,610
Social security contributions	1,121	3,648
Liabilities under bills of exchange	1,064	1,995
Wages and salaries	284	1,732
Accrual and deferral	19	3,530
Purchase price liabilities	0	34,405
Miscellaneous other liabilities	2,225	20,166
Total	45,072	100,417

None of the items of current other liabilities bore interest in the reporting year. Because the remaining term to maturity is less than one year, the difference between the carrying amounts of the liabilities and their fair values can be considered not material. Therefore, the repayment amounts presented in the statement of financial position are equivalent to the market values of the liabilities.

The current purchase price liabilities recognized in the prior year in the amount of EUR 31,655 thousand arising from the acquisition of the Gigaset Group and in the amount of EUR 2,750 thousand from the acquisition of Carl Froh GmbH were paid completely in the reporting year.

The other personnel-related liabilities were mainly composed of the following items:

	12/31/2010 EUR'000	12/31/2009 EUR'000
Vacation leave not yet taken	2,511	5,226
Profit-based bonuses and other bonuses	8,389	8,028
Work time accounts	3,289	2,341
Miscellaneous personnel-related liabilities	5,250	7,503
Total	19,439	23,098

F. OTHER INFORMATION**39. Segment report**

In the context of the extraordinary general shareholders' meeting of Gigaset AG, a decision was made on a new business model. The centerpiece of the new business model, which provides for a focus on the investment in Gigaset Communications GmbH, is the telecommunications industry, including accessories.

At the same time, the decision was made to discontinue the previous business model, which provided for acquisition of companies from a wide variety of industries that were in transformative situations. Due to this fundamental reorientation, the "Communications" segment will be further subdivided starting this year into the "Gigaset" business area, which represents the remaining core activities of the Gigaset Group, and the "Home Media" business area, for which the decision was made in the current reporting year to discontinue activities and implementation was begun. For this reason, the "Home Media" business area was classified as a discontinued business area and thus recognized in the income statement as well as in the additional information of the cash flow statement under the discontinued business areas.

Due to the reorientation of the Company, the segments Steel, Print, Industrial Production, Automotive, Retail, and Special Chemistry, as well as Home Media, were classified as discontinued business areas. Therefore, only the segments "Gigaset" and "Holding" still remain as continued business areas at the end of fiscal 2010.

The operating segments are as follows:

- a) The Steel segment comprises companies that operate as primary or intermediate processors or suppliers in the steel industry and related industries. Carl Froh GmbH is the only company still presented in this segment at the reporting date.
- b) The Print segment comprises the printing companies of the Wanfried Group until the deconsolidation of that group in December 2010.
- c) The Industrial Production segment comprises all activities in the area of industrial production, which are characterized by relatively simply structured production processes. This segment includes the van Netten Group at the reporting date.
- d) The Automotive segment comprises companies that operate in the sector of automotive engineering and the automotive supplier industry. This segment included the Anvis Group until the deconsolidation of that group in December.
- e) The Retail segment comprises companies that distribute products and services directly to end customers. The companies included in this segment were the Fritz Berger Group until deconsolidation in April 2010, the Golf House Group until deconsolidation in July 2010, and the SM Electronics Group until deconsolidation in September 2010.
- f) The Holding segment comprises the activities related to the management and administration of the Group.
- g) The Specialty Chemistry segment comprises subsidiaries that develop, manufacture and distribute or trade in chemical or pharmaceutical products (specialty chemistry). In fiscal year 2010, this segment comprised the Oxxynova Group.
- h) The Home Media segment comprises the discontinued business area of Home Media Business. This business contains the distribution of receiver and set-top boxes.
- i) The "**Gigaset**" segment represents the core activities of the Gigaset Group and thus the business activities that will also be continued in the corporate group of GIGASET AG. The primary activities are in the area of communications technology.

The settlement prices between the business segments correspond to the prices received in arms-length transactions. Administrative services are on-debited as cost-sharing.

2010	Steel	Print	Industrial Production	IT	Automotive	Retail	Specialty Chemistry	Gigaset	Home Media	Holding	Service	Eliminations	Consolidated
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Revenues													
External revenues	37,174	29,362	48,944	0	241,933	46,574	91,822	503,650	10,003	0	0	0	1,009,462
thereof discontinued operations	37,174	29,362	48,944	0	241,933	46,574	91,822	0	10,003	0	0	0	505,812
Internal revenues	0	0	0	0	0	0	0	0		1,570	0	-1,570	0
thereof discontinued operations	0	0	0	0	0	0	0	0		0	0	0	0
Total revenues	37,174	29,362	48,944	0	241,933	46,574	91,822	503,650	10,003	1,570	0	-1,570	1,009,462
thereof discontinued operations	37,174	29,362	48,944	0	241,933	46,574	91,822	0	10,003	0	0	0	505,812
Segment profit or loss/ EBITDA	185	94	3,579	0	-24,659	-3,708	4,247	50,200	-13,704	-12,752	0	0	3,482
thereof discontinued operations	185	94	3,579	0	-24,659	-3,708	4,247	0	-13,704	0	0	0	-33,966
Depreciation and amortization	-3,145	-1,967	-3,269	0	-12,750	-297	-1,624	-34,633	-7	-167	0	0	-57,859
Impairments	-7,748	0	-17,973	0	-42	-3,884	715	0	0	0	0	0	-28,932
Segment profit or loss/ EBIT	-10,708	-1,874	-17,663	0	-37,452	-7,888	3,339	15,567	-13,711	-12,919	0	0	-83,309
thereof discontinued operations	-10,708	-1,874	-17,663	0	-37,452	-7,888	3,339	0	-13,711	0	0	0	-85,957
Income from financial investments accounted for by the equity method													149
Net interest income/ expenses													-11,441
Profit/loss before taxes													-94,601
Income tax expenses													-5,970
Profit/loss for the year													-100,571
Share of consolidated loss attributable to non-controlling interests													-1,326
Consolidated loss for the year													-99,245

2009	Steel	Print	Industrial Production	IT	Automotive	Retail	Specialty Chemistry	Gigaset	Home Media	Holding	Service	Eliminations	Consolidated
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Revenues													
External revenues	34.179	45.657	56.317	2.287.530	213.314	98.396	58.978	544.930	6.151	4	146.516	0	3.491.972
thereof discontinued operations	34.179	45.657	56.317	2.287.530	213.314	98.396	58.978	0	6.151	0	146.516	0	2.947.038
Internal revenues	0	0	0	17	0	0	0	11.555	0	6.263	0	-17.835	0
thereof discontinued operations	0	0	0	17	0	0	0	0	0	0	0	-17	0
Total revenues	34.179	45.657	56.317	2.287.547	213.314	98.396	58.978	556.485	6.151	6.267	146.516	-17.835	3.491.972
thereof discontinued operations	34.179	45.657	56.317	2.287.547	213.314	98.396	58.978	0	6.151	0	146.516	-17	2.947.038
Segment profit or loss/ EBITDA	-2.160	2.969	2.454	31.108	1.741	-2.489	-3.462	12.010	340	-25.383	617	0	17.745
thereof discontinued operations	-2.160	2.969	2.454	31.108	1.741	-2.489	-3.462	0	340	0	617	0	31.118
Depreciation and amortization	-3.120	-3.702	-3.576	-9.728	-13.394	-1.549	-1.661	-41.187	0	-180	-1.670	0	-79.767
Impairments	-32	-4.968	0	-40.535	-6.488	-14.925	0	-9.495	0	-1.310	0	0	-77.753
Segment profit or loss/ EBIT	-5.312	-5.701	-1.122	-19.155	-18.141	-18.962	-5.123	-38.671	340	-26.874	-1.054	0	-139.775
thereof discontinued operations	-5.312	-5.701	-1.122	-19.155	-18.141	-18.962	-5.123	0	340	0	-1.054	0	-74.230
Income from financial investments accounted for by the equity method												53	
Net interest income/ expenses												-24.940	
Profit/loss before taxes												-164.662	
Income tax expenses												11.662	
Profit/loss for the year												-153.000	
Share of consolidated loss attributable to non-controlling interests												-7.639	
Consolidated loss for the year												-145.361	

The profit or loss effects of deconsolidations and the income from reversal of negative goodwill have been assigned to the respective segments.

In the table below, the revenues generated in fiscal year 2010 and in the comparison year 2009 are broken down by the region of the receiving entities:

	2010			2009		
	EUR'000		Total	EUR'000		Total
	Continuing operations	Discontinued operations		Continuing operations	Discontinued operations	
Germany	294,751	261,624	556,375	155,932	1,892,982	2,048,914
Europe: EU (excluding Germany)	154,788	167,873	322,661	261,604	909,326	1,170,930
Europe: Other	10,947	17,781	28,728	33,721	95,066	128,787
Rest of world	43,164	58,534	101,698	93,677	49,664	143,341
Total	503,650	505,812	1,009,462	544,934	2,947,038	3,491,972

In accordance with IFRS 8.33, non-current assets were divided among the following regions in fiscal year 2010 and the comparison year 2009:

	12/31/2010	12/31/2009
	EUR'000	EUR'000
Non-current assets		
Germany	84,503	180,688
Europe: EU (excluding Germany)	978	61,286
Europe: Other	1,315	2
Rest of World	206	7,876
Total	87,002	249,852

40. Cash flow statement

The cash flow statement presents the changes in net funds of the Gigaset Group in the reporting year and in the prior year. Net funds are defined as cash and cash equivalents, less restricted cash. As a general rule, items denominated in foreign currencies are translated at average exchange rates for the year. By way of exception, cash and cash equivalents are translated at the exchange rate on the reporting date. The effect of exchange rate changes on net funds is presented separately.

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

Cash flow statement	2010	2009
	EUR'000	EUR'000
Cash inflow (+)/ outflow (-) from operating activities	-36,923	-59,670
Cash inflow (+)/outflow (-) from investing activities	-4,693	-9,238
Free cash flow	-41,616	-68,908
Cash inflow (+)/outflow (-) from financing activities	4,875	-10,895
Change in cash and cash equivalents	-36,741	-79,803

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, so that only those cash flows attributable to the group are presented in the cash flow statement. Cash flows resulting from changes in non-current assets held for sale and liabilities related to non-current assets held for sale have been assigned to those areas of the cash flow statement in which they gave rise to cash outflows or inflows. For these reasons, the changes in items of the statement of financial position presented in the cash flow statement cannot be reconciled with the statement of financial position.

Impairments are presented in a separate line item of cash flow from operating activities.

The item of other non-cash income and expenses was mainly composed of internal production capitalized and waivers of receivables.

Cash outflows of EUR 0 thousand pertained to the acquisition of investments in companies in fiscal year 2010 (PY: EUR 774 thousand). This amount is offset by acquired cash and cash equivalents in the amount of EUR 0 thousand (PY: EUR 1,712 thousand).

The net funds at December 31, 2010 amounted to EUR 29,787 thousand (PY: EUR 63,369 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 8,960 thousand at December 31, 2010 (PY: EUR 14,129 thousand). Thus, the total amount of cash and cash equivalents amounted to EUR 38,747 thousand (PY: EUR 77,498 thousand). Of this total, an amount of EUR 2,139 thousand (PY: EUR 2,583 thousand) was presented as assets held for sale and an amount of EUR 36,608 thousand (PY: EUR 74,915 thousand) was presented as cash and cash equivalents.

41. Notes on significant company sales

Effective April 30, 2010, Gigaset sold the Fritz Berger Group, Neumarkt (part of the Retail segment) to a strategic financial investor, with a transaction volume of EUR 4.3 million (EUR 0.0 million in sale of shares, and EUR 4.3 million in redemption of intercompany loans). The sold assets amounted to EUR 12.8 million, including cash and cash equivalents of EUR 0.8 million, and the liabilities amounted to EUR 8.5 million. The deconsolidation loss, including consolidation effects and other expenses related to the transaction, amounted to EUR 0.0 million and was presented as other operating expenses.

Effective July 7, 2010, Gigaset sold the Golf House Group, Hamburg (part of the Retail segment) to a strategic financial investor, with a transaction volume of EUR 2.6 million (EUR 0.0 million in sale of shares, and EUR 2.6 million in redemption of intercompany loans). The sold assets amounted to EUR 7.1 million, including cash and cash equivalents of EUR 0.1 million, and the liabilities amounted to EUR 4.9 million. The deconsolidation loss, including consolidation effects and other expenses related to the transaction, amounted to EUR 0.0 million and was presented as other operating expenses.

Effective September 22, 2010, Gigaset deconsolidated the SME Group, Stapelfeld (part of the Retail segment). From Gigaset's perspective, the loss of control occurred at this time, meaning that this company, which has already been classified as "held for sale" at 12/31/2009, since shares were sold for a symbolic price in 2010, had to be deconsolidated. The sold assets amounted to EUR 18.5 million, including cash and cash equivalents of EUR 5.0 million as part of the assets held for sale, and the liabilities amounted to EUR 19.9 million. The deconsolidation loss, including consolidation effects and other expenses related to the transaction, amounted to EUR 0.0 million and was presented as other operating expenses.

Effective December 3, 2010, Gigaset sold the Anvis Group, Amsterdam (part of the Automotive segment) to a strategic financial investor, with a transaction volume of EUR 10.0 million (EUR 1.0 million in sale of shares, and EUR 9.0 million in redemption of intercompany loans). The sold assets amounted to EUR 157.9 million, including cash and cash equivalents of EUR 9.7 million, and the liabilities amounted to EUR 119.8 million. The deconsolidation loss, including consolidation effects and other expenses related to the transaction, amounted to EUR 36.7 million and was presented as other operating expenses.

Effective December 31, 2010, Gigaset sold the Wanfried Group, Wanfried (part of the Print segment) to management for a symbolic price. The sold assets amounted to EUR 18.7 million, including cash and cash equivalents of EUR 0.0 million, and the liabilities amounted to EUR 17.0 million. The deconsolidation loss, including consolidation effects and other expenses related to the transaction, amounted to EUR 2.6 million and was presented as other operating expenses.

In the course of streamlining the Group structures, several holding companies were sold. The most significant transactions related to Concilium AG, with revenue of EUR 0.2 million, the remaining share in the Eurostyle Group with revenue of EUR 0.6 million, and various holding companies at EUR 0.1 million. These transactions led to disposals of assets in the amount of EUR 0.4 million, of which EUR 0.2 million was cash and cash equivalents, as well as disposals of liabilities in the amount of EUR 0.8 million. These transactions led to deconsolidation profits in the amount of EUR 0.9 million and deconsolidation losses in the amount of EUR 0.0 million, including consolidation effects and other expenses related to the transaction. The deconsolidation profits are recognized in other operating income and the deconsolidation losses in other operating expenses.

The sold assets and transferred liabilities are summarized in the table below:

Assets	EUR'000
Intangible assets	15,233
Property, plant and equipment	62,269
Other assets	137,996
Total	215,498

Liabilities	EUR'000
Provisions and accrued liabilities	24,855
Liabilities	145,989
Total	170,844

42. Other financial commitments

The other financial commitments at the reporting date of December 31, 2010 resulted from non-cancelable rental, lease and service agreements 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:

2010	Up to 1 year	1-5 years	More than 5 years	Total
Rental and lease commitments	4,111	4,659	12,200	20,970
Other commitments	3,724	2,201	0	5,925
Total	7,835	6,860	12,200	26,895

2009	Up to 1 year	1-5 years	More than 5 years	Total
Rental and lease commitments	12,539	27,830	25,648	66,017
Other commitments	7,553	11,815	--	19,368
Total	20,092	39,645	25,648	85,385

Of the total rental and lease commitments in the amount of EUR 20,970 thousand (PY: EUR 66,017 thousand), rental and lease agreements for land and buildings accounted for EUR 17,709 thousand (PY: EUR 57,121 thousand), operating leases for machinery and equipment accounted for EUR 1,649 thousand (PY: EUR 3,481 thousand) and rental and lease agreements for other equipment, operational and office equipment accounted for EUR 1,612 thousand (PY: EUR 5,415 thousand).

The other financial commitments in the amount of EUR 5,925 thousand (PY: EUR 19,368 thousand) resulted from maintenance and service agreements for machinery and equipment, software and other operational and office equipment.

The Group was subject to a firm capital expenditure order in the amount of EUR 170 thousand at the reporting date of December 31, 2010 (PY: EUR 0 thousand).

43. Contingent liabilities

The contingent liabilities at the reporting date of December 31, 2010 were related to the following companies and matters:

In connection with the acquisition of all the equity of Oxynova GmbH, OXY Holding GmbH (before being renamed: Mainsee 410. VV GmbH) undertook to maintain both operating locations for the next five years. This commitment was protected by a contract penalty of initially EUR 15 million. The penalty was reduced effective October 2010 to EUR 5 million and will decrease to EUR 0 million within the next year. A declaration of approval issued by Evonik-Degussa to convert and retool the facility Lülsdorf is available. According to current plans, therefore, the locations will continue being used, minimizing the economic risk associated with the guarantee. Also in connection with the acquisition of all the equity in Oxynova GmbH, Gigaset AG issued a guarantee of up to EUR 10 million in favor of the seller to cover the anticipated liability for environmental damage. The guarantee is limited to a period of five years after the purchase agreement takes effect. The probability of occurrence is considered low.

The sale of the Jahnel Kestermann Group has resulted in seller liability in the amount of EUR 18.5 million, which will expire on April 14, 2018. The probability of execution of the liability is considered low.

The sale of the Teutonia Group has resulted in seller liability within the scope of customary sales agreement guarantees in the amount of EUR 3.0 million. The probability of occurrence is considered very low.

The buyer of Rohner AG was indemnified for any costs arising from lawsuits in connection with assertion of a right of first refusal in rem for a parcel of real estate in the course of the acquisition of Wolfscheckmühle together with its real estate. All lawsuits previously filed were denied with costs charged to the plaintiffs. One appeal proceeding, in which damages of EUR 1 million are demanded, is still pending. The probability of occurrence is considered very low.

An environmental guarantee of EUR 6 million exists in connection with the sale of Oxiris Chemicals S.A., Spain which will expire on December 31, 2013. The probability of occurrence is considered very low.

Guarantees in the amount of EUR 1.35 million were in force arising from sales in 2009. These guarantees will expire on March 31, 2011 with respect to a portion of EUR 550 thousand and otherwise on March 31, 2015. The probability of occurrence is considered very low.

In connection with the sale of Fritz Berger Group, the regular guarantees were given which pertain among other things to legal relationships. The guarantees will expire on April 30, 2015 and are limited to EUR 1.6 million. For tax issues, a liability on up to 90% of the respective additional tax payable was agreed upon. The expiration of this liability is based upon the effective date of the respective tax return. There are no indications that the guarantees will be claimed and thus the risk is considered low.

In connection with the sale of the Golf House Group a liability of up to EUR 2.7 million was given for various issues. With the exception of a liability for a loan payable and for legal relationships, the liability will expire on January 8, 2012, otherwise on July 8, 2013. For tax issues, there is a longer expiration period which will be based on the effective date of the tax return

In connection with the sale of the Anvis Group, Gigaset is liable for the consolidated financial statements of the Anvis Group at December 31, 2009 as to their legality and regularity in accordance with company law. The liability is limited on up to EUR 10 million and ends on December 2, 2014. Besides that, a liability for tax issues exists. The liability ends six months after disclosure of an official tax return. The probability of these liabilities taking effect is considered to be very low.

44. Disclosures pursuant to Section 264b HGB

The following domestic subsidiaries organized as unincorporated partnerships within the meaning of Section 264a of the German Commercial Code (HGB) have in some cases exercised the exemption options permitted by Section 264b HGB:

- Gigaset Communications Licensing and Leasing GmbH & Co. KG
- Gigaset Asset GmbH & Co. KG
- Hortensiengweg Grundstücksverwaltung GmbH & Co. KG (formerly Missel GmbH & Co. KG)

45. Executive Board and Supervisory Board of Gigaset AG

The following persons served on the Executive Board in fiscal year 2010 and in the time until the preparation of the annual financial statements:

- **Hans Gisbert Ulmke**, businessman, Gauting (Chairman of the Executive Board until August 31, 2010)

- **Michael Hütten**, Dipl.-Kaufmann, Berlin (in charge of Operations, Exits and Acquisitions until September 1, 2010)
- **Maik Brockmann**, businessman, Hanover (sole Executive Board member since September 1, 2010)

The other executive activities of the Executive Board members consisted mainly of serving on the supervisory boards and executive boards and chief executive positions of affiliated companies and subsidiaries of Gigaset AG.

Specifically, the Executive Board members who served on the board in 2010 and in the time until the preparation of the annual financial statements held the following seats on supervisory bodies (starting date and ending date indicated when those dates fall within the reporting period):

Hans Gisbert Ulmke (Executive Board member from 2/3/2009 to 8/31/2010)

Company	Board	Starting date	Ending date
Inside the Group			
Gigaset Communications GmbH	Supervisory Board	10/26/2009	9/1/2010
Concilium AG	Supervisory Board	6/8/2009	
Outside the Group			
Advisory Board South of Deutsche Bank AG, Munich, Germany	Advisory Board		
ProLean AG, Düsseldorf, Germany	Advisory Board		
Verband deutscher Treasurer e.V.	Board of Directors		

Michael Hütten (Executive Board member since July 21, 2009)

Company	Organ	Starting date	Ending date
Inside the Group			
GIG Holding GmbH	Advisory Board	1/1/2010	11/30/2010
Gigaset Communications GmbH	Supervisory Board Chairman	2/16/2010	9/1/2010

Maik Brockmann (Executive Board member since 9/1/2010)

Company	Board	Starting date	Ending date
Inside the Group			
Gigaset Communications GmbH	Supervisory Board	9/1/2010	
Outside the Group			
Planervilla AG, Hanover	Supervisory Board		

At the annual shareholders' meeting of the Company on August 26, 2010, some new members were elected to the Supervisory Board. In the reporting timeframe, the following individuals were members of the Supervisory Board of the Company:

Current members:

- Dr. Peter **Löw** (Member and Chairman since 8/26/2010)
- Prof. Michael **Judis** (Member and Vice Chairman since 8/26/2010)
- Dipl. Kfm. Dr. Rudolf **Falter**
- David **Hersh**
- Hubertus Prince of **Hohenlohe – Langenburg** (Member of the Supervisory Board since 8/26/2010)
- Bernhard **Riedel**

Departed members:

- Dipl. Kfm. Dr. Georg **Obermeier** (Member/Chairman until 8/26/2010)
- Jean Francis **Borde** (Member/Vice Chairman until 8/26/2010)
- Antoine **Drean** (Member of the Supervisory Board until 8/26/2010)

The members of the Supervisory Board listed below held the listed memberships on additional supervisory boards and controlling boards within the reporting timeframe.

Dr. Peter Löw, Chairman of the Supervisory Board since 8/26/2010, businessman, Munich

- Member of the Supervisory Board of greenB AG, Munich
- Member of the Supervisory Board of ddp TV AG, Munich

Prof. Michael Judis, Vice Chairman since 8/26/2010, attorney, Munich

- Member of the Advisory Board of GIG Holding GmbH, Munich
- Member of the Supervisory Board of Your Family Entertainment AG, Munich

Dipl.-Kfm. Dr. Rudolf Falter, lawyer, tax advisor, Munich

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

David Hersh, Managing Partner of Mantra Holdings SARL, Paris, France

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

Hubertus Prince of Hohenlohe – Langenburg, lawyer, Munich

- Member of the Advisory Board of GIG Holding GmbH, Munich

Bernhard Riedel, 2009, lawyer, Munich

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

Dipl.-Kfm. Dr. Georg Obermeier, Chairman of the Supervisory Board, Managing Director of Obermeier Consult GmbH, Munich

Seats on other Supervisory Boards and similar boards:

- Member of the Board of Directors of Kühne & Nagel International AG, Schindellegi, Switzerland
- Supervisory Board member of Billfinger Berger Industrial Services AG, Munich
- Supervisory Board member of Energie-Control GmbH Österreichische Regulierungsbehörde für Strom & Gas, Vienna, Austria
- Member of Advisory Board South of Deutsche Bank AG, Munich

Jean-Francois Borde, Vice Chairman of the Supervisory Board, Partner in Mantra Gestion SAS, Paris, France

Seats on other Supervisory Boards and similar boards:

- Supervisory Board member of Entrepose Echafaudage S.A., Colombes, France
- Supervisory Board of Groupe Sigma, Paris, France

Antoine Dréan, Partner in Mantra Gestion SAS, Paris, France

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

46. 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.

Compensation of Executive Board members

The responsibilities and contributions of each Executive Board member are taken into account for purposes of setting the compensation. The compensation granted in fiscal year 2010 consisted of a fixed annual salary, plus various success-dependent components. The variable components consist of bonus arrangements for all members who served on the Executive Board in the past fiscal year, which are dependent on the performance of a virtual share portfolio (reflecting the company's success) and on the achievement of certain targets adopted in the respective board member's area of responsibility (reflecting the success of his division).

Specifically, the Executive Board compensation is composed of the following elements:

- The fixed compensation is paid in the form of a monthly salary.
- The variable compensation consists in part of a special bonus, the amount of which is determined on the basis of the performance of a "virtual share portfolio," and in part of an individual bonus agreement for each member who served on the Executive Board in the past fiscal year.

The basis for calculating the variable compensation based on the "virtual share portfolio" of every member who served on the Executive Board in the past fiscal year is a specific number of shares of Gigaset AG (the "virtual share portfolio"), measured at a certain share price ("initial value"). The amount of variable compensation is calculated in every case from the possible appreciation of the virtual share portfolio over a certain period of time, that is, relative to a pre-determined future date ("valuation date"). The difference between the value of the virtual share portfolio measured at the share price at the valuation date and the initial value ("capital appreciation") yields the amount of variable compensation. As a general policy, the capital appreciation amount (converted at the share price at the valuation date) is settled in cash.

The virtual share portfolio of Mr. Hans-Gisbert Ulmke comprises 125,000 shares at each delivery date. The valuation date of all shares are or were January 31, 2010, January 31, 2011 and January 31, 2012. The grant date was February 25, 2009.

Mr. Ulmke agreed with the Supervisory Board that he will not receive any payments from the virtual share portfolio as part of a cancellation agreement.

The virtual share portfolio of Mr. Michael Hütten comprises 125,000 shares at each delivery date. The valuation date of all shares are or were June 30, 2010, June 30, 2011 and June 30, 2012. The grant date was August 3, 2009.

Mr. Hütten agreed with the Supervisory Board that he will not receive any payments from the virtual share portfolio as part of a cancellation agreement.

The virtual share portfolio of Mr. Maik Brockmann comprises 200,000 shares at each delivery date. The valuation date of all shares are August 31, 2011 and August 31, 2012. The grant date was September 2, 2010.

The fair value of the virtual share portfolio of Mr. Brockmann at the reporting date was EUR 108 thousand regarding to the first portion of 200,000 shares, due on August 2011 (at a vested portion of 33,33% according to IFRS) as well as EUR 31,333.33 regarding to the second portion of 200,000 shares, due on August 31, 2012 (at a vested portion of 16,67% according to IFRS). The fair value of the share options on the grant date was EUR 46 thousand for the first portion and EUR 126 thousand for the second portion.

Stock options	Maik Brockmann	Hans Gisbert Ulmke	Michael Hütten
Outstanding at 01/01/2010	0	375,000	375,000
Granted in 2010	400,000	0	0
Forfeited in 2010	0	250,000	250,000
Exercised in 2010	0	125,000	125,000
		Less than exercise price	Less than exercise price
Average share price on exercise date, in EUR	-		
Expired in 2010	375,000	125,000	250,000
Outstanding at 12/31/2010	400,000	0	0
thereof exercisable	0	0	0
Range of exercise prices	2.00	n/a	n/a
Income (+)/ expenses (-) recognized in the reporting period as per IFRS, in EUR	-139,333.33	45,372.67	18,709.06

In addition, individual bonus agreements were concluded with all members who served on the Executive Board in the reporting period.

The Executive Board employment contracts of Messrs. Ulmke and Hütten contain a bonus clause, under which the bonus is determined on the basis of the income or expenses from ordinary activities, as presented in the consolidated financial statements, but is limited to a minimum bonus on the down side. Mr. Brockman can receive a variable bonus for successful fulfillment of his tasks. If and in what amount such a bonus will be granted lies in the free discretion of the Supervisory Board. For this purpose, distributions from share option programs are to be taken into account as well. The final determination of the variable bonus is to be decided by a resolution of the Supervisory Board.

The following compensation was granted to the individual members of the Executive Board for fiscal year 2010:

Figures in EUR	Compensation (cash)		Imputed income		Success bonus		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
Dr. Michael Schumann (until February 28, 2009)	0.00	240,000.00	0.00	2,755.00	0.00	0.00	0.00	242,755.00
Felix Frohn-Bernau (until December 18, 2009)	0.00	233,333.00	0.00	13,907.00	0.00	195,764.00	0.00	443,004.00
Bernd Schell (until September 29, 2009)	0.00	200,000.00	0.00	9,320.00	0.00	73,289.00	0.00	282,609.00
Hans Gisbert Ulmke (since Februar 03, 2009 until August 31, 2010)	240,000.00	268,571.00	11,286.52	13,761.00	0.00	100,000.00	251,286.52	382,332.00
Michael Hütten (until September 01, 2010)	160,666.67	107,097.00	9,674.40	9,934.00	30,000.00	147,000.00	200,341.07	264,031.00
Maik Brockmann (since September 01, 2010)	52,000.00	0.00	2,700.00	0.00	100,000.00	0.00	154,700.00	0.00

Severance payments of EUR 340 thousand and EUR 325 thousand were paid for the former Executive Board members Messrs. Ulmke and Hütten.

The payments for the former Executive Board member Bernd Schell of EUR 476 thousand in 2010 result from a settlement concluded before the Munich Regional Court on the issue of the legality of the notice of termination of the employment relationship of Mr. Schell issued by the Company.

No further compensation was paid to members of the Executive Board for their service on the executive boards of subsidiaries or affiliated companies, with the exception of Mr. Hütten (EUR 30 thousand).

Compensation of the Supervisory Board

The annual shareholders' meeting held on August 5, 2009 adopted a new compensation arrangement, as follows: "Every member of the Supervisory Board shall receive a fixed compensation of EUR 1,000.00 per month and a meeting fee of EUR 1,000.00 for every meeting of the Supervisory Board or one of its committees in which the member will have participated. The Chairman of the Supervisory Board shall receive a fixed compensation of EUR 1,500.00 per month and a meeting fee of EUR 1,500.00 for every meeting of the Supervisory Board or one of its committees in which the Chairman will have participated. The compensation shall be due and payable at the close of the annual shareholders' meeting that resolves to ratify the actions of the Supervisory Board in the preceding fiscal year."

The compensation granted to members of the Supervisory Board of Gigaset AG in fiscal year 2010 is presented in the table below:

	Settled EUR	Set aside in provisions EUR	Total expenses EUR
Dr. Dr. Peter Löw (Chairman)	0	18,000	18,000
Dr. Georg Obermeier (former chairman)	30,000	0	30,000
Hubertus Prince of Hohenlohe-Langenburg	12,000	0	12,000
Bernhard Riedel	26,000	0	26,000
Dr. Rudolf Falter	20,000	11,000	31,000
Prof. Dr. Michael Judis	12,000	0	12,000
Antoine Dréan	12,000	0	12,000
Jean-Francois Borde	15,000	0	15,000
David Hersh	17,000	13,000	30,000
Total	144,000	42,000	186,000

Accordingly, the total compensation granted to the Supervisory Board amounted to EUR 186,000.

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. No contingent liabilities have been assumed in favor of these persons.

47. Shareholdings of Executive Board and Supervisory Board members

At the balance sheet date, the member of the Executive Board held no shares of Gigaset AG.

At the balance sheet date, the members of the Supervisory Board together held 1,822,882 shares of Gigaset AG, representing 4.60% of the total shares outstanding.

The following table comprises the number of shares and number of stock options of the Executive Board and the Supervisory Board:

	Number of shares at 12/31/2010 or at the resignation date	Number of shares at the date of preparation of the financial statements	Number of stock options 12/31/2010	Number of stock options at the date of preparation of the financial statements
Executive Board				
Gisbert Ulmke, Chairman of the Executive Board	0	n/a	n/a	n/a
Michael Hütten, member of the Executive Board	0	n/a	n/a	n/a
Maik Brockmann Sole member of the Executive Board	0	0	0	0
Executive Board				
Supervisory Board				
Dr. Dr. Peter Löw	1,811,833	1,811,833	735,268	735,268
Prof. Michael Judis	8,000	8,000	2,995	2,995
Dr. Rudolf Falter	1,083	1,083	425	425
David Hersh	0	0	0	0
Hubertus Prince of Hohenlohe – Langenburg	1,182	1,182	882	882
Bernhard Riedel (Vice Chairman until August 5, 2009)	829	829	1,087	1,087
Dr. Georg Obermeier (Chairman until August 5 and from September 16, 2009)	0	0	-	-
Jean-François Börde (Vice Chairman since September 16, 2009)	0	0	-	-
Antoine Dréan	0	0	-	-

Disclosures concerning stock option rights and similar incentives

Options for members of the Supervisory Board presented in the table above refer to the convertible bonds issued by the Company. No members of the Executive Board or Supervisory Board hold stock options for Gigaset shares. For additional information on the virtual share portfolio of the Executive Board members, please refer to the Compensation Report.

48. Disclosures concerning dealings with related parties

In accordance with IAS 24, related parties are defined as persons or companies who can influence or be influenced by the reporting entity.

No significant transactions were conducted between the Group and related parties in the reporting period.

49. Professional fees for the independent auditor

Professional fees in the total amount of EUR 807 thousand (PY: EUR 1,216 thousand) were incurred for the services of the independent auditor within the meaning of Section 318 HGB in fiscal year 2010.

	2010 EUR'000	2009 EUR'000
Audit services for the annual financial statements	745	1,148
Other certification services	8	13
Tax advisory services	54	49
Other services	0	6
Total	807	1,216

50. Employees

The Gigaset Group had an average of 4,988 employees in fiscal year 2010 (PY: 9,417 employees). The total number of employees at the balance sheet date of December 31, 2010 was 2,333 (PY: 5,049). The employees of the companies acquired or sold in 2010 were included pro rata temporis in the average number of employees for the year.

	Balance Sheet Date		Average	
	12/31/2010	12/31/2009	2010	2009
Wage-earning employees	406	1,804	1,820	3,169
Salaried employees	1,848	3,140	3,079	6,079
Apprentice-trainees	79	105	89	169
Total	2,333	5,049	4,988	9,417

51. Declaration of Conformity with the German Corporate Governance Code

The Executive Board and Supervisory Board of Gigaset AG issued the Declaration of Conformity with the German Corporate Governance Code in its version of May 26, 2010, as required by Section 161 of the Stock Corporations Act (AktG), and made it permanently available to shareholders at the company's website (www.gigaset.ag, menu item "Investor Relations", submenu item "Corporate Governance"). Exceptions from the German Corporate Governance Code were duly noted.

52. Shareholder structure

The following notifications regarding the voting rights thresholds set forth in Sections 21 and 26 of the German Securities Trading Act (WpHG) were received in fiscal year 2010 and in the time until the preparation of the annual financial statements:

On March 17, 2011, the Massachusetts Mutual Life Insurance Company, 1295 State Street, USA-01111-0001 Springfield, Massachusetts notified us in accordance with Section 24, (1) of the German Securities Trading Act (WpHG):

- 1a) The share of voting rights of the Gigaset AG, Munich (ISIN: DE0005156004, WKN: 515600) attributable to the Oppenheimer International Small Companies Funds, 6803 S. Tucson Way, Centennial, CO, USA 80112-3924 fell below the threshold of 5% on March 14, 2011. The share of voting rights held by Oppenheimer International Small Companies Funds, Centennial (CO), USA, at this day amounted to 4,54% (= 1,800,000 voting rights).
- 1b) The share of voting rights of the Gigaset AG, Munich (ISIN: DE0005156004, WKN: 515600) attributable to the Oppenheimer International Small Companies Funds, 6803 S. Tucson Way, Centennial, CO, USA 80112-3924 fell below the threshold of 3% on March 15, 2011. The share of voting rights held by Oppenheimer International Small Companies Funds, Centennial (CO), USA, at this day amounted to 2,04% (= 808,454 voting rights).

2a) The share of voting rights of the Gigaset AG, Munich (ISIN: DE0005156004, WKN: 515600) attributable to the OppenheimerFunds Inc., 6803 S. Tucson Way, Centennial, CO, USA 80112-3924 fell below the threshold of 5% on March 14, 2011. The share of voting rights held by OppenheimerFunds Inc, at this day amounted to 4,54% (= 1,800,000 voting rights) which are attributable to OppenheimerFunds Inc. by Oppenheimer International Small Companies Fund, Centennial, USA, in accordance with Section 22 (1) (1) (6) WpHG.

2b) The share of voting rights of the Gigaset AG, Munich (ISIN: DE0005156004, WKN: 515600) attributable to the OppenheimerFunds Inc., 6803 S. Tucson Way, Centennial, CO, USA 80112-3924 fell below the threshold of 3% on March 15, 2011. The share of voting rights held by OppenheimerFunds Inc, at this day amounted to 2,04% (= 808,454 voting rights) which are attributable to OppenheimerFunds Inc. by Oppenheimer International Small Companies Fund, Centennial, USA, in accordance with Section 22 (1) (1) (6) WpHG.

3a) The share of voting rights of the Gigaset AG, Munich (ISIN: DE0005156004, WKN: 515600) attributable to the Oppenheimer Acquisition Corp., 6803 S. Tucson Way, Centennial, CO, USA 80112-3924 fell below the threshold of 5% on March 15, 2011. The share of voting rights held by Oppenheimer Acquisition Corp., at this day amounted to 4,54% (= 1,800,000 voting rights) which are attributable to Oppenheimer Acquisition Corp. by Oppenheimer International Small Companies Fund, Centennial, USA, in accordance with Section 22 (1) (1) (6) (2) WpHG.

3b) The share of voting rights of the Gigaset AG, Munich (ISIN: DE0005156004, WKN: 515600) attributable to the Oppenheimer Acquisition Corp., 6803 S. Tucson Way, Centennial, CO, USA 80112-3924 fell below the threshold of 3% on March 15, 2011. The share of voting rights held by Oppenheimer Acquisition Corp., at this day amounted to 2,04% (= 808,454 voting rights) which are attributable to Oppenheimer Acquisition Corp. by Oppenheimer International Small Companies Fund, Centennial, USA, in accordance with Section 22 (1) (1) (6) (2) WpHG.

4a) The share of voting rights of the Gigaset AG, Munich (ISIN: DE0005156004, WKN: 515600) attributable to the MassMutual Holding LLC, 1295 State Street, USA-01111-0001 Springfield, Massachusetts fell below the threshold of 5% on March 15, 2011. The share of voting rights held by MassMutual Holding LLC at this day amounted to 4,54% (= 1,800,000 voting rights) which are attributable to MassMutual Holding LLC by Oppenheimer International Small Companies Fund, Centennial, USA, in accordance with Section 22 (1) (1) (6) (2) WpHG.

4b) The share of voting rights of the Gigaset AG, Munich (ISIN: DE0005156004, WKN: 515600) attributable to the MassMutual Holding LLC, 1295 State Street, USA-01111-0001 Springfield, Massachusetts fell below the threshold of 3% on March 15, 2011. The share of voting rights held by Oppenheimer Acquisition Corp., at this day amounted to 2,04% (= 808,454 voting rights) which are attributable to Oppenheimer Acquisition Corp. by Oppenheimer International Small Companies Funds in accordance with Section 22 (1) (1) (6) WpHG.

5a) The share of voting rights of the Gigaset AG, Munich (ISIN: DE0005156004, WKN: 515600) attributable to the Massachusetts Mutual Life Insurance Company, 1295 State Street, USA-01111-0001 Springfield, Massachusetts fell below the threshold of 5% on March 15, 2011. The share of voting rights held by MassMutual Holding LLC at this day amounted to 4,54% (= 1,800,000 voting rights) which are attributable to MassMutual Holding LLC by Oppenheimer International Small Companies Fund, Centennial, USA, in accordance with Section 22 (1) (1) (6) (2) WpHG.

5b) The share of voting rights of the Gigaset AG, Munich (ISIN: DE0005156004, WKN: 515600) attributable to the Massachusetts Mutual Life Insurance Company, 1295 State Street, USA-01111-0001 Springfield, Massachusetts fell below the threshold of 3% on March 15, 2011. The share of voting rights held by Massachusetts Mutual Life Insurance Company at this day amounted to 2,04% (= 808,454 voting rights) which are attributable to Massachusetts Mutual Life Insurance Company by Oppenheimer International Small Companies Fund, Centennial, USA in accordance with Section 22 (1) (1) (6) WpHG.

Dr. Dr. Peter Löw notified us in accordance with Section 21 WpHG that his share of voting rights reached 4.57% (corresponding to 1,811,833 voting rights) on October 29, 2010. The share of voting rights was unchanged at 12/31/2010.

On October 29, 2010, VEM Aktienbank AG, Munich, notified us in accordance with Sections 21 and 24 WpHG that its share of voting rights reached 30.73% (corresponding to 12,190,443 voting rights) on 10/25/2010. On 11/2/2010, VEM Aktienbank AG, Munich, notified us in accordance with Sections 21 and 24 WpHG that its share of voting rights had declined to 9.86% (corresponding to 3,909,711 voting rights). On 11/4/2010, VEM Aktienbank AG, Munich, notified us that its share of voting rights had declined to 0% (corresponding to 10 voting rights).

Supplementarily, VEM Aktienbank AG, Munich, notified us that the acquisition of the shares took place in the context of a capital increase implemented in the Company that was assisted by VEM Aktienbank AG, Munich, as the processing bank. The voting rights were relinquished again completely and permanently in the short term and allocated by VEM Aktienbank AG, Munich, to those shareholders who had exercised their subscription right.

The following notifications pursuant to Section 21 and Section 26 WpHG are still valid:

Mantra Investissement SCA, Paris, France, notified us in accordance with Section 21 WpHG that it held a total voting rights share of 3.02% (corresponding to 800,000 voting rights) on September 19, 2008.

Antoine Dréan notified us in accordance with Section 21 WpHG that he held a total voting rights share of 3.02% (corresponding to 800,000 voting rights) on September 19, 2008. In accordance with Section 22 (1) (1) (1) WpHG, the voting rights are attributable to Antoine Dréan from Mantra Investissement SCA via Mantra Gestion SAS and Mantra Holding SARL.

Mantra Holdings SARL, Paris, France, notified us in accordance with Section 21 WpHG that it held a total voting rights share of 3.02% (corresponding to 800,000 voting rights) on September 19, 2008.

In accordance with Section 22 (1) (1) (1) WpHG, the voting rights are attributable to Mantra Holdings SARL from Mantra Investissement SCA via Mantra Gestion SAS.

Mantra Gestion SAS, Paris, France, notified us in accordance with Section 21 WpHG that it held a total voting rights share of 3.02% (corresponding to 800,000 voting rights) on September 19, 2008. In accordance with Section 22 (1) (1) (1) WpHG, the voting rights are attributable to Mantra Gestion SAS from Mantra Investissement SCA.

53. Legal disputes and claims for damages

Companies of the Gigaset Group are involved in various court and administrative proceedings in connection with their ordinary business, or it is possible that such litigation or administrative proceedings could be commenced or asserted in the future. Even if the outcome of the individual proceedings cannot be predicted with certainty, considering the imponderability of legal disputes, it is the current estimation of management that the matters in question will not have a significant adverse effect on 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 2010, the European Commission imposed a total fine of EUR 61.1 million on various European companies in the calcium carbide sector in the context of anti-trust law investigations. In this context, a fine totaling EUR 13.3 million was imposed jointly and severally on SKW Stahl-Metallurgie Holding AG, Gigaset and SKW Stahl-Metallurgie GmbH. Gigaset filed suit against the ruling. Subject to the reservation of the submitted complaint, Gigaset reached an agreement with the European Commission on the payment arrangements in connection with the share of 50% of the imposed total fine preliminarily allocated to Gigaset, thus amounting to EUR 6.65 million, and paid this in full in December 2010. In October 2010, Gigaset filed suit against SKW Stahl-Metallurgie GmbH and expanded the suit in November 2010 to include SKW Stahl-Metallurgie Holding AG. In this suit, Gigaset primarily demands payment of the total fine imposed on Gigaset, plus interest.

54. Significant events after the balance sheet date

In January 2011, the shares of Carl Froh Group (operating segment "Steel") were sold for a symbolic price.

By resolution of the Executive Board on 02/10/2011 and approval of the Supervisory Board it was decided to convert the convertible bonds on 06/30/2011 in accordance with the respective terms.

In February 2011, shares of the SM Electronic Group were acquired so that as of that day 100% of their shares are attributable to Gigaset. The purchase price amounted to EUR 650 thousand. It is not intended to discontinue parts of the acquired group. Other disclosure in accordance with IFRS 3.66 (a) are not possible since the purchase price allocation process has not been finished at the publication date and thus, necessary information were not available or could not be determined with sufficient certainty.

In February 2011, the shares of the Oxxynova Group (operating segment "Specialty Chemistry") were sold for a symbolic price.

55. Release for publication of the consolidated financial statements

The Executive Board released the present consolidated financial statements of Gigaset AG for publication on March 28 2011. The company's shareholders will have the right and the opportunity to amend the consolidated financial statements at the annual shareholders' meeting.

Munich, March 28, 2011

The Executive Board of Gigaset AG

Maik Brockmann

List of shareholdings

	Location		Equity share direct	Equity share indirect	Currency (000.2)	Equity at 31/12/2010	Profit/Loss 2010/11	Avg. no. employees
Gigaset AG (formerly ARQUES Industries AG)	Munich	Germany			EUR	181,275	141,249	18
AVS Holding 1 GmbH	Munich	Germany	100%		EUR	846	-11	0
CFR Holding GmbH	Munich	Germany	100%		EUR	-5	-7,727	0
Carl Froh GmbH	Sundern	Germany		100%	EUR	553	-2,914	171
ARQUES Corporate Value GmbH	Munich	Germany	100%		EUR	18	0	0
GOH Holding GmbH	Munich	Germany	100%		EUR	323	-3,548	0
ARQUES Industries GmbH	Vienna	Austria	100%		EUR	2,766	159	0
ARQUES Asset Invest GmbH	Vienna	Austria		100%	EUR	3,930	165	0
ARQUES Commercial GmbH	Vienna	Austria		100%	EUR	-408	-282	0
IMP AG	Baar	Switzerland		100%	CHF	12,246	-1,973	0
ARQUES European Asset Management GmbH i.L.	Vienna	Austria		100%	EUR	58	-14	0
Hoflinger Holding GmbH	Vienna	Austria		100%	EUR	-4	-2	0
ARQUES Capital GmbH	Vienna	Austria		100%	EUR	-273	-10	0
ARQUES Süd Beteiligungs GmbH	Vienna	Austria		90%	EUR	3,274	-3	0
OXY Holding GmbH	Steyrberg	Germany		100%	EUR	-5,451	-383	0
Oxynova GmbH	Steyrberg	Germany		100%	EUR	6,229	2,234	169
SKS Holding GmbH	Munich	Germany	100%		EUR	2,022	436	0
Arques Mediterranean Investment Limited	St. Julians	Malta	100%		EUR	13,720	-72	0
Arques Value Invest Limited	St. Julians	Malta		100%	EUR	2,498	-1,322	1
ARQUES Global Purchase Company Limited i.L.	St. Julians	Malta		99.95%	EUR	2	0	0
Gigaset Beteiligungsverwaltungs GmbH (formerly Arques Wert Entwicklung GmbH)	Munich	Germany	100%		EUR	19	-4	0
Gigaset Asset GmbH & Co. KG	Munich	Germany	100%		EUR	200,000	0	0
GIG Holding GmbH	Munich	Germany		100%	EUR	42,615	-8	0
Gigaset Communications GmbH	Munich	Germany		100%	EUR	41,459	8,139	1,447
Gigaset Management GmbH	Munich	Germany		100%	EUR	5	-3	0
Gigaset Communications Schweiz GmbH	Solothurn	Switzerland		100%	CHF	228	-402	5
Gigaset Communications FZ LLC	Dubai	UAE		100%	AED	7,188	3,219	13
Gigaset Communications Polska Sp. z.o.o.	Warsaw	Poland		100%	PLN	4,021	1,425	142
Gigaset Communications UK Limited	Frimley/Camberley	Great Britain		100%	GBP	95	-135	3
Gigaset Communications ILETIM Hizmetleri LTD STI	İstanbul	Turkey		100%	TRL	4,557	2,507	7
Gigaset Communications Argentina S.R.L.	Buenos Aires	Argentina		100%	ARS	6,565	1,841	5
ODO Gigaset Communications Russia	Moscow	Russia		100%	RUR	37,094	18,153	9
Gigaset Communications Austria GmbH	Vienna	Austria		100%	EUR	1,669	-253	13
Gigaset Equipamentos de Comunicado Ltda.	Manaus	Brasil		100%	BRL	2,109	-498	27
Gigaset Communications Canada Inc.	Oakville	Canada		100%	CAD	1,506	-277	0
Gigaset Communications (Shanghai) Limited	Shanghai	China		100%	CNY	-37,522	-32,093	70
Gigaset Communications France SAS	Saint Denis	France		100%	EUR	2,890	2,797	20
Gigaset Communications Italia S.R.L.	Milan	Italy		100%	EUR	492	56	16
Gigaset Communications Nederland B.V.	s-Gravenhage	Netherlands		100%	EUR	588	-618	12
Gigaset Communications Iberia S.L.	Madrid	Spain		100%	EUR	1,099	13,785	12
Giga Home Media S.L.	Parreiro de Agular	Spain		100%	EUR	-947	-13,695	9
Gigaset Communications Sweden AB	Söder	Sweden		100%	SEK	9,281	561	8
Gigaset Communications Inc.	Wilmington	USA		100%	USD	11,625	0	0
Gigaset Communications USA LLC	Wilmington	USA		100%	USD	-1,192	-6,929	12
Gigaset Communications Dallas LLC	Dallas	USA		100%	USD	6,347	664	0
Newdata GmbH	Bocholt	Germany		100%	EUR	27	0	0
Gigaset Communications and Licensing GmbH & Co. KG	Munich	Germany		100%	EUR	0	0	0
VAN Holding GmbH	Munich	Germany	90%		EUR	3,598	-496	0
van Netter GmbH	Dortmund	Germany		100%	EUR	-21,619	21	202
Sonnina Süßwaren GmbH	Dortmund	Germany		100%	EUR	26	0	28
Sweets Project Verkaufsgesellschaft GmbH	Dortmund	Germany		100%	EUR	51	0	0
Arques Kapital Potenzial GmbH	Munich	Germany	100%		EUR	21	0	0
Schönherr Translift Global Manufacturing & Finance AG i.L.	Baar	Switzerland	73,33%	26,67%	CHF	1,698	32	0
Hortensteinerweg Verwaltungs GmbH	Munich	Germany	100%		EUR	-4	-1	0
Hortensteinerweg Grundstücksverwaltungs GmbH & Co. KG	Munich	Germany	90%		EUR	3,590	-7,653	0
Hortensteinerweg Management GmbH	Munich	Germany	100%		EUR	1,886	-1,688	0
AT Operations 1 GmbH	Munich	Germany	100%		EUR	290	-1	0
AT Operations 2 GmbH	Munich	Germany	8%	92%	EUR	-7,000	-305	0
Arques Beta Beteiligungs GmbH	Vienna	Austria		100%	EUR	-9,100	-348	0
Arques Epsilon Industriekapital GmbH LL	Vienna	Austria		100%	EUR	19	-5	0
at equity								
SME Holding GmbH	Munich	Germany	49,90%		EUR	0	-56	1
SM Electronic GmbH	Staufffeld/Break	Germany	100%		EUR	-6,412	-7,850	165
Emanon GmbH	Staufffeld/Break	Germany	100%		EUR	10	-11	0
Skymaster Electronic HK Limited	Hong Kong	China	100%		HKD	854	61	13

Non-consolidated companies

Sommer Immobilien GmbH & Co. KG (formerly Arques Immobilien GmbH & Co. KG)	Laucha an der Unstrut	Germany	8%	EUR	-	-	-
Arques Immobilien Equity GmbH & Co KG	Stamberg	Germany	8%	EUR	-	-	-
MDI Mediterranean Direct Invest GmbH	Munich	Germany	30%	EUR	-	-	-

1) The values disclosed represent the country specific values from the separate financial statement of the respective company

2) The exchange rates are presented in the "Currency translation" section in the general part of the Notes.