Gigaset

# Annual Report
# 2013

# KEY FIGURES

| EUR MIO. | 2009 | 2010 | 2011 | 2012[1] | 2013 |
|---|---|---|---|---|---|
| Consolidated revenues | 3,492.0 | 1,009.5 | 520.6 | 437.2 | **377.1** |
| earnings before interest, taxes, depreciation and amortization (EBITDA) | 17.7 | 0 | 50.9 | -3.6 | **7.5** |
| Earnings before interest and taxes (EBIT) | -139.8 | -86.8 | 22.0 | -30.4 | **-16.7** |
| Consolidated net income/net loss for the financial year | -153.0 | -100.6 | 17.5 | -28.6 | **-36.1** |
| Free cash flow | -68.9 | -41.6 | 22.5 | -32.9 | **-42.3** |
| Earnings per share (diluted) in EUR | -5.51 | -3.45 | 0.36 | -0.57 | **-0.61** |
| Earnings per share in continuing operations | -2.35 | -0.26 | 0.42 | -0.52 | **-0.59** |
| Total assets | 658.0 | 345.6 | 311.4 | 303.5 | **267.1** |
| Consolidated equity | 121.5 | 35.0 | 76.2 | 24.3 | **38.7** |
| Equity ratio (in %) | 18.5 | 10.1 | 24.5 | 8.0 | **14.5** |
| Employees | 5,049 | 2,333 | 1,875 | 1,743 | **1,429** |

Prior year figures are adjusted due to changes in IAS 19. For detailed information we refer to section "Adjustment of comparative information in the consolidated financial statements as of December 31, 2012"

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Google
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## More than just a home telephone

### With the SL930A, Gigaset is taking landline telephony into the 21st century.

**Online at home**

Gigaset introduced the SL930A to the market in August 2013. The full touch telephone combines the advantages of a smartphone with the typical high quality workmanship and premium features of a Gigaset landline telephone. The Android interface ensures comfortable access to Google Play with 975,000 apps as well as to your personal e-mail account and also makes it easy to log in to social networks. The address book, calendar, and e-mail are synchronized with the smartphone or the PC Google over Google Cloud™.

**Comfortable operating functions and entertainment**

The large display with its capacitive 3.2 inch touch screen provides a sensitive user interface which makes navigation quick and easy. It also makes it easy to enjoy video clips or films and use the integrated e-book reader as well as view razor sharp photos and images. Telephone calls are possible via landline or Internet over Skype. And HSDPTM Sound Performance provides the best sound quality for both conversations as well as the reproduction of music and sound. For radio transmission, the device relies on proven ECO DECT technology, which ensures a low level of radiation while reducing power consumption. In addition to the new features, the important standard functions remain: an integrated answering machine records incoming messages and high-performance speakers enable hands-free communication in full duplex quality.

**Beginning of a new era**

Whereas home telephones could previously be used only for calls, the SL930A provides a complete communications and entertainment center with an Internet connection and modern software. The phone's Android interface offers completely new possibilities in the design of Gigaset products. The flexible and open operating system represents significant added value for consumers with respect to longevity. Firmware updates, which are common with notebooks and smartphones, are now also possible in landline telephony.

## The next chapter in the story of business communications

### Gigaset is essentially reinventing business telephony with the "Maxwell".

**The debut**

Gigaset's exhibition in Hall 13 at the CeBIT in March 2014 focused on telephone systems, consumer devices, and solutions for corporate customers from the Gigaset pro product line. One of the highlights: Our Business Customers unit used the trade fair to present "Maxwell" to resellers and consumers – the innovative 10.1" full touch video IP telephone with Android that was announced far in advance. The target group is corporate customers who place particular value on added value functions, i.e. cloud-based business address books, e-mail accounts, or CRM files that can be linked with "Maxwell". "Maxwell 10" is the start in a new portfolio that is to be expanded successively..

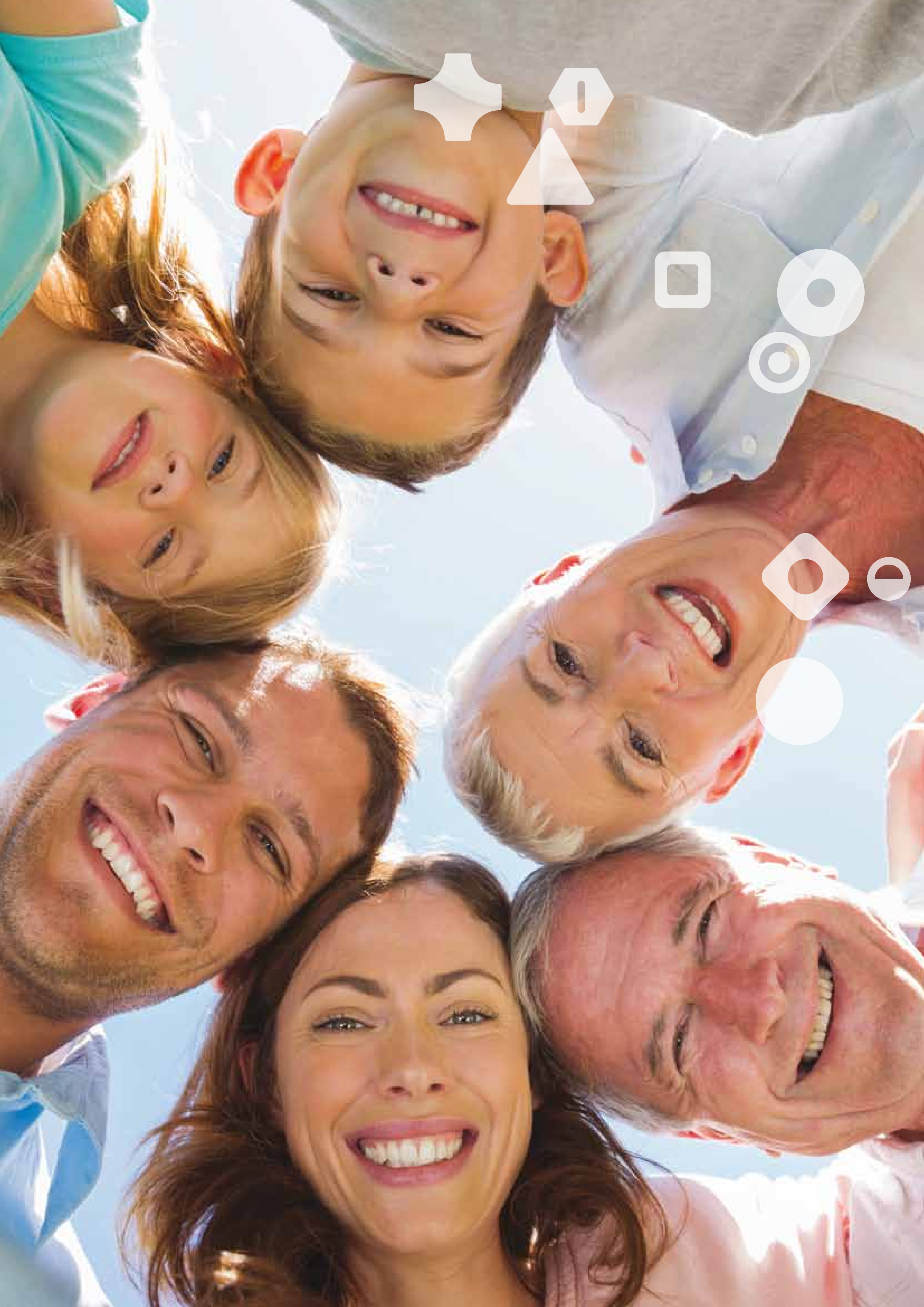
**New possibilities**

Both its innovative design as well as its unique usability provide users with new possibilities. "Maxwell" is an IP-based HD video telephone with a touch screen, Android operating system, and optional cordless handset. In addition to its 10.1" full touch display, it offers an innovative and unique user interface based on Android Jelly Bean 4.2.2. This version of Android offers intelligent alarm functions, new widgets, and an adaptable start screen. The HD display with a resolution of 1280 x 800 pixels makes video conferences possible with a high degree of clarity directly at your workplace. But everyday functions such as call waiting, call forwarding, and telephone conferences can be mastered quickly and easily. In addition, "Maxwell" has three built-in speakers for the best HD sound in HDSP™ broadband quality.

**Special business apps**

Apps help you work faster and more intelligently, because all teams can work together no matter where they are. Therefore, "Maxwell" is delivered with a selection of pre-installed apps designed to simplify business telephony. In addition, the device offers access to more than 975,000 apps on Google Play™ in order to cover every conceivable professional need.


Alice Peterson
Amely Jones
Antony Button
Anna Cartman
Beatrice Marie Dupont
Beatrice Marie Dupont
Amely Jones
John Mayer
Hans Bergman
Alice Peterson
Julie Carter
Annie Smith
Gigaset



## Home is just a click away

### "Gigaset elements" connects people with their home

**Internet of things**

With "Gigaset elements", Gigaset introduced an expandable, cloud-supported system based on DECT ULE sensors at a consumer-friendly price in the late fall of 2013. We pulled out all the stops to develop the system to the point of marketability in only one year. It connects people with their homes and helps improve everyday activities. The first component is the safety starter kit, which provides security for the home when homeowners are away. Gigaset is thus entering the future market of the "Internet of things." The system can be expanded and is easy to install, enabling everyone to finally have a smart home.

**Better safe than sorry**

After the quick and easy installation of the safety kit, sensors register what happens at home and safely forward the information to the user's smartphone. The kit consists of two intelligent sensors – a door sensor and a motion detector – as well as the base station and an app for smartphones. "Gigaset elements" is supported by an intelligent, adaptable, and secure cloud as an interface between your home and smartphone. The system can be expanded modularly with additional door and motion sensors as well as a window sensor and a siren.

**Future full of possibilities**

"Gigaset elements" is constantly being improved. For instance, software updates can be loaded onto all components by means of remote maintenance. These updates are free for customers. In the future, real-time optimization of the elements system should be possible with machine learning software. Thus, "Gigaset elements" is an extremely future-proof product for customers, because they can expand it to meet their needs and take part in all improvements. A series of new components will appear over the course of 2014, such as a smoke detector, an IP WLAN camera, and a remote controllable electrical outlet. The segments Security, Energy Provision, and Health are at the forefront of developments. "Gigaset elements" is also an open system for partnerships. Securitas is the first partner to use the "Gigaset elements" infrastructure.

## A new player on the tablet market

### Tablets with typical Gigaset premium quality

**The market**

The global market for tablets is growing at a rapid pace – by approximately 60% in 2013 alone. Therefore, Gigaset entered this growth market during the 2013 Christmas shopping season with two new Android-based premium models in an 8″ and 10.1″ format, and thus completed the next step in expanding its "Gigaset 2015" strategy. This step was possible thanks to the collaboration with our new majority shareholder Goldin. In addition to financial funds, Goldin's know-how in the area of personal electronic devices (tablets and smartphones) flowed into the joint venture established for this collaboration under the name Gigaset Mobile Pte. Ltd., Singapore, as well as Gigaset's traditional strengths in the areas of branding and distribution.

**The partner**

The business with Goldin Group is divided into the five segments Electronics, Real Estate Development, Polo, Wine, and Financial Services. The Electronics segment is managed primarily by Matsunichi Global Investment Limited. Originally established as a specialist for trading with consumer electronics, Matsunichi later expanded its business to include the production of supplier and finished products for well-known global brands. In the meantime, Matsunichi is one of the leading manufacturers of consumer electronics, producing high quality accessories for international partner brands while also offering research and development services in addition to engineering and production services. In addition, Matsunichi develops its own product line of personal electronic devices, such as tablets and smartphones as well as USB modems and pocket Wi-Fi.

**The models**

The compact 8″ format with the name QV830 satisfies with its high-quality, careful workmanship and an especially scratch-resistant display. It uses a fast Wi-Fi connection and is ideal for surfing, shopping, chatting, checking e-mails, and all other things made possible with apps from Google Play.

The large, high-performance display of the 10.1″ tablet with its 2560 x 1600 pixels is sharper than the resolution of the human eye. Enjoying films, photos, and gaming in HD quality are the strengths of the QV1030. Furthermore, it scores with a high-performance quad-core processor, stereo sound, and an 8 megapixel camera with dual LED flash.


8:31 PM

# TO OUR SHAREHOLDERS

# Milestones 2013

## February

- Expansion of Gigaset communications channels

## April

- New partner program for value-added resellers of Gigaset pro
- Official roadshow for business partners of Gigaset pro at a total of nine airports in Germany

## July

- Financing commitment of EUR 10.4 million for Gigaset Communications GmbH by a consortium led by Deutsche Bank AG
- First deliveries of 'Gigaset elements' starter kits

## August

- Product offensive with the three new models A415, C430, and E630
- Election of the new Supervisory Board, appointment of Bernhard Riedel as Chairman of the Supervisory Board and confirmation of the "Gigaset 2015" strategy
- Expansion of landline telephony – Gigaset SL930 – to include the full range of functions and operating concept of an Android interface

## September

- Gigaset elements available in retail stores

## October

- Presentation of three new baby monitors: PA 330 Audio, PA 530 Audio Plus, and PV 830
- 'Gigaset elements': Expansion in French Smart Home market
- Successful placement of capital increase and convertible bond in the amount of EUR 42.9 million and investment by Goldin Fund Pte. Ltd., Singapore,
- Sales offensive of Gigaset Android telephone SL930A in 21 European countries

## November

- Capital increase under exclusion of pre-emptive rights: Goldin Fund takes over an additional 7.2 percent of Gigaset AG – proceeds of approximately EUR 5 million.
- Gigaset enters the tablet market as a new player
- Extraordinary shareholders' meeting: three new Supervisory Board members and framework decision for future capital increase

## December

- Sale of SM Electronic GmbH and other changes in the Group structure

# Dear Shareholders,

In fiscal year 2013, Gigaset was confronted with a declining market in its core business and with financing that was influenced by uncertainty until the end of the third quarter – not least due to the seasonality of our business. The significant decline in the market for cordless telephones led to a decrease in sales of just under EUR 50 million or -11.5%, despite the continuous expansion of our market share. In the summer months, a seasonal credit line had to be drawn down in order to bridge the strained liquidity situation. In addition, a Sales Push Program was launched in the second quarter in order to manage the cash inflow as a result of the early supply of distribution channels. However, the financial situation relaxed at the end of the fiscal year thanks to the successful capital measures. Goldin Ltd. Pte. was added to Gigaset AG's group of shareholders as a strategic investor in the process of these measures. Goldin had previously provided security for the capital measures as a backstop investor and acquired the shares and convertible bonds that were not subscribed by the primary individuals eligible for subscription. We intend to press ahead with the implementation of our "Gigaset 2015" strategy together with Goldin as a new and important strategic partner in order to counter the market decline in our core business by introducing new product categories. We, the Executive Board of Gigaset AG, continue to view our Gigaset 2015 strategy as the right way to continue successfully developing the Company. The persistently challenging market situation renders the necessity of further expanding the Company more than clear. Therefore, we continued to consistently implement the strategic reorientation in the fiscal year just ended. The individual steps were as follows:

**Cost-savings and efficiency program**

We were able to clearly improve our EBITDA in 2013 as a result of the cost-savings and efficiency program announced in 2012, which we have consistently implemented since then. After a negative operating result of EUR –2.8 million in 2012, the operating result of EUR 11.1 million in 2013 was once again clearly positive. The program will take full effect in 2014 with annual savings of EUR 30 million.

**Investments in new segments**

We are relying on the Android operating system with our SL930A, which exhibits a robustly growing market share. The new model brings the smartphone experience to landline devices for the home and was the first step in the promising direction of "cloud-friendly" products. We also entered the robustly growing market of networked home living with the cloud-based system "Gigaset elements." Thanks to our new strategic partner Goldin, at the end of the year we entered the market for tablets, which is expanding rapidly according to observers. Thus, Gigaset AG gained access to a robustly growing, promising market.

**Focus of the international business on profitable markets**

In order to concentrate on markets with higher profitability, we continued to review the profitability of operations outside of Europe. This led to our exit from the unprofitable cordless business in Brazil. The subsidiary responsible for the Middle East and Africa region was sold to its management, which organized the development of these markets more efficiently for Gigaset. In Turkey, the local team completed a successful turnaround by means of a strategic repositioning.

**Settlement of legal disputes**

We were able to achieve overall positive results for three ongoing legal disputes over the course of fiscal 2013.


Charles Fränkl
Dr. Alexander Blum
Maik Brockmann

The legal dispute with the Sommer Group's insolvency administrator was settled by mutual agreement. Instead of the requested EUR 3.0 million, Gigaset committed to paying an amount of EUR 0.8 million in a settlement reached on October 11, 2013. All claims against Gigaset AG are resolved with this payment, which has meanwhile been completed.

In the legal dispute with Evonik Degussa GmbH ("Evonik"), the court of arbitration has awarded Evonik a contractual penalty of EUR 3.5 million in addition to interest and otherwise rejected the request for arbitration. Evonik had originally demanded the payment of a purchase price adjustment in the amount of EUR 12 million. On February 28, 2014, Gigaset filed an appeal of this ruling with the responsible higher regional court of Düsseldorf. Gigaset will not pay the penalty before the higher regional court reaches a decision.

The Company was a secondary participant in a criminal lawsuit against two former Executive Board members. The proceedings against the defendants were dismissed with the payment of a fine and the court issued an administrative order imposing a fine of EUR 350 thousand on the Company as a secondary participant.

Provisions were recognized in the corresponding periods for all three legal disputes.

**Streamlining the Group structure**

We continued to streamline the structure of the Group. In fiscal year 2013, seven companies were sold, three companies liquidated, and two companies merged. Gigaset Mobile Pte. Ltd., based in Singapore, was newly established.

**Strategic investor attracted**

As was generally known, finding a strategic investor to invest long-term in Gigaset in order to secure the Company's future as well as to be able to continue structuring and press ahead with the urgently needed reorganization was an important goal for Management in 2013. The existing shareholders' low subscription rate in the capital measures carried out had shown that the majority of the previous shareholders were no longer prepared to provide Gigaset AG with fresh funds. The Executive Board is therefore very pleased to have found Goldin as an investor who recognized Gigaset's long-term perspectives and shared the Management's strategic goals. Completely new opportunities and possibilities are opening for the Gigaset Group together with Goldin. We intend to develop a new business segment for smartphones, tablets, and other mobile telecommunications devices together with Goldin. The first steps have already been taken. Gigaset introduced two new Android-based tablets to the market for the 2013 Christmas shopping season. Additional models are to follow in 2014.

**Increase in equity as a percentage of assets**

In addition, we were able to once again increase equity as a percentage of assets by means of the successful capital measures. As a result of the capital measures, approximately EUR 48 million in fresh equity flowed to Gigaset. This is especially important in order to continue our growth strategy of consolidating and redeveloping existing segments.

However, the familiar challenges remain for 2014. The market for cordless telephones has been declining sharply for nearly two years with no reversal of this trend in sight. Therefore, we must continue to work on the Gigaset Group's makeover with all our energy.

The next step is the networking of the product categories into an ecosystem. This should enable as many Gigaset products and services as possible to be integrated – including hardware and third-party services thanks to open interfaces – and also managed over our cloud platform and billed if necessary. This step will provide our customers with crucial advantages: The integrated operating concept will make the use of our devices and services as well as third-party devices and services as easy and intuitive as possible. We are a large step closer to our goal as a result of having added tablets to our portfolio. However, we have only just begun and it will take time before these categories and solutions can compensate the decline in our core business.

Naturally, we will continue to stand by our core business. As Europe's market leader in DECT telephones, we will continue to use our opportunities. At the recently ended CeBit, Gigaset presented an entirely new landline telephone for consumers from the CL540 series with the "Dune" model. The new product takes advantages of findings from the field of bionics and attempts to transfer natural phenomena to modern technology. Gigaset also presented the "Maxwell" product line with which it is starting a new product portfolio in the "Gigaset pro" corporate customer segment and is creating a dedicated platform for professional desktop phone products. For Gigaset elements, we announced additional models. In 2014, we intend to respond to customer requests for a camera. An intelligent electrical outlet and smoke detector should also be introduced to the market in the current year. In addition, we will continue to develop the system's software basis. The system is to become adaptable and open interfaces will facilitate the connection of partners.

## Dear Shareholders,

The necessary measures for long-term growth were initiated in 2012. However, in order to counter the persistently difficult development of our core market, we must continue to invest in the development of new and promising segments and product groups. In 2014, the new segments will make additional contributions to sales, which however will not yet suffice to compensate the decline in our core business. We expect our EBITDA to further increase in the current fiscal year compared to the previous year, but also expect further declining sales in our core business as well as a negative free cash flow due to the necessary investments. However, these investments are indispensable in order to continue consistently down the path we have described and transform Gigaset into a digital company with future-proof products.

Munich, March 25, 2014

The Executive Board of Gigaset AG

# Capital market and Gigaset share

With a plus of 25.5%, the DAX may not have been able to top its prior year result, but with 9,405 points it gradually approached the magical level of 10,000 points. The MDAX performed even better with an increase of 39.3%, while the TecDAX even rose 40.90%.

For comparison, the Dow Jones increased 26.5%, the S&P 500 29.6%, and the Nasdaq Composite 38.3% on an annualized basis. The market was driven by the availability of massive amounts of liquidity provided by central banks, which lowered interest rates to nearly 0.0%. ECB President Draghi signaled his intention to provide every possible financial instrument to support the euro area. Among euro zone countries, Germany in particular stood out as a locomotive. A low unemployment rate, higher real wages, and a "healthy" consumer confidence paired with an extremely competitive export economy laid the cornerstone for the very good 2013 market year.

## Performance of the Gigaset share

The Gigaset share started 2013 successfully and recorded considerable gains on exchange in the first half of January. By mid-January, the share climbed to EUR 1.27 and thus the highest level of 2013. Following a weak start in February, the price rose again to EUR 1.25 with the publication of preliminary figures for the 2012 fiscal year. However, over the remaining course of the first quarter, the share came under pressure and even fell below the level of EUR 1.00 for a while. The weak trend continued over the course of the second quarter, reaching the low price for the year of EUR 0.58 with declining trading volumes in intraday trading. At the beginning of the third quarter, the share performed positively following an ad hoc report on the granting of a bridge-over loan and climbed over the 38 day line with a price of EUR 0.84. The report of a planned subscription rights and convertible bond issue provided for high trading volumes and high volatility at the end of September. Nevertheless, the share ended the month of September up 35.9%. In the fourth quarter, the share fluctuated around the EUR 1.00 level and closed the year with a price of EUR 0.98.

## Dividends

No dividends were distributed to shareholders in 2013.

### Shareholder structure

The shareholder structure of Gigaset AG changed considerably after Goldin Fund Pte. Ltd. came on board.

According to the voting rights notifications received, the shareholder structure of Gigaset AG can be broken down as follows at the end of fiscal 2013:

| Name | Shares in % |
|---|---|
| Mr. Pan Sutong/Goldin Invest Pte. Ltd | 50.47% |
| Antoine Drean/Mantra Investissement SCA | 4.76% |

At the end of fiscal 2013, 50.0% of Gigaset AG's shares were widely held.

Transactions entered into by managers of Gigaset AG are published on the Company's website in compliance with the German Securities Trading Act (Wertpapierhandelsgesetz, "WpHG"). Detailed information regarding the shares and options held by the Executive Board and Supervisory Board as well as the securities transactions on the part of members of the Company's governing bodies requiring disclosure can be found in the Section on Corporate Governance in this annual report.

| **Information on the share (as of March 2013)** | |
|---|---|
| WKN | 515600 |
| ISIN | DE 0005156004 |
| Stock market code | GGS |
| Reuters Xetra code | GGS.DE |
| Bloomberg Xetra code | GGS:GR |
| Stock type | No-par value bearer shares |
| Segment | Prime Standard |

| **Share indicators** | **2013** | **2012** |
|---|---|---|
| Number of shares as of December 31 | 96,399,985 | 50,014,911 |
| Share capital in EUR | 96,399,985 | 50,014,911 |
| Closing price on December 31 in EUR | 0.983 | 0.97 |
| Market capitalization on December 31 (EUR millions) | 94.8 | 48.5 |
| Average daily trading volume (shares) | 211,551 | 370,915 |
| 52 week high (EUR) | 1.27 | 3.33 |
| 52 week low (EUR) | 0.58 | 0.86 |
| Earnings per share (diluted) at the end of the year in continuing operations (EUR) | -0.61 | -0.56 |
| Dividends | 0.00 | 0.00 |

## Investor relations and corporate communications in 2013

Constant and uniform communication with all capital market participants is very important to Gigaset AG. That is why our investor relations work includes keeping our shareholders informed of the Company's current developments by means of quarterly, half-yearly, and annual reports. Telephone conferences were once again conducted with analysts and investors to coincide with the presentation of the half-yearly and annual results. Investors were also able to get a detailed view of Gigaset AG in personal meetings, on our website, our corporate blog, or by subscribing to our newsletter.

In addition, both the Executive Board of Gigaset AG as well as corporate communications representatives sought out regular contact with journalists.

All financial reports, ad hoc and press releases, the financial calendar, annual shareholders' meeting documents, and a wide range of current information about the Company are also made available promptly in the Investor Relations section of the Company's website (www.gigaset.ag).

## Analysts

Financial analysts at Deutsche Bank and Equinet Bank provided an assessment of the Gigaset share in the past year. The analysts' recommendations are currently:

| Analyst | Date | Price target (EUR) | Recommendation |
|---|---|---|---|
| Equinet Bank AG | 17.12.2013 | 1,00 | HOLD |
| Deutsche Bank | 16.10.2013 | n/a | HOLD |

## Contact

You can contact the Investor Relations department at Gigaset AG at:

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Kerstin Diebenbusch
Hofmannstraße 61
81379 München
Tel.: 089 4444 56 937
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# Corporate Governance

Gigaset AG understands corporate governance as a process that is continuously developed and improved. With only a few exceptions, Gigaset AG complies with the German Corporate Governance Code (the "Code"), which was issued in 2002 and most recently expanded on May 13, 2013.

## Management and control structure – Supervisory Board

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

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

Furthermore, the Supervisory Board set up a Capital Market Committee, which performs the duties of the Supervisory Board pursuant to Art. 4.4 and 4.5 of the Company's Articles of Association.

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

## Management and control structure – Executive Board

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

## Securities transactions by the Executive Board and Supervisory Board requiring disclosure

The members of the Executive Board and Supervisory Board are obligated under section 15a of the German Securities Trading Act (Wertpapierhandelsgesetz, "WpHG") to disclose the purchase or sale of shares of Gigaset AG or related financial instruments if the value of the transactions entered into by the individual board members and their related parties equals or exceeds the sum of EUR 5,000.00 within one calendar year ("Directors Dealings"). The following transactions apply:

- Supervisory Board member Bernhard Riedel informed the Company on October 16, 2013, that he had acquired 509 new shares of the Company and 607 convertible bonds.

- Former Supervisory Board member Dr. Dr. Peter Löw informed the Company on December 9, 2013, that he had already sold 156,174 shares at a price of EUR 3.49100 each on July 26, 2011. Furthermore, he sold an additional 144,500 shares at a price of EUR 3.28360 each on July 28, 2011. Finally, he sold an additional 95,496 shares at a price of EUR 3.22050 each on July 29, 2011.

The Company received no further notifications under section 15a of the German Securities Trading Act (Wertpapierhandelsgesetz, WpHG) before the balance sheet was prepared on March 20, 2014.

By way of explanation, the Company points to the fact that under section 15a WpHG, anyone carrying out management duties at an issuer of shares must notify the issuer and the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht, BaFin) of transactions with shares of the issuer in their own name or transactions with financial instruments based on these shares, in particular derivatives, within five business days. The issuer is then obliged to immediately publish the information and at the same time notify the BaFin of the publication. Thus, Gigaset AG's duty as a stock corporation and the issuer of securities consists of disclosing information provided to it by individuals required to do so under the law to the market in unaltered form. The Company is normally not aware of whether – and if applicable, why – the information provided by the reporting party is accurate or was provided in a timely manner.

## Declaration of conformity

In February 25, 2014, the Executive Board and Supervisory Board of Gigaset AG issued the declaration of conformity with the German Corporate Governance Code in the version dated May 13, 2013, required under section 161 AktG and made it permanently available to the shareholders on the homepage (www.gigaset.com). The Executive Board and Supervisory Board of Gigaset AG thereby declare that, with few exceptions, they have complied and will comply in the future with the Code Commission's recommendations regarding the management and monitoring of the enterprise published in the electronic Federal Gazette in the current version dated May 13, 2013. The declaration of conformity and the notes on the deviations from the Code are printed in Section "German Corporate Governance Code" of this annual report.

## Remuneration of the Executive Board

The duties and contribution of each member of the Executive Board are taken into account when determining their remuneration. In fiscal year 2013, the remuneration consisted of a fixed salary component and a performance-based component, comprising a bonus agreement/payment linked to the increase in value of a virtual stock portfolio (based on the success of the Company) as well as the achievement of specific goals established for each board position (based on the performance of the respective board member) for each and every board member working during the reporting period.

The Executive Board remuneration comprises the following separate components:

- The fixed remuneration is paid out monthly in 12 equal payments as a salary
- The share price-based remuneration consists of a special allowance measured based on the increase in value of a “virtual stock portfolio”
- The variable remuneration is based on a bonus agreement on corporate objectives (sales revenue, EBITDA, the Company’s cash balance) respectively for all Executive Board members active in the reporting period.
- The Company Loyalty Bonus, which depends among other things on reaching specific goals, is intended to provide an incentive to remain a member of the Company’s Executive Board. If a Board member steps down within 6 months after this bonus is paid, they must repay the bonus in full.
- The Company’s Transaction Bonus recognizes the Executive Board’s performance during the successful capital increase.

The starting point for the calculation of the variable remuneration with respect to the virtual stock portfolio for each and every Executive Board member working in the reporting period is a certain number of shares of Gigaset AG (virtual stock portfolio), measured at a certain share price (starting value). The amount of the variable remuneration in each case is determined based on the possible increase in value of the virtual stock portfolio over a certain period, i.e. with respect to a future date determined in advance (valuation date). The amount of variable remuneration results from the difference in the value of the virtual stock portfolio measured at the price prevailing on the valuation date and the starting value (increase in value). As a rule, the increase in value – calculated based on the price at the valuation date – is settled in cash.

## Remuneration of the Supervisory Board

The annual shareholders’ meeting held on June 10, 2011, resolved a remuneration rule for the Supervisory Board; specifically:

- “Every member of the Supervisory Board receives a fixed salary of EUR 1,000.00 for each month or partial month served on the Board as well as EUR 1,000.00 for each Supervisory Board meeting or committee meeting attended. The Chairman of the Supervisory Board receives a fixed payment of EUR 1,500.00 for each month or partial month of his term in office as well as a payment of EUR 1,500.00 for each Supervisory Board meeting or committee meeting attended. The payments are due after the end of the annual shareholders’ meeting adopting a resolution to approve the actions of the Supervisory Board for the previous fiscal year.”

This remuneration scheme applied up to and including August 14, 2013. By resolution of the shareholders’ meeting held on August 14, 2013, in the version of the resolution adopted by the extraordinary shareholders’ meeting held on December 19, 2013, the following remuneration scheme applies effective as of August 15, 2013:

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

1. **Base remuneration.** Every member of the Supervisory Board receives a fixed salary of EUR 3,000.00 ("base remuneration") for every month or partial month of their term of office ("accounting month"). The beginning and end of every accounting month are determined based on sections 187(1), 188(2) of the German Civil Code (Bürgerliches Gesetzbuch, BGB). Remuneration that the respective member of the Supervisory Board has already received for the same accounting month is to be offset against claims for base remuneration, regardless of the legal basis. The claim to base remuneration arises at the end of the accounting month.
2. **Remuneration for participating in meetings.** Every member of the Supervisory Board receives a salary of EUR 1,000.00 for participating in a Supervisory Board or committee meeting convened in accordance with the Articles of Association. Telephonic participation in the meeting as well as submission of a vote in writing in accordance with article 9(3) sentence 2 of the Articles of Association is equivalent to participating in the meeting. Multiple meetings of the same body on the same day are compensated as one meeting. The claim to compensation for attending a meeting arises when the minutes of the meeting are signed by the Chairman or Committee Chairman. The basis for the claims can only be proven by the minutes of the meeting in accordance with section 107(2) AktG.
3. **Remuneration for adopting a resolution outside of meetings.** Every member of the Supervisory Board receives a salary of EUR 1,000.00 for submitting their vote during the adoption of a resolution in writing, by fax, by telephone, by e-mail, or by other means of telecommunication or data transmission outside of a meeting in accordance with article 9(4) of the Articles of Association ordered in any particular case by the Chairman. Multiple resolutions adopted outside of a meeting on the same day will be compensated as a single claim. The claim to compensation for adopting a resolution arises when the minutes of the resolution are signed by the Chairman or Committee Chairman. The basis for the claims can only be proven by the minutes of the resolution.
4. **Remuneration of the Chairman.** The Chairman of the Supervisory Board receives an additional 100% and the Vice Chairman of the Supervisory Board receives an additional 50% of all remuneration specified in articles 1 to 3.
5. **Reimbursement of expenses.** The Company reimburses the Supervisory Board members for expenses and any value added tax on remuneration or expenses incurred while performing the duties of their office. The claim to reimbursement of expenses arises when the expenses are personally paid by the Supervisory Board member.
6. **Origination of claim and due date.** All payment claims are due 21 days after the Company receives an invoice satisfying the requirements of a proper invoice. If a claim is asserted for the reimbursement of expenses, copies of receipts for the expenses must be attached to the invoice. The Company is authorized to make payments in advance of the due date.
7. **Insurance.** The Company must take out D&O insurance policies for the benefit of Supervisory Board members that covers the statutory liability relating to their activities on the Supervisory Board.
8. **Duration.** This remuneration scheme takes effect retroactively as of August 15, 2013, and remains in force until replaced by an annual shareholders' meeting. This remuneration scheme replaces the remuneration scheme resolved by the annual shareholders' meeting on August 14, 2013, which is at the same time retroactively annulled. If compensation has already been paid based on the annulled remuneration scheme, it is to be offset against claims to payment under the new scheme."

## Shareholdings of the Executive Board and Supervisory Board

The Company asked the members of its Executive and Supervisory Boards how many shares of Gigaset AG they hold. According to their own admission, the members of the Executive Board hold 34,348 shares of Gigaset AG as of the balance sheet date.

According to their own admission, the members of the Supervisory Board hold a total of 1,810 shares of Gigaset AG as of the balance sheet date. This corresponds to a share of 0,02 % of the issued shares.

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

| Number of shares | 12/31/2013 | as of the date on which the balance sheet was prepared |
|---|---|---|
| Executive Board | | |
| Charles Fränkl (Chairman of the Executive Board) | 0 | 0 |
| Dr. Alexander Blum | 34,348 | 34,348 |
| Maik Brockmann | 0 | 0 |
| Supervisory Board | | |
| Bernhard Riedel | 1,810 | 1810 |
| David Hersh | 0 | 0 |
| Paolo Vittorio Di Fraia | 0 | 0 |
| Hau Yan Helvin Wong | 0 | 0 |
| Prof. Xiaojian Huang | 0 | 0 |
| Flora Ka Yan Shiu | 0 | 0 |
| Retired members of the Supervisory Board | | |
| Rudi Lamprecht (Chairman) | 300 | 300 |
| Prof. Dr. Michael Judis (Vice Chairman) | 10,604 | 10,604 |
| Dr. Dr. Peter Maria Löw | unknown | unknown |
| Susanne Klöß | 0 | 0 |

## Information on stock options and similar incentive systems

Please refer to the comments in the remuneration report for information on the Executive Board members' virtual stock portfolios.

## Other information regarding corporate governance at Gigaset AG

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

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

# Report of the Supervisory Board

The past fiscal year was eventful for Gigaset AG. After the Company paved the way for sustained growth in the new markets by concentrating on its core Telecommunication segment, fiscal 2013 was about successfully advancing the Business Customers and Home Control segments and financing this growth.

The latter was achieved both by securing a bridge-over loan in the summer of 2013 as well as through multiple capital increases in the fall of 2013 that decisively improved the Company's capital base. These capital measures initially included two levels in which all existing shareholders were eligible for subscription, namely a subscription rights issue of up to EUR 19,571,049 and the floating of a convertible bond in the amount of EUR 23,340,289 (convertible in the same number of shares). In a subsequent third level, an additional 5 million shares were issued in December 2013 as part of a capital increase under exclusion of pre-emptive rights. The basis for this was the formation of an investor agreement with a backstop investor that was also closely followed and advised by the Supervisory Board.

The Supervisory Board closely followed the Company and its Executive Board in all measures, which is also evident in the high number of meetings.

## Collaboration with the Executive Board

The Executive Board and the Supervisory Board worked together constructively and successfully during the entire fiscal year. The Supervisory Board performed all its duties as required by law and the Articles of Association and monitored and advised the Executive Board in its work, whereby the Supervisory Board was able to rely on the outstanding expertise of some of its members, in particular in the areas of telecommunications, M&A and financing. The Executive Board kept the Supervisory Board up-to-date and fully informed in writing or through verbal reports on all relevant questions regarding the development of the Company, the course of business and position of the Group, in particular regarding the development of the business and financial position as well as on the acquisition or disposal of equity investments in whole or in part. Other regular topics of discussion included compliance, the risk position and risk management, the development of liquidity and the budget, and basic questions regarding corporate policy and strategy.

## Activity of the Supervisory Board

The Supervisory Board normally performs its duties within the scope of monthly meetings (see more on this below). In these meetings, the Supervisory Board routinely deals with the reports of the Executive Board on finance and investment and human resource planning, as well as – in particular – the implementation of new corporate strategies, including the resulting intermediate and long-term opportunities for growth.

The Supervisory Board questioned the management on the submitted reports, in particular regarding current developments and potential acquisition and disposal projects as well as pending decisions. Necessary authorizations were issued after a detailed review of the documents presented by the Executive Board .

Moreover, periodic meetings were held between the Chairman of the Supervisory Board and the members of the Executive Board. In these meetings, the management was questioned about current developments, pending decisions were discussed in detail, and resolutions of the Supervisory Board were prepared.

Furthermore, the Supervisory Board addressed the clarification and elimination of risks from the Company's past.

## Meetings and resolutions of the Supervisory Board in 2013

The Supervisory Board convened for a total of 19 meetings in fiscal 2013, namely on January 28, 2013, February 22, 2013, March 22, 2013, April 30, 2013, May 17, 2013, June 13, 2013, July 26, 2013, August 14, 2013 (constitutive meeting following the annual shareholders' meeting on the same date), September 3, 2013, September 16, 2013, teleconference on September 20 and 21, 2013, September 26 and 27, 2013, October 25, 2013, November 8, 2013, November 18, 2013, November 25, 2013, December 13, 2013, and December 19, 2013 (constitutive meeting following the extraordinary shareholders' meeting on the same date).

In addition, the Supervisory Board adopted two resolutions by circulation of documents.

The Company's auditor, PricewaterhouseCoopers AG, was also present at the meeting to adopt the financial statements for the 2013 fiscal year held on March 25, 2013 .

## Activity of the Audit Committee

An Audit Committee was formed so that the Supervisory Board could perform its duties as required by law and the Articles of Association as efficiently as possible. This committee comprised a total of three members in fiscal year 2013 and convened on March 22, 2013, and September 26,2013, as well as in preparation of the Supervisory Board's meeting to adopt the financial statements held on March 25, 2014. It received reports from the Executive Board and the auditors.

## Corporate governance

The Supervisory Board regularly deals with the application and further development of the applicable standards of good and responsible governance under the German Corporate Governance Code.

In March 2014, the Executive Board and Supervisory Board issued a current declaration of conformity in accordance with section 161 of the German Stock Corporation Act (Aktiengesetz, "AktG") and made it permanently available to the Company's shareholders on its website.

In accordance with the recommendations of the Code, the Supervisory Board obtained a declaration of independence from the auditor on November 15, 2013, regarding professional, financial, or other relationships between the auditor and the Company that could call its independence into question.

## Risk management

The Supervisory Board dealt with the issue of risk in detail in 2013, in particular with the risk management system. The Executive Board reported extensively on the risk situation and key individual risks. The structure and function of Gigaset AG's risk management system was audited and confirmed by the auditor.

## Personnel matters of the Executive Board

The three-person Executive Board led the Company through 2013 as a cohesive team without any changes. The terms of Charles Fränkl and Maik Brockmann's management contracts were each extended in January 2014 by resolution of the Supervisory Board until March 31, 2015.

## Personnel matters of the Supervisory Board

The members of the Supervisory Board in the reporting period were:

| Name | from | until | Term of office until |
|---|---|---|---|
| Rudi Lamprecht (Vorsitzender) | | 03/15/2013 | resigned |
| Dr. Dr. Peter Löw | | 05/312013 | resigned |
| Prof. Dr. Michael Judis (Stv. Vors.) | | 12/19/2013 | resigned |
| Susanne Klöß | | 12/19/2013 | resigned |
| Bernhard Riedel | | | elected as chairmen on 22.03.2013 |
| David Hersh | | | |
| Barbara Münch | 03/16/2013 | 12/19/2013 | succeeded after Rudi Lamprecht resigned |
| Paolo Vittorio Di Fraia | 08/14/2013 | | |
| Hau Yan Helvin Wong | 12/19/2013 | | elected as vice chairmen on 19.12.2013. |
| Prof. Xiaojian Huang | 12/19/2013 | | |
| Flora Ka Yan Shiu | 12/19/2013 | | |

Consequently, the Supervisory Board comprised Bernhard Riedel (Chairman), Hau Yan Helvin Wong (Vice Chairman), Paolo Vittorio Di Fraia, David Hersh, Prof. Xiaojian Huang, and Ka Yan Flora Shiu at the time of this report.

## Notes on the management report

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

Munich, March 2014

Bernhard Riedel

Chairman of the Supervisory Board

# MANAGEMENT REPORT

# 1 Basis of the Group

## 1.1 Business Model

Gigaset AG is a global operating group with activities in the field of telecommunications. Based in Munich and with its main production facility in Bocholt, the company is, based on total sales, the leading manufacturer for DECT telephones in Western Europe.[1] Based on sold basis station Gigaset ranks in second place word wide.[2] The premium vendor has a market presence in approximately 70 countries and has around 1,400 employees in 2013.

The Gigaset Group is divided globally into regional segments. In this context, the Europe segment, especially Germany and France, represents comfortably the largest share of total business activity. Most of the total sales are made in the Consumer product business and thus in the cordless voice business.

The company is represented in the Americas region by separate legal units in the United States, Brazil and Argentina. In the Asia-Pacific / Middle East region, separate legal units have been set up in China. Gigaset markets its products through both a direct and an indirect distribution structure.

The Group covers a broad market base across its three divisions: Consumer Products, Business Customers and Home Networks. Gigaset is renowned for its high quality, future-looking products for the telecommunication segment.

### 1.1.1 Consumer Products

Gigaset is the European market leader, technology leader in DECT, which stands for Digital Enhanced Cordless Telecommunications and the most successful telecommunications standard for cordless telephones in the world. Gigaset helped to shape the DECT standard in the 1990s, since when the company has maintained its position as the market and technology for DECT telephony in Europe. Market coverage is a key factor behind the company's success: a Gigaset phone is found in one in every four homes in Europe and one in every two in Germany. Gigaset enjoys a brand awareness level of over 80% in Germany. All of its proprietary products are manufactured predominantly in the highly automated Bocholt plant, which has won several awards.

### 1.1.2 Business Customers

With the "Gigaset pro" product line (pro = professional), the Business Customers segment has created an attractive range of corded telephones, telephone systems (so called "Private Branch Exchanges" (PBX), professional DECT systems and handsets for small and medium-sized enterprises. These telephone systems distributed by the Company are based on the "Session Initiation Protocol" (SIP), a network protocol for creating, managing and terminating a communication session. The SIP is one of several possible Internet protocols for speech transmission. The constantly growing portfolio of Gigaset pro products is geared to the needs of the SME segment. The pro series provides thekind of versatility and reliability that commercial users need in their day-to-day operations. These devices are designedto be easy to install and manage. Due to the level of consultation required for commercial products, Gigaset only distributes the pro line through value-added resellers (VARs).

1. The data was taken from surveys by the Retail Panel for cordless telephones of GfK Retail and Technology GmbH in the countries of Belgium, Germany, France, the United Kingdom, Italy, the Netherlands, Austria, Poland, Switzerland,Spain, Russia and Turkey. Collection period: Jan - Dec 2013; Basis GfK Panel Market.
2. MZA, Base World, Shipment Review 1H 2013

Gigaset has thus greatly expanded its product range with the Gigaset pro, enabling it to tap new customer groups. The company markets a product line which, in addition to the private customers that it has traditionally served with great success, now also includes small offices and home offices (known as the SOHO market) and the fast-growing, high-potential SME market for professional IP telephone systems. The intention is to turn Gigaset pro into a second pillar of the company in this growing SME market over the coming years that will contribute a significant proportion of revenues in the future.

### 1.1.3 Home Networks

In 2013, Gigaset launched a modular, sensor-based "Connected Living" system for private households. Gigaset elements enables the user to maintain a permanent connection to elements in their home via smartphone. The starter kit on the topic of security enables the user to react immediately to unforeseen events (the child does not return home as usual at 2 p.m., someone gains unauthorized access). The portfolio of sensors is continually expanding. A supplementary siren and window sensor is meanwhile available for the starter kit. Additional applications for issues such as energy or assistance for the elderly should follow.

### 1.1.4 Tablets

In December 2013, Gigaset also successfully introduced its first portfolio of tablets to the market. The models QV 830 and QV 1030 are based on Android, which is the most widely used operating system in the world.

## 1.2 Goals and strategy

The consumer goods industry in the information and communications environment in Europe continues to be very dynamic with a clear majority of product categories in part showing sharp losses in market share in terms of unit volume and value compared to the previous year (for example, classic cell phone devices, the so-called "Feature Phones" and DVD recorders). This also applies to the market for cordless telephones, which continues to be characterized by market erosion in the core region of Europe. For instance, the market shrank by 14 percent in unit volume and value in 2013 compared to the previous year.[3] According to the analysts from MZA, this market consolidation in cordless telephones will continue in the coming years, both in Europe as well as worldwide; however, the momentum is expected to decrease slightly. In this difficult market environment, Gigaset plans to secure and expand its strong position on the cordless telephone market in Europe and worldwide without relinquishing its premium position.

3. The data was taken from surveys by the Retail Panel for cordless telephones of GfK Retail and Technology GmbH in the countries of Belgium, Germany, France, the United Kingdom, Italy, the Netherlands, Austria, Poland, Switzerland,Spain, Russia and Turkey. Collection period: Jan - Dec 2013; Basis GfK Panel Market.

In contrast, a few product categories such as tablets and smartphones are among the clear winners of these market changes.[4]

In this volatile environment, Gigaset intends to continue consistently down the path it has taken in the direction of the goals set under the 2015 growth strategy. Specifically, this means

- securing and expanding the market position achieved in established categories such as cordless telephony
- concentrating on new growth fields such as networked home living as well as mobile devices such as tablets and smartphones

Solutions in the Smart Home area become increasingly important. According to a current study, 78 percent of consumers are interested in Smart Home solutions in Germany alone.[5] Strategy Analytics' surveys show that this high degree of interest in Smart Home solutions is international. This leads to a high market potential that quantified at around USD 8 billion for 2014 alone in Western Europe and which is expected to increase to around USD 14 billion by 2018.[6] In this dynamic environment, 'Gigaset elements' – the new solution for networked living – has been available in German and French retail stores since the second half of 2013. The sensor and cloud-based Gigaset elements system combines people with their home. This solution also offers other uses through the collaboration with partners. The leading security service provider Securitas and Gigaset have fostered a development partnership since 'Gigaset elements' started being developed. Securitas now offers a computer-aided handling of alarms set off by Gigaset elements – the premium service "Gigaset elements monitored by Securitas". Gigaset will further develop this solution in the future, both functionally (for example, in the areas of energy and elderly care) as well as through additional partnerships.

According to surveys by GfK, the category of tablets is currently the fastest growing category in the European information and communications environment.[7] Strategy Analytics sees a market potential for 290 million tablets worldwide in 2014, which will increase to around 400 million units by 2017.[8] Gigaset sees opportunities to establish itself in this category with its market expertise and its brand name in order to offer first-class communications tools for networked home living. Therefore, Gigaset entered this growth market in December 2013 with two new Android-based premium models in an 8" and 10.1" format and thus completed the next step in expanding its "Gigaset 2015" strategy.

The increasing integration of these solutions in the Gigaset Cloud and the creation of an "Eco-systems" supplemented by additional services is and remains a central component of the "Gigaset 2015" strategy. In addition to solutions for networking devices at home, this concept also includes the integration of mobile devices.

4. GfK, Growth Value % / Sales Mio. Euro Total GfK Market Europe 6, Jan-Sep 13 vs. Jan-Sep 12
5. Fittkau & Maß Consulting, 2014
6. The Smart Home market, Global Opportunities – Local Preferences, June 2013
7. GfK, Growth Value % / Sales Mio. Euro Total GfK Market Europe 6, Jan-Sep 13 vs. Jan-Sep 12
8. Strategy Analytics, September 2013

## 1.3 Management systems

The management uses various key indicators to analyze and manage the development of the Group on a monthly basis. Gigaset Group is globally divided into regional segments. The observation of sales revenue and the development of profit margins plays a central role in monitoring the operating business. Operating costs are analyzed and managed in detail based on cost types and the department in which the costs are incurred. In particular, the effects of the restructuring measures are analyzed and measured based on budgeted amounts as part of monthly reporting. Integrated financial planning (income statement, statement of financial position, financial plan) has been implemented Group-wide for the reliable analysis of changes in liquidity. In addition, risk management is an integral part of the business processes and corporate decisions.

## 1.4 Research and development

Gigaset's research and development program focuses primarily on developing products and services for the Consumer Products, Business Customers and Home Networks segments. Research and development are taking on a key role in the area of innovation with a focus on the technical aspects, whereby Internet services ("Cloud" solutions) are becoming increasingly important and have been established with their own area in the development organization since the end of 2012.

Research activities also include participating in the standardization of relevant market technologies, for example, network connections or wireless technologies such as DECT. In order to support this, Gigaset makes contributions to standardization in the European Telecommunications Standards Institute (ETSI) and is represented in relevant standard-setting bodies; for example, in the DECT Forum and the ULE Alliance, an international organization of manufacturers, network operators and other companies with the goal of further developing the DECT standard and its "Ultra Low Energy" expansion.

Development work in the fiscal year just ended focused, among other things, on the completion of the Gigaset platform for IP and Android-based products, which was launched for the first time in the summer of 2013 in the form of the SL930. In the area of hardware and software development, the platform should optimize product costs by reusing components in multiple product points. In this manner, development and maintenance expenses can be distributed over the widest range of products possible and costs per product significantly reduced. Moreover, the first Internet-based service platform was created and brought to the market with Gigaset elements, which now forms the basis for continuous further development with the goal of market differentiation and customer loyalty.

# 2 Significant events in fiscal 2013

## 2.1 Positive outcomes of outstanding legal disputes

Overall positive results were achieved in three unsettled legal disputes over the course of the fiscal year.

The district attorney of Munich accused two former members of the Company's Executive Board of breach of fiduciary duty and aiding and abetting the breach of fiduciary duty in 2009. The Company was a secondary participant in the proceedings in accordance with section 31 of the Administrative Offenses Act (Ordnungswidrigkeitengesetz, OWiG). The court dismissed the charges against the two defendants in exchange for payment of a fine imposed under section 153a of the Code of Criminal Procedure (Strafprozessordnung, StPO) before allowing the action to proceed and issued an administrative order imposing a fine of EUR 350 thousand against the secondary participants under section 31 OWiG which was served on February 5, 2013 and is meanwhile final and absolute.

The legal dispute with the Sommer Group's insolvency administrator was also settled by mutual agreement. The insolvency administrator had claimed that former ARQUES Industries AG had violated the applicable capital maintenance rules as the group parent company at the time, whereby Sommer Group allegedly suffered a loss of at least 3 EUR million. Gigaset AG undertook to pay the insolvency administrator EUR 0.8 million in a settlement agreement dated October 11, 2013, whereby all claims against Gigaset AG related to the dispute are compensated and resolved.

In the legal dispute with Evonik Degussa GmbH ("Evonik"), the court of arbitration has now awarded Evonik EUR 3.5 million in addition to interest and otherwise rejected the request for arbitration. Evonik had filed a request for arbitration against Gigaset on April 30, 2012 and demanded payment of a contractual penalty in the amount of EUR 12 million. After carefully examining the arbitration ruling, Gigaset has decided to ask the competent Higher Regional Court to review and, if appropriate, annul the ruling on account of evident constitutional breaches. The Higher Regional Court is not expected to issue a ruling before the end of 2014.

Provisions were recognized in the corresponding periods for all three legal disputes.

## 2.2 Gigaset expands communication channels

Gigaset has had a social media presence for quite some time. With its new corporate blog (blog.gigaset.com), Gigaset now also presents classic corporate communication topics in social media. The new blog deals with corporate and board-related topics, refers to relevant financial market news and highlights new technological trends and developments. In addition to its corporate website and well-established Facebook and YouTube channels, the blog represents another basis for Gigaset's social media activities.

Interested parties also access corporate news regarding Gigaset on:

› Twitter: http://www.twitter.com/Gigaset

› Xing: https://www.xing.com/companies/gigasetag (for news regarding Gigaset AG)

- Xing: https://www.xing.com/companies/gigasetcommunicationsgmbh
(for news regarding Gigaset Communications GmbH)

- LinkedIn: http://www.linkedin:.com/company/gigaset

## 2.3 Gigaset 2.0: Relaunch of the international website and eShop set-up in Germany and Austria

The Gigaset homepage presents itself to customers and visitors in a new and improved, modern design. The structure and design of the platform were fully revised, focusing even more clearly on the customers and their needs effective immediately. Gigaset's own eShop continued to be integrated into the new Internet presence, which will be available in the first phase in Germany and Austria.

## 2.4 Gigaset S820 receives awards in Germany and abroad

In Germany, the Gigaset S820A was chosen as Product of the Year in the "connect" readers' poll. The Touch & Type telephone won the prize for the best cordless telephone with an outstanding lead (the S820A received just under 60% of the votes). 61,778 readers participated in the poll this year, while it was just 24,000 in 2011.

The S820 Touch & Type telephone also received an important prize in Spain. The "100 Mejores Ideas" prize is awarded to particularly innovative ideas and/or products. Gigaset received this prize in Spain for the second year in a row. Last year, the SL910 (our full touch telephone) was awarded the "100 Mejores Ideas" prize. The prize is awarded by "Actualidad Económica", a weekly magazine with a circulation of just under 70,000 readers.

## 2.5 Gigaset pro starts a new partner program

With the new partner program, Gigaset supports systems vendors (value-added resellers) in the marketing of telephone systems and consumer devices for small and medium-sized enterprises. The program was tailored to the needs and requirements of value-added resellers and should facilitate additional synergy effects between the manufacturer and sales partners. In addition to targeted consumer marketing measures and concrete incentives based on the sales record, the program also features customized training via online seminars or classroom courses.

## 2.6 Gigaset elements available in retail stores

Gigaset elements has been available in retail stores since September 9, 2013. The intelligent, sensor and cloud-based system connects people with their home and actively helps enhance everyday life. It can be expanded and is easy to install, enabling everyone to finally have a smart home. Sensors register what is happening at home and forward the information reliably to the homeowner's smartphone.

The first component is the safety starter kit, which creates security for the home when homeowners are away. It consists of two intelligent DECT ULE-based sensors – a door sensor and a motion detector – as well as the base station and an app for smartphones. 'Gigaset elements' is supported by an intelligent, adaptable and secure cloud as an interface between your home and smartphone.

"The safety starter kit from 'Gigaset elements' will also be available in France soon. This represents the next step in our 'Gigaset 2015' strategy", says Gigaset CEO, Charles Fränkl. By expanding into France, Gigaset will tap Western Europe's third-largest smart home market.

## 2.7 Gigaset presents three new baby monitors

PA 330 Audio, PA 530 Audio Plus and PV 830 Video are the names of the three small world premieres with which Gigaset is taking its first steps into the nursery and the field of standalone baby monitors. With its new models, Gigaset offers high-quality baby monitors for every budget and all needs and is applying its experience and expertise in integrating baby monitors in telephones to the field of standalone systems for the first time.

Gigaset's baby monitors not only give parents a lot more peace of mind, but also offer much more convenience. All models help parents take action only when necessary and thus provide a measure of relief and greater freedom. From measurement of the sleeping and room temperature so as to ensure that it is not too high or low to disturb their baby's sweet dreams, the practical intercom function and goodnight songs that can be activated remotely, to the comforting night light – parents can respond quickly and give their child a feeling of security and warmth whenever necessary.



## 2.8 Changes in the capital structure and new investor Goldin Fund Pte. Ltd.

Gigaset AG received around EUR 42.9 million from the successful placement of its capital increase and convertible bond. The Company resolved on September 27, 2013, to increase its share capital by up to EUR 19,571,049.00 by means of a subscription rights issue and to float a convertible bond with a nominal value of up to EUR 23,340,289.00. The investment company Goldin Fund Pte. Ltd., Singapore, took over all new shares and convertible bonds not subscribed by existing shareholders. Thus, the investment terms agreed to in the investor agreement entered into on September 27, 2013, between Gigaset AG and Goldin Fund Pte. Ltd., Singapore, are fulfilled. The investor intends to develop new market segments in the area of consumer electronics that have previously not been served by the Gigaset Group as part of a strategic collaboration with Gigaset Group.

In an additional step, the Executive Board and Supervisory Board of Gigaset AG resolved on November 8, 2013, to further increase the Company's share capital by EUR 5,001,491.00 to EUR 74,587,451.00. All no-par value bearer shares were subscribed by Goldin Fund Pte. Ltd. from Singapore at an issue price of EUR 1.00 for each new share. Shareholders' statutory subscription rights were excluded.

## 2.9 Gigaset enters the tablet market as a new player

The global market for tablets is growing at a rapid pace – by approximately 60 percent in the past year alone. Gigaset is entering this growth market with two new Android-based premium models in the 8" and 10.1" format and thus completes the next step in expanding its "Gigaset 2015" strategy. The new 8" and 10.1" tablet models with which Gigaset has entered into the market are called Gigaset QV830 and QV1030. Additional attractive models will follow in 2014.

The compact 8" format convinces with its meticulous, upmarket workmanship and high-end materials. Anodized aluminum was used for the casing along with an especially scratch-resistant display. The tablet uses a high-speed Wi-Fi connection. It is ideal for surfing, shopping, chatting, checking e-mails and a thousand other things all made possible by the apps from "Google Play".

The large, high-performance display of the 10.1" tablet with its 2560x1600 pixels at 300 DPI is sharper than the resolution of the human eye. Enjoy films, photos and gaming in HD quality – those are the strengths of the QV1030. Furthermore, the tablet scores with a high-performance quad core processor (1.8GHz Nvidia T40S Cortex A15), stereo sound and 8 megapixel camera with dual LED flash. For software, both tablet models use Android version 4.2.2 known as "Jelly Bean".

## 2.10 Changes in the Supervisory Board of Gigaset AG

The Supervisory Board underwent personnel changes during the fiscal year. After Rudi Lamprecht stepped down for personal, private reasons, Bernard Riedel was elected as the new Chairman of the Supervisory Board in the Board meeting held on March 22, 2013.

Gigaset AG's annual shareholders' meeting held on August 14, 2013, primarily dealt with the periodic election of the new Supervisory Board. Paolo Vittorio Di Fraia, David Hersh, Prof. Dr. Michael Judis, Susanne Klöß-Braekler, Barbara Münch and Bernhard Riedel were elected to the governing body. In addition, Bernhard Riedel was appointed by the Supervisory Board as its Chairman in the meeting held directly after the shareholders' meeting and thus confirmed in his office.

After three Board members stepped down, the extraordinary shareholders' meeting held on December 19, 2013, dealt with appointing new members to the Board. To fill the positions vacated by Prof. Dr. Michael Judis, Susanne Klöß-Braekler and Barbara Münch, the governing body elected Helvin Wong, Prof. Dr. Xiaojian Huang, Flora Shiu as new Supervisory Board members.

The new composition of the Board reflects Gigaset AG's new shareholder structure.

## 2.11 Changes in the structure of the Group

The reorientation and streamlining of Gigaset AG was further accelerated. Over the course of the fiscal year, seven companies were sold, three companies liquidated, two companies merged and one company newly established.

The companies sold included Gigaset Communications FZ-LLC, SME Holding GmbH, SM Electronic GmbH based in Hamburg and Stapelfeld/Braak, Emanon GmbH, Hottinger Holding GmbH and Gigaset Malta GmbH.

Gigaset Malta Limited, Arques Capital GmbH i.L. and Gigaset Finance Limited were liquidated.

Gigaset Communications Licensing & Leasing GmbH & Co. KG was merged with Gigaset Communications GmbH and Hortensienweg Grundstücksverwaltungs GmbH & Co. KG was merged with Hortensienweg Management GmbH.

Gigaset Mobile Pte. Ltd., based in Singapore, was newly established.

# 3 Economic Report

## 3.1 General economic climate and industry environment

### 3.1.1 General economic climate

Whereas the Kiel Institute for the World Economy intends to raise its prediction for global economic growth in 2014, the growth forecasts for 2013 were reduced by 0.3% to 2.9%. The economic and business developments in 2013 varied greatly from region to region. According to the Federal Reserve, the US economy is predicted to have expanded by a good 2%, Japan similarly by around 2% and China by a strong 7.5%.

In Europe, the worst consequences of the financial crisis seem to be past, even if unemployment in the eurozone is still at a record level with a knock-on effect on private consumption. Almost 5% of EU citizens, or nearly 11.2 million people, were without work at the end of 2012, according to the Annual Review recently published by the EU Commission. In November 2013, the total according to Eurostat, the EU statistical office, was 12.1%. The situation in southern Europe remains particularly difficult. The highest unemployment rates are in Greece with 27.4% (as of September 2013) and Spain with 26.7%. More than half of young people in these countries are without permanent jobs.

The German economy was affected by the ongoing recession in some European countries and sluggish growth in the rest of the global economy. Strong domestic demand could only partly offset this effect. According to figures released by the Federal Statistical Office, gross domestic product (GDP) expanded by only 0.4%, which is the slowest rate of growth since the year of recession in 2009. Nonetheless, the German economy performed better than most other European Union countries. The most important driver of growth in Germany last year was consumption. Private consumer spending rose by 0.9% on a price-adjusted basis, while government spending increased by 1.1%. The positive trend on the labor market helped boost consumer confidence. The retail and mail-order trade, among others, benefited from the strong private consumption.

### 3.1.2 Telecommunications market

**Consumer Products Markt**

The European market for cordless telephones continued to contract tangibly last year in terms of both revenues and units shipped. The global financial and sovereign debt crisis dampened the consumer climate in southern and eastern Europe in particular. The ongoing preference for people to opt for smartphones over fixed-line phones, known as mobile replacement, further reinforced this trend, especially in the relatively saturated European markets.

A persistent decline in the importance of the analog and other digital standards could be observed in the global market for cordless phones. The digital DECT standard, on the other hand, recorded the smallest decline among the technologies tracked. In both the Asia/Pacific region and South America, the decline in units sold in the first half of 2013 was in the mid-single-digit range, which served to partly cushion the sharp decline recorded for the other standards in these regions.

The market trend in western Europe points toward further consolidation coupled with slowly declining prices overall. The largest European markets are found in Germany, France and the UK. Today, the three biggest competitors under the leadership of Gigaset already account for around two-thirds of the total volume. So-called B brands, which are located in lower price segments, cheap brands and local vendors are continuing to lose market share.[9]

### Business Customer Market

The financial economic and sovereign debt crisis is still influencing the recovery of the market for corporate customers, similar to the European Market for cordless telephones. The number of internet protocol (IP) connections remained stable, while the total number of connection in Western Europe has fallen by approximately 7 percent overall.

These IP-Based telephone systems represent almost 55% of the market as a whole. Online telephone systems – so – called "hosted PBX" – are also increasing in importance. This offers customers the advantage of not purchasing or leasing a telephone system, but rather procuring the entire telephony from one supplier. Gigaset pro is active in both areas and serves the growing demand for internet-based communication solutions.[10]

### Home Networks

The smart home market is still in its infancy and is characterized by broad fragmentation. At the same time, customers are showing greater interest and numerous technical innovations are being rolled out.

Strategy Analytics[11] estimates that 5% of households can now be described as "smart." Revenues in this segment are projected to rise from USD 4.5 billion in 2012 and USD 6.6 billion in 2013 to USD 14 billion in 2018. In Germany alone, the market is anticipated to expand from USD 1.6 billion in 2013 to USD 3.2 billion in 2018[12]. By 2018, 25% of German households are likely to have at least one type of smart home system installed.

The added value experienced by the resident and the gain in quality of life are important factors in the acceptance of the devices and services for intelligent living. Key roles in this regard are played by plug-&-play capability, reliability and ease of operation.

Since new-build homes in Germany are practically non-existent compared with the stock of older properties, the market in Germany can be conquered with affordable, cable-free upgrade packages for existing buildings in particular. Consumer surveys indicate that additional spending on smart home solutions is certainly acceptable for around 15% of respondents.[13]

### Tablet Market

The market for tablets again expanded rapidly in 2013, achieving a growth rate of 33% according to Strategy Analytics. This trend is also reflected in the western European market, which recorded growth of 51%. Tablets are becoming increasingly popular mainly on account of their user-friendliness, convenience and versatility. The Android

9. MZA Shipment Review 1H 2013, published September 2013
10. The World PBX/IP PBX Market, published March 2014)
11. Smart Home Systems and Service Forecast Western Europe, June 2013
12. Smart Home Systems and Service Forecast Germany, June 2013
13. electroboerse – smarthouse.de, July 16, 2013

operation system continues to predominate. This results from the scope and diversity of the offering. Accounting for 62% of total shipments, Android is the clear market leader ahead of the iOS operating system with 33% of total shipments in fiscal 2013. All in all, 2013 was a very good year for the tablet market. For the first time, more tablets were sold than laptops.[14]

## 3.2 Business principles of the Gigaset Group

### 3.2.1 Consumer Products

As a premium brand, moreover, Gigaset generated prices that were 29 % higher than the average market price.[15]

Gigaset is confronting this trend by entering into new segments as well as by expanding its portfolio in the Consumer Products segment. In this context, two new introductions were particularly important:

A new product introduced in the third quarter was the Android-based full touch SL930A telephone. It combines the advantages of a smartphone with the typical high quality workmanship and other advantages of a Gigaset landline telephone. The Android 4.0 interface enables comfortable access directly over the router to the Google Play Store , where over 975,000 apps are available. The SL930A sets a new and promising direction for Gigaset towards "cloud-friendly" products.

It was introduced first in Germany and expanded to the pan-European area in the fourth quarter. Here as well Gigaset is pursuing a clear strategy of internationalization and also expanding the distribution area to all of Europe, whereby special attention is being given to the large Gigaset markets of France, Italy and Spain. With this internationalization concept and the sales start in the fourth quarter of 2013, Gigaset ensured the broad availability of the new Android premium telephone just in time for the Christmas shopping season.

The first products from the area of "adjacent products" were introduced on October 1 with three baby monitor variations. With its new models, Gigaset offers high-quality baby monitors for all needs and is applying its experience and expertise in integrating baby monitors in telephones to the field of standalone systems for the first time.

In addition, new cordless telephones for various areas of application were introduced to the market as part of the announced product offensive: The A415, an easy-to-use, solidly-equipped entry-level model; the C430, a mid-range all-rounder; the E 630, a product that can cope with even very heavy stresses and strains without sacrificing an attractive design.

Gigaset products once again proved their merits in various tests in the fiscal year just ended. In August, the Touch & Type S820A telephone was chosen as Product of the Year in the "connect" readers' poll. In Spain, it received the "100 Mejores Ideas" prize awarded to particularly innovative ideas. The consumer portal "testsieger.de" awarded Gigaset the title of "Premium Manufacturer 2012" in the "Telephones" category at the beginning of the third quarter. This prize is only bestowed on companies with the highest standards of quality whose products are regularly tested in trade publications with above-average results.

14.Strategy Analytics, Januar 2014
15. The data was taken from surveys by the Retail Panel for cordless telephones of GfK Retail and Technology GmbH in the countries of Belgium, Germany, France, the United Kingdom, Italy, the Netherlands, Austria, Poland, Switzerland,Spain, Russia and Turkey. Collection period: Jan - Dec 2013; Basis GfK Panel Market.

In order to concentrate on highly profitable markets, Gigaset also reviewed its non-European activities in 2013. As a result of this review, Gigaset exited the unprofitable cordless business in Brazil. The subsidiary responsible for the Middle East and Africa region was sold to its local management. In Mexico, the business model was successfully reoriented and strategic partnerships were formed with two high-volume distributors.

### 3.2.2 Business Customers

The Business Customers segment further established its excellent position in the market in fiscal 2013. Sales revenue was expanded using a target-group-specific portfolio as well as through targeted sales and distribution measures and was increased by 19,3 % year-on-year. Business Solutions products performed disproportionately well under the "Gigaset pro" brand introduced in 2011, growing 68 % year-on-year.

In the further expansion of its business, Gigaset continues to place high value on collaborating with its sales partners – its so-called value added resellers. Therefore, a partner program was set up in the second quarter to support the sales partners in the marketing of telephone systems and consumer devices for small and medium-sized enterprises. The program was tailored to their needs and requirements and should facilitate additional synergy effects between Gigaset as the manufacturer and the value added resellers as sales partners. In addition to targeted consumer marketing measures and concrete incentives based on the sales record, the program also features customized training via online seminars and classroom courses.

Regional expansion was further promoted. The sales organizations in the regions of Austria, Switzerland, the United Kingdom and the Nordic countries were further expanded, but the business in existing countries was also further promoted. The largest share of sales went to France, Germany and Benelux.

The range of products and services was also further developed based on customer needs. Gigaset pro and AudioCodes, a leading Microsoft Lync partner, have developed a solution together that enables the use of the Gigaset DECT multicell N720IP Pro telephone system in Microsoft Lync environments. This solution now enables wireless accessibility also in Lync installations independent of time and location both in the company as well as over the entire company premises.

In September 2013, a new business telephone was introduced with the R630H pro, which due to its robust design is suitable for companies whose employees work outside of classic office spaces. The device is especially dust and waterproof with the additional advantage of shock resistance and offers maximum ease of use under difficult conditions.

In the third and fourth quarters, Gigaset pro products won various prizes and awards. In France, Gigaset pro was distinguished as the best manufacturer of SIP-based consumer devices in a survey among resellers, ranking ahead of well-established brands such as Alcatel-Lucent and Aastra. In particular, Gigaset's brand image performed very well. In Germany, the N720 DECT IP multicell telephone system was selected by readers of Funkschau magazine as the ITC Product of Year 2013, while in the Netherlands, the R630H won the "Product and Accessory Award 2013 – Bronze".

### 3.2.3 Home Networks

Gigaset completed the starter kits from Gigaset elements in the second quarter of 2013; as a result, deliveries to selected customers began in July. Sales over the German retail network as well as online shops began in September. The next step towards internationalization under the "Gigaset 2015" strategy was the introduction to the French market, with Gigaset's own distribution network that has been well-developed and well-established for years. France is the third-largest smart home market in Western Europe. Communications support was provided for the commencement of distribution in both countries with a marketing campaign These consist of numerous other measures in various channels alongside online promotions. In the print segment, this includes successful test reports and articles in the most-read print media: Bild am Sonntag, Computerbild, Chip and Lisa Wohnen & Dekorieren. Furthermore, Megalights campaigns were conducted in 15 German cities and Citylights campaigns at major airports and train stations in Germany. In addition to the PR activities, advertorials featuring video and picture materials were also used extensively to promote "Gigaset elements."

The "safety starter kit" introduced in 2013 is the basis for the multifaceted possibilities of Gigaset elements and focuses on the topic of security. It consists of two intelligent DECT ULE-based sensors – a door sensor and a motion detector – as well as the base station and an app for smartphones. Gigaset elements is supported by an intelligent, adaptable and secure cloud as an interface between your home and smartphone.

With the subject of security as its introduction, Gigaset elements is developing the future market of the "Internet of Things", helping modern, mobile and increasingly better-networked people stay connected to their homes and thereby protecting this private place.

Users can expand Gigaset elements modularly. First using additional door and motion sensors as well as the "window" sensor and the "siren" alarm sensor. Plans for the future include an expansion of product portfolio with additional components as well as services.

With the premium service "Gigaset elements monitored by Securitas" resulting from the development partnership with Securitas, the leading security service provider will ensure that no alarm goes unanswered. The service at the heart of the cooperation is the computer-aided handling of alarms by Securitas, which can be ordered by all Gigaset elements customers.

### 3.2.4 Tablets

Gigaset launched two new Android-based models in 8" and 10.1" format in the fast-growing market for tablets in December 2013. This represents the next step in the expansion of the Gigaset 2015 strategy. The market roll-out focused first on Germany, although distribution of the tablets also started in other European countries. The goal with the newly introduced tablets is to offer customers the usual Gigaset premium promise at first class prices. The QV 830 is a compact multimedia talent that is ideal for surfing, shopping, chatting and checking email. With its 2560x1600 pixels at 300DPI, the high performance QV 1030 tablet features a display that has a resolution that is sharper than the human eye. This allows films, images and gaming to be enjoyed in HD quality. Further highlights include the powerful Quad Core processor, the stereo sound and the 8 megapixel camera complete with dual-LED flash.

### 3.2.5 Marketing

Various marketing communication campaigns have been rolled out to bolster sales. The launch of the Android-based SL930A was supported by an online and offline campaign as well as targeted PR activities under the motto:

"Expect more form your homephone.
Communicate. Connect. Control.
Experience the new SL930A homephone with Android™"

The new product combines the high definition tone quality of a landline telephone with the advantages of a smartphone and offers many possibilities to simply life: information around the clock, organization, home control, entertainment and availability 24 hours a day whenever the customer desires.

The Gigaset homepage has presented itself to customers and visitors in a new and improved, modern design since June 2013. The platform's structure and interface were fully revised, focusing even more clearly on the customers and their needs effective immediately. Gigaset's own eShop continued to be integrated into the new Internet presence, which will be available in the first phase in Germany and Austria and offers customers Gigaset's entire portfolio.

The roll-out of the first Gigaset Tablets in time for the Christmas shopping season was accompanied by various marketing activities at the end of the year. Alongside online advertising like display ads, banner and Google AdWords, inserts were placed in the magazines Stern, Spiegel and Focus to promote the launch of the new products.

### 3.2.6 Sales and distribution

Gigaset sells products through direct and indirect distribution to retailers, telecommunications companies and distributors. These sales partners offer the products both in stationary stores and increasingly also via online channels. Major customers are served by key account managers, with additional support provided by regional sales employees to implement the sales and distribution strategy based on the country-specific distribution model. In addition to the cited distribution channels, Gigaset offers its products increasingly over its own online shop with direct contact to the customer. The Business Customers segment with the Gigaset pro product line works exclusively on an indirect basis via distributors, value added resellers and other manufacturers of consumer devices (such as Teldat) as well as network operators.

The introduction of new product fields to the market was promoted under the "Gigaset 2015" strategy: The Android-based full touch SL930A telephone was introduced to the core European markets. 'Gigaset elements', the new solution for networked home living, is now available in German and French retail stores and connects people with their home over intelligent sensors and a DECT ULE base station connected to a cloud. In addition, Gigaset introduced a series of standalone baby monitors in 2013 that also work with the DECT standard. These devices were sought after in particular in Europe. Gigaset entered the market for tablets at the end of 2013, beginning with the delivery of the first variants QV1030 and QV830.

The goal of Gigaset's sales strategy is to defend the price advantage of the Gigaset brand on the market as well as to secure and further increase the market share in Europe. In Asia, the Middle East, Africa and Central Eastern Europe, Gigaset intends to permanently expand its position by expanding its product portfolio.

Gigaset once again defended its strong position against competitors in its core markets in a generally difficult retail and operator environment. This success was aided in particular by participating in large-scale invitations to tender on the part of retailers and telecommunications providers. The Company's development varied depending on the region and country.

In Europe, Gigaset was able to further expand its leading market position, in particular in its home country of Germany in the core business with digital cordless telephones. In addition, Germany took on a leading role in the introduction of the tablets and Gigaset Elements.

Despite the dwindling cordless voice market, Gigaset succeeded again and again in establishing and expanding cooperations in core countries. For instance, the market share was continuously expanded in the Nordic countries and the Netherlands in terms of unit volume. In Sweden, a retail partner began selling Gigaset tablets in large numbers in its stores.

In the MEA sales region, the sales model was successfully reoriented through a management buy out (MBO). The turnaround in Turkey was also completed. Gigaset is now the market leader in this region with a streamlined organization and competitive cost structure.

Latin America was also characterized by changes in business models. The cost-intensive structure with local companies was partially converted to an efficient centrally managed direct business in collaboration with local sales agents. In Mexico, Gigaset successfully completed its reentry in retail stores. The return of Gigaset to the retail market in Mexico was successfully completed.

### 3.2.7 Environment

Gigaset AG observes the principles of sustainable conservation of the environment and the natural resources on which mankind depends.

Gigaset's products are manufactured according to the highest environmental protection and quality standards in the production facility in Bocholt. Gigaset obtained certification according to the DIN ISO 14001 standard for its environmental management system as early as 2007 and undergoes an annual review.

Our commitment to protecting the environment is reflected both in the development and production of particularly energy-efficient Gigaset ECO DECT cordless telephones as well as in the consumption of energy at the production site in Bocholt.

The consumption of electricity and natural gas was reduced by one-fourth from 2008 to 2013 through the implementation of many measures in the area of infrastructure and production, for example, the use of new laser marking systems.

Gigaset especially wants to make a contribution to reducing waste; this is reflected, among other things, in Gigaset's first product to receive the HTV-Life®-Mark of Excellence. The HTV-Life®-Mark of Excellence manifests a product that does not contain measures for the intentional reduction of product lifetime (planned obsolescence) and thus is durable.

### 3.2.8 Employees

In 2013, Gigaset consistently implemented the reorganization of its corporate structures and the associated reduction in the number of employees which had begun in 2012.

With the conclusion of the measures on December 31, 2013, 259 employees have left the Company. The reduction is being carried out by means of transfer to a transitional company, plant-specific notices of termination, early retirements, natural fluctuation and the expiration of contracts of limited duration. The number of employees in the subsidiaries was reduced as of the reporting date December 31, 2013, by 32 to 294. For 2013, the restructuring resulted in savings of around EUR 28 million; starting in 2014, these measures are expected to produce an effect for the full year of EUR 30 million.

Gigaset began constructing a product center in Düsseldorf under the "Gigaset 2015" growth strategy. This should result in a significant increase in efficiency due to the optimized geographical position of the three business segments Consumer Products, Business Customers and Home Networks. The construction of the product center was continued consistently in 2013.

Gigaset is positioning itself on the market as an international communications company leading in the area of technology and products. This technological leadership and the international orientation of all its locations puts Gigaset in a very good position in the competition for the best employees. The high qualification of employees in all areas from development to production forms the basis of the Company's success. The nurturing of potential talent in the past enabled Gigaset to quickly find successors for vacated positions in 2013. The identification of employees with the Gigaset Group and their commitment to the Company is very high. Fluctuation due to self-termination only amounted to 2,7%, despite the restructuring.

Owing to the Company's vertical depth, spanning development, marketing and distribution as well as production and logistics, Gigaset has a need for employees with a wide range of skills. This need is covered in part by its own employees (key talents, apprentices/trainees) as well as through recruitment (in particular through job exchanges). The Company also relies on temporary workers primarily for semi-skilled activities to provide the Company with the necessary flexibility in a highly seasonal sales market.

The Group had an average of 1.538 employees in fiscal year 2013 (prior year: 1,799). There were 1.429 employees working for the Gigaset Group as of the reporting date December 31, 2013 (prior year: 1,743).

## 3.3 Financial performance, cash flows and financial position of Gigaset AG

| Key figures of Gigaset AG | 2013 | 2012 |
|---|---|---|
| Non-current assets | EUR 234.4 million | EUR 241.5 million |
| Current assets | EUR 39.7 million | EUR 6.5 million |
| Equity | EUR 221.2 million | EUR 202.4 million |
| Non-current liabilities | EUR 1.9 million | EUR 12.5 million |
| Current liabilities | EUR 51.0 million | EUR 33.1 million |
| Equity ratio | 80.7% | 81.6% |
| Return on equity | negative | negative |
| Return on investment[16] | negative | negative |

### 3.3.1 Financial performance

**Sales revenue** of EUR 4.4 million (PY: EUR 0.6 million) comprises almost exclusively advisory services rendered for affiliated companies in Germany.

**Other operating income** rose from EUR 1.1 million to EUR 4.8 million. This essentially results from an increase of EUR 3.4 million in income from the release of provisions.

**Personnel expenses** increased by EUR 3.3 million to EUR 5.0 million. The main cause of this rise is the transfer of staff from Gigaset Communications GmbH to Gigaset AG as part of the reorganization of the corporate group. The transfer of a total of 28 employees started on November 1, 2012 and continued into 2013.

**Other operating expenses** of EUR 13.0 million accrued in fiscal year 2013 (PY: EUR 11.1 million). Spending on consultancy services rose to EUR 3.5 million (PY: EUR 0.2 million) in connection with the reorganization of Gigaset. Furthermore, a loss totaling EUR 2.8 million upon merge was recorded on the liquidation of Gigaset Malta Ltd., Malta and Gigaset Finance Ltd., Malta. In addition, other operating expenses also include legal and advisory costs of EUR 2.2 million (PY: EUR 1.3 million) and the cost allocation of EUR 1.7 million on the part of Gigaset Communications GmbH (PY: EUR 2.4 million).

**Investment income** amounted to EUR 0.5 million in the reporting period (PY: EUR 0.0 million), comprising a dividend received from Gigaset Industries GmbH, Vienna.

**Interest and similar income** essentially reflects interest income companies of EUR 0.3 million from affiliated companies (PY: EUR 0.5 million) and of EUR 0.1 million (PY: EUR 0.4 million) from loan interest.

16. Total capital=(profit + interest on borrowed capital)/total capital*100

**Impairment write-downs of financial assets and current securities** in the amount of EUR 0.1 million include write-downs on interest charged to former subsidiaries. In the prior year, a write-down of EUR 2.9 million was recognized on the other loan to van Netten GmbH, which has in the meantime filed for bankruptcy.

**Interest and similar expenses** rose by EUR 1.6 million year-on-year to EUR 2.3 million. This is essentially due to the addition of a provision for interest on claims for damages, interest payable on the syndicated loan and other expenses in connection with the syndicated loan.

**Taxes on income** of EUR 17.4 million (PY: EUR 6.5 million) include tax expenses of EUR 16.6 million from the write-down of deferred tax assets on tax losses carried forward (PY: EUR 7.3 million). The write-downs arose on account of the non-recurrence of tax loss carryforwards as part of the shift in the ownership structure resulting from the capital increase.

A **net loss** of EUR 27.6 million was recorded for fiscal year 2013 (PY: EUR 8.0 million).

### 3.3.2 Cash flows and financing

**Cash flow** can be broken down as follows:

| EUR million | 2013 | 2012 |
|---|---|---|
| Cash flow from operating activities | -25.7 | -1.0 |
| Cash flow from investing activities | -9.2 | -11.0 |
| Free cash flow | -34.9 | -12.0 |
| Cash flow from financing activities | 47.9 | 12.0 |

In fiscal year 2013, Gigaset AG recorded a **cash outflow from operating activities** of EUR 25.7 million (PY: EUR 1.0 million). This can essentially be attributed to lower payments received from affiliated companies and the loans granted to Gigaset AG by affiliated companies.

The **cash outflow from investing activities** amounted to EUR 9.2 million, which was below the year-ago total of EUR 11.0 million. The cash outflows essentially relate to the disbursement of a long-term loan to Gigaset Communications GmbH, Bocholt.

The **free cash outflow** thus amounted to EUR 34.9 million compared to EUR 12.0 million in the previous fiscal year.

The **cash inflow from financing activities** amounted to EUR 47.9 million (PY: EUR 12.0 million), resulting essentially from the successful placement of the two capital increases and the issuance of the convertible bond.

The cash and cash equivalents amounted to EUR 13.0 million at December 31, 2013 (PY: EUR 0.0 million).

### 3.3.3 Financial position

Gigaset AG's **total assets** amounted to EUR 274.1 million as of December 31, 2013 (PY: EUR 247.9 million), thus increasing 10.6% year-on-year. The main reason for this on the asset side is an increase in the loan receivables from affiliated companies. This is offset by a decline in investments and the write-down on deferred tax assets.

**Non-current assets** fell by EUR 7.1 million year-on-year and now amount to EUR 234.4 million, representing 85.5% of total assets. The total essentially includes investments and the long-term loans to affiliated companies. The increase in long-term loans to affiliated companies results from a long-term loan of EUR 11.7 million to Gigaset Communications GmbH, Bocholt. This is set against a decline of EUR 3.5 million resulting from the disposal of Gigaset Malta Ltd., Malta. This effect is offset by the transfer of EUR 1.0 million to the capital reserves of Gigaset Beteiligungsverwaltungs GmbH, Munich.

**Current assets** rose sharply to EUR 39.7 million (PY: EUR 6.5 million), now representing 14.5% of total assets. They include primarily receivables from affiliated companies, other assets and cash in banks. The receivables from affiliated companies have risen by EUR 21.5 million year-on-year to EUR 26.3 million. This essentially results from a loan receivable of EUR 16.9 million from GIG Holding GmbH, Munich. Furthermore, there was an increase of EUR 5.5 million in receivables from consulting services. Other receivables fell by EUR 0.7 million, of which EUR 0.4 million relates to the write-down and derecognition of loans to former subsidiaries and EUR 0.3 million to a reduction in input tax receivables.

The increase in **total assets** is reflected on the liabilities side mainly by a rise in equity and current liabilities. This is offset by a decline in non-current liabilities.

Gigaset AG's **equity** rose by EUR 18.8 million. This is primarily due to the two capital increases of EUR 19.6 million and EUR 5.0 million, respectively, that were carried out together with the issuance of the convertible bond of EUR 23.3 million. Of this total, an amount of EUR 1.5 million is carried in non-current liabilities at the reporting date of December 31, 2013 for the as-yet unconverted tranche of the convertible bonds. By contrast, the net loss for the year of EUR 27.6 million served to depress the total. The equity ratio fell from 81.6% to 80.7% on account of the higher total assets.

Non-current liabilities mainly include contributions of EUR 1.5 million received for the purchase of compulsory convertible bonds (PY: EUR 0.0 million), pension provisions of EUR 0.3 million (PY: EUR 0.4 million) and other provisions of EUR 0.1 million (PY: EUR 0.1 million). The syndicated loan of EUR 12.0 million recognized in non-current liabilities in the previous year was reclassified to current liabilities during fiscal year 2013. In response to the changed ownership structure caused by the entry of Goldin Fund Pte. Ltd., Singapore (change-of-control clause), the syndicate banks have, as expected, requested repayment of all amounts utilized under the granted credit lines by April 30, 2014, as stipulated in the loan agreement.

Current provisions encompass other provisions of EUR 13.5 million (PY: 13.6 million). In particular, the other provisions were set up for legal disputes, warranty claims, asserted claims for damages and outstanding invoices receivable. Furthermore, tax provisions of EUR 1.0 million have been recorded (PY: EUR 2.2 million).

In the fiscal year just ended, Gigaset AG's current liabilities increased by EUR 17.9 million to EUR 51.0 million (PY: EUR 33.1 million). Liabilities to affiliated companies in the amount of EUR 23.5 million (PY: EUR 16.7 million) represent the majority of current liabilities. The current financial liabilities contain EUR 8.7 million from the utilization of the syndicated loan in line with the decline in non-current financial liabilities, as the syndicated loan agreement was terminated with effect from April 30, 2014.

## 3.4 Financial performance, cash flows and financial position of the Group

### 3.4.1 Financial performance

The Gigaset Group generated **sales revenue** in a total amount of EUR 377.1 million (PY: EUR 437.2 million) in the 2013 fiscal year just ended in a difficult economic environment, EUR 371.1 million (PY: EUR 419.6 million) of which can be attributed to the core business. Sales revenue from continuing operations is generated by the core Gigaset segment and is subject to the typical seasonal fluctuations in the retail business. The year-on-year decline of 13.8% in sales revenue can be attributed primarily to the contracting market in the core Consumer Products business. In Europe, the decline in sales revenue due to the decreasing market for cordless phones as a whole was only partially compensated by the increase in market share. In total, sales revenue in Europe fell by 8.8% year-on-year to EUR 335.8 million. The decline in sales revenue in the Americas region is due in particular to the modified import regulations in Argentina, the change of sales model in the United States and Brazil and increased competition in the contracting telecommunications market in South America. Sales revenue also fell in the Asia-Pacific / Middle East region. The decline in this region can be attributed to the one-off special campaign in China in the prior year, the weak economy, political unrest in the Middle East and the reorganization of the sales structure in the United Arab Emirates.

Sales revenue developed as follows:

| Sales revenue in EUR million | 2013 | 2012 | Change |
|---|---|---|---|
| Europe | 335.8 | 368.0 | -8.75% |
| Americas | 12.7 | 23.8 | -46.64% |
| Asia-Pacific / Middle East | 22.6 | 27.7 | -18.41% |
| Gigaset total | 371.1 | 419.5 | -11.54% |
| Other | 6.0 | 17.7 | -66.10% |
| **Total** | **377.1** | **437.2** | **-13.75%** |
| of which continuing operations | 371.1 | 419.5 | -11.54% |
| of which discontinued operations | 6.0 | 17.7 | -66.10% |

**Other own work capitalized** in the amount of EUR 17.3 million (PY: EUR 16.1 million) can be attributed exclusively to continuing operations and mainly includes costs related to the development of innovative products. The investments in the future are at a high level and were increased over the prior year.

**Other operating income** totaled EUR 25.3 million, which is EUR 6.5 million lower than in the prior-year period. The significant items are the income of EUR 7.7 million (PY: EUR 3.7 million) from the release of provisions and exchange rate gains of EUR 7.0 million (PY: EUR 6.5 million). Income of EUR 5.1 million (PY: EUR 3.3 million) from the reversal of value adjustments and the derecognition of liabilities was also generated alongside gains of EUR 0.4 million (PY: EUR 2.7 million) on forward exchange deals. In the prior year, this item included income of EUR 9.9 million from a one-off, retroactive purchase price reduction.

The **cost of materials** for raw materials, merchandise, finished goods and purchased services was EUR 187.0 million, a decrease of EUR 39.1 million compared with the previous year's amount of EUR 226.1 million. Including the change in inventories, the cost of materials ratio fell from 51.8% to 50.7%.

**Personnel expenses** for wages, salaries, social security contributions and old age pensions amounted to EUR 101.2 million, a year-on-year decrease of EUR 32.3 million. In particular, the decline reflects the ongoing implementation of the restructuring program. The expenses for partial retirement agreements increased, however. Due to changes to IAS 19, provisions for partial retirement commitments of EUR 3.4 million were reversed without affecting reported net income while provisions of EUR 3.3 million for partial retirement commitments were taken to the income statement again at December 31, 2013.

**Other operating expenses** of EUR 119.7 million were incurred in the reporting period (PY: EUR 128.4 million). In particular, these include marketing expenses (EUR 32.4 million, PY: EUR 37.6 million), general administrative expenses (EUR 15.3 million, PY: EUR 22.1 million), exchange rate losses (EUR 10.4 million, PY: EUR 8.3 million), consulting expenses (EUR 10.3 million, PY: EUR 9.2 million) and transport costs (EUR 10.0 million, PY: EUR 12.8 million). The cost-cutting measures initiated in the previous year were systematically continued.

**EBITDA** amounted to EUR 7.5 million at December 31, 2013 (PY: EUR -3.6 million).

The results can be broken down as follows:

| EBITDA in EUR million | 2013 | 2012 | Change |
|---|---|---|---|
| Europe | 29.0 | 12.7 | 128.35% |
| Americas | 0.3 | -6.5 | 104.62% |
| Asia-Pacific / Middle East | -12.6 | 1.4 | -1,000.00% |
| Gigaset total | 16.7 | 7.6 | 119.74% |
| Holding | -5.7 | -10.3 | 44.66% |
| Other | -3.5 | -0.9 | -288.89% |
| **Total** | **7.5** | **-3.6** | **308.33%** |
| of which continuing operations | 11.0 | -2.7 | 507.41% |
| of which discontinued operations | -3.5 | -0.9 | -288.89% |

**Depreciation and amortization** in the reporting period amounts to EUR 26.2 million (PY: EUR 24.8 million), resulting exclusively from continuing operations. Write-ups on impairments of EUR 1.9 million (PY: impairment losses of EUR 1.9 million) reflect write-ups on the assets of the SM Electronic Group held for sale arising from the recognition at fair value of the costs to sell the disposal group, taking into account the liabilities held for sale.

EBIT can be broken down as follows:

| EBIT in EUR million | 2013 | 2012 | Change |
|---|---|---|---|
| Europe | 2.9 | -12.0 | 124.17% |
| Americas | 0.3 | -6.5 | 104.62% |
| Asia-Pacific / Middle East | -12.6 | 1.3 | -1,069.23% |
| Gigaset total | -9.4 | -17.2 | 45.35% |
| Holding | -5.7 | -10.4 | 45.19% |
| Other | -1.6 | -2.8 | 42.86% |
| **Total** | **-16.7** | **-30.4** | **45.07%** |
| of which continuing operations | -15.1 | -27.6 | 45.29% |
| of which discontinued operations | -1.6 | -2.8 | 42.86% |

**Net financial income** decreased by EUR 0.1 million year-on-year to loss of EUR 4.0 million. The factors behind this total were the utilization of the syndicated loan and the costs accruing in connection with the loan.

The **consolidated net loss for the year** after minority interests amounts to EUR 36.1 million following on from a consolidated net loss of EUR 28.6 million in the previous year.

This results in **earnings per share** of EUR -0.61 (basic/diluted) (PY: EUR -0.57 (basic/diluted)).

### 3.4.2 12.3.8 Cash flows and financing

**Cash flow** can be broken down as follow:

| EUR million | 2013 | 2012 |
|---|---|---|
| Cash flow from operating activities | -35.0 | -24.1 |
| Cash flow from investing activities | -7.2 | -8.8 |
| Free cash flow | -42.3 | -32.9 |
| Cash flow from financing activities | 44.9 | 26.2 |

In fiscal year 2013, the Gigaset Group recorded a **cash outflow from operating activities** of EUR 35.0 million (PY: EUR 24.1 million). The disbursements for severance payments made in the reporting period under the 2012 restructuring program served to depress the cash flow from operating activities as did the decline in the trade payables. At the same time, the income taxes and interest payments paid lowered the cash flows. The decline inventories, on the other hand, had a positive impact on operating cash flows.

The **cash outflow from investing activities** amounted to EUR 7.2 million, which was below the year-ago total of EUR 8.8 million. The cash outflows primarily reflect investments in intangible assets and property, plant and equipment.

Thus, **free cash outflow** amounted to EUR 42.3 compared to EUR 32.9 million in the previous fiscal year.

The **cash inflow from financing** activities amounted to EUR 44.9 million (PY EUR 26.2 million), resulting essentially from the successful placement of the two capital increases and the issuance of the convertible bond.

Discontinued operations accounted for cash outflows of EUR 1.0 million after a cash inflow of EUR 0.1 million in the previous year. In addition, the cash outflow includes exchange rate losses of EUR 1.3 million (PY: EUR 0.7 million).

The cash and cash equivalents increased by EUR 2.3 million year-on-year to EUR 57.0 million.

### 3.4.3 Financial position

The financial position has been heavily influenced by the retrospective amendments to the IAS 19 "Employee Benefits" accounting standard. For a detailed breakdown of the individual effects, please refer to our comments in section "A. General information and presentation of the Consolidated Financial Statements" of the notes to the consolidated financial statements.

The Gigaset Group' **total assets** as of December 31, 2013, amounted to around EUR 267.1 million, which is approximately 12.0% lower than at the previous year-end. This can be attributed to both the continued streamlining of the portfolio, together with the associated deconsolidations and the contracting business with cordless DECT telephones. The further buildup of the promising growth markets in the Business Customers and Home Networks segments coupled with the entry in the tablet market at year-end failed to offset this development.

**Non-current assets** decreased by EUR 15.4 million compared to December 31, 2012 to total EUR 101.8 million. The decline can essentially be attributed to the write-down of EUR 12.1 million to EUR 16.7 million taken on deferred tax assets on tax loss carryforwards at Gigaset AG. This write-down was necessitated by the change in ownership structure caused by the capital increases. Depreciation and disposals exceed the investments in property, plant and equipment, meaning that property, plant and equipment declined by EUR 4.5 million overall to total EUR 39.6 million. The investments in intangible assets served to partially offset the decrease.

**Current assets** represent 61.9% of total assets. Compared to year-end 2012, these fell by EUR 21.0 million and now amount to EUR 165.3 million. The decline is mainly due to the disposal of the SM Electronic Group, the assets of which were previously carried under assets held for sale. The year-on-year effect arising from this totals EUR 18.8 million. The Group responded promptly to the contracting overall market by reducing its inventories from EUR 33.4 million to EUR 27.5 million as part of its active working capital management. The development of other assets and cash and cash equivalents had a contrary impact. While other assets rose by EUR 2.1 million to EUR 28.5 million, an increase of EUR 2.3 million to EUR 57.0 million was recorded for cash and cash equivalents. Please refer to the statement of cash flows for a breakdown of changes in cash and cash equivalents.

**Total liabilities** amount to EUR 228.4 million (PY: EUR 279.1 million), of which 68.9% are current. Following the considerable deleveraging carried out in previous years, the Group's aggregate debt was reduced by a further EUR 50.7 million during the reporting period.

The Gigaset Group's **equity** amounted to around EUR 38.7 million as of December 31, 2013, up EUR 14.4 million on the start of the year. All in all, the equity was reinforced by the two capital increases of EUR 19.6 million and EUR 5.0 million, respectively. The convertible bond of EUR 23.3 million similarly had a positive effect on equity. The net loss for the year of EUR 36.1 million serves to depress equity, however. The amendments to the IAS 19 accounting standard have given rise to revaluation effects of EUR 30.0 million (PY: EUR 34.1 million) on defined benefit pension plans that are carried in equity without affecting reported net income. The equity ratio as of the reporting date is around 14.5% (PY: 8.0%).

**Non-current liabilities** essentially reflect the pension obligations, deferred tax liabilities and non-current personnel provisions and provisions for warranties. The decline of EUR 30.0 million in non-current liabilities to EUR 71.1 million essentially arises from the reclassification of the syndicated loan to current liabilities. In response to the changed ownership structure caused by the entry of Goldin Fund Pte. Ltd., Singapore (change-of-control clause), the syndicate banks have, as expected, requested repayment of the utilized credit lines of EUR 30.2 million by April 30, 2014, as stipulated in the loan agreement. The increase in non-current personnel provisions of EUR 3.3 million results from the continuation of the partial retirement agreements. At the same time, the release of the provision for service anniversary bonuses in line with the revised plant agreement led to a reduction of EUR 2.1 million in non-current provisions.



At EUR 157.3 million, **current liabilities** are around 11.6% lower than at year-end 2012 (PY: EUR 178.0 million). **Current provisions** are shaped in particular by the decline of EUR 11.2 million in restructuring provision to EUR 2.7 million. In addition, there was a decline in current warranty provisions from EUR 6.9 million to EUR 5.9 million, while other provisions moved in the other direction. The rise of EUR 2.5 million essentially results from the increase in provisions for other taxes from Argentina. Current **financial liabilities** rose sharply in fiscal year 2013. This can be attributed notably to the reclassification of the syndicated loan to current liabilities and is in line with the decline in non-current financial liabilities. By contrast, trade payables fell by EUR 15.2 million to EUR 71.5 million on account of the procurement and production processes that were optimized and adjusted to reflect the declining sales revenue. The EUR 3.1 million decline in **other liabilities** can essentially be attributed to a decrease of EUR 2.5 million in liabilities to personnel. In the previous year, the liabilities related to **assets held for sale** contained the liabilities of the SM Electronic Group. The liabilities concerned were derecognized in full when that Group was sold during fiscal year 2013.

### 3.4.4 General assessment of the Group's economic situation

As was the case in the previous year, 2013 was characterized by a contracting telecommunications market. In Europe, the Group only managed to offset part of the decline in sales revenue from the overall market by gaining additional market share. Whereas the Group suffered a large reduction in revenue in the Americas region, the decrease in the Asia/Pacific region lay at 18.4%. Work continued on the expansion of the Business Customers segment and the promising Home Networks segment, while entry into the rapidly expanding market for tablets was successfully completed. The annual savings of EUR 30.0 million envisaged under the 2012 restructuring program were achieved in personnel expenses and the cost of materials during the reporting period. These totaled EUR 28 million at year-end. Including the savings in connection with the restructuring program amounting to EUR 1.9 million realized prematurely in fiscal year 2012, the aimed target was achieved. The Group's liquidity position has been greatly improved by the successful placement of capital increases and convertible bonds. Whereas EBITDA totaled EUR 7.5 million at year-end (PY: EUR -3.6 million), the consolidated net loss of EUR 36.1 million (PY: EUR 28.6 million) can be attributed notably to the write-downs on tax loss carryforwards.

Overall the course of business is in line with our expectations and corresponds to our guidance given in the first quarter of 2013. Sales declined by 13.8% and this decrease accords to the expected lower double-digit percentage range. EBITDA improved from EUR -3.6 million to EUR 7.5 million, which corresponds to our predicted return of the operational business to profitability. The negative free cash flow in the amount of EUR 42.3 million is in the expected mid double-digit million range.

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

| | 2013 | 2012 |
|---|---|---|
| Equity ratio | 14.5% | 8.0% |
| Ratio of non-current assets to total assets | 31.9% | 29.1% |
| Debt capital structure | 68.9% | 63.8% |
| Return on sales | negative | negative |
| Return on equity | negative | negative |
| Return on investment[17] | negative | negative |

### 3.4.6 Presentation and explanation of corporate management

The Executive Board analyzes and manages the development of the Group on a monthly basis using various key indicators. The observation of sales revenue and the development of profit margins as well as EBITDA by region play an important role in monitoring the operating business. Operating costs are analyzed and managed in detail based on cost categories and the department in which the costs are incurred. Significant effects are analyzed and measured based on budgeted amounts as part of the monthly reporting. Integrated financial planning (income statement, balance sheet, financial plan) is implemented group-wide for the reliable analysis of changes in liquidity. In addition, risk management is an integral part of business processes and decisions.

### 3.4.7 Non financial performance indicators

The main non-financial performance indicators for Gigaset are:

- Research and development
- Environment
- Employees

Due to the high priority of these factors for the Gigaset Group, they are presented in detail in Sections 1.4, 3.3.7 and 3.3.8.

17. Debt structure = current liabilities / total liabilities*100

# 4 Opportunities and risk report as of December 31, 2013

As a general rule, all entrepreneurial activities involve risks. These include the risk that corporate goals will not be achieved due to external or internal events as well as a result of actions and decisions; in extreme cases, a company's ability to continue as a going concern can be jeopardized. Objective of the risk management system of Gigaset is to identify and assess opportunities and risks as soon as possible and to realize opportunities by applying appropriate measures.

The risk assessment is performed quantitatively with the indicators probability and magnitude of damage. Multiplying these two indicators leads to the expectation value.

| Possible impact on earnings with respect of expected value | Risk assesment |
|---|---|
| < EUR 1.0 million | * |
| > EUR 1,0 million ≤ EUR 5.0 million | ** |
| > EUR 5.0 million | *** |

The possible current impact on earnings with regard to risk categories are shown in the following table.

| Category / Sub-Category | Risk assesment |
|---|---|
| **Market related risks** | |
| Economic development \| Industry \| competition | *** |
| Products \| patents \| certifikates | ** |
| Legal framework | * |
| Customers | ** |
| **Financial risks** | |
| Liquidity | *** |
| Tax risks | *** |
| **Contingent liabilities** | |
| Guarantees \| contingent liabilities | ** |
| Legal disputes | ** |

## 4.1 Market-related risks

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

Industry risks are risks that affect a certain market or a certain manufacturing sector. Due to the concentration on the area of telecommunications and accessories, there is a special dependency on the development in this industry, whereby Gigaset is exposed to intense competition. Generally, there are also dependencies here on the development of commodities prices and the risk of the entry of new, aggressive competitors. Furthermore Gigaset is subject to the influence of a change in consumer behavior in the area of telecommunications and information. More and more landlines are being replaced by cell phone connections, depending on the rate plans offered by network operators. The increased use of multifunctional smartphones is also leading to a change in consumer behavior. With the Company's entry in the tablet business, Gigaset is committing to marketing a new product group. This market entry is fraught with risks, as Gigaset is a new competitor on an existing market.

The products of the Gigaset Group are widely distributed and are valued by their retailer and distributor customers due to the strong brand name and the innovative product portfolio. The excellent market position reflects not lastly this high degree of product acceptance. Since, as a rule, these are continuous, long-term partnerships, the dependency on individual retailers and distributors is generally low. However, there can be a greater dependency on individual customers when entering into new markets, in particular in the beginning. The entry into the tablet segment is exposed to those risks that are always associated with entering a new market. In particular, there is the risk that the new products will fail to achieve the targeted market acceptance, that the new market participant is not able to cope with the competitive pressure from the established market participants or that the existing sales organization is not capable of placing the products on the market, or not doing so in the expected form.

Due to the falling market trend of DECT telephones in some target markets, there is a basic risk of general price decline for the product range as well as decreasing market volume. This is being countered with consistent cost management and an innovative product portfolio in a strong, distinguished product design.

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

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

## 4.2 Entrepreneurial opportunities

The Company sees entrepreneurial opportunities in the new segment for tablets. Gigaset started marketing in 2013 and will bring additional new products to the market in 2014. The high brand awareness and trust in the brand name as well as distribution access to the most important target markets will help. The tablet market will continue to grow at double digit percentage rates on the basis of unit volume in the next few years.[18] The solid presence in local markets can help Gigaset take over a permanent share of the market.

The Company sees entrepreneurial opportunities with the "Business Customers" business unit and the Gigaset pro product portfolio. In addition to the traditional consumer segment, the Company is addressing a new customer segment, "Small Offices and Home Offices" (in short: SOHO), with Gigaset pro and is developing the corresponding potential for sales growth. Organizational changes have already been implemented. Gigaset pro is developing into another pillar of the Gigaset Group.

With its new Home Networks segment, Gigaset has brought a modular, intelligent system known as Gigaset elements to market. At this stage, the products and services cover the field of security solutions in private apartments and will be extended later to include facilities for older people or people in need of individual care and energy management.

In addition, the Company sees further opportunities in the development of regional markets using the established Gigaset brand and existing worldwide distribution network. Gigaset has the corresponding expertise to meet the market's increasing technical requirements in the area of research & development and launch product innovations in the market.

Strengthening the regional market positions is a key requirement for participating in future growth opportunities. At the same time, the forecast growth is also based on the development of more price-sensitive segments. The Group conducted a comprehensive analysis of the market determinants in the fiscal year and has already implemented corresponding measures targeted to reinforce and expand its market position. If the consolidation of the market presence and acceptance cannot be realized to the desired degree, there will be an earnings risk of weaker sales figures.



## 4.3 Company-specific risks

### 4.3.1 Information systems and reporting structure

Reliable and consistent information systems and reporting structures capable of providing useful information are necessary in order to monitor and manage the Group as well as the development of subsidiaries. Gigaset has a professional bookkeeping, controlling, information and risk management system at its disposal and has established a company-wide, regular subsidiary controlling and risk management system. Technical functionality is ensured through corresponding IT support. The Executive Board is periodically and promptly informed of long-term developments in the countries and regions.

Nevertheless, the failure of the information system in a specific situation cannot be ruled out, nor can its improper use by the relevant employees such that negative economic developments in a specific region are not promptly reported.

Gigaset's compliance and risk management systems could fail to prevent or uncover violations of legal provisions, identify all relevant risks for Gigaset, or measure and implement suitable countermeasures.

### 4.3.2 Other company-specific risks

The economic, legal and political operating environment in Germany and the markets served by Gigaset have direct effects on Gigaset's business. The planned entry of Gigaset in new markets is fraught with special risks. This applies in particular to the planned entry in the the tablet and smartphone market. Gigaset could be exposed to additional risks in its new Home Networks segment, in particular liability risks.

Gigaset could be unable to continue to develop innovative products or to react in a timely manner to technical advances and the resulting changing requirements.

Gigaset could be unable to sufficiently protect its own intellectual property and know-how. Even though Gigaset holds a large portfolio of its own intellectual properties rights, including in the wireless segment, the possibility of Gigaset violating the intellectual property rights of third parties or being obligated to pay for the use of third-party intellectual property cannot be ruled out. This is particularly the case with tablets and smartphones, where important market participants are involved in major legal disputes.

Defects in Gigaset's products can lead to warranty and product liability claims as well as the loss of sales revenue, which could impact Gigaset's results. Gigaset purchases commodities and materials predominantly from at least two suppliers. The Company tries to avoid dependency on specific suppliers with respect to prices, volumes and innovations through wide-ranging collaboration.

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

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

There is a risk of default for existing receivables of individual Gigaset companies from Group companies if the respective debtor company cannot repay the debt. With the exception of important facts and circumstances listed under "Risks from contingent liabilities and legal disputes" in the Section entitled "Opportunities and risk report as of December 31, 2012", there are no identifiable facts or circumstances that could lead to Gigaset AG having to pay for liabilities on the part of subsidiaries.

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

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

18. Strategy Analytics, January 2014

## 4.4 Financial risks

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

### 4.4.1 Liquidity of the Gigaset Group

Operations are financed both through own funds as well as through working capital lines of credit under a syndicated loan agreement. On July 1, Gigaset secured bridge financing in the total amount of EUR 10.4 million with its syndicating banks; this financing includes a revolving loan facility in the amount of EUR 2.1 million previously agreed in a syndicated loan agreement from January 2012 but so far not drawn down as well as a new tranche in the amount of EUR 8.3 million. Together with the cost-savings and efficiency program announced in the previous year, this loan should help overcome the essentially seasonal phase of tight liquidity during the summer months. Due to increased cost discipline and an encouraging sales trend, the bridge financing was sufficient and was repaid punctually on October 31, 2013.

Within the scope of a capital increase in the fall of 2013, the Company raised its share capital by EUR 19,571,049.00 by partially utilizing the authorized capital to issue 19,571,049 new bearer shares of common stock against cash contributions. In addition, the Company has issued a convertible bond with a nominal amount of EUR 23,340,289.00 including the pre-emptive right. This is subdivided into up to 23,340,289 bearer bonds of EUR 1.00 ranking pari passu, each convertible into one no par bearer share each representing a computed prorated amount of EUR 1.00 of the share capital with entitlement to dividends from the fiscal year of their issue. In both of the capital-raising measures mentioned above, the existing shareholders enjoyed full pre-emptive rights; however, only 13% of the new shares and 7.8% of the convertible bonds were subscribed by existing shareholders. The shares and convertible bonds not subscribed by the existing shareholders were acquired by Goldin Fund Pte. Ltd., Singapore. This company belongs to the Hong Kong based businessman Pan Sutong, who also holds participating interests in other consumer electronics firms in his diversified portfolio. As a result of the capital-raising measure, a total of EUR 42.9 million accrued to Gigaset AG at October 18, 2013 and October 22, 2013. On November 8, 2013 the Executive Board and the Supervisory Board of Gigaset AG also adopted resolutions to raise the Company's share capital by a further EUR 5.0 million to EUR 74.5 million. To achieve this, five million new no par bearer shares were issued from the authorized capital against cash contributions. All new shares were acquired by Goldin Fund Pte. Ltd., Singapore, at an issue price of EUR 1.00 per new share. In accordance with the option specifically created by the 2013 annual general meeting, the statutory pre-emption right of the shareholders was excluded in compliance with the relevant legal provisions. The Company received a further EUR 5.0 million as a result.

In response to the changed ownership structure the syndicate banks have requested repayment of the utilized credit lines of EUR 30.2 million by April 30, 2014, due to change in control in December 2013 as stipulated in the loan agreement. There was no immediate cancellation of the loan agreement.

A subsidiary of Gigaset group provides a loan of up to EUR 32.9 million to Gigaset AG and Gigaset Communications GmbH to cover their liquidity needs. This financing is particularly intended to bridge the time gap until a decision regarding the legal action brought against creating authorized capital and conditional capital is reached. After this decision further financing with equity instruments is planned. Simultaneously the executive board is working on alternative financing instruments to replace the loan provided by the syndicate banks.

Should this not succeed, a liquidity shortfall may arise during the course of the year. Furthermore, an uneven distribution of revenues may lead to a liquidity shortfall in the summer months of fiscal year 2014. Against this backdrop, the continued existence of the corporate group as a going concern will depend in particular on the funding of the syndicated loan and the development of revenues in fiscal year 2014.

The continued existence of the corporate group as a going concern could be endangered if it proves impossible to obtain additional liquidity by new financing instruments or implement the envisaged measures to cover liquidity requirements as planned, especially in a changing economic environment.

The factoring of trade receivables begun on October 1, 2008, will continue to be used as a short-term financing instrument and has been expanded to additional countries.

### 4.4.2 Debt and liquidity of Gigaset AG

The syndicated loan raised in January 2012 was used largely to fund the Gigaset Group's working capital needs. In order to cover the seasonal rise in liquidity required during the summer months, Gigaset had raised an additional bridging loan with its syndicate banks through to October 31, 2013, which was repaid on time.

In December 2013, the syndicate banks – each individually – informed the Company that they were taking the change of control at Gigaset AG as the occasion to call in their respective tranches for payment at April 30, 2014. This was not associated with a termination of the syndicate agreement.

A subsidiary of Gigaset group provides a loan of up to EUR 32.9 million to Gigaset AG and Gigaset Communications GmbH to cover their liquidity needs. This financing is particularly intended to bridge the time gap until a decision regarding the legal action brought against creating authorized capital and conditional capital is reached. After this decision further financing with equity instruments is planned. Simultaneously the executive board is working on alternative financing instruments to replace the loan provided by the syndicate banks.

If this attempt for refinancing fails, it may come to a liquidity deficit in the course of the year. An uneven distribution of revenue can also result in a liquidity shortage in the summer months 2014. Against this background, the existence of the Gigaset group is depending in particular on the refinancing of the syndicated loanand also as on the development of sales in the financial year 2014.

The extraordinary general meeting on December 19, 2013 had previously adopted a framework resolution creating authorized capital in an amount of EUR 25 million and conditional capital for the issuance of convertible bonds in an amount of EUR 9.5 million. The shareholders are fundamentally entitled to a pre-emptive right for both measures. It is not possible to carry out either measure at the present time because the legal action brought against them by a shareholder has not yet been adjudicated. As a result of this, the use of this financing option will be resumed once the legal dispute has been settled. In the meantime, negotiations regarding a bridging loan are ongoing with both a consortium of banks and the investor.

### 4.4.3 Interest rate, currency and liquidity risks

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

Income is earned and expenses are incurred in foreign currencies in the Gigaset Group, for instance for the procurement of numerous components for production in the dollar zone. As a rule, the associated currency risk is hedged by financing international activities in matching currencies or in particular by using derivative financial instruments to hedge foreign currency exposures.

A change in capital market interest rates can result in changes in the fair value of fixed-income securities and non-securitized receivables as well as plan assets to cover pension obligations. In individual cases, Gigaset enters into typical banking transactions to hedge interest rate risk.

The Group uses various instruments to refinance and hedge its receivables portfolio, such as factoring or loan default insurance, in order to hedge cash flow risks and to ensure the liquidity of the Group. If it should be necessary to refinance existing liabilities or renegotiate the terms of factoring agreed to by Gigaset Group companies as a result of the expiration or termination of corresponding agreements, Gigaset is financially dependent on the currently available terms and conditions.

Interest rate, currency and liquidity risks are managed in coordination with the corporate Finance and Controlling department.



## 4.5 Tax risks

### 4.5.1 Tax risks of Gigaset AG

The Gigaset AG receives tax advice on an ongoing basis in order to identify any risks in advance.

The following topics in particular are currently being discussed with the tax authorities at Gigaset AG in the ongoing tax audit of the years 2006 to 2008:

- Income from the disposal of long-term equity investments from past years was collected by the Company exempt from tax following an intensive review of the corporate income tax provisions; the majority of losses incurred in relation to (forced) sales were neutralized for tax purposes; the relevant years are subject to further review.

- Starting with tax assessment period 2008, the Company began deducting input tax credits strictly proportionately as determined based on a comprehensible

Due to the sale of equity interest >50% to a new shareholder, Gigaset AG's tax loss no longer applies and thus the possibility of using it to offset future profits has been completely forfeited. Thus, the full amount of Gigaset AG's future taxable profits will lead to a tax expense.

### 4.5.2 Other risks of the Gigaset Group

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

Transfer pricing documentation is prepared annually together with a tax consulting firm in order to limit any potential tax risks arising from intragroup clearing transactions with and between foreign companies.

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

## 4.6 Risks arising from contingent liabilities and legal disputes

### 4.6.1 Guarantees on the part of the parent company

In the past, Gigaset AG issued various guarantees and warranties in connection with business purchases and disposals. The corporate parent also assumed financial guarantees for subsidiaries in the past. The latent risks from these warranties and guarantees were further reduced in the past fiscal year, due in some cases to their expiration. The Executive Board estimates that the likelihood of Gigaset AG being required to make payments based on these guarantees and warranties is becoming ever smaller.

### 4.6.2 Legal disputes involving Gigaset AG

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

**Cartel cases involving SKW:**

By way of a ruling dated January 23, 2014, the European Court of Justice in part accepted the complaint filed by Gigaset AG (formerly Arques Industries AG) against the European Commission's administrative order imposing a fine in the cartel cases involving SKW and reduced the fine imposed on Gigaset AG by EUR 1.0 million. For the rest, the complaint was rejected.

In July 2009, the European Commission imposed a total administrative fine of EUR 61.1 million on various European companies in the calcium carbide sector in connection with an investigation under anti-trust laws. SKW Stahl-Metallurgie Holding AG and its SKW Stahl-Metallurgie GmbH subsidiary (together referred to as "SKW" below) were made jointly and severally liable for an administrative fine levied in the total amount of EUR 13.3 million as direct members of the cartel. As the corporate parent of SKW at the time, the present Gigaset AG was also made jointly and severally liable for the administrative fine imposed on SKW by order of the Commission based on the assumption that Gigaset AG as the corporate parent formed an "entrepreneurial unit" with SKW.

Gigaset AG paid a provisional amount of EUR 6.7 million to the European Commission in 2009 to 2010 with respect to the administrative order imposing the fine (i.e. for the period of the appeal). In parallel, it lodged an appeal against the administrative order imposing the fine. A first instance ruling has now been issued regarding this appeal. Following a provisional legal appraisal of this ruling, Gigaset AG expects to be reimbursed some of the fine it has already paid. The ruling is not yet final; Gigaset will carefully examine whether it is necessary to appeal against that part of the ruling rejecting the complaint.

In parallel to the legal dispute that has been resolved, Gigaset AG filed suit against SKW in the civil courts on the grounds that the latter should be liable to pay the fine alone as immediate founder of the cartel and, consequently, should reimburse the proportionate fine paid by Gigaset AG. Gigaset continues to believe that internally SKW, as a direct member of the cartel, should pay the fine alone.

**Evonik in the matter of Oxxynova:**
Evonik Degussa GmbH demanded payment of a purchase price adjustment of EUR 12.0 million from the Company on the basis of a share purchase agreement dated September 8, 2006. It submitted a corresponding request for arbitration against the Company to Deutsche Institution für Schiedsgerichtsbarkeit e.V. dated April 30, 2012. Under this share purchase agreement, Oxy Holding GmbH had acquired all the shares in Oxxynova GmbH (formerly Oxxynova Holding GmbH) from Evonik Degussa GmbH (formerly Degussa AG) and issued various buyer warranties and guarantees. These also included the guarantee to operate the production sites of Oxxynova GmbH in Lülsdorf and Steyerberg for at least five additional years following the completion of the share transfer (October 12, 2006). In addition to Oxy Holding GmbH, the present Gigaset AG undertook as the guarantor to guarantee certain obligations undertaken by Oxy Holding GmbH, including the production site guarantee. In its written and oral presentations to the proceedings in June 2013, Evonik Degussa GmbH expressed the view that Oxy Holding GmbH had violated its obligations arising from the production site guarantee, because its Oxxynova GmbH subsidiary had closed the site in Lülsdorf in 2007. This had allegedly increased the value of the participating interest, necessitating the payment of a purchase price adjustment of EUR 12.0 million, for which the Company was jointly and severally liable in its capacity as guarantor.

By way of an arbitration ruling dated November 30, 2013, the court of arbitration rejected the suit to adjust the purchase price from 2007, but ordered Gigaset AG to pay a contractual penalty of EUR 3.5 million to Evonik on account of the final closure of the plant in 2010.

After carefully examining the arbitration ruling, Gigaset AG decided in February 2014 to ask the competent Higher Regional Court to annul the arbitration ruling on account of evident constitutional breaches. The Higher Regional Court is not expected to issue a ruling before the end of 2014.

Provisions of EUR 3.6 million had already been set up for this matter in the prior year. Since Gigaset AG continues to face an order to pay interest on the amount arising from the main action, which currently approximately amounts to a notional EUR 1.0 million, further provisions of around EUR 1.0 million have been set up. Gigaset will not make any payments to Evonik so long as the annulment proceedings have not been concluded.

**Sommer Road Cargo Solutions GmbH & Co. KG:**

The insolvency administrator of Sommer Road Cargo Solutions GmbH & Co. KG ("Sommer") filed suit against Gigaset AG and its former Executive Board member Dr. Martin Vorderwülbecke. Sommer was a portfolio company of ARQUES Industries AG from October 2005 to March 2009. The plaintiff demanded that the defendants pay an amount of EUR 3.0 million on account of joint and several liability. The plaintiff alleged that, as the parent company of the Sommer Group at the time in 2007, ARQUES Industries AG had unlawfully demanded the repayment of a loan by Sommer and/or carried out a constructive distribution of dividends from the assets of the Sommer Group in the form of contractual terms not consistent with arm's length standards and thus, among other things, violated the applicable capital maintenance rules. Sommer thereby incurred a loss at least equal to the amount in dispute, for which the present Gigaset should be jointly and several liable together with the managing director and Executive Board member at that time Dr. Vorderwülbecke. Insolvency proceedings were initiated against Sommer on December 31, 2009.

Following a comprehensive analysis of the opportunities and risks, Gigaset AG concluded a settlement with the insolvency administrator of Sommer in October 2013 under which Gigaset AG was required to pay an amount of EUR 0.8 million in installments by January 31, 2014. In accordance with the payment plan, Gigaset paid this amount on time and in full by way of an initial payment of EUR 0.2 million by December 31, 2013 and with the final installment of EUR 0.6 million at January 31, 2014. Upon completion of the settlement, the proceedings were concluded.

## 4.7 Opportunities and risk report with respect to discontinued operations

Opportunities and risks from equity investments that have already been sold were reflected in the consolidated financial statements until they were deconsolidated. As a rule, the opportunities and risks related to the operating activities of equity investments that have been sold were entirely eliminated by the respective sale.

With the exception of the facts and circumstances listed under "Risks from contingent liabilities and legal disputes" in the notes, the Company is not aware of any legal bases or risks arising from the sale of the equity investments that could justify claims against Gigaset for liabilities on the part of the disposed equity investments.

## 4.8 General assessment on the opportunities and risk report

The main opportunities of Gigaset are based on the further development of the high-growth divisions "Business Customer" and "Gigaset elements", as well as the further development of the tablet market. The joint activities with Goldin Fund Pte. Ltd. Singapore, to enter into the smartphone market also provide a chance.

The main risks result in ensuring of liquidity through alternative financing options. Furthermore, the decrease in revenues in the current core business is a risk, if the expected sales growth in the high-growth business divisions cannot compensate the decline in sales of the core business. In addition, risks may cause from past and future tax matters.

# 5 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) 5 HGB)

## 5.1 Internal control and management using the Group-wide planning and reporting process

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

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

The basis for this is the prompt availability of reliable and consistent information. Providing the data base is the responsibility of the Finance and Controlling departments of the holding company as well as the individual subsidiaries. Corresponding processes and monitoring measures both integrated and independent from the processes are adapted and implemented as necessary depending on the situation and industry affiliation of the respective company. Quick access to the information needed to manage the Group is ensured through this process.

The preparation and analysis of information from the subsidiaries takes place at Gigaset primarily in the Finance department in the areas of subsidiary controlling, financial accounting and reporting, liquidity management and risk controlling. The completeness and accuracy of accounting data are periodically reviewed. The group auditor and other auditing bodies are included in the control environment of the Gigaset Group with auditing activities that are independent of the process. In particular the audit of consolidated financial statements by the group auditor and the audit of the financial statements of consolidated Group companies represent the primary process-independent monitoring measures with respect to the group accounting process.

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

For instance, the bookkeeping and accounting processes – in particular in connection with the annual and quarterly financial statements – are clearly governed by the following measures:

## 5.2 Structural information

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

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

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

## 5.3 Process and control information

- Central and local duties and responsibilities are defined.

- Accounting control mechanisms, such as the principle of review by a "second set of eyes", validation by the systems, manual inspections and documentation of changes are implemented.

- Deadline and process plans for separate and consolidated financial statements are prepared and distributed or are made generally accessible.

- Analysis and – if necessary – adjustment of the reporting packages presented by the Group companies.

- Plausibility check of the systems at the Group level.

- Single-step consolidation process with a professional consolidation system.

- Use of standardized and complete sets of forms.

- Use of experienced, trained employees.

- The auditor performs a check function as a process-independent instrument within the scope of their statutory audit engagement.

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

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

## 5.4 Group-wide systematic risk management

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

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

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

R2C_risk to chance provides Gigaset with a systematic, web-based risk management system with which all risks can be recorded group-wide and presented in consolidated form for each company or from the perspective of the Group. The individual risks can be efficiently managed at single company level on this basis and a current and complete view of the risk situation in the Group can be supplied at the same time. The compliance and monitoring of the risk strategies established by the Executive Board for the Gigaset Group is thereby optimally ensured.

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

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

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

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

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

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

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

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

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

## 5.5 Qualifying comments

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

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

**Sections 289(4), 315(4) no. 1 HGB:** The subscribed capital of Gigaset AG as of December 31, 2011, amounts to EUR 50,014,911 and is divided into 50,014,911 no-par value bearer shares with a notional value of EUR 1.00 per share. Each share grants the same rights and one vote.

**Sections 289(4), 315(4) no. 2 HGB:** As a general rule, the shares can be freely transferred in accordance with the law. The voting rights of the shares can be limited under the provisions of the German Stock Corporation Act (Aktiengesetz, "AktG") and other laws. For instance, shareholders are barred from voting under certain conditions (section 136 AktG). In addition, the Company is not entitled to any rights from treasury shares, including voting rights (section 71b AktG). The Executive Board is not aware of any contractual limitations with respect to voting rights or the transfer of shares of the Company. However, please note that the Executive Board, employees and other people who have access to insider information are restricted by the Company's insider policy.

**Sections 289(4), 315(4) no. 3 HGB:** At the time of this report, the Company had received the following notices of capital holdings in excess of ten percent of the voting rights:

On December 23, 2013, Goldin Fund Pte., Ltd., of Singapore, reported on behalf of Mr. Pan Sutong, of Hong Kong, in accordance with section 21(1) of the German Securities Trading Act (Wertpapierhandelsgesetz, WpHG), that Mr. Pan's share of voting rights in Gigaset AG had exceeded the threshold of 50% on December 20, 2013 and as of that date amounted to 50.47% (48,648,433 votes). On January 6, 2014, Goldin Fund Pte. Ltd. gave notice that the total number of Gigaset shares held by Goldin Fund Pte. Ltd. and persons acting jointly with it now came to 53,399,467. This is equivalent to approximately 55.39% of the target Company's share capital and voting rights.

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

**Sections 289(4), 315(4) no. 5 HGB:** There are no rules related to the coordinated exercise of voting rights on the part of employees invested in the Company.

**Sections 289(4), 315(4) no. 6 HGB:** Rules governing the appointment and dismissal of members of the Executive Board are set forth under sections 84 et seq. AktG. In accordance with Art. 5(1) of the Articles of Association, the Supervisory Board only determines the exact number of Executive Board members. The responsibility and requirements to alter the Articles of Association are oriented on sections 179-181 AktG. Additional rules in the Company's Articles of Association that go beyond these provisions are currently not considered necessary. Other statutory rules and regulations can be found in the German Stock Corporation Act; the relevant provisions under the Articles of Association can be found in part II (Executive Board) and part III (Supervisory Board) and Art. 16 of the Articles of Association.

**Sections 289(4), 315(4) no. 7 HGB:**

Contingent Capital 2011 (Section 4.3 of the Articles of Association)

The annual shareholders' meeting held on July 3, 2008, created the possibility of a stock option plan with "Contingent Capital 2008/I". The "Stock Option Plan 2008" and the related Contingent Capital 2008/I were annulled by resolution of the annual shareholders' meeting held on June 10, 2011 and a "Contingent Capital 2011" was created for the introduction of a "Stock Option Plan 2011".

According to this resolution, the share capital of the Company is conditionally increased by up to nominal EUR 1,300,000.00 through the issue of up to 1,300,000 new no-par value bearer shares ("Contingent Capital 2011"). The conditional increase of capital serves exclusively the granting of subscription rights ("options") to members of the Company's Executive Board and selected employees of the Company as well as members of the management and selected employees of affiliated companies ("individuals eligible for subscription") under the Gigaset AG Stock Option Plan 2011 ("Stock Option Plan") that are issued as specified under the resolution by the annual shareholders' meeting dated June 10, 2011. The conditional capital increase may only be carried out to the extent that options are issued under the Stock Option Plan, individuals eligible for subscription exercise these options and the Company does not settle the options by granting treasury shares or paying cash compensation. The new shares participate in earnings from the beginning of the fiscal year in which they are issued.

The annual shareholders' meeting held on June 10, 2011, authorized the Supervisory Board insofar to issue options to the members of the Company's Executive Board under the Stock Option Plan until December 31, 2014. The Executive Board is authorized with the approval of the Supervisory Board to issue options to the other individuals eligible for subscription under the Stock Option Plan until December 31, 2014. To the extent that members of the management and employees of affiliated companies are affected, this is carried out in coordination with the executive bodies responsible for remunerating these individuals eligible for subscription.

Other key points under the Stock Option Plan include:

1. **Contents of options:** Each option authorizes the acquisition of a share of Gigaset AG ("Gigaset share").

2. **Group of individuals eligible for subscription:** Individuals eligible for subscription include members of the Company's Executive Board and selected employees of the Company as well as members of the management and selected employees of affiliated companies. A total of up to 1,300,000 options can be issued for all groups combined until December 31, 2014 ("total volume"). The options can be broken down to the specific groups of individuals eligible for subscription as follows
   (a) a maximum of 600,000 options for members of the Company's Executive Board (consequently up to approximately 46%),
   (b) a maximum of 500,000 options for selected employees of the Company or an affiliated company (consequently up to approximately 38.5%),
   (c) a maximum of 200,000 options for members of the management of affiliated companies (consequently up to approximately 15.5%).

3. **Acquisition periods:** Options may be allotted once or in multiple tranches each within 45 (forty five) days following the date on which the results of the fiscal year just ended are announced, or each within 45 (forty five) days following the date on which the results of the first, second, or third quarter of the current fiscal year are announced, but no later than two weeks before the end of the respective current quarter. The day of allotment ("Allotment Date") of the options should be the same for the tranches and is determined by the Supervisory Board if members of the Executive Board are affected and otherwise by the Executive Board.

4. **Term of options, blocking periods:** Options have a total term of seven years from the Allotment Date and can only be exercised after the expiration of a vesting period. The vesting period comprises a minimum of four years from the Allotment Date. Options that are not exercised before the expiration of their term are forfeited without entitlement to substitution or compensation. Options may not be exercised during the period of 15 calendar days before the end of every quarter or fiscal year up to and including the first trading day after publication of the quarterly results or results for the year ("blocking periods"). In addition, individuals eligible for subscription must adhere to the limitations ensuing from general legal provisions, such as the German Securities Trading Act (provisions governing insider information).

5. Performance targets and strike price
   (a) **Performance targets:** The performance target is determined based on the unweighted opening price of the Gigaset share in the XETRA trading system (or a comparable successor system) of the Frankfurt Stock Exchange on the option's exercise date or with respect to the relative performance target in addition to the status of the TecDAX (or a comparable successor index) on the Allotment Date and on the option's exercise date. The options may only be issued
   - if the opening price of the Gigaset share in the XETRA trading system (or a comparable successor system) of the Frankfurt Stock Exchange on the option's exercise date exceeds the strike price by at least 15% ("absolute performance target") and
   - if the price of the Gigaset share in the XETRA trading system (or a comparable successor system) of the Frankfurt Stock Exchange between the Allotment Date and option's exercise date has performed better than the TecDAX (or a comparable successor index) in the same period ("relative performance target").

   If the absolute and relative performance targets have been reached, every option can be exercised within its term in compliance with the provisions of the Gigaset AG Stock Option Plan 2011.
   (b) **Strike price:** The strike price for a Gigaset share when the option is exercised corresponds to the unweighted average of the opening price of the Gigaset share on the Frankfurt Stock Exchange in the XETRA trading system (or a comparable successor system) on the ten (10) trading days of the Frankfurt Stock Exchange before the option's respective Allotment Date. The lowest issue price within the meaning of section 9(1) AktG shall be paid as the strike price.

6. **Capital and structural measures, anti-dilution provisions:** If the Company increases its capital during the term of the option, thereby granting a direct or indirect subscription right to the shareholders, the strike price will be reduced according to the option terms. The strike price is not reduced if the individual eligible for subscription receives a direct or indirect subscription right for new shares that puts them in the position as if they had already exercised the options from the Stock Option Plan. The option terms can provide adjustment rules for other cases of capital, structural, or comparable measures. Section 9 AktG remains unaffected. The option terms must establish an appropriate upper limit for option gains in the event of extraordinary developments. This also applies if option gains would result in an inappropriate total compensation of the individual eligible for subscription.

7. **Non-transferability:** The options may not be transferred and as a general rule must be exercised by the individuals eligible for subscription. However, the options may be inherited. The option terms can specify that the heir or heirs of the individual eligible for subscription rights must exercise the options within three months after the inheritance, but no earlier than the expiration of the vesting period.

8. **Fulfillment of the options**: The Company can choose to offer the individuals eligible for subscription treasury shares of the Company or cash compensation instead of issuing Gigaset shares from the Contingent Capital 2011 created for this purpose. The decision regarding which alternative to offer to the individuals eligible for subscription is made by the Supervisory Board if the individuals eligible for subscription are members of the Company's Executive Board; otherwise, the Executive Board shall decide. In reaching their decision, the Executive Board and Supervisory Board must be guided by the interest of the shareholders and of the Company. The option terms must be designed such that the Company has this option. The cash compensation should equal the difference between the strike price and the opening price of the Gigaset share in the XETRA trading system (or a comparable successor system) on the option's exercise date.

9. **Additional rules:** Other details for the granting and fulfillment of options and the other exercise terms are established by the Supervisory Board if members of the Company's Executive Board are affected. These terms and details are established by the Executive Board for other individuals eligible for subscription – in coordination with the executive bodies responsible for remunerating the eligible individuals if members of the management or employees of affiliated companies are affected. The additional rules include in particular:
   (a) The establishment of options for individuals eligible for subscription or groups of individuals eligible for subscription,
   (b) the establishment of provisions governing the execution of the Stock Option Plan,
   (c) the procedure for granting and exercising options,
   (d) the determination of holding periods beyond the minimum vesting period of four years, in particular the determination of graduated holding periods for some options, as well as the alteration of holding periods within the scope of statutory provisions in special cases, such as the change of control over the Company,
   (e) the rules governing the treatment and exercise of options in special cases, such as the retirement of the eligible individual from the service of the Company, change of control over the Company, or the execution of a "Squeeze Out Process".

10. **Taxation:** The individuals eligible for subscription are responsible for paying all taxes due upon the allotment or exercise of options or upon the sale of Gigaset shares by the individuals eligible for subscription.

11. **Duty to report:** The Executive Board and the Supervisory Board shall report on the utilization of the Stock Option Plan and options granted to the eligible individuals for every fiscal year respectively in the segment report.

**Contingent Capital 2012** (Article 4.4 of the Articles of Association)
The annual shareholders' meeting held on June 12, 2012, authorized the Executive Board with the approval of the Supervisory Board to issue bonds with warrants and/or convertible bonds. The Executive Board took advantage of this authorization in 2013 and carried out a convertible bond issue in the amount of up to EUR 23,500,000 with the approval of the Supervisory Board. A total of 23,340,289 convertible bonds were issued, which confer a right of conversion into 23,340,289 shares with a notional value of EUR 23,340,289. Through this convertible bond issue, as of December 31, 2013, a total of 21,812,534 new shares with a notional value of EUR 21,812,534 were issued, so that today the authorization of the Executive Board to issue bonds with warrants and/or convertible bonds under Contingent Capital 2012 (Art. 4.4 of the Articles of Association) has only a notional amount of EUR 1,687,466.00 still remaining. However, EUR 1,527,755 of this amount is already reserved for the conversion of convertible bonds already issued but not yet converted, so that the available remainder of the Contingent Capital 2012 as of December 31, 2013, was only EUR 159,711.

**Authorized Capital 2010 and Authorized Capital 2013/II** (Article 4.5 of the Articles of Association)
The Authorized Capital 2010 originally included under Art. 4(5) of the Articles of Association was largely exhausted by the exercise of the associated authorization in 2013; only EUR 262,286.00 of it still remained. This Authorized Capital 2010 was therefore annulled by a resolution of the extraordinary shareholders' meeting held on December 19, 2013.

At the same time, by a resolution of the extraordinary shareholders' meeting held on December 19, 2013, Art. 4(5) of the Articles of Association was amended as follows:

*"5. The Executive Board is authorized with the approval of the Supervisory Board to increase the share capital in the period up to December 18, 2018, once or in multiple stages by up to EUR 25,000,000.00 through the issue of new no-par value bearer shares conferring the right to participate in the earnings from the beginning of the fiscal year in which they are issued in exchange for cash contributions (Authorized Capital 2013/II). As a general rule, the shareholders are entitled to pre-emptive subscription rights.*

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

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

*Furthermore, the Executive Board is authorized with the approval of the Supervisory Board to disapply shareholders' pre-emptive rights in the following cases:*

*a) in the case of capital increases in exchange for cash contributions if the issue price of the new shares is not significantly lower than the stock exchange price at the time of the final determination of the issue price and the shares issued based on this letter a) of this authorization do not exceed a total of 10% of the share capital while disapplying shareholders' pre-emptive rights in exchange for cash contributions at either December 19, 2013, or the date on which this authorization is made use of. The proportional amount of share capital attributed to shares that are issued or sold beginning with December 19, 2013, until this authorization expires while disapplying shareholders' pre-emptive rights directly or indirectly pursuant to section 186(3) sentence 4 AktG is to be applied toward this amount of 10% of the share capital. Furthermore, the proportional amount of the share capital for the shares that have been issued to satisfy conversion or option rights or conversion requirements or can still be issued if the underlying debt securities were issued during the term of this authorization while disapplying shareholders' pre-emptive subscription rights pursuant to section 186(3) sentence 4 AktG is also to be applied toward this amount;*

*b) to the extent necessary in order to grant the bearers or creditors of convertible bonds or bonds with warrants that have been or will be issued by the Company or subordinate Group companies subscription rights to new shares to the extent that they would be entitled to receive if the option or conversion rights were exercised, or after the conversion requirement was met;*

*c) in order to eliminate fractional amounts from the subscription right."*

The Supervisory Board is also authorized to amend the Articles of Association to reflect the extent of the capital increase from authorized capital 2013/II.

**Contingent Capital 2013/II** (Article 4(7) of the Articles of Incorporation)
The shareholders' meeting held on June 12, 2012, authorized the Executive Board with the approval of the Supervisory Board to issue bonds with warrants and/or convertible bonds. The Executive Board took advantage of this authorization in 2013 with the approval of the Supervisory Board and issued convertible bonds for a value of EUR 23,340,289.00. Consequently, the 2012 authorization of the Executive Board to issue bonds with warrants and/or convertible bonds (see above on Art. 4.4 of the Articles of Association) has a remaining value of only EUR 159,711. To maintain the necessary flexibility for the Company to make use of this important financing instrument in the future as well, the extraordinary shareholders' meeting held on December 19, 2013, resolved to adopt a new authorization to issue bonds with warrants and/or convertible bonds, as well as a new Contingent Capital 2013 and to amend the Articles of Association accordingly.

It therefore decided to conditionally increase the share capital by up to EUR 9,500,000.00 by the issue of up to 9,500,000 new no-par value bearer shares conferring the right to participate in the earnings from the beginning of the fiscal year in which they are issued. The conditional increase in capital serves to grant shares to the bearer or creditor of bonds with warrants and/or convertible bonds issued by the Company or a subordinate Group company until December 18, 2018, for cash compensation, on the basis of the authorization by the shareholders' meeting held on December 19, 2013. New shares are issued respectively at the option or conversion price specified under the aforementioned authorization. The conditional increase in capital may only be carried out to the extent that option rights and/or conversion rights arising from the bonds are exercised and/or conversion requirements from the debt securities are met and to the extent that cash compensation is not paid or treasury shares are not offered for subscription. The Executive Board is authorized with the approval of the Supervisory Board to establish the other details regarding the execution of the conditional increase in capital (Contingent Capital 2013).

Specifically, the shareholders' meeting resolved as follows:

1. Authorization of the Executive Board to issue bonds with warrants and/or convertible bonds

   a) Authorization period, nominal amount, number of shares
      The Executive Board is authorized with the approval of the Supervisory Board on one or more occasions until December 18, 2018,
      - To issue, through the Company or through companies in which the Company directly or indirectly holds a majority ownership ("subordinate Group companies"), bearer or registered bonds with warrants and/or convertible bonds with or without a term limitation for a total amount of up to EUR 150,000,000.00 (the "debt securities") and
      - To assume the guarantee for such debt securities issued by subordinate Group companies of the Company and
      - To grant the bearers or creditors of debt securities options and/or conversion rights for a total of up to 9,500,000 no-par value bearer shares of the Company representing a proportionate amount of the share capital of up to EUR 9,500,000.00, as further specified by the terms of the respective debt securities. The individual issues may be subdivided into individual bonds, each bearing the same rights and must be issued in exchange for cash.

In the event of the issue of bonds with warrants, each bond will be associated with one or more warrants that entitle the bear or creditor, as the case may be, to subscribe for Gigaset shares according to the terms of the bond or option.

The relevant warrants may be separable from the associated bonds. The bond or option terms, as the case may be, may provide that payment of the option price may also be fulfilled by transferring bonds and, if applicable, an additional cash payment. The proportionate amount of the share capital of the shares to be subscribed for each bond cannot exceed the nominal value, or the issue price if that price is below the nominal value, of the bond with warrant.

In the event of an issue of convertible bonds, the bearer or creditor will have the right or obligation, as the case may be, to convert their convertible bonds to Gigaset shares as provided in the details of the convertible bond terms. The conversion ratio will result from dividing the nominal value or lower issue price of a bond by the fixed conversion price for one no-par value bearer share of the Company. The conversion ratio will be rounded to the fourth decimal place. The bond terms may specify an additional payment to be made in cash and may provide that non-convertible fractional amounts will be pooled and/or settled in cash. The bond terms may furthermore provide for a conversion requirement. The proportional amount of the share capital for the shares to be subscribed for each bond cannot exceed the nominal value, or the issue price if that price is below the nominal value, of the convertible bond.

b) Pre-emptive subscription right, disapplication of pre-emptive right

As a general rule, the shareholders are entitled to pre-emptive subscription rights for the debt securities; the debt securities may also be underwritten by a bank or bank consortium with the requirement that they be offered to the shareholders for subscription. However, the Executive Board is authorized with the approval of the Supervisory Board to disapply shareholders' pre-emptive right to subscribe for the debt securities,

- to the extent that the issue price is not significantly lower than the theoretical market value of the debt securities as determined by recognized financial mathematical methods; this will apply, however, only insofar as the shares to be issued to satisfy the option and/or conversion rights or conversion requirements thus established do not exceed a total of 10% of the share capital, either at December 19, 2013 or at the effective date or at the date of exercise of this authorization. The proportional amount of share capital attributed to shares that are issued or sold beginning with December 19, 2013, until this authorization expires while disapplying shareholders' pre-emptive rights directly or indirectly pursuant to section 186(3) sentence 4 AktG is to be applied toward this amount of 10% of the share capital. Furthermore, the proportional amount of the share capital for the shares that were issued to satisfy option and/or conversion rights or conversion requirements or can still be issued if the underlying debt securities were issued during the term of this authorization on the basis of another authorization while disapplying the shareholders' pre-emptive rights pursuant to section 186(3) sentence 4 AktG is also to be applied toward this amount,
- in order to eliminate fractional amounts that result from the subscription ratio from the shareholders' pre-emptive rights to subscribe for the debt securities, or
- in order to grant the bearers or creditors of options or conversion rights or conversion requirements subscription rights so as to compensation for dilution, to the extent to which they would be entitled after the exercise of those rights or the satisfaction of those obligations.

c) Option or conversion price, protection from dilution
   aa) The option or conversion price cannot be less than 80% of the stock exchange price of Gigaset stock in Xetra trading (or in a comparable successor system). This price is to be determined from the average closing price on the ten market trading days before the Executive Board's final decision to publish an offer for the subscription of debt securities or to declare the Company's acceptance after a public invitation to tender offers. In the case of trading of subscription rights, the price is to be determined on the basis of the trading days for subscription rights excluding the last two trading days for the subscription rights, if the Executive Board has not already set a final option or conversion price before trading in the subscription rights begins.
   bb) Without prejudice to section 9(1) AktG, the option or conversion price may be reduced under an anti-dilution clause as provided in further detail in the security's terms, or cash components may be amended, or subscription rights may be granted if the Company increases the share capital before the expiration of the option or conversion term while granting pre-emptive subscription rights to its shareholders, or if it issues or guarantees further debt securities without granting the bearers of option rights and/or the creditors of convertible bonds a subscription right equivalent to the right to which they would be entitled after exercising their option or conversion rights or conversion requirements. The same will also apply for other measures that may result in a dilution of the value of the option and/or conversion rights or conversion requirements. In any case, however, the proportionate amount of the share capital for the shares to be subscribed for each bond cannot exceed the nominal amount of the bond or the lower issue price.

   Sections 9(1) and 199 AktG remain unaffected.

d) Further structuring alternatives

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

In view of the above, the shareholders' meeting resolved to supplement Art. 4 of the Articles of Association with the following new section 7:

*"7. The share capital is conditionally increased by up to EUR 9,500,000.00 through the issue of up to 9,500,000 new no-par value bearer shares with the right to participate in earnings from the beginning of the fiscal year in which they are issued. The contingent capital increase serves the granting of shares to the bearers or creditors of options and/or convertible bonds issued by the Company or a subordinate Group company until December 18, 2018, for cash compensation, on the basis of the authorization by the shareholders' meeting held on December 19, 2013. New shares are issued respectively at the option or conversion price specified under the aforementioned authorization. The conditional increase in capital may only be carried out to the extent that option rights and/or conversion rights arising from the bonds are exercised and/or conversion requirements from the debt securities are met and to the extent that cash compensation is not paid or treasury shares are not offered for subscription. The Executive Board is authorized with the approval of the Supervisory Board to establish the other details regarding the execution of the conditional increase in capital (Contingent Capital 2013)."*

**Sections 289(4), 315(4) no. 8 HGB:** A loan agreement formed by Gigaset AG includes a so-called “change of control” clause. Under this loan agreement, Gigaset AG is obligated to report a change of shareholders if a certain threshold amount is exceeded. Under this clause, the bank has the right to terminate the loan agreement effective immediately if the change in the shareholder structure leads to a change of control from the perspective of the financing bank or has a significant permanent effect on the development of the business or Gigaset AG’s outlook or financial position, or to declare the loan due for payment in whole or in part without terminating the loan agreement. As a consequence of the acquisition of shares by Goldin Fund Pte. Ltd., the participating consortium banks have declared the credit line due for repayment in full, without termination, as of April 30, 2014.

**Sections 289(4), 315(4) no. 9 HGB:** No compensation agreements have been formed between the Company and the members of the Executive Board or employees in the event of a takeover offer.

# 7 German Corporate Governance Code – Gigaset AG complies with Code recommendations

## 7.1 Statement on corporate governance at Gigaset AG

### 7.1.1 Declaration of conformity

Corporate governance is an issue that Gigaset AG takes very seriously. In the reporting period, the Executive Board and the Supervisory Board dealt with issues relating to compliance with the German Corporate Governance Code (the "Code"), including the new recommendations added to the Code in the revised version dated May 15, 2012. With only a few exceptions, Gigaset AG complies with the recommendations of the Code issued in 2002 and most recently amended on May 15, 2012 and views corporate governance as a process that is constantly being developed and improved.

In February, the Executive Board and Supervisory Board of Gigaset AG submitted the declaration of conformity with the German Corporate Governance Code in the version dated May 13, 2013, as required under section 161 of the German Stock Corporation Act (Aktiengesetz, AktG) and made it permanently available to the shareholders on the Company's website (www.gigaset.com). The Executive Board and Supervisory Board of Gigaset AG thereby declare that, with few exceptions, they have complied and will comply in the future with the Code Commission's recommendations regarding the management and supervision of the enterprise published in the electronic Federal Gazette in the current version dated May 13, 2013.

The deviations are explained in the following statement.

**Section 3.7 of the German Corporate Governance Code** specifies that in the event of a takeover offer, the Executive Board and Supervisory Board of the target company must submit a statement of their reasoned opinion on the offer so that the shareholders can make an informed decision on the offer. After a takeover offer is announced and until the result is published, the Executive Board may not take any actions that could prevent the success of the offer, unless such actions are permitted by law. In making their decisions, the Executive and Supervisory Boards are bound to the best interests of the shareholders and of the enterprise. In the case of a takeover offer, the Executive Board should convene an extraordinary shareholders' meeting at which shareholders may discuss the takeover offer and decide on corporate actions. Contrary to this recommendation, the Executive Board did not convene an extraordinary shareholders' meeting in response to the takeover offer of Goldin Fund Pte. Ltd., because in accordance with section 93 of the Stock Corporation Act, the Executive Board must solely serve the best interests of the company and after careful consideration, the Executive Board was firmly convinced that the takeover offer serves the best interests of the company and the Executive Board would therefore not have proposed the corporate measures contemplated in the Code to the shareholders' meeting.

**Section 3.8 of the German Corporate Governance Code** specifies that a deductible of at least 10% of the loss is to be agreed if the Company takes out a D&O insurance policy for the members of the Supervisory Board. Contrary to this, a deductible of at least 10% of the loss was not agreed with the members of the Company's Supervisory Board when the D&O insurance policy was purchased. The company is of the opinion that the members of the Supervisory Board of Gigaset AG exercise their duties with the requisite level of care even without such a deductible.

**Section 4.2.3 of the German Corporate Governance Code** specifies that the remuneration structure must be oriented to the Company's sustainable growth. The monetary compensation elements are to comprise both fixed and variable elements. The Supervisory Board must ensure that the variable elements are in general based on a multi-year assessment. Both positive and negative developments are to be taken into account when determining variable compensation components. All compensation components must be appropriate, both individually and in total and in particular must not encourage taking unreasonable risks. The amount of compensation is to be capped, both overall and for individual compensation components. The variable compensation components are to be related to demanding, relevant comparison parameters. Changing such performance targets or the comparison parameters retroactively is to be excluded. For pension schemes, the Supervisory Board is to establish the level of provision aimed for at each case – also considering the length of time for which the individual has been an Executive Board member – and take into account the resulting annual and long-term expense for the company. Care is to be taken when Executive Board member contracts are formed to ensure that payments made to an Executive Board member on premature termination of their contract, including fringe benefits, do not exceed two years' remuneration (severance pay cap) and compensate no more than the remaining term of the employment contract. If the employment contract is terminated for a serious cause for which the Executive Board member is responsible, no payments are to be made to the Executive Board member. The severance pay cap is to be calculated on the basis of the total compensation for the past full fiscal year and if appropriate also the expected total compensation for the current fiscal year. Payments promised in the event of premature termination of an Executive Board member's contract due to a change of control are not to exceed 150% of the severance payment cap. The Chairman of the Supervisory Board is to outline once to the annual shareholders' meeting the salient points of the compensation system and then any changes thereto.

Contrary to **Section 4.2.3 of the German Corporate Governance Code**, the variable elements of remuneration paid to Executive Board members Charles Fränkl, Dr. Alexander Blum and Maik Brockmann are not based on a multi-year assessment. The Executive Board contracts of Mr. Brockmann and Mr. Fränkl have terms of only two years. As of the end of January 31, 2013, the managing director contract of Dr. Blum may be terminated by either party with a period of notice of six months to the end of the month. As a result, stipulating a multi-year assessment basis would, in the opinion of the Company, not offer any additional protection or other advantages.

In addition, contrary to **Section 4.2.3 of the German Corporate Governance Code**, retroactive changes to the performance targets or comparison parameters are not explicitly ruled out. The variable remuneration of the Executive Board members is tied to the degree of achievement of the target established for Gigaset's business success. Setting the target at the beginning of every fiscal year enables Gigaset AG to respond flexibly to changing parameters.

Furthermore, contrary to **Section 4.2.3 of the German Corporate Governance Code**, the variable remuneration elements paid to Executive Board member Dr. Alexander Blum do not provide for any possibility of limitation (cap). The variable remuneration payable upon 100% target achievement only totals a gross amount of EUR 30.000,00, meaning that, in the opinion of the Company, there is nonetheless adequate protection against inappropriately high variable remuneration being paid to Executive Board member Dr. Blum.

Contrary to **Section 5.1.2 of the German Corporate Governance Code**, no age limit has been specified for the members of the Executive Board. No succession planning has yet been conducted. The Company is of the opinion that an age limit in itself is not a sensible or appropriate criterion for excluding someone from holding the office of an Executive Board member, particularly in consideration of the fact that such an age limit could be interpreted as a kind of discrimination. The primary qualifications for appointment to the Company's Executive Board are the respective candidate's knowledge, ability and professional experience. Given the term of Executive Board member contracts and the number of members serving on the Executive Board, succession planning does not seem to be necessary at the present time.

Contrary to **Section 5.1.3 of the German Corporate Governance Code**, the Supervisory Board did not enact any by-laws in the current period of office. Given the positive cooperation and close coordination among Supervisory Board members in the past, Gigaset AG does not perceive a compelling necessity to establish by-laws at the present time. In light of the increasing internationalization of the Supervisory Board's work beginning January 2014, the Supervisory Board shall issue terms of reference for itself in 2014.

Contrary to **Sections 5.3.2 of the German Corporate Governance Code**, the Audit Committee that was established by the Supervisory Board does not deal with issues related to Complicance. Due to its importance this issue is rather considered in plenary meetings.

In accordance with **Sections 5.3.1, 5.3.2 and 5.3.3 of the German Corporate Governance Code**, the Supervisory Board formed committees, namely an Audit Committee, a Capital Market Committee and a Personnel Committee. In general, the current composition of the Supervisory Board and its manageable size of six members as well as the Board's practice of meeting almost monthly ensure that the Board's work is performed efficiently and that intensive discussions on strategic topics and questions of detail are carried out; as a result, the formation of additional committees is not expected to increase efficiency any further. A Nominating Committee has not been established because only shareholder representatives serve on the Supervisory Board.

Contrary to **Section 5.4.1 of the German Corporate Governance Code**, according to which the Supervisory Board is to set an age limit for its members, no age limit has been established for the members of the Supervisory Board. The Company is of the opinion that an age limit in itself is not a sensible or appropriate criterion for excluding someone from holding the office of a Supervisory Board member, particularly in consideration of the fact that such an age limit could be interpreted as a kind of discrimination. The election proposals submitted to the annual shareholders' meeting are based primarily on the respective candidate's knowledge, ability and professional experience.

Contrary to **Section 5.4.1 of the German Corporate Governance Code,** the Supervisory Board has not specified any concrete objectives regarding its composition. The Supervisory Board is elected by the annual shareholders' meeting. Gigaset AG is of the opinion that the suitability of candidates should be decided solely by the Company's shareholders. For this reason, the "appropriate degree of female representation" has also not been stipulated, whereby it should in this respect be noted that two of the Supervisory Board's members were women in fiscal 2013 even without such a recommendation, representing a proportional share of 33%.

Contrary to **Section 5.4.6 of the German Corporate Governance Code**, the members of the Supervisory Board are paid a fixed salary. The remuneration does not include a performance-based element. The Company is of the opinion that payment of a fixed salary reinforces the independence of Supervisory Board members and prevents potential conflicts of interest, while ensuring that the Supervisory Board performs its duties to the full extent.

## 7.1.2 Report on corporate governance

### 7.1.2.1 Functioning of the Executive Board

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

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

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 Executive Board in its entirety decides upon all matters of fundamental and essential significance and upon all cases specified by law or other means. Executive Board meetings are held at regular intervals and are convened by the Chairman of the Executive Board. In addition, any member may call for a meeting to be convened. Where the law does not require unanimity, the Executive Board adopts resolutions upon a simple majority of the votes cast. In the event of a tie, the Chairman casts the deciding 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-a-vis third parties and the workforce in matters that affect more than just parts of the Company or the corporate group. In addition, it has special responsibility for certain Corporate Center units and their areas of activity



### 7.1.2.2 Supervisory Board: Guidance and supervision

The Supervisory Board is tasked with supervising and advising the Executive Board. It comprises six members. The Supervisory Board is directly involved in decisions of fundamental importance for the Company; it also agrees on the Company's strategic orientation with the Executive Board and discusses the progress achieved on implementing the business strategy with the Executive Board. The Chairman of the Supervisory Board coordinates the board's work and chairs its meetings. The Executive Board keeps the Supervisory Board informed at all times about the Company's policies, planning and strategy as part of a regular exchange of views. The Supervisory Board approves the annual plan and the financial framework and adopts the 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.

### 7.1.2.3 Supervisory Board committees

**Audit Committee:** Since the annual shareholders' meeting held on January 21, 2014, the Audit Committee has comprised four Supervisory Board members, namely, Mr. Hersh (Chairman), Mr. Riedel, Mr. di Fraia and Ms. Shiu. The members of the Supervisory Board who also served on the Audit Committee in the fiscal year meet the statutory requirements of independence and expertise in the areas of accounting or auditing that members of the Supervisory Board and Audit Committee must fulfill.

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

**Capital Market Committee:** Furthermore, pursuant to section 107(3) AktG, the Supervisory Board has formed a Capital Market Committee that discharges the duties and exercises the authority of the Supervisory Board under Arts. 4.4 and 4.5 of the Company's Articles of Association as well as its additional powers of authority under Art. 11 of the Articles of Association. The corresponding responsibilities of the Supervisory Board are transferred to the Capital Market Committee to be decided and exercised independently. Until the annual shareholders' meeting held on August 14, 2013, the Capital Market Committee consisted of Supervisory Board members Mr. Lamprecht (Chairman), Mr. Hersh and Mr. Riedel; since August 14, 2013, Supervisory Board members Mr. Hersh, Prof. Judis and Ms. Münch have been the members of the Capital Market Committee. Following the resignations of Prof. Judis and Ms. Münch from the Supervisory Board and the new elections to the Supervisory Board at the extraordinary shareholders' meeting on December 19, 2013, Mr. Hersh is at present the only remaining Supervisory Board member on the Capital Market Committee; to date, no additional members have been elected since Prof. Judis and Ms. Münch left.

**Personnel Committee:** At its constituting meeting on August 14, 2013, the Supervisory Board established a Personnel Committee. The Supervisory Board has sole responsibility for all personnel matters concerning the Executive Board. Following Ms. Münch's departure and the new elections to the Supervisory Board at the extraordinary shareholders' meeting on December 19, 2013, currently only Supervisory Board members Mr. Riedel and Mr. Di Fraia belong to the Personnel Committee; the full Supervisory Board has appointed Mr. Helving Wong as a new member of the committee.

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

### 7.1.2.4 Share transactions involving members of the Executive Board and Supervisory Board

Under section 15a of the German Securities Trading Act (Wertpapierhandelsgesetz, WpHG), members of the Executive and Supervisory Boards as well as their related parties are obligated 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 AG publishes information regarding such transactions immediately on its webpage and notifies the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht, BaFin) in writing accordingly; the information is communicated to the commercial register for archiving. The following applies in this respect:

- Supervisory Board member Bernhard Riedel informed the Company as a precaution on October 16, 2013, that he had acquired 509 new shares of the Company and 607 convertible bonds.

› Former Supervisory Board member Dr. Dr. Peter Löw informed the Company on December 9, 2013, that he had already sold 156,174 shares at a price of EUR 3.49100 each on July 26, 2011. Furthermore, he sold an additional 144,500 shares at a price of EUR 3.28360 each on July 28, 2011. Finally, he sold an additional 95,496 shares at a price of EUR 3.22050 each on July 29, 2011.

#### 7.1.2.5Corporate compliance

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

#### 7.1.2.6Extensive reporting

In order to ensure a high level of transparency, we notify our shareholders, financial analysts, media and other interested parties at regular intervals regarding the position of the Company and key commercial developments. Gigaset AG informs its shareholders four times a year about the development of its business and the Company's financial position, financial performance and cash flows together with the associated risks. In accordance with their statutory obligation, the members of the Company's Executive Board confirm that – to the best of their knowledge – the respective quarterly or 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. Shareholders and third parties are also informed during the course of the year by means of a half-yearly financial report and quarterly financial reports after the end of the first and third quarters. In addition, Gigaset AG releases information in press and analyst conferences. Gigaset AG also uses the Internet as a means of publishing current information. This provides access to timetables for the key publications and events, including the annual reports, quarterly financial reports and the annual shareholders' meeting. In line with the principle of fair disclosure, we treat all shareholders and key target groups alike when providing information. We use appropriate media channels to make information about important new circumstances promptly available to the general public. In addition to the regular reports, we release ad hoc reports regarding relevant facts and circumstances that could significantly affect the price of the Gigaset share were they to be disclosed.

## 7.2 Principles of the remuneration system for Gigaset AG's executives

### 7.2.1 Remuneration paid to members of the Executive Board

The duties and contribution of the respective Executive Board member are taken into account when determining their remuneration. The remuneration granted in fiscal 2013 comprised both fixed annual salary and performance-based components. The variable components consist of bonus agreements for all members of the Executive Board employed during the reporting period which are tied to the increase in value of a virtual share portfolio (dependent on the Company's performance) as well as to the fulfillment of certain goals established for the area respectively assigned to the board.

The remuneration of the Executive Board comprises separate fixed and variable components. The fixed remuneration is paid in the form of a monthly salary. The variable remuneration comprises, on the one hand, a special bonus, the amount of which is determined based on the increase in value of a virtual stock portfolio and on the other, an individual bonus agreement for each of the Executive Board members employed in the fiscal year.

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

### 7.2.2 Remuneration paid to members of the Supervisory Board

The annual shareholders' meeting held on June 10, 2011, resolved the following remuneration scheme for the Supervisory Board:

*"Each member of the Supervisory Board receives a fixed payment of EUR 1,000.00 for each month or partial month of their term in office as well as a payment of EUR 1,000.00 for each Supervisory Board meeting or committee meeting attended. The Chairman of the Supervisory Board receives a fixed payment of EUR 1,500.00 for each month or partial month of his term in office as well as a payment of EUR 1,500.00 for each Supervisory Board meeting or committee meeting attended. The payments are due after the end of the annual shareholders' meeting adopting a resolution to approve the actions of the Supervisory Board for the previous fiscal year."*

This remuneration scheme applied through August 14, 2013. By a decision of the annual shareholders' meeting held on August 14, 2013, in the version of the resolution adopted by the extraordinary shareholders' meeting held on December 19, 2013, the following remuneration scheme has applied as of August 15, 2013:

*"Under section 113 AktG and Art. 12 (2) of the Articles of Association of the Company (the "Articles of Association"), the annual shareholders' meeting approves the following remuneration for the members of the Supervisory Board of Gigaset AG:*

1. *Base Remuneration. Each member of the Supervisory Board will receive a fixed remuneration of EUR 3,000.00 ("Base Remuneration") for each month or partial month of their term in office ("Accounting Month"). The beginning and end of each Accounting Month will be determined as provided in sections 187(1) and 188(2) of the German Civil Code (Bürgerliches Gesetzbuch, BGB). Remuneration that has already been received by a member of the Supervisory Board for a given Accounting Month, irrespective of the legal reason, will be applied toward that member's entitlement to a Base Remuneration. The entitlement to the Base Remuneration will come into being at the end of the Accounting Month.*

2. *Remuneration for meetings. For attending a Supervisory Board meeting or committee meeting duly convened under the Articles of Association (a "Meeting"), each member of the Supervisory Board will receive a payment of EUR 1,000.00 (the "Meeting Honorarium"). Attendance at a Meeting by telephone and written voting as provided in the second sentence of Art. 9(3) sentence 2 of the Articles of Association are equivalent to attendance at the Meeting. Multiple Meetings of the same body on the same day will be remunerated as one Meeting. The entitlement to Meeting Honorariums will come into being when the written record of the meeting is signed by the Chairman or Committee Chairman. Compliance with the requirements for this entitlement can be proved only by the written record of the Meeting as provided in section 107(2) AktG.*

3. *Remuneration for adopting resolutions outside Meetings. For voting on a resolution outside a Meeting as provided under Art. 9(4) of the Articles of Association, arranged by the Chairman in exceptional cases and conducted by letter, telegraph, telephone, telex or other means of telecommunications or data transfer ("Resolution Outside a Meeting") each member of the Supervisory Board will receive a payment of EUR 1,000.00 ("Resolution Honorarium"). If multiple votes on Resolutions Outside a Meeting are held on the same day, the member will be entitled to only one Resolution Honorarium. The entitlement to the Resolution Honorarium will come into being when the written record of the resolution is signed by the Chairman or Committee Chairman. Compliance with the requirements for this entitlement can be proved only by the written record of the resolution.*

4. *Remuneration of the Chairman. The Chairman of the Supervisory Board will receive an additional 100% of all forms of remuneration specified in Items 1 through 3; the Vice-Chairman of the Supervisory Board will receive an additional 50% of all such forms of remuneration.*

5. *Reimbursement of expenses. The Company will reimburse the Supervisory Board members for the out-of-pocket expenses they incur in carrying out their offices and for any value added tax payable on their remuneration and on the reimbursement of their expenses. The entitlement to reimbursement of expenses will come into being as soon as the Supervisory Board member has paid those expenses himself or herself.*

6. *Establishment and due date of claims for payment. All claims for payment will be due and payable 21 days after the Company receives an invoice meeting the requirements for proper invoicing. If reimbursement of expenses is claimed, the invoice must include copies of vouchers for the expenses. The Company is authorized to make advance payments before payment is due.*

7. *Insurance. The Company has taken out liability insurance for the Supervisory Board Members to cover legal liability arising from their activity on the Supervisory Board.*

8. *Applicability. This remuneration scheme will take effect retroactively as of August 15, 2013 and will remain in effect until a shareholders' meeting adopts a new scheme. This remuneration scheme replaces the remuneration scheme adopted by the annual shareholders' meeting held on August 14, 2013, which is simultaneously rescinded retroactively. If payments have already been made under the rescinded remuneration scheme, they will be applied toward payment claims under the new scheme."*

These resolutions are implemented by the Company.

# 8 Significant events after the balance sheet date

## 8.1 European Court of Justice ruling reduces anti-trust fine imposed on Gigaset AG by EUR 1.0 million.

By way of a ruling dated January 23, 2014, the European Court of Justice in part accepted the complaint filed by Gigaset AG (formerly Arques Industries AG) against the European Commission's administrative order imposing a fine in the cartel cases involving SKW and reduced the fine imposed on Gigaset AG by EUR 1.0 million. For the rest, the complaint was rejected.

In July 2009, the European Commission imposed a total administrative fine of EUR 61.1 million on various European companies in the calcium carbide sector in connection with an investigation under anti-trust laws. SKW Stahl-Metallurgie Holding AG and its SKW Stahl-Metallurgie GmbH subsidiary (together referred to as "SKW" below) were made jointly and severally liable for an administrative fine levied in the total amount of EUR 13.3 million as direct members of the cartel. As the corporate parent of SKW at the time, the present Gigaset AG was also made jointly and severally liable for the administrative fine imposed on SKW by order of the Commission based on the assumption that Gigaset AG as the corporate parent formed an "entrepreneurial unit" with SKW. Gigaset AG paid a provisional amount of EUR 6.7 million to the European Commission in 2009 to 2010 with respect to the administrative order imposing the fine (i.e. for the period of the appeal). In parallel, it lodged an appeal against the administrative order imposing the fine. A first instance ruling has now been issued regarding this appeal. Following a provisional legal appraisal of this ruling, Gigaset AG expects to be reimbursed some of the fine it has already paid. The ruling is not yet final; Gigaset will carefully examine whether it is necessary to appeal against that part of the ruling rejecting the complaint. In parallel to the legal dispute that has been resolved, Gigaset AG filed suit against SKW in the civil courts on the grounds that the latter should be liable to pay the fine alone as immediate founder of the cartel and, consequently, should reimburse the proportionate fine paid by Gigaset AG. Gigaset continues to believe that internally SKW, as a direct member of the cartel, should pay the fine alone.

## 8.2 Legal action against two resolutions adopted by the extraordinary general meeting

On January 21, 2014, the shareholder Ludic GmbH started legal action against two resolutions adopted by the extraordinary general meeting on December 19, 2013. The action was raised against the resolutions adopted under agenda items 2 (Authorized Capital) and 3 (Authorization of the Executive Board to issue warrant-linked bonds and/or convertible bonds, Contingent Capital 2013). The plaintiff has asked for the resolutions listed above to be declared partly, or alternatively fully, null and void. The action was filed on February 17, 2014 and is being handled by the Munich District Court I (Chamber for Commercial Matters) under file reference 5 HKO 1196/14. The Court has first ordered preliminary written proceedings. A date for the oral proceedings has not yet been set. Gigaset considers the legal action to be manifestly inadmissible and manifestly without merit and consequently filed a release request pursuant to Section 246a AktG on February 28, 2014. The competent Higher Regional Court is expected to rule on this release request within three months.

# 9 Forecast report and outlook

## 9.1 General economic development

Five years after the outbreak of the financial crisis, the worldwide economy is expected to recover appreciably this year. The prospects for the global economy are better than for a long time, according to assessments by the World Bank. The Washington-based international financial institution predicts growth of 3.2% for the global economy in 2014 following on from just 2.4% last year. The report is based on the assumption that the world will be led by the recovery in industrialized nations. In particular, the upturn in America is expected to assist the rest of the world. The World Bank anticipates growth of 2.8%. Christine Lagarde, the Managing Director of the International Monetary Fund (IMF), also sees the global economy on the road to recovery.

The World Bank is forecasting growth of 1.1% for the eurozone this year. According to the IMF, the expansion will be driven by positive developments in the industrialized world. Growth of 0.6% is forecast for Spain, for instance, compared with just 0.2% in 2013. The UK is also expected to perform better than previously assumed this year.

For Germany, the Bundesbank predicts an upturn, generating growth of 1.7%. The experts at Berenberg Bank even consider expansion of 2.2% possible. In this context, the German economy will benefit from the end of the recession in the eurozone, the low ECB interest rates and a strengthening of domestic demand.



## 9.2 Development of the industry

### Cordless phone market[19]

The experts are predicting that the global market for cordless telephony will contract at an annual rate of 5.5% between 2013 and 2018 on account of the increasing competition from smartphones and mobile phones. Within the market, the DECT standard is playing an ever more significant role, while the analog standard and other digital standards are losing importance. Whereas the DECT standard accounted for around 70% of the installed base worldwide in 2012, this figure is predicted to reach 90% by 2018.

The experts believe that western Europe will remain the most important market, accounting for a share of 35% in 2018, followed by America with 24% and Asia/Pacific with 18%. The biggest decline is expected in North America, with an annual rate of 8.6% between 2013 and 2018.

Lower prices are anticipated across all standards over the coming years, with the decline being particularly sharp for the analog standard and the other digital standard.

19. Source: MZA World - Consumer Cordless Telephony Market – 2013 Forecast Edition (published October 2013)

## Business customer market[20]

Market studies indicate that the European telecommunications market is moving strongly in the direction of IP telephony. The demand for hybrid IP systems already accounts of 90% of total demand and will continue to expand over the next four years. Similar trends are expected for the IP terminal market. Sales of IP terminals in Europe are forecast to increase by almost 16% by 2018, whereas the market for digital and analog terminals will contract. Not only does the Gigaset pro portfolio feature terminals it also meets the rapidly increasing demand for networked telephone systems, known as "hosted" communications solutions.

## Home network market

Current studies predict that the smart home market will expand quickly over the next ten years on the back of affordable, compatible, intuitive and personalized applications that offer convenience, security, energy efficiency and self-reliance for older people[21]. According to a projection by the audit company Deloitte, it will expand to over EUR 4.1 billion in Europe by 2017. This corresponds to an annual increase of 20%, as smart home solutions will no longer be restricted solely to the luxury and premium segment but will gradually become a volume market as well[17]. According to a study by VDI/VDE Innovation + Technik GmbH, the cumulative smart-home revenues in the German market alone could reach EUR 19 billion by 2025. Within this total, the average value added of German vendors is estimated at EUR 11.4 billion. German industry scores well in the global growth market with its capabilities in the fields of system integration and embedded systems, among other things.

## Tablet and Smartphone market

The global smartphone market grew again in 2013, as high-end superphones, phablets and operator subsidies continued to drive the market to new heights. Since current forecasts show that sales volumes will continue rising over the next five years, worldwide revenues will similarly go on rising. The growth rate will, however, start to slow as of 2015 to a low single-digit range, as falling prices largely offset volume growth. The main reason for the ongoing decline in average selling prices is the strong development of smartphone volume in the lower price classes[22]. Strategy Analytics believes that the smartphone market will expand to over 1.5 billion units worldwide by 2018[19]. As in previous years, the Android and Apple iOS operating systems will continue to dominate the global smartphone market. They accounted for approximately 94% of total worldwide smartphone sales in 2013, with Android alone already holding down around 79% of the smartphone market[23].



20. Source: MZA PBX/IP PBX – 2012 Forecast Edition (published September 2012)
21. electroboerse – smarthouse.de, July 16, 2013
22. Source: Licht ins Dunkel. Erfolgsfaktoren für das Smart Home.
Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft, November 2013
23. Global Smartphone Revenues, ASPs & Price-Tier Forecasts: 2003 to 2017, March 2013

## 9.3 Development of the Gigaset Group

### 9.3.1 Financial performance

The overall market for cordless telephones in Europe contracted by around 14% in 2013 in revenue terms[24] and no turnaround is evident on the market. The decline in revenues for the continuing operations of Gigaset AG lies within a higher single-digit and a lower two-digit percentage range. In order to balance the loss of revenues in the core business in the medium to long term, Gigaset has continued to systematically implement its Gigaset 2015 strategy and started to expand its business in new product categories in the second half of the year. The "Gigaset elements" range was launched in the third quarter to enter what observers consider to be the fast-expanding solutions market for smart homes. In December, Gigaset brought its first tablets to market. However, the new divisions failed to fully offset the loss of revenues in the core business in the past fiscal year.

The performance in fiscal 2014 will depend heavily on the forecast decline in the conventional telecommunications market together with the successful expansion of the Business Customer, Home Network and Mobile (tablets and smartphones) divisions. The experts predict that the cordless telephony market will continue to shrink. Gigaset AG will not be able to escape this trend, even if it does succeed in gaining market share. Consequently, Gigaset expects revenues in this segment to decrease further. Nonetheless, there will continue to be a strong focus on cordless telephony and the identified consumer needs will be addressed with concrete product offerings. Among other things, this will be reflected in product designs that are based on current lifestyle factors. One of the main areas of activity in 2014 will be the further development of a proprietary Gigaset ecosystem, which should allow for the integration of as many Gigaset products and services as possible.

At the same time, it is planned to expand the Business Customer segment featuring the "Gigaset pro" brand, which has grown constantly over recent years. The sales function and above all sales partnerships are to be enhanced. It is planned to set up activities primarily in the UK, Austria and Italy, with efforts to respond to local needs playing an ever greater role. The focus is on selling complete solutions, which is expected to lead to higher sales of desktop units, PBX and base stations. Revenues are anticipated to receive a further boost from the roll-out of the Maxwell, an innovative full-touch video-IP telephone that was unveiled at CeBit in March 2014. With this move, "Gigaset pro" is launching a new product portfolio and creating a separate platform for professional desktop phone products.

The solutions in the Home Networks segment are also gaining in importance. A recent study by Fittkau & Maß Consulting shows that, in Germany alone, 78% of consumers are interested in a smart home. And interest outside of Germany is just as great, as the surveys carried out by Strategy Analytics demonstrate. The market in western Europe alone is predicted to have potential of around USD 14 billion in 2014[25]. In this dynamic environment, "Gigaset elements", the new solution for networked living von Gigaset, has been available from German specialist retailers since September 2013 and also from French specialist outlets since October. The new system connects people with their homes over the cloud using sensors.

24. The data was taken from surveys by the Retail Panel for cordless telephones of GfK Retail and Technology GmbH in the countries of Belgium, Germany, France, the United Kingdom, Italy, the Netherlands, Austria, Poland, Switzerland,Spain, Russia and Turkey. Collection period: Jan - Dec 2013; Basis GfK Panel Market.
25. Strategy Analytics, Smart Home Systems and Services Forecast: Western Europe, July 2013

Gigaset aims to exploit this platform of the Internet of Things step by step to develop an ecosystem incorporating other product fields. The goal is to create a clear USP against the competition over the coming years and to tap completely new distribution channels.

A camera will be added to the existing "Gigaset elements" portfolio in 2014 to connect customers even more closely with their homes. A smoke detector, a switched socket and a climate sensor will extend the usability of the system to other areas or life. First new sources of revenue will emerge from premium services like text messages and the automatic saving of camera images for specific events.

Following the roll-out of the first two models in the fast-growing tablet market, Gigaset intends to constantly expand the portfolio in 2014. With its market expertise and strong brand, Gigaset sees itself in a good starting position in this category to enter the market and continue fulfilling its claim to offer first-class communications tools for the intelligent home. Further devices in the tablet segment are slated to follow before the end of 2014. An expanded range is intended to generate additional pricing points and hence address further target groups.

Against this backdrop, Gigaset expects revenues in the Consumer Product, Business Customer and Home Network segments to decline further during the current fiscal year. The Gigaset Group is predicted to generate additional revenues from tablet and smartphone activities. The buildup of the joint venture with Goldin Fund Pte. Ltd., Singapore is, however, still in its infancy, meaning that it is hard to make any concrete predictions.

The operating result (EBITDA) already improved tangibly in the last fiscal year thanks to the cost-cutting program that was announced in fiscal 2012 and systematically implemented. The planned and also realized savings of EUR 30.0 million each year will be felt in 2014. Invoices are denominated primarily in US dollars on Gigaset's procurement markets, meaning that a strong dollar could have a negative impact on the Group's profitability.

This forecast is based on the described general economic and industry-specific trends. The forecast is not based on inorganic growth from acquisitions. In addition, the forecast is based on a USD/EUR exchange rate of 1.31.

### 9.3.2 Cash flows

The Company currently finances itself in particular through the syndicated loan secured at the beginning of 2012 and factoring. In response to the changed ownership structure caused by the entry of Goldin Fund Pte. Ltd., Singapore (change-of-control clause), the syndicate banks have, as expected, requested repayment of the utilized credit lines of EUR 32.9 million by April 30, 2014, as stipulated in the loan agreement.

The Company will probably not have recourse to low-interest equity capital for the time being as legal action has been taken to rescind the corresponding resolution adopted at the extraordinary general meeting on December 19, 2013. A subsidiary of Gigaset group provides a loan of up to EUR 32.9 million to Gigaset AG and Gigaset Communications GmbH to cover their liquidity needs. This financing is particularly intended to bridge the time gap until a decision regarding the legal action brought against creating authorized capital and conditional capital is reached. After this decision further financing with equity instruments is planned. Simultaneously the executive board is working on alternative financing instruments to replace the loan provided by the syndicate banks.

Should this not succeed, a liquidity shortfall may arise during the course of the year. Furthermore, an uneven distribution of revenues may lead to a liquidity shortfall in the summer months of fiscal year 2014. Against this backdrop, the continued existence of the corporate group as a going concern will depend in particular on the funding of the syndicated loan and the development of revenues in fiscal year 2014.

The continued existence of the corporate group as a going concern could be endangered if it proves impossible to obtain additional liquidity by new financing instruments or implement the envisaged measures to cover liquidity requirements as planned, especially in a changing economic environment. We will continue to focus on liquidity management in the next two fiscal years. The Company's strategy with respect to ensuring financial stability remains conservative in order to preserve the Group's operational and strategic flexibility.

Gigaset will continue to invest in established markets as part of its investment planning in order to secure market share and expand competitive advantages. Additional investments will also be made in new product categories and growth segments that will permanently secure the Company's existence and competitiveness. For the set-up and development of the new segments there might be additional need for external financing. Depending on the company's performance and a lower than expected level of liquidity within the group the company may be dependent on additional external financial resources and the successful implementation of the measures taken to ensure liquidity.



## 9.4 Development of Gigaset AG

### 9.4.1 Financial performance

As the Gigaset Group's holding company, Gigaset AG does not generate any noteworthy sales revenue. Gigaset AG's earnings are determined on the basis of personnel costs and other expenses for management, the Legal & Tax department, Audit, Corporate Communications, Group Brand Communications, Business Development and Investor Relations. The services performed for the subsidiaries are charged back to those subsidiaries.

As a holding company, Gigaset AG is heavily influenced by the development of the subsidiaries, particularly by the operative Gigaset Communications Group.

### 9.4.2 Cash flows

Gigaset AG similarly finances itself through the syndicated loan of EUR 12 million secured at the beginning of 2012, for which it is also jointly and severally liable. Furthermore, the financing of the company take place by charging of headquarter services to group subsidiaries. In addition, the Gigaset AG can meet their liquidity needs through the distribution of dividends from its subsidiaries.

The equity base was reinforced compared with the prior year by the capital-raising measures carried out in fiscal 2013.

## 9.5 Overall statement regarding expected development

The measures required to secure long-term growth were initiated in 2012. In order to counter the persistently difficult trend in the core market, it is necessary to continue investing in the buildup of promising new segments and product groups. The new segments will deliver additional contributions to revenues in fiscal 2014, although this will not be enough to fully offset the market-related decline in the cordless voice segment. Consequently, Gigaset expects to see the following developments in the Consumer Product, Business Customer and Home Network segments (without tablets and mobile) in the present fiscal year:

- A decline in revenue in the core business in the high single to low double-digit percentage range
- Compared to the previous year again a significantly improved positive EBITDA and an EBITDA margin in the high single-digit percentage range due to the expected positive effects of the efficiency programs.
- A negative free cash flow in the low double-digit million range, due to the necessary investments in the further expansion of new business and the reorganisation of Gigaset group.

Furthermore, Gigaset expects to generate additional revenues from its tablet and smart-phone activities, although this is hard to predict accurately on account of the early stage of the common setup of the combined activities with Goldin Fund Pte. Ltd., Singapore.

# 10 Dependency report

There is a major shareholding of Goldin Fund Pte. Ltd., Singapore. According to § 312 AktG we issued a report on relations with affiliated companies on 24/03/2014, which concludes with the following statement: "We declare that the legal transactions and measures in the report on relations with affiliated companies, that were known to us at the time from 22. October 2013 to 31. December 2013, received an adequate consideration."

Munich, March 24, 2014

The Executive Board of Gigaset AG

Charles Fränkl Dr. Alexander Blum Maik Brockmann

# FINANCIAL STATEMENTS & NOTES

# Consolidated Income Statement for the period from January 1 to December 31, 2013

| | | 01/01/ – 12/31/2013 | | |
|---|---|---|---|---|
| EUR'000 | Note | Continuing operations | Discontinued operations | Total |
| Revenues | 1 | 371,153 | 5,965 | 377,118 |
| Change in inventories of finished and unfinished goods | | -4,365 | 0 | -4,365 |
| Other internal production capitalized | 2 | 17,339 | 0 | 17,339 |
| Other operating income | 3 | 23,465 | 1,806 | 25,271 |
| Purchased goods and services | 4 | -183,752 | -3,233 | -186,985 |
| Personnel expenses | 5 | -99,509 | -1,710 | -101,219 |
| Other operating expenses | 6 | -113,285 | -6,388 | -119,673 |
| **EBITDA** | | **11,046** | **-3,560** | **7,486** |
| Depreciation and amortization | | -26,163 | 0 | -26,163 |
| Impairment losses | 7 | 0 | 1,935 | 1,935 |
| **EBIT** | | **-15,117** | **-1,625** | **-16,742** |
| Impairment on financial assets | 15 | -98 | 0 | -98 |
| Other interest and similar income | 8 | 577 | 0 | 577 |
| Interest and similar expenses | 8 | -4,430 | -28 | -4,458 |
| **Net financial result** | | **-3,951** | **-28** | **-3,979** |
| **Income from ordinary activities** | | **-19,068** | **-1,653** | **-20,721** |
| Income taxes | 9 | -15,569 | 210 | -15,359 |
| **Consolidated loss for the year** | | **-34,637** | **-1,443** | **-36,080** |
| Share of consolidated loss attributable to minority interests | 10 | 0 | 0 | 0 |
| Share of consolidated loss attributable to shareholders of GIGASET AG | 10 | -34,637 | -1,443 | -36,080 |
| **Earnings per common share** | 11 | | | |
| - Basic earnings per share, in EUR | | -0.59 | -0.02 | -0.61 |
| - Diluted earnings per share, in EUR | | -0.59 | -0.02 | -0.61 |

# Consolidated Income Statement for the period from January 1 to December 31, 2013

| 01/01/ – 12/31/2012[1] | | | | |
|---|---|---|---|---|
| Continuing operations | Discontinued operations | Total | Note | EUR'000 |
| 419,557 | 17,687 | 437,244 | 1 | Revenues |
| -621 | 25 | -596 | | Change in inventories of finished and unfinished goods |
| 16,076 | 0 | 16,076 | 2 | Other internal production capitalized |
| 26,052 | 5,707 | 31,759 | 3 | Other operating income |
| -216,099 | -10,001 | -226,100 | 4 | Purchased goods and services |
| -130,966 | -2,599 | -133,565 | 5 | Personnel expenses |
| -116,750 | -11,680 | -128,430 | 6 | Other operating expenses |
| **-2,751** | **-861** | **-3,612** | | **EBITDA** |
| -24,844 | 0 | -24,844 | | Depreciation and amortization |
| 0 | -1,935 | -1,935 | 7 | Impairment losses |
| **-27,595** | **-2,796** | **-30,391** | | **EBIT** |
| -2,471 | 0 | -2,471 | 15 | Impairment on financial assets |
| 911 | 1 | 912 | 8 | Other interest and similar income |
| -2,160 | -145 | -2,305 | 8 | Interest and similar expenses |
| **-3,720** | **-144** | **-3,864** | | **Net financial result** |
| **-31,315** | **-2,940** | **-34,255** | | **Income from ordinary activities** |
| 5,273 | 410 | 5,683 | 9 | Income taxes |
| **-26,042** | **-2,530** | **-28,572** | | **Consolidated loss for the year** |
| 0 | 0 | 0 | 10 | Share of consolidated loss attributable to minority interests |
| -26,042 | -2,530 | -28,572 | 10 | Share of consolidated loss attributable to shareholders of GIGASET AG |
| | | | 11 | **Earnings per common share** |
| -0.52 | -0.05 | -0.57 | | - Basic earnings per share, in EUR |
| -0.52 | -0.05 | -0.57 | | - Diluted earnings per share, in EUR |

1) Prior year figures are adjusted due to changes in IAS 19. For detailed Information we refer to section "Adjustment of comparative information in the consolidated financial statements as of December 31, 2012"

## Statement of Comprehensive Income

| | 01/01/ – 12/31/2013 | | |
|---|---|---|---|
| EUR'000 | Continuing operations | Discontinued operations | Total |
| **Consolidated loss for the year** | **-34,637** | **-1,443** | **-36,080** |
| Items that may be reclassified | | | |
| Currency translation differences | 1,054 | -3 | 1,051 |
| Recognized income taxes for this item | 0 | 0 | 0 |
| Items that will not be reclassified to net income/loss | | | |
| Revaluation effects, net debt from defined benefit plans | 4,087 | 0 | 4,087 |
| Recognized income taxes for this item | -1,703 | 0 | -1,703 |
| **Total changes not recognized in the income statement** | **3,438** | **-3** | **3,435** |
| **Total comprehensive income and expenses** | **-31,199** | **-1,446** | **-32,645** |
| Thereof attributable to minority interests | 0 | 0 | 0 |
| **Thereof attributable to shareholders of Gigaset AG** | **-31,199** | **-1,446** | **-32,645** |

# Statement of Comprehensive Income

| | 01/01/ – 12/31/2012[1] | | |
|---|---|---|---|
| Continuing operations | Discontinued operations | Total | EUR'000 |
| -26,042 | -2,530 | -28,572 | Consolidated loss for the year |
| | | | Items that may be reclassified |
| -330 | -7 | -337 | Currency translation differences |
| 0 | 0 | 0 | Recognized income taxes for this item |
| | | | Items that will not be reclassified to net income/loss |
| -26,428 | 0 | -26,428 | Revaluation effects, net debt from defined benefit plans |
| 8,392 | 0 | 8,392 | Recognized income taxes for this item |
| -18,366 | -7 | -18,373 | Total changes not recognized in the income statement |
| -44,408 | -2,537 | -46,945 | Total comprehensive income and expenses |
| 0 | 0 | 0 | Thereof attributable to minority interests |
| -44,408 | -2,537 | -46,945 | Thereof attributable to shareholders of Gigaset AG |

1) Prior year figures are adjusted due to changes in IAS 19. For detailed Information we refer to section "Adjustment of comparative information in the consolidated financial statements as of December 31, 2012"

# Consolidated Statement of Financial Position at December 31, 2013

| EUR'000 | Note | 12/31/2012 | 31/12/2013[1)] | 1/1/2012[1)] |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Non-current assets | | | | |
| Intangible assets | 13 | 45,470 | 44,226 | 42,431 |
| Property, plant and equipment | 14 | 39,636 | 44,148 | 45,911 |
| Financial assets | 15 | 0 | 0 | 2,334 |
| Deferred tax assets | 28 | 16,645 | 28,783 | 14,482 |
| Total non-current assets | | 101,751 | 117,157 | 105,158 |
| Current assets | | | | |
| Inventories | 16 | 27,504 | 33,418 | 35,804 |
| Trade receivables | 17 | 50,200 | 50,998 | 59,723 |
| Other assets | 18 | 28,519 | 26,424 | 27,163 |
| Current tax assets | 19 | 2,099 | 2,017 | 3,076 |
| Cash and cash equivalents | 20 | 56,987 | 54,651 | 62,262 |
| | | 165,309 | 167,508 | 188,028 |
| Available-for-sale assets | 21 | 0 | 18,788 | 20,416 |
| Total current assets | | 165,309 | 186,296 | 208,444 |
| **Total assets** | | **267,060** | **303,453** | **313,602** |

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1) Prior year figures are adjusted due to changes in IAS 19. For detailed Information we refer to section "Adjustment of comparative information in the consolidated financial statements as of December 31, 2012

# Consolidated Statement of Financial Position at December 31, 2013

| EUR'000 | Note | 12/31/2012 | 31/12/2013 1) | 1/1/2012 1) |
|---|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | | |
| Equity | 22 | | | |
| Subscribed capital | | 97,928 | 50,015 | 50,015 |
| Additional paid-in capital | | 87,042 | 87,981 | 87,981 |
| Retained earnings | | 68,979 | 68,979 | 22,858 |
| Accumulated other comprehensive income | | -215,272 | -182,627 | -89,561 |
| | | **38,677** | **24,348** | 71,293 |
| Minority interests | | 0 | 0 | 0 |
| Total equity | | **38,677** | **24,348** | **71,293** |
| Non-current liabilities | | | | |
| Convertible bonds | 23 | 76 | 0 | 0 |
| Pension obligations | 24 | 44,587 | 45,829 | 17,795 |
| Provisions | 25 | 11,043 | 9,318 | 7,037 |
| Financial liabilities | 26 | 0 | 32,000 | 0 |
| Other liabilities | 27 | 184 | 27 | 35 |
| Deferred tax liabilities | 28 | 15,232 | 13,967 | 15,958 |
| Total non-current liabilities | | **71,122** | **101,141** | 40,825 |
| Current liabilities | | | | |
| Provisions | 25 | 31,506 | 41,284 | 27,222 |
| Financial liabilities | 29 | 30,201 | 306 | 6,083 |
| Trade payables | 30 | 71,476 | 86,644 | 96,239 |
| Current tax liabilities | 31 | 2,589 | 6,384 | 7,790 |
| Other liabilities | 32 | **21,489** | **24,558** | 41,568 |
| | | 157,261 | 159,176 | 178,902 |
| Liabilities related to assets held for sale | 21 | 0 | 18,788 | 22,582 |
| Total current liabilities | | 157,261 | 177,964 | 201,484 |
| **Total equity and liabilities** | | **267,060** | **303,453** | **313,283** |

1) Prior year figures are adjusted due to changes in IAS 19. For detailed Information we refer to section "Adjustment of comparative information in the consolidated financial statements as of December 31, 2012

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# Consolidated Statement of Changes in Equity at December 31, 2013

| | EUR'000 | Subscribed capital | Additional paid-in capital | Retained earnings |
|---|---|---|---|---|
| | **January 1, 2012[1)]** | **50.015** | **87.981** | **22.858** |
| | **Effects resulting from adjustments of accounting policies** | **0** | **0** | **0** |
| | **January 1, 2012 (adjusted)** | **50.015** | **87.981** | **22.858** |
| 1 | Capital increase | 0 | 0 | 0 |
| 2 | Appropriation to retained earnings | 0 | 0 | 46.121 |
| 3 | Total transactions with shareholders | 0 | 0 | 0 |
| 4 | Consolidated loss 2012 | 0 | 0 | 0 |
| 5 | Minority interests | 0 | 0 | 0 |
| 6 | Consolidated loss after minority interests | 0 | 0 | 0 |
| 7 | Currency translation differences | 0 | 0 | 0 |
| 8 | Actuarial effects IAS 19 | 0 | 0 | 0 |
| 9 | Total changes not recognized in the income statement | 0 | 0 | 0 |
| **10** | **Total net income (6+9)** | **0** | **0** | **0** |
| | **December 31, 2012[1)]** | **50.015** | **87.981** | **68.979** |
| **1** | **Capital increase** | **47.913** | **-939** | **0** |
| **2** | **Appropriation to retained earnings** | **0** | **0** | **0** |
| **3** | **Transactions with shareholders** | **0** | **0** | **0** |
| 4 | Consolidated loss 2013 | 0 | 0 | 0 |
| 5 | Minority interests | 0 | 0 | 0 |
| 6 | Consolidated loss after minority interests | 0 | 0 | 0 |
| 7 | Currency translation differences | 0 | 0 | 0 |
| 8 | Actuarial effects IAS 19 | 0 | 0 | 0 |
| **9** | **Total changes not recognized in the income statement** | **0** | **0** | **0** |
| **10** | **Total net income (6+9)** | **0** | **0** | **0** |
| | **December 31, 2013** | **97.928** | **87.042** | **68.979** |

1) Adjusted as a result of changes to IAS 19. For details please refer to comments in the notes under section "Adjustment of comparative information in the consolidated financial statements as of December 31, 2012"

# Consolidated Statement of Changes in Equity at December 31, 2013

| Accumulated other comprehensive income | Adjustment items for non-controlling interests | Consolidated equity | | |
|---|---|---|---|---|
| **-84.621** | **0** | **76.233** | **January 1, 2012[1)]** | |
| **-4.940** | **0** | **-4.940** | **Effects resulting from adjustments of accounting policies** | |
| **-89.561** | **0** | **71.293** | **January 1, 2012 (adjusted)** | |
| 0 | 0 | 0 | Capital increase | 1 |
| -46.121 | 0 | 0 | Appropriation to retained earnings | 2 |
| 0 | 0 | 0 | Total transactions with shareholders | 3 |
| -28.572 | 0 | -28.572 | Consolidated loss 2012 | 4 |
| 0 | 0 | 0 | Minority interests | 5 |
| -28.572 | 0 | -28.572 | Consolidated loss after minority interests | 6 |
| -337 | 0 | -337 | Currency translation differences | 7 |
| -18.036 | 0 | -18.036 | Actuarial effects IAS 19 | 8 |
| -18.373 | 0 | -18.373 | Total changes not recognized in the income statement | 9 |
| **-46.945** | **0** | **-46.945** | **Total net income (6+9)** | **10** |
| **-182.627** | **0** | **24.348** | **December 31, 2012[1)]** | |
| **0** | **0** | **46.974** | **Capital increase** | **1** |
| **0** | **0** | **0** | **Appropriation to retained earnings** | **2** |
| **0** | **0** | **0** | **Transactions with shareholders** | **3** |
| -36.080 | 0 | -36.080 | Consolidated loss 2013 | 4 |
| 0 | 0 | 0 | Minority interests | 5 |
| -36.080 | 0 | -36.080 | Consolidated loss after minority interests | 6 |
| 1.051 | 0 | 1.051 | Currency translation differences | 7 |
| 2.384 | 0 | 2.384 | Actuarial effects IAS 19 | 8 |
| **3.435** | **0** | **3.435** | Total changes not recognized in the income statement | **9** |
| **-32.645** | **0** | **-32.645** | **Total net income (6+9)** | **10** |
| **-215.272** | **0** | **38.677** | **December 31, 2013** | |

1) Adjusted as a result of changes to IAS 19. For details please refer to comments in the notes under section "Adjustment of comparative information in the consolidated financial statements as of December 31, 2012"

# Consolidated Cash Flow Statement for the Period from January 1 to December 31, 2013

| EUR'000 | 01/01/ – 12/31/2013 | 01/01/ – 12/31/2012[1] |
|---|---|---|
| **Earnings before taxes (EBT)** | **-20.721** | **-34.255** |
| Depreciation and amortization of property, plant and equipment and intangible assets | 26.163 | 24.844 |
| Impairment losses | -1.935 | 1.935 |
| Increase (+)/decrease (-) in pension provisions | 2.845 | 1.811 |
| Gain (-)/loss (+) on the sale of non-current assets | 35 | 83 |
| Gain (-)/loss (+) on deconsolidation | 15 | -604 |
| Gain (-)/loss (+) on currency translation | 3.312 | 1.716 |
| Other non-cash income and expenses | -17.339 | -16.082 |
| Net interest result | 3.881 | 1.393 |
| Interest received | 238 | 186 |
| Interest paid | -3.013 | -1.490 |
| Income taxes paid | -7.704 | -3.264 |
| Impairment of financial assets | 98 | 2.471 |
| Increase (-)/ decrease (+) in inventories | 5.914 | 2.386 |
| Increase (-)/ decrease (+) in trade receivables and other receivables | -1.789 | 9.461 |
| Increase (+)/ decrease (-) in trade payables, other liabilities and other provisions | -26.744 | -10.511 |
| Increase (+)/ decrease (-) in other balance sheet items | 1.722 | -4.204 |
| **Cash inflow (+)/ outflow (-) from operating activities (net cash flow)** | **-35.022** | **-24.124** |
| Cash transferred with the sale of shares in companies | -1.643 | 0 |
| Proceeds from the sale of non-current assets | 9 | 11 |
| Payments for investments in non-current assets | -5.612 | -8.835 |
| **Cash inflow (+)/ outflow (-) from investing activities** | **-7.246** | **-8.824** |
| **Free cash flow** | **-42.268** | **-32.948** |

1) Prior year figures are adjusted due to changes in IAS 19. For detailed Information we refer to section "Adjustment of comparative information in the consolidated financial statements as of December 31, 2012"

# Consolidated Cash Flow Statement for the Period from January 1 to December 31, 2013

| EUR'000 | 01/01/ – 12/31/2013 | 01/01/ – 12/31/2012[1] |
|---|---|---|
| Cash flows from the borrowing (+)/ repayment (-) of current financial liabilities | -2.105 | -5.777 |
| Cash flows from the borrowing of non-current financial liabilities | 0 | 32.000 |
| Convertible bonds | 22.773 | 0 |
| Capital increase | 24.201 | 0 |
| **Cash inflow (+)/ outflow (-) from financing activities** | **44.869** | **26.223** |
| Net funds at beginning of period | 52.589 | 59.127 |
| Changes due to exchange rate differences | -1.296 | -749 |
| Net funds at beginning of period, measured at prior-year exchange rate | 53.885 | 59.876 |
| Increase (-)/ decrease (+) in restricted cash | -865 | 1.483 |
| Change in cash and cash equivalents | 2.601 | -6.725 |
| **Net funds at end of period** | **54.325** | **53.885** |
| Restricted cash | 2.662 | 1.797 |
| **Cash and cash equivalents** | **56.987** | **55.682** |
| Cash presented within the balance sheet item of "assets held for sale" | 0 | 1.031 |
| **Cash and cash equivalents presented in the balance sheet** | **56.987** | **54.651** |



1) Prior year figures are adjusted due to changes in IAS 19. For detailed Information we refer to section "Adjustment of comparative information in the consolidated financial statements as of December 31, 2012"

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2013

## A. GENERAL INFORMATION AND PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

### Business activities

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.

Gigaset AG is a company active worldwide in the area of communications technology. The company is Europe's market leader in DECT telephones. A premium supplier, Gigaset AG has more than 1,400 employees and a market presence in more than 70 countries, putting it in second place worldwide.

The Gigaset Group is divided into regional segments across the world for internal controlling purposes. The Europe segment comprises by far the largest share of the overall business. Within Europe, Germany is far and away the largest individual market. Gigaset sells its products using a direct and an indirect sales structure.

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.

### Presentation of the consolidated financial statements

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

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

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

In accordance with IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations), a distinction is made between the continuing divisions and the discontinued divisions and non-current assets held for sale. Continuing and discontinued operations are shown separately in the statement of comprehensive income and the statement of cash flows for the reporting period and the prior year. In addition, a combined presentation is made in the statement of comprehensive income and the statement of cash flows, where the individual items for both the continuing divisions and the discontinued divisions are shown. Please see Notes statement No. 33, Segment Reporting, for the composition of the discontinued and continuing divisions.

In response to the changed ownership structure caused by the entry of Goldin Fund Pte. Ltd., Singapore (change-of-control clause), the syndicate banks have, as expected, requested repayment of the utilized credit lines of up to EUR 32.9 million by April 30, 2014, as stipulated in the loan agreement.

The Company will probably not have recourse to low-interest equity capital for the time being as legal action has been taken to rescind the corresponding resolution adopted at the extraordinary general meeting on December 19, 2013.

A subsidiary of Gigaset group provides a loan of up to EUR 32.9 million to Gigaset AG and Gigaset Communications GmbH to cover their liquidity needs. This financing is particularly intended to bridge the time gap until a decision regarding the legal action brought against creating authorized capital and conditional capital is reached. After this decision further financing with equity instruments is planned. Simultaneously the executive board is working on alternative financing instruments to replace the loan provided by the syndicate banks.

Should this not succeed, a liquidity shortfall may arise during the course of the year. Furthermore, an uneven distribution of revenues may lead to a liquidity shortfall in the summer months of fiscal year 2014. Against this backdrop, the continued existence of the corporate group as a going concern will depend in particular on the funding of the syndicated loan and the development of revenues in fiscal year 2014.

The continued existence of the corporate group as a going concern could be endangered if it proves impossible to obtain additional liquidity by new financing instruments or implement the envisaged measures to cover liquidity requirements as planned, especially in a changing economic environment.

For the set-up and development of the new segments there might be additional need for external financing. Depending on the company's performance and a lower than expected level of liquidity within the group the company may be dependent on additional external financial resources and the successful implementation of the measures taken to ensure liquidity.

The continued existence of the company is assumed on account of the measures that have been initiated and the financial statements prepared under the assumption of a going concern.

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

## Accounting principles

The consolidated financial statements of Gigaset for fiscal 2012 and the prior-year figures presented have been prepared in accordance with the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) adopted and published by the International Accounting Standards Board (IASB) and the interpretations of the Standard Interpretations Committee (SIC) and the International Financial Reporting Standards Interpretations Committee (IFRS IC), as applicable in the European Union.

Furthermore, the German commercial regulations to be applied additionally in accordance with Section 315a (1) of the German Commercial Code (HGB) were observed. All the standards in effect and applicable to fiscal 2012 have been observed. They help to provide a true and fair view of the financial position, cash flows and financial performance of the Gigaset Group.

In addition, application of the following standards and interpretations revised and newly issued by the IASB was obligatory starting from fiscal 2013:

› Amendments to IAS 19, Employee Benefits

  The primary change in IAS 19 is that future unexpected fluctuations in pension commitments as well as any plan assets – so-called actuarial gains and losses – will have to be recognized directly in equity under other comprehensiveincome (OCI). The option previously applied by Gigaset – recognition under the corridor method – is being abolished. This is expected to lead to increasing volatility of equity. Another change in accounting treatment is that interest expense will be derived in the future based on the so-called net defined benefit liability. More comprehensive disclosures will have to be made in the notes under the amended standard than previously required.

  Another significant change in IAS 19 relates to the accounting treatment of partial retirement agreements. With respect to the obligation to pay top-up amounts from partial retirement agreements, as a result of this amendment these payments can no longer be treated as termination benefits in the future. Moreover, the benefits based on the dependency of service rendered in the future and their long-term vesting period are to be recognized as other non-current employee benefits. Due to this change in classification, the expenses are no longer to be recognized in full when the company is irrevocably obligated, but instead based on their vesting period. This change had significant effects as a result of the restructuring measures in the fourth quarter of 2012.

  The amendments to IAS 19 have significant effects on Gigaset's consolidated financial statements. The amendments apply for fiscal years beginning on or after January 1, 2013. Earlier adoption is permitted. The effects of the amendments are presented in detail in the notes under the point on the "Adjustment of comparative information in the consolidated financial statements as of September 30, 2012".

› Amendments to IAS 1, Presentation of Financial Statements

  According to the amendments to IAS 1, the items presented under other comprehensive income are to be divided into two categories: a) Items that might be reclassified to the income statement in subsequent periods (so-called "recycling") and b) items that will not be reclassified to the income statement in subsequent periods. If these items are presented before taxes, the associated tax amounts of the two categories are to be stated (to the extent that taxes apply). The amendments apply for fiscal years beginning on or after January 1, 2013. The required additional disclosures were taken into account in the Company's financial statements.

› IFRS 13, Fair Value Measurement

IFRS 13 describes how fair value is to be determined and expands the existing disclosures regarding fair value. The standard does not specify the cases in which fair value is to be determined – this is based on the requirements of other IFRSs/IASs. The application of IFRS 13 for the determination of fair value is prohibited for individual standards. The new standard requires additional disclosures when fair value is determined. The new standard applies for reporting periods beginning on or after January 1, 2013. The amendments resulted in expanded disclosure obligations for the consolidated financial statements.

› Amendments to IFRS 7, Financial Instruments: Disclosures

The revision of the application guidance for IFRS 7 clarifies some provisions regarding the offsetting of financial assets and financial liabilities in the statement of financial position. More extensive disclosures must also be made in the notes than previously required for offset amounts. The amendments apply for fiscal years beginning on or after January 1, 2013. The amendments had no effect on the consolidated financial statements.

› Amendments to IFRS 1, First-time Adoption of International Financial Reporting Standards

A new exemption rule after severe hyperinflation was introduced, a few fixed dates for first-time adopters were removed and simplifications with respect to the accounting treatment of government loans were added under the amendments to IFRS 1. The amendments apply for fiscal years beginning on or after January 1, 2013. The amendments had no effect on the consolidated financial statements.

› Amendments to IAS 12, Income Taxes

The amendment to IAS 12 includes a partial clarification regarding the treatment of temporary tax differences related to the application of the fair value model in IAS 40. With respect to investment property, it is often difficult to assess whether existing differences reverse over a period of continued use or as a result of a sale. Therefore, the amendment specifies that the general assumption is reversal through sale. The amended standard applies for reporting periods beginning on or after January 1, 2013. The amendments had no effect on the consolidated financial statements.

› Annual improvements to IFRSs (2009 – 2011 cycle)

The annual improvements (2009 – 2011) were adopted by the European Commission on March 28, 2013 and relate to clarifications within the following standards:

- IAS 1 Presentation of Financial Statements (clarification of disclosure requirements for comparative information if a third statement of financial position is required or prepared voluntarily).
- IAS 16 Property, Plant and Equipment (clarification regarding replacement parts and servicing equipment and their recognition as property, plant and equipment or inventories)
- IAS 32 Financial Instruments (clarification regarding the recognition of the tax effects of dividends and transaction costs from the issue or repurchase of equity instruments)
- IAS 34 Interim Financial Reporting (clarification regarding the disclosure of segment assets and liabilities in interim financial reports)
- IFRS 1 First-time Adoption of International Financial Reporting Standards (various clarifications)

The amended standards apply for reporting periods beginning on or after January 1, 2013. The amendments had no effect on the consolidated financial statements.

› IFRIC 20, Recognition of Stripping Costs in the Production Phase of a Surface Mine
The interpretation specifies rules for the recognition of stripping costs in the production phase of a surface mine and applies for fiscal years beginning on or after January 1, 2013. The amendments had no effect on the consolidated financial statements.

› Amendments to IAS 36 Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets
The revision of IAS 36 provides that expanded disclosures on the recoverable amount are only necessary for assets and cash-generating units if an impairment is recognized or reversed in the current period. Furthermore, there was a clarification with respect to the disclosure requirements on valuation methods and hierarchies of fair values under IFRS 13. The amended standard applies for reporting periods beginning on or after January 1, 2014. Gigaset already applied the amended standard early for the 2013 fiscal year. The amendments had no effect on the consolidated financial statements.

The following standards and interpretations already adopted, revised, or newly issued by the IASB were not yet required to be applied in fiscal year 2013:

| **Standards** | | **Application mandatory for Gigaset from** | **Adopted by EU Commission** |
|---|---|---|---|
| IFRS 10 | Consolidated financial statements | 1/1/2014[2)] | Yes[1] |
| IFRS 11 | Joint Arrangements | 1/1/2014[2)] | Yes[1] |
| IFRS 12 | Disclosure of Interests in Other Entities | 1/1/2014[2)] | Yes[1] |
| IAS 27 | Separate Financial Statements | 1/1/2014[2)] | Yes[1] |
| IAS 28 | Investments in Associates and Joint Ventures | 1/1/2014[2)] | Yes[1] |
| IAS 32 | Amendments to Offsetting Financial Assets and Financial Liabilities | 1/1/2014 | Yes |
| IAS 39 | Amendments to Novation of Derivatives and Continuation fo Hedge Accounting | 1/1/2014 | Yes |
| IAS 19 | Employee benefits – Defined benefit plans Employee contributions | 1/1/2015 | No |
| Various | Annual improvement cycle to International Financial Reporting Standards (2010-2012 cycle) | 1/1/2015 | No |
| Various | Annual improvement cycle to International Financial Reporting Standards (2011-2013 cycle) | 1/1/2015 | No |
| IFRS 9 | Financial Instruments | 1/1/2018 | No |
| IFRS 9 / IFRS 7 | Amendments to Mandatory Effective Date and Transition Disclosures | 1/1/2018 | No |
| IFRS 14 | Regulatory accrual items | 1/1/2016 | No |
| **Interpretations** | | | |
| IFRIC 21 | Levies | 1/1/2014 | No |

1) The original rules in the IASB's provisions specified mandatory application already starting in fiscal year 2013. However, the European Commission normalized a first-time application date for the changes for fiscal years beginning on or after January 1, 2014, in the Official Journal of the European Union L360 dated December 29, 2012.

The effects of the first-time application of the other revised or newly issued standards and interpretations, which are to be applied only starting with financial year 2015, cannot be reliably estimated at the present time. However, the Company investigated particularly the new standards IFRS 10 (Consolidated Financial Statements), IFRS 11 (Joint Arrangements), IFRS 12 (Disclosure of Interests in Other Entities) and the amendments to IAS 27 (Separate Financial Statements), IAS 28 (Investments in Associates and Joint Ventures), IAS 32 (Financial Instruments: Presentation), IAS 39 (Novation of Derivatives and Continuing Hedge Accounting) and IFRIC 21 (Levies) and draw the conclusion that they will not have a material effect despite modified and additional disclosure requirements.

## Scope and method of consolidation

The present consolidated financial statements at December 31, 2012 include the separate financial statements of the parent company, Gigaset 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 offsetting the carrying amount of the investment from the parent's share of equity in the subsidiary, which is remeasured at the date of acquisition (remeasurement method).

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

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

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

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

Besides the parent company, 35 subsidiaries – consisting of 13 domestic and 22 foreign companies – were included in the consolidated financial statements of Gigaset at December 31, 2013.

Compared to December 31, 2012, three companies were deconsolidated due to liquidation. In addition, seven companies were sold and two companies were merged. There were no business acquisitions in fiscal 2013, however, one company was newly established.

No companies were accounted for in the consolidated financial statements by the equity method at December 31, 2013.

There were no subsidiaries with an immaterial effect on the Company's financial position, financial performance and cash flows as of December 31, 2013, that were not included in the consolidated financial statements. The subsidiary not consolidated as of December 31, 2012, was sold during the fiscal year.

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 statement at the end of the notes.

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

## Currency translation

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

Gigaset translates the assets and liabilities of foreign Group companies whose functional currency is not the euro at the exchange rate applicable at the reporting date. In contrast, income, expenses, profits and losses are translated at the average exchange rate. All currency translation differences are recognized in a separate 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 statement of comprehensive income 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 statement of comprehensive income. 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 *) | |
|---|---|---|---|---|---|
| | | 12/31/2013 | 12/31/2012 | 2013 | 2012 |
| United Arab Emirates | AED | 5.0564 | 4.8537 | 4.8789 | 4.7219 |
| Argentina | ARS | 8.3548 | 6.4801 | 7.1751 | 5.8309 |
| Australia | AUD | 1.5395 | 1.2712 | 1.3772 | 1.2413 |
| Brazil | BRL | 3.2208 | 2.7036 | 2.8648 | 2.5097 |
| Canada | CAD | 1.4636 | 1.3137 | 1.3686 | 1.2848 |
| Switzerland | CHF | 1.2268 | 1.2072 | 1.2309 | 1.2053 |
| China | CNY | 8.3555 | 8.2207 | 8.1692 | 8.1094 |
| Denmark | DKK | 7.4596 | 7.4610 | 7.4579 | 7.4438 |
| United Kingdom | GBP | 0.8331 | 0.8161 | 0.8492 | 0.8111 |
| Hong Kong | HKD | 10.6747 | 10.2260 | 10.3038 | 9.9725 |
| Japan | JPY | 144.5100 | 113.6100 | 129.6531 | 102.6212 |
| Mexico | MXN | 18.0282 | 17.1845 | 16.9659 | 16.9087 |
| Norway | NOK | 8.3599 | 7.3483 | 7.8085 | 7.4755 |
| Poland | PLN | 4.1502 | 4.0740 | 4.1971 | 4.1843 |
| Russia | RUB | 45.2640 | 40.3295 | 42.3293 | 39.9238 |
| Sweden | SEK | 8.8262 | 8.5820 | 8.6516 | 8.7067 |
| Singapore | SGD | 1.7391 | n/a | 1.6622 | n/a |
| Turkey | TRL | 2.9452 | 2.3551 | 2.5330 | 2.3145 |
| USA | USD | 1.3767 | 1.3194 | 1.3284 | 1.2856 |
| South Africa | ZAR | 14.5001 | 11.1727 | 12.8328 | 10.5545 |

*) Equivalent for EUR 1

## Adjustments of comparative information in the consolidated financial statement

The amendments to IAS 19, Employee Benefits, which are applicable starting January 1, 2013, have a significant impact on the Gigaset Group's financial position, financial performance and cash flows. The new provisions of IAS 19 are to be applied retrospectively and therefore also have an impact on the amounts and disclosures of fiscal year 2012.

The primary change in IAS 19 is that future unexpected fluctuations in pension commitments as well as any plan assets – so-called actuarial gains and losses – will have to be recognized directly in equity under other comprehensive income (OCI). The option previously applied by Gigaset – recognition under the corridor method – is being abolished. This is expected to lead to increasing volatility of equity. Another change in accounting treatment is that interest expense will be derived in the future based on the so-called net defined benefit liability. More comprehensive disclosures will have to be made in the notes under the amended standard than previously required.

Actuarial gains or losses are recognized based on their amount in a separate item under equity. The item is designated as "Actuarial effects IAS 19".

Another significant change in IAS 19 relates to the accounting treatment of partial retirement agreements. With respect to the obligation to pay top-up amounts from partial retirement agreements, as a result of this amendment these payments can no longer be treated as termination benefits in the future. Moreover, the benefits based on the dependency of service rendered in the future and their long-term vesting period are to be recognized as other non-current employee benefits. Due to this change in classification, the expenses are no longer to be recognized in full when the company is irrevocably obligated, but instead based on their vesting period. This change had significant effects as a result of the restructuring measures in the fourth quarter of 2012.

The amendments to IAS 19 are to be applied retrospectively and therefore the disclosures of the prior period were to be adjusted. The adjustments related to the following components:

- Statement of income for the period from January 1 – December 31, 2012
- Consolidated statement of financial position as of January 1, 2012
- Consolidated statement of financial position as of December 31, 2012
- Consolidated equity as of January 1, 2012
- Consolidated equity as of December 31, 2012
- Statement of cash flows for the period from January 1 – December 31, 2012

The adjusted calculation of consolidated profit or loss for the period from January 1 – December 31, 2012, under consideration of new provisions of IAS 19 is presented below:

| | | | | IAS 19 Adjustment | |
|---|---|---|---|---|---|
| **01.01. – 30.12.2012 in EUR'000** | **Continuing operations** | **Discontinued operations** | **Total** | **Continuing operations** | **Dis** |
| Revenues | 419,557 | 17,687 | 437,244 | 0 | |
| Change in inventories of finished and unfinished goods | -621 | 25 | -596 | 0 | |
| Other internal production capitalized | 16,076 | 0 | 16,076 | 0 | |
| Other operating income | 26,052 | 5,707 | 31,759 | 0 | |
| Cost of materials | -216,099 | -10,001 | -226,100 | 0 | |
| Personnel expenses | -134,048 | -2,599 | -136,647 | 3,082 | |
| Other operating expenses | -116,750 | -11,680 | -128,430 | 0 | |
| EBITDA | -5,833 | -861 | -6,694 | 3,082 | |
| Depreciation and amortization | -24,844 | 0 | -24,844 | 0 | |
| Impairments | 0 | -1,935 | -1,935 | 0 | |
| EBIT | -30,677 | -2,796 | -33,473 | 3,082 | |
| Impairment on financial assets | -2,471 | 0 | -2,471 | 0 | |
| Other interest and similar income | 911 | 1 | 912 | 0 | |
| Interest and similar expenses | -2,160 | -145 | -2,305 | 0 | |
| Net financial result | -3,720 | -144 | -3,864 | 0 | |
| Income/expenses from ordinary activities | -34,397 | -2,940 | -37,337 | 3,082 | |
| Income taxes | 6,235 | 410 | 6,645 | -962 | |
| **Consolidated net loss for the fiscal year** | **-28,162** | **-2,530** | **-30,692** | **2,120** | |
| Earnings per common share | | | | | |
| - Basic earnings per share, in EUR | -0.56 | -0.05 | -0.61 | 0.04 | |
| - Diluted earnings per share, in EUR | -0.56 | -0.05 | -0.61 | 0.04 | |

IAS 19 Adjustment

| continued operations | Total | Continuing operations | Discontinued operations | Total | 01.01. – 30.12.2012 in EUR'000 |
|---|---|---|---|---|---|
| 0 | 0 | 419,557 | 17,687 | 437,244 | Revenues |
| 0 | 0 | -621 | 25 | -596 | Change in inventories of finished and unfinished goods |
| 0 | 0 | 16,076 | 0 | 16,076 | Other internal production capitalized |
| 0 | 0 | 26,052 | 5,707 | 31,759 | Other operating income |
| 0 | 0 | -216,099 | -10,001 | -226,100 | Cost of materials |
| 0 | 3,082 | -130,966 | -2,599 | -133,565 | Personnel expenses |
| 0 | 0 | -116,750 | -11,680 | -128,430 | Other operating expenses |
| **0** | **3,082** | **-2,751** | **-861** | **-3,612** | **EBITDA** |
| 0 | 0 | -24,844 | 0 | -24,844 | Depreciation and amortization |
| 0 | 0 | 0 | -1,935 | -1,935 | Impairments |
| **0** | **3,082** | **-27,595** | **-2,796** | **-30,391** | **EBIT** |
| 0 | 0 | -2,471 | 0 | -2,471 | Impairment on financial assets |
| 0 | 0 | 911 | 1 | 912 | Other interest and similar income |
| 0 | 0 | -2,160 | -145 | -2,305 | Interest and similar expenses |
| **0** | **0** | **-3,720** | **-144** | **-3,864** | **Net financial result** |
| **0** | **3,082** | **-31,315** | **-2,940** | **-34,255** | **Income/expenses from ordinary activities** |
| 0 | -962 | 5,273 | 410 | 5,683 | Income taxes |
| **0** | **2,120** | **-26,042** | **-2,530** | **-28,572** | **Consolidated net loss for the fiscal year** |
| | | | | | Earnings per common share |
| 0.00 | 0.04 | -0.52 | -0.05 | -0.57 | - Basic earnings per share, in EUR |
| 0.00 | 0.04 | -0.52 | -0.05 | -0.57 | - Diluted earnings per share, in EUR |

The effects on the statement of financial position at January 1, 2012, due to the amendment of IAS 19 are shown below:

| EUR'000 | 1/1/2012 | IAS 19 Adjustment, Change of Method | 1/1/2012 |
|---|---|---|---|
| **ASSETS** | | | |
| Non-current assets | | | |
| Intangible assets | 42,431 | 0 | 42,431 |
| Property, plant and equipment | 45,911 | 0 | 45,911 |
| Financial assets | 2,334 | 0 | 2,334 |
| Deferred tax assets | 12,240 | 2,242 | 14,482 |
| Total non-current assets | 102,916 | 2,242 | 105,158 |
| Current assets | | | |
| Inventories | 35,804 | 0 | 35,804 |
| Trade receivables | 59,723 | 0 | 59,723 |
| Other assets | 27,163 | 0 | 27,163 |
| Current tax assets | 3,076 | 0 | 3,076 |
| Cash and cash equivalents | 62,262 | 0 | 62,262 |
| | 188,028 | 0 | 188,028 |
| Available-for-sale assets | 20,416 | 0 | 20,416 |
| Total current assets | 208,444 | 0 | 208,444 |
| **Total assets** | **311,360** | **2,242** | **313,602** |

| EUR'000 | 1/1/2012 | IAS 19 Adjustment, Change of Method | 1/1/2012 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| Equity | | | |
| Subscribed capital | 50,015 | 0 | 50,015 |
| Additional paid-in capital | 87,981 | 0 | 87,981 |
| Retained earnings | 22,858 | 0 | 22,858 |
| Accumulated other comprehensive income | -84,621 | -4,940 | -89,561 |
| | 76,233 | -4,940 | 71,293 |
| Non-controlling interests | 0 | | 0 |
| Total equity | 76,233 | -4,940 | 71,293 |
| Non-current liabilities | | | |
| Pension obligations | 10,258 | 7,537 | 17,795 |
| Provisions | 7,392 | -355 | 7,037 |
| Financial liabilities | 0 | 0 | 0 |
| Other liabilities | 35 | 0 | 35 |
| Deferred tax liabilities | 15,958 | 0 | 15,958 |
| Total non-current liabilities | 33,643 | 7,182 | 40,825 |
| Current liabilities | | | |
| Provisions | 27,222 | 0 | 27,222 |
| Financial liabilities | 6,083 | 0 | 6,083 |
| Trade payables | 96,239 | 0 | 96,239 |
| Current tax liabilities | 7,790 | 0 | 7,790 |
| Other liabilities | 41,568 | 0 | 41,568 |
| | 178,902 | 0 | 178,902 |
| Liabilities related to assets held for sale | 22,582 | 0 | 22,582 |
| Total current liabilities | 201,484 | 0 | 201,484 |
| **Total equity & liabilities** | **311,360** | **2,242** | **313,602** |

The effects on the statement of financial position at December 31, 2012, due to the amendment of IAS 19 are shown below:

| EUR'000 | 12/31/2012 | IAS 19 Adjustment, Change of Method | 12/31/2012 |
|---|---|---|---|
| **ASSETS** | | | |
| Non-current assets | | | |
| Intangible assets | 44,226 | 0 | 44,226 |
| Property, plant and equipment | 44,148 | 0 | 44,148 |
| Financial assets | 0 | 0 | 0 |
| Deferred tax assets | 19,316 | 9,467 | 28,783 |
| Total non-current assets | 107,690 | 9,467 | 117,157 |
| Current assets | | | |
| Inventories | 33,418 | 0 | 33,418 |
| Trade receivables | 50,998 | 0 | 50,998 |
| Other assets | 26,424 | 0 | 26,424 |
| Current tax assets | 2,017 | 0 | 2,017 |
| Cash and cash equivalents | 54,651 | 0 | 54,651 |
| | 167,508 | 0 | 167,508 |
| Available-for-sale assets | 18,788 | 0 | 18,788 |
| Total current assets | 186,296 | 0 | 186,296 |
| **Total assets** | **293,986** | **9,467** | **303,453** |

| EUR'000 | 12/31/2012 | IAS 19 Adjustment, Change of Method | 12/31/2012 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| Equity | | | |
| Subscribed capital | 50,015 | 0 | 50,015 |
| Additional paid-in capital | 87,981 | 0 | 87,981 |
| Retained earnings | 68,979 | 0 | 68,979 |
| Accumulated other comprehensive income | -161,771 | -20,856 | -182,627 |
| Total equity | 45,204 | -20,856 | 24,348 |
| Non-current liabilities | | | |
| Pension obligations | 12,069 | 33,760 | 45,829 |
| Provisions | 12,755 | -3,437 | 9,318 |
| Financial liabilities | 32,000 | 0 | 32,000 |
| Other liabilities | 27 | 0 | 27 |
| Deferred tax liabilities | 13,967 | 0 | 13,967 |
| Total non-current liabilities | 70,818 | 30,323 | 101,141 |
| Current liabilities | | | |
| Provisions | 41,284 | 0 | 41,284 |
| Financial liabilities | 306 | 0 | 306 |
| Trade payables | 86,644 | 0 | 86,644 |
| Current tax liabilities | 6,384 | 0 | 6,384 |
| Other liabilities | 24,558 | 0 | 24,558 |
| | 159,176 | 0 | 159,176 |
| Liabilities related to assets held for sale | 18,788 | 0 | 18,788 |
| Total current liabilities | 177,964 | 0 | 177,964 |
| **Total liabilities** | **293,986** | **9,467** | **303,453** |

The effects on the consolidated equity at January 1, 2012, due to the amendment of IAS 19 are shown below:

| EUR'000 | 01/01/2012 | IAS 19 Adjustment, Change of Method | 01/01/2012 |
|---|---|---|---|
| Subscribed capital | 50,015 | 0 | 50,015 |
| Additional paid-in capital | 87,981 | 0 | 87,981 |
| Retained earnings | 22,858 | 0 | 22,858 |
| Accumulated other comprehensive income | -84,621 | -4.940 | -89.561 |
| **Consolidated equity** | **76,233** | **-4.940** | **71.293** |

The effects on the consolidated equity at December 31, 2012, due to the amendment of IAS 19 are shown below:

| EUR'000 | 12/31/2012 | IAS 19 Adjustment, Change of Method | 12/31/2012 |
|---|---|---|---|
| Subscribed capital | 50,015 | 0 | 50,015 |
| Additional paid-in capital | 87,981 | 0 | 87,981 |
| Retained earnings | 68,979 | 0 | 68,979 |
| Accumulated other comprehensive income | -161,771 | -20,856 | -182,627 |
| **Consolidated equity** | **45,204** | **-20,856** | **23,348** |

The effects on the consolidated cash flow statement for the period from January 1, 2012, to December 31, 2012, due to the amendment of IAS 19 are shown below:

| EUR'000 | 12/31/2012 | IAS 19 Adjustment, Change of Method | 12/31/2012 |
|---|---|---|---|
| Results from ordinary business activities before income taxes | -37,337 | 3,082 | -34,255 |
| Depreciation and amortization of property, plant and equipment and intangible assets | 24,844 | 0 | 24,844 |
| Impairments | 1,935 | 0 | 1,935 |
| Increase (+)/decrease (-) in pension provisions | 1,811 | 0 | 1,811 |
| Gain (-)/loss (+) on the sale of non-current assets | 83 | 0 | 83 |
| Gain (-)/loss (+) on deconsolidation | -604 | 0 | -604 |
| Gain (-)/loss (+) on currency translation | 1,716 | 0 | 1,716 |
| Other non-cash income and expenses | -16,082 | 0 | -16,082 |
| Net interest result | 1,393 | 0 | 1,393 |
| Interest received | 186 | 0 | 186 |
| Interest paid | -1,490 | 0 | -1,490 |
| Income taxes paid | -3,264 | 0 | -3,264 |
| Impairment on financial assets | 2,471 | 0 | 2,471 |

| EUR'000 | 12/31/2012 | IAS 19 Adjustment, Change of Method | 12/31/2012 |
|---|---|---|---|
| Increase (-)/ decrease (+) in inventories | 2,386 | 0 | 2,386 |
| Increase (-)/ decrease (+) in trade receivables and other receivables | 9,461 | 0 | 9,461 |
| Increase (+)/ decrease (-) in trade payables, other liabilities and other provisions | -7,429 | -3,082 | -10,511 |
| Increase (+)/ decrease (-) in other statement of financial position items | -4,204 | 0 | -4,204 |
| **Cash inflow (+)/ outflow (-) from operating activities (net cash flow)** | **-24,124** | **0** | **-24,124** |
| Proceeds from the sale of non-current assets | 11 | 0 | 11 |
| Payments for investments in non-current assets | -8,835 | 0 | -8,835 |
| **Cash inflow (+)/ outflow (-) from investing activities** | **-8,824** | **0** | **-8,824** |
| **Free cash flow** | **-32,948** | **0** | **-32,948** |
| Cash flows from the borrowing (+)/ repayment (-) of current financial liabilities | -5,777 | 0 | -5,777 |
| Cash flows from the borrowing of non-current financial liabilities | 32,000 | 0 | 32,000 |
| **Cash inflow (+)/ outflow (-) from financing activities** | **26,223** | **0** | **26,223** |
| Net funds at beginning of period | 59,127 | 0 | 59,127 |
| Changes due to exchange rate differences | -749 | 0 | -749 |
| Net funds at beginning of period, measured at prior-year exchange rate | 59,876 | 0 | 59,876 |
| Increase (-)/ decrease (+) in restricted cash | 1,483 | 0 | 1,483 |
| Change in cash and cash equivalents | -6,725 | 0 | -6,725 |
| **Net funds at end of period** | **53,885** | **0** | **53,885** |
| Restricted cash | 1,797 | 0 | 1,797 |
| **Cash and cash equivalents** | **55,682** | **0** | **55,682** |
| Cash presented within the statement of financial position item of "assets held for sale" | 1,031 | 0 | 1,031 |
| **Cash and cash equivalents according to the statement of financial position** | **54,651** | **0** | **54,651** |

Supplementary to the presented effects of the "new" IAS 19 (required to be used since 1/1/2013) on the values of fiscal year 2012, we are providing additional information on potential effects compared to 2013 that would have resulted if the "old" IAS 19 (required to be used until 12/31/2012) would have been used both in 2012 and in 2013. In the provisions for semi-retirement arrangements, the provision would have been EUR 1.9 million higher, the deferred tax assets EUR 0.6 million higher, personnel expenses EUR 1.6 million lower, and equity EUR 2.9 million lower. In the provisions for pen-sions, the provision would have been EUR 27.7 million lower, the deferred tax assets EUR 8.7 million lower, personnel expenses EUR 1.9 million higher, and equity EUR 20.9 million higher.

# 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.

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.

## 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.

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

## Income taxes

The corporate tax rate totaled 33.0% in the reporting period (prior year 33.0%).

A uniform rate of 15.0% for corporate income tax plus a solidarity surcharge of 5.5% is applied to distributed and retained profits 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 3.9% 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 8.5% and 35.0%.

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.

The recognition of deferred tax assets on tax loss carryforwards is subject to the following rules:

- In the case of company acquisitions, deferred tax assets are not normally recognized on tax loss carryforwards 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.
- Only in the case of companies that have a history of generating profits with an expectation of positive results in the future are deferred tax assets recognized on existing tax loss carry-forwards.

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 or debt 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.

## 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:

- Patents, utility designs, trademarks, publication rights/copyrights/performance rights: 3-5 years
- Brands, company logos, ERP software and Internet domain names: 5-10 years
- Customer relationships/lists: over the expected useful life, but generally between 2-5 years
- Licensed software: 3 years

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

Purchased intangible assets with indefinite useful lives are not subject to scheduled amortization but are tested for impairment once a year in accordance with IAS 36. If the fair value or the value in use is less than the carrying amount, the impairment is recognized as an expense in the statement of comprehensive income.

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. All other repair and maintenance expenses are recognized as expenses in the statement of comprehensive income 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: 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 statement of comprehensive income.

## Borrowing costs

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

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

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

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

## Impairment of non-financial assets

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

If an impairment loss is later reversed, the carrying amount of the asset (or cash-generating unit) is increased to the newly estimated recoverable amount. The increase in the carrying amount is limited to the amortized value that would have resulted if no impairment loss had been recognized 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 operating leases.

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

## 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 the Gigaset Group assign a portion of their trade receivables to financing companies (known as factors). In accordance with IAS 39, sold trade receivables are 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.

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

In the consolidated financial statements of Gigaset, 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.

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, held-to-maturity financial assets and available-for-sale financial assets. The classification depends on the purpose for which the respective financial assets were acquired. Management determines the classification of the financial assets at the time of initial recognition and reviews the classification at every reporting date.

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

### 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.

### Held-to-maturity financial assets

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

## Available-for-sale financial assets

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

All purchases and sales of financial assets are recognized at the trade date, which is the date on which the Group commits to purchase or sell the asset. Financial assets that are not carried at fair value through profit or loss are measured initially at their fair value plus transaction costs. They are derecognized when the rights to payment have expired or been transferred and the Group has transferred substantially all the risks and rewards of ownership. Available-for-sale financial assets and assets at fair value through profit and loss are measured at fair value.
Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transactions between market participants at the measurement date. For the determination of fair value the counter-party credit risk has to be taken into consideration.

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

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 statement of comprehensive income 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 statement of comprehensive income 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. Gains or losses from changes in fair value are normally recognized immediately in the statement of comprehensive income.

An impairment test is conducted at every reporting date to determine whether objective indications point to an impairment of a financial asset or group of financial assets. In the case of equity instruments classified as available-for-sale financial assets, a significant or lasting decrease in the fair value below the historical acquisition cost of such equity instruments is taken into account for the purpose of determining the extent to which equity instruments are impaired. If such an indication exists in the case of assets available for sale, the total accumulated loss – measured as the difference between the historical acquisition cost and the current fair value, less previous impairment losses recognized in earlier periods – is eliminated from equity and recognized in the statement of comprehensive income. After impairment losses in equity instruments have been recognized in the statement of comprehensive income, 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.

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

## Shareholders' equity

Shares are classified as equity instruments. 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 is recognized in shareholders' equity after deduction of directly allocable transaction costs and the corresponding income taxes.

## Provisions

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

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

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

Non-current provisions are discounted to present value if the effect is 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, 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. These benefits essentially comprise the following:

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

The provision for defined benefit plans recognized in the consolidated statement of financial position is based on the present value of the pension obligation less the fair value of the pension plan assets at the reporting date. If an asset should result from the netting of the defined benefit obligation and the fair value of the plan assets, then it is fundamentally limited to the future economic benefit in the form of refunds from the plan or reductions in future contribution payments to the plan.

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

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

## Share-based payment

Gigaset AG established a stock option plan in fiscal year 2005. Due to its discontinuation, this plan was replaced with a new stock option plan in 2008. The model adopted in 2008 was replaced with a new stock option plan in 2011 due to the change in the business model. Existing stock option contracts were not modified by the new stock option plan. The company has the right to settle the options by issuing shares from the Contingent Capital 2011 created for this purpose, by repurchasing treasury shares, or by cash settlement. The settlement type must be selected by the Supervisory Board or the Executive Board in the interests of the shareholders and the company. Fundamentally, however, the plan is to service the claims arising from the 2011 stock option plan using shares from the Contingent Capital 2011 created for this purpose. 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 statement of comprehensive income and by making a corresponding adjustment in equity over the time remaining until the shares become vested.

The members of Gigaset's Executive Board receive the appreciation in a "virtual share portfolio" as a variable component of their compensation. The basis for calculating the variable compensation based on the "virtual share portfolio" 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 obligations existing due to this agreement are measured and recognized at fair value at each reporting date by means of a Monte Carlo simulation, since they are "cash settled" options pursuant to IFRS. Changes in the fair value of such financial instruments are recognized in profit or loss.

## 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 12 months after the reporting date are discounted to present value. Termination benefits payable are presented with the personnel provisions.

## Other long-term employee benefits

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

### Profit-sharing and bonus plans

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

## Liabilities

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

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

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 and the geographical regions of the Gigaset Group.

Gigaset's operating segments are:

- Gigaset
  - Europe
  - Americas
  - Asia-Pacific/Middle East
- Holding
- Other (discontinued)

## Legal disputes and claims for damages

Gigaset companies are involved in various litigation and administrative proceedings in connection with their ordinary business, or it is possible that such litigation or administrative proceedings could be commenced or asserted in the future. Even if the outcome of 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 in connection with impairment tests

In accordance with IAS 36 (Impairment of Assets) and IAS 38 (Intangible Assets), goodwill and intangible assets with an indefinite useful life are tested for possible impairment once a year or on a case-by-case basis if events or changed circumstances indicate the possibility of impairment of an asset. The systematic amortization of goodwill is prohibited. For purposes of the impairment tests, the net carrying amounts of each 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 Gigaset's current business plans. 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.

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

## 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 gains on the sale of shares in subsidiaries or other associated companies because such gains 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. Due particularly to the wide-ranging international activities of the corporate 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 net obligation from defined benefit plans depends essentially on the choice of discount rate to be applied and the underlying actuarial assumptions, which are determined anew at the end of each 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.

## Contingent liabilities

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

# C. NOTES ON FINANCIAL INSTRUMENTS

## Significance

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

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

## Financial risk factors

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

The Group's comprehensive risk management program is focused on the unpredictability of developments in the financial markets and is aimed at minimizing the potentially negative consequences of those developments on the Group's cash flows. The Group employs derivative financial instruments to hedge certain risks. Risk management is performed by the central finance department (Corporate Finance) on the basis of the guidelines adopted by the Executive Board. Corporate Finance identifies, assesses and hedges financial risks in close cooperation with the operating units of the Group. The Executive Board issues written directives setting out both the principles for Group-wide risk management and guidelines for certain areas, such as the manner of dealing with foreign currency risk, interest rate and credit risk, the use of derivative and non-derivative financial instruments and the investment of surplus liquidity. Such hedging transactions are not subject to hedge accounting rules.

## Credit risk/ default risk

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

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

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

Of the portfolio of loans and receivables carried in the Group at year-end 2013 in the amount of EUR 69,345 thousand (PY: EUR 64,438 thousand), EUR 30,383 or 43.8% (PY: EUR 32,232 or 50.0%) is hedged. Trade credit insurance has been used as the security instrument for most of the receivables. In addition, other forms of security exist in the form of letters of credit, customer deposits and bank guaranties.

The default risk in the carrying amounts of the recognized loans and receivables (EUR 69,345 thousand, PY: EUR 64,438 thousand) is reduced by trade credit insurance, letters of credit and other credit improvements to a maximum default risk of EUR 38,962 thousand (PY: EUR 32,206 thousand).

| EUR'000 | Carrying amount | Maximum default risk | Secured portion | 2013[1] % |
|---|---|---|---|---|
| **Total** | **69,345** | **38,962** | **30,383** | **43.8** |
| Trade receivables | 50,200 | 19,817 | 30,383 | 43.8 |
| Other receivables | 19,145 | 19,145 | 0 | 0.0 |

| EUR'000 | Carrying amount | Maximum default risk | Secured portion | 2012[1] % |
|---|---|---|---|---|
| **Total** | **64,438** | **32,206** | **32,232** | **50.0** |
| Trade receivables | 50,998 | 18,766 | 32,232 | 50.0 |
| Other receivables | 13,440 | 13,440 | 0 | 0.0 |

1) With reference to the entire carrying amount

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

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | EUR'000 | % | EUR'000 | % |
| **Total** | **69,345** | **100.0** | **64,438** | **100.0** |
| Germany | 11,308 | 25.5 | 14,046 | 21.8 |
| Europe - EU | 40,016 | 52.9 | 35,289 | 54.8 |
| Europe - Other | 8,280 | 7.6 | 5,438 | 8.4 |
| Rest of world | 9,741 | 14.0 | 9,665 | 15.0 |

As a rule, valuation allowances are charged in adequate amounts to account for discernible default risks in the receivables portfolio. The changes in valuation allowances on trade receivables are presented in tabular format in Note 17 Trade receivables.

## Liquidity risk

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

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

Due to the dynamic nature of the business environment, the operating business is for the most part financed using optimized working capital, whose cornerstone is financing using factoring. The factoring finance lines are adequately set up and secured for the long term by banks and factoring companies. The new orientation of the company, which provides for expansion in the area of tablets and smartphones, is being financed almost entirely by the entry of the strategic investor.

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

| 2013 in EUR'000 | Carrying amount | Total outflow | < 1 year | 1-5 years | > 5 years |
|---|---|---|---|---|---|
| Non-derivative financial liabilities | 101,761 | 102,225 | 102,144 | 81 | 0 |
| Trade payables | 71,476 | 71,474 | 71,474 | 0 | 0 |
| Liabilities to banks | 21,741 | 22,202 | 22,202 | 0 | 0 |
| Other financial liabilities | 8,536 | 8,541 | 8,460 | 81 | 0 |
| Other liabilities | 8 | 8 | 8 | 0 | 0 |
| Derivative financial liabilities | 423 | 424 | 380 | 44 | 0 |
| **Total** | **102,184** | **102,649** | **102,524** | **125** | **0** |

| 2012 in EUR'000 | Carrying amount | Total outflow | < 1 year | 1-5 years | > 5 years |
|---|---|---|---|---|---|
| Non-derivative financial liabilities | 118,951 | 123,947 | 88,475 | 35,472 | 0 |
| Trade payables | 86,644 | 86,644 | 86,644 | 0 | 0 |
| Liabilities to banks | 32,306 | 37,302 | 1,830 | 35,472 | 0 |
| Other financial liabilities | 0 | 0 | 0 | 0 | 0 |
| Other liabilities | 1 | 1 | 1 | 0 | 0 |
| Derivative financial liabilities | 507 | 593 | 593 | 0 | 0 |
| **Total** | **119,458** | **124,540** | **89,068** | **35,472** | **0** |

A more detailed presentation of current liabilities to banks and current financial liabilities in the maturity range "< 1 year" is provided in Note 29 "Current financial liabilities"; the same for trade payables is provided in Note 30 "Trade payables" and the same for derivative financial liabilities is provided in Note 32 "Current other liabilities" and Note 27 "Noncurrent other liabilities".

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

Due to the majority ratios changing in the company due to the entry of Goldin (change of control clause), the syndicate banks are demanding repayment of all utilizations of the granted credit facilities by April 30, 2014, in accordance with expectations and contracts. The liabilities arising from the syndicate loan therefore had to be disclosed at December 31, 2013, under current financial liabilities and reclassified into the time range "< 1 year" for the presentation of undiscounted cash flows.

Current financial liabilities at December 31, 2013, relate to the syndicate loan and related interest. The liabilities shown under other current financial liabilities relate to the share of the syndicate loan of the former WestLB AG, which is being liquidated by the Erste Abwicklungsanstalt (EAA). The Erste Abwicklungsanstalt (EAA) [First Liquidation Office] is an institution under public law within the German Federal Office for Financial Market Stabilization (FMSA) that is organizationally and economically independent and partially capable of holding rights. EAA was founded on December 11, 2009. Its task is to liquidate the assets and risk positions taken over from WestLB AG – which has been operating under the name Portigon AG since July 1, 2012 – in such a way as to preserve their value. The EAA is a liquidation office under public law and as such, it is neither a financial institution within the meaning of the Banking and Credit Regulation Act (KWG), nor does it carry out transactions subject to permit within the meaning of EU Directive 2006/48/EC of June 14, 2006.

Of the portfolio of financial liabilities carried in the Group at year-end 2013 in the amount of EUR 102,184 thousand (PY: EUR 119,458 thousand), EUR 28,927 thousand or 28.3% (PY: EUR 21,445 thousand or 18.0%) is hedged. The security items are broken down in the table below:

| **2013 in EUR'000** | **Land and buildings** | **Inventories** | **Trade receivables** | **%** |
|---|---|---|---|---|
| Trade payables | 0 | 1,804 | 6,123 | 7.8 |
| Liabilities from banks | 15,034 | 0 | 0 | 14.7 |
| Other financial liabilities | 5,966 | 0 | 0 | 5.8 |
| Other liabilities | 0 | 0 | 0 | 0.0 |
| **Total** | **21,000** | **1,804** | **6,123** | **28.3** |

| **2012 in EUR'000** | **Land and buildings** | **Inventories** | **Trade receivables** | **%** |
|---|---|---|---|---|
| Trade payables | 0 | 1,226 | 5,219 | 5.4 |
| Liabilities from banks | 15,000 | 0 | 0 | 12.6 |
| Other financial liabilities | 0 | 0 | 0 | 0.0 |
| Other liabilities | 0 | 0 | 0 | 0.0 |
| **Total** | **15,000** | **1,226** | **5,219** | **18.0** |

The collateral provided regarding land and buildings relates exclusively to the collateral provided in the context of the syndicate loan. Furthermore, most of the Gigaset companies receive goods under country-specific retentions of title.

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

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | EUR'000 | % | EUR'000 | % |
| **Total** | **102,184** | **100.0** | **119,458** | **100.0** |
| Germany | 52,353 | 51.2 | 58,521 | 49.0 |
| Europe - EU (excluding Germany) | 15,343 | 15.0 | 21,529 | 18.0 |
| Europe - Other | 874 | 0.9 | 923 | 0.8 |
| Rest of world | 33,614 | 32.9 | 38,485 | 32.2 |

## Market price risk

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

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

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

## Foreign currency risk

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

Of the financial instruments presented for the Group, an amount of EUR 37,376 thousand (PY: EUR 40,182 thousand) consisted of financial assets denominated in foreign currencies and an amount of EUR 32,555 thousand (PY: EUR 45,501 thousand) consisted of financial liabilities denominated in foreign currencies. The risk concentrations based on foreign currencies are presented in the table below:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| **Financial assets in** | **EUR'000** | **%** | **EUR'000** | **%** |
| USD (U.S. dollars) | 14,987 | 40.0 | 9,876 | 24.7 |
| GBP (British pounds) | 5,404 | 14.5 | 4,597 | 11.4 |
| RUB (Russian rubles) | 3,220 | 8.6 | 2,663 | 6.6 |
| TRL (Turkish lira) | 3,128 | 8.4 | 3,483 | 8.7 |
| CNY (Chinese renminbi yuan) | 2,344 | 6.3 | 1,097 | 2.7 |
| ARS (Argentine pesos) | 2,158 | 5.8 | 2,293 | 5.7 |
| CHF (Swiss francs) | 2,150 | 5.8 | 4,935 | 12.3 |
| SEK (Swedish krona) | 1,502 | 4.0 | 887 | 2.2 |
| PLN (Polish zloty) | 1,257 | 3.4 | 1,503 | 3.7 |
| NOK (Norwegian krone) | 335 | 0.9 | 401 | 1.0 |
| MXN (Mexican pesos) | 309 | 0.8 | 672 | 1.7 |
| DKK (Danish krone) | 217 | 0.6 | 186 | 0.5 |
| CAD (Canadian dollars) | 200 | 0.5 | 0 | 0.0 |
| JPY (Japanese yen) | 92 | 0.2 | 336 | 0.8 |
| BRL (Brazilian reales) | 0 | 0.0 | 7,080 | 17.6 |
| AED (United Arab Emirates dirham) | 0 | 0.0 | 112 | 0.3 |
| Other | 73 | 0.2 | 61 | 0.1 |
| **Total** | **37,376** | **100.0** | **40,182** | **100.0** |

| | 2013 | | 2012 | |
|---|---|---|---|---|
| **Financial liabilities in** | **EUR'000** | **%** | **EUR'000** | **%** |
| USD (U.S. dollars) | 27,679 | 85.2 | 39,221 | 86.4 |
| CNY (Chinese renminbi yuan) | 2,100 | 6.5 | 1,376 | 3.0 |
| GBP (British pounds) | 630 | 1.9 | 186 | 0.4 |
| JPY (Japanese yen) | 511 | 1.6 | 1,332 | 2.9 |
| CHF (Swiss francs) | 407 | 1.2 | 596 | 1.3 |
| TRL (Turkish lira) | 391 | 1.2 | 361 | 0.8 |
| RUB (Russian rubles) | 331 | 1.0 | 247 | 0.5 |
| PLN (Polish zloty) | 226 | 0.7 | 327 | 0.7 |
| ARS (Argentine pesos) | 146 | 0.4 | 442 | 1.0 |
| SEK (Swedish krona) | 48 | 0.1 | 638 | 1.4 |
| AED (United Arab Emirates dirham) | 0 | 0.0 | 565 | 1.2 |
| BRL (Brazilian reales) | 0 | 0.0 | 191 | 0.4 |
| Other | 86 | 0.2 | 19 | 0.0 |
| **Total** | **32,555** | **100.0** | **45,501** | **100.0** |

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

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

## Result of the currency sensitivity analysis:

If the relative value of the euro against the foreign currencies in which the Gigaset Group operates had been 10% higher or 10% lower at December 31, 2013, the equity presented in the functional currency would have been EUR -431 thousand lower or EUR 527 thousand higher, respectively (PY: EUR 493 thousand higher or -602 thousand lower).

The hypothetical effect on profit or loss (after taxes) of EUR -431 thousand (PY: EUR 493 thousand) or EUR 527 thousand (PY: EUR -602 thousand), respectively, is broken down in the table below on the basis of the corresponding currency sensitivities:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| **EUR'000** | **+10 %** | **-10 %** | **+10 %** | **-10 %** |
| EUR/USD | 1,154 | -1,410 | 2,668 | -3,261 |
| EUR/JPY | 38 | -46 | 91 | -111 |
| EUR/DKK | -13 | 16 | -16 | 20 |
| EUR/CAD | -18 | 22 | 4 | -5 |
| EUR/CNY | -22 | 27 | 25 | -31 |
| EUR/MXN | -28 | 34 | -61 | 75 |
| EUR/NOK | -29 | 35 | -36 | 44 |
| EUR/PLN | -94 | 115 | -107 | 131 |
| EUR/SEK | -132 | 162 | -23 | 28 |
| EUR/CHF | -158 | 194 | -394 | 482 |
| EUR/ARS | -183 | 223 | -168 | 206 |
| EUR/TRL | -249 | 304 | -284 | 347 |
| EUR/RUB | -263 | 321 | -220 | 268 |
| EUR/GBP | -434 | 530 | -401 | 490 |
| EUR/AED | 0 | 0 | 41 | -50 |
| EUR/BRL | 0 | 0 | -626 | 765 |
| **Total** | **-431** | **527** | **493** | **-602** |

At the reporting date, the Group held 22 foreign currency derivatives (PY: 26) to hedge the exchange rate of the U.S. dollar against the euro, for a total notional amount of USD 107.5 million (PY: USD 69.1 million). Of these derivatives, 21 (PY: 24) are designed as "bonus-eventual" currency futures contracts, which were concluded in October or December 2013. The remaining currency futures contract is designed as a "strip of plain vanilla" currency futures contract and was concluded in December 2013.

As of the reporting date, the terms of the forward foreign exchange contracts run from January to December 2014. The following hedging transactions were concluded for the following U.S. dollar amounts for the individual months:

| USD Hedging transaction in million USD/period until month | 2014 | 2013 |
|---|---|---|
| January | 12.0 | 10.6 |
| February | 13.5 | 10.2 |
| March | 11.0 | 6.8 |
| April | 8.0 | 5.0 |
| May | 4.0 | 4.2 |
| June | 9.0 | 6.8 |
| July | 8.0 | 4.3 |
| August | 8.0 | 3.9 |
| September | 9.0 | 4.9 |
| October | 6.0 | 3.0 |
| November | 7.0 | 3.8 |
| December | 12.0 | 5.6 |
| | **107.5** | **69.1** |

At the reporting date, these derivatives were measured at their fair value of EUR 384 thousand (PY: EUR 28 thousand) and EUR -251 thousand (PY: EUR -221 thousand) and are recognized under other current assets or other current liabilities.

The currency sensitivity analysis yielded the result that if the U.S. dollar exchange rate had been 10% higher, the fair value would have been lower by EUR 1,869 thousand (PY: reduction in the amount of EUR 3,029 thousand) and if the U.S. dollar exchange rate had been 10% lower, the fair value would have been higher by EUR 3,988 thousand (PY: EUR 4,247 thousand).

## 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.

Gigaset concluded an interest rate swap in the amount of EUR 20 million in financial year 2012 to hedge the variable interest syndicate loan. The interest rate swap provides for a swap between the three-month Euribor and a fixed interest rate. Due to the interest rate swap, the variable component of the interest on the syndicate loan was exchanged for a fixed interest rate in the amount of 0.79% per annum. The fair value of the interest rate swap is EUR -172 thousand (PY: EUR -286 thousand) at the reporting date.

The interest rate sensitivity analyses were based on the following assumptions:

Both fixed interest rates and variable interest rates have been stipulated for 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. Market interest rate changes of primary financial instruments with variable interest have an effect on the cash flows of these financial instruments. In contrast, the cash flows of the interest rate swap develop contrary to the cash flows of the variable interest loans. They are likewise recognized in the context of the interest rate sensitivity analysis.

To determine the interest rate sensitivities, we assume both a decline in the interest rate by 100 basis points and also an increase in the interest rate of 100 basis points.

The interest rate sensitivity analysis for the variable interest loan showed, taking the existing interest rate swap into account, that an interest rate 100 basis points higher would lead to an increase in the interest cash flow payable by EUR 446 thousand (PY: EUR 508 thousand) and an interest rate 100 basis points lower would lead to a decrease in the interest cash flow payable by EUR 379 thousand (PY: increase in the interest cash flow payable by EUR 43 thousand). The increase in case of a reduction in the interest rate in the prior year results from the fact that additional payments would have to be made to the bank in case of a negative three-month Euribor.

## Other price risks

For the purpose of presenting market risks, IFRS 7 also requires disclosures concerning the effects of hypothetical changes in risk variables on the prices of financial instruments. Stock market prices in particular represent a relevant risk variable. At the reporting date, however, the Gigaset Group did not hold any 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

| EUR'000 | Note | Measurement method per IAS 39: Measurement category per IAS 39 | Carrying amount 2013 | Fair value 2013 |
|---|---|---|---|---|
| **Assets** | | | | |
| **Non-current assets** | | | | |
| Financial assets | 15 | LaR | 0 | 0 |
| **Current assets** | | | | |
| Trade receivables | 17 | LaR | 50,200 | 50,200 |
| Other assets | 18 | LaR, FA-HfT | 19,529 | 19,529 |
| Cash and cash equivalents | 20 | LaR | 56,987 | 56,987 |
| **Liabilities** | | | | |
| **Non-current liabilities** | | | | |
| Financial liabilities | 26 | FL-AC | 76 | 77 |
| Other liabilities | 27 | FL-HfT | 172 | 172 |
| **Current liabilities** | | | | |
| Current financial liabilities | 29 | FL-AC | 30,201 | 30,201 |
| Trade payables | 30 | FL-AC | 71,476 | 71,476 |
| Other liabilities | 32 | FL-AC, FL-HfT | 259 | 259 |
| Thereof aggregated by measurement category according to IAS 39: | | | Carrying amount 2013 | Fair value 2013 |
| **Financial assets** | | | | |
| Loans and receivables (LaR) | | | 126,332 | 126,332 |
| Held-to-maturity financial investments (HtM) | | | 0 | 0 |
| Available-for-sale financial assets (AfS) | | | 0 | 0 |
| Financial assets held for trading (FA-HfT) | | | 384 | 384 |
| Financial assets designated at fair value (FA-FVO) | | | 0 | 0 |
| **Financial liabilities** | | | | |
| Measured at amortized cost (FL-AC) | | | 101,761 | 101,762 |
| Financial liabilities held for trading (FL-HfT) | | | 423 | 423 |

| Measurement method per IAS 39 | | | | |
|---|---|---|---|---|
| **Amortized cost** | **Fair value recognized in equity** | **Fair value through profit and loss** | **EUR'000** | **EUR'000** |
| | | | | **Assets** |
| | | | | Non-current assets |
| 0 | 0 | 0 | 0 | Financial assets |
| | | | | Current assets |
| 50,200 | 0 | 0 | 0 | Trade receivables |
| 19,145 | 0 | 384 | 0 | Other assets |
| 56,987 | 0 | 0 | 0 | Cash and cash equivalents |
| | | | | **Liabilities** |
| | | | | Non-current liabilities |
| 76 | 0 | 0 | 0 | Financial liabilities |
| 0 | 0 | 172 | 0 | Other liabilities |
| | | | 0 | Current liabilities |
| 30,201 | | | 0 | Current financial liabilities |
| 71,476 | 0 | 0 | 0 | Trade payables |
| 8 | 0 | 251 | 0 | Other liabilities |
| | | | | Thereof aggregated by measurement category according to IAS 39: |
| | | | | **Financial assets** |
| | | | | Loans and receivables (LaR) |
| | | | | Held-to-maturity financial investments (HtM) |
| | | | | Available-for-sale financial assets (AfS) |
| | | | | Financial assets held for trading (FA-HfT) |
| | | | | Financial assets designated at fair value (FA-FVO) |
| | | | | **Financial liabilities** |
| | | | | Measured at amortized cost (FL-AC) |
| | | | | Financial liabilities held for trading (FL-HfT) |

## Carrying amounts, measurement methods and fair values by measurement category

| EUR'000 | Note | Measurement category per IAS 39 | Carrying amount 2012 | Fair value 2012 |
|---|---|---|---|---|
| | | Measurement method per IAS 39 | | |
| **Assets** | | | | |
| **Non-current assets** | | | | |
| Financial assets | 15 | LaR | 0 | 0 |
| **Current assets** | | | | |
| Trade receivables | 17 | LaR | 50,998 | 50,998 |
| Other assets | 18 | LaR, FA-HfT | 13,468 | 13,468 |
| Cash and cash equivalents | 20 | LaR | 54,651 | 54,651 |
| **Liabilities** | | | | |
| **Non-current liabilities** | | | | |
| Financial liabilities | 26 | FL-AC | 32,000 | 32,010 |
| Other liabilities | 27 | FL-HfT | 0 | 0 |
| **Current liabilities** | | | | |
| Current financial liabilities | 29 | FL-AC | 306 | 306 |
| Trade payables | 30 | FL-AC | 86,644 | 86,644 |
| Other liabilities | 32 | FL-AC, FL-HfT | 508 | 508 |

| Thereof aggregated by measurement category according to IAS 39: | Carrying amount 2013 | Fair value 2012 |
|---|---|---|
| **Financial assets** | | |
| Loans and receivables (LaR) | 119,089 | 119,089 |
| Held-to-maturity financial investments (HtM) | 0 | 0 |
| Available-for-sale financial assets (AfS) | 0 | 0 |
| Financial assets held for trading (FA-HfT) | 28 | 28 |
| Financial assets designated at fair value (FA-FVO) | 0 | 0 |
| **Financial liabilities** | | |
| Measured at amortized cost (FL-AC) | 118,951 | 118,961 |
| Financial liabilities held for trading (FL-HfT) | 507 | 507 |

| Measurement method per IAS 39 | | | | |
|---|---|---|---|---|
| **Amortized cost** | **Fair value recognized in equity** | **Fair value through profit and loss** | **EUR'000** | **EUR'000** |
| | | | | **Assets** |
| | | | | Non-current assets |
| 0 | 0 | 0 | 0 | Financial assets |
| | | | | Current assets |
| 50,998 | 0 | 0 | 0 | Trade receivables |
| 13,440 | 0 | 28 | 0 | Other assets |
| 54,651 | 0 | 0 | 0 | Cash and cash equivalents |
| | | | | **Liabilities** |
| | | | | Non-current liabilities |
| 32,000 | 0 | 0 | 0 | Financial liabilities |
| 0 | 0 | 0 | 0 | Other liabilities |
| | | | | Current liabilities |
| 306 | | | 0 | Current financial liabilities |
| 86,644 | 0 | 0 | 0 | Trade payables |
| 1 | 0 | 507 | 0 | Other liabilities |
| | | | | Thereof aggregated by measurement category according to IAS 39: |
| | | | | **Financial assets** |
| | | | | Loans and receivables (LaR) |
| | | | | Held-to-maturity financial investments (HtM) |
| | | | | Available-for-sale financial assets (AfS) |
| | | | | Financial assets held for trading (FA-HfT) |
| | | | | Financial assets designated at fair value (FA-FVO) |
| | | | | **Financial liabilities** |
| | | | | Measured at amortized cost (FL-AC) |
| | | | | Financial liabilities held for trading (FL-HfT) |

A statement of fair value is not required for current financial assets and liabilities pursuant to IFRS 7.29 as long as the carrying amount is a reasonable approximate value. Gigaset provides the fair values in the preceding summaries for completeness and better understanding by the readers of the annual financial statements, but does not carry out separate measurement of the fair values, since the carrying amounts are used as reasonable approximate values. Therefore, there is also no separate presentation of these items in the following table, which breaks down the determined fair values for the financial assets and liabilities according to hierarchy levels for fiscal 2013 as supplemental information.

| 2013 | | Hierarchy level | | |
|---|---|---|---|---|
| **EUR'000** | **1** | **2** | **3** | **Total** |
| **Financial assets** | | | | |
| Derivative financial instruments | 0 | 384 | 0 | 384 |
| **Financial liabilities** | | | | |
| Financial liabilities | 0 | 77 | 0 | 77 |
| Derivative financial instruments | 0 | 423 | 0 | 423 |

In financial year 2013, the category of other assets included derivative financial assets in the amount of EUR 384 thousand (PY: EUR 28 thousand). The other liabilities include current derivative liabilities in the amount of EUR 251 thousand (PY: EUR 507 thousand) and noncurrent derivative liabilities in the amount of EUR 172 thousand (PY: EUR 0 thousand).

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

Liabilities under finance leases do not fall within the scope of IAS 39 and are therefore presented separately. As in the previous year, however, there were no liabilities under finance leases at the closing date.

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

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

The fair values of other non-current financial assets and liabilities due in more than one year are equal to the present values of the future payments associated with the assets and liabilities, with due consideration given to the up-to-date interest rate parameters in every case, which reflect changes in terms related to currencies, interest rates and counterparties. In accordance with IFRS 13, the calculation of these fair values is assigned to Level 2 of the measurement categories for the determination of fair values.

For those financial instruments attributed to disposal groups according to IFRS 5, the carrying amounts, measured values and fair values according to the measurement categories of IAS 39 are presented separately in Note 21 as necessary.

## Net gains or losses under financial instruments

| EUR'000 | From interest | From subsequent measurement: At fair value | From subsequent measurement: Currency translation | From subsequent measurement: Value adjustment | From disposal | Net gain or loss |
|---|---|---|---|---|---|---|
| **Financial assets 2013** | | | | | | |
| Loans and receivables | -395 | 0 | -1,074 | -98 | -1,391 | -2,958 |
| **Financial liabilities 2013** | | | | | | |
| Measured at amortized cost | -3,682 | 0 | 284 | 0 | 4,759 | 1,361 |
| **Derivative financial instruments 2013** | | | | | | |
| Held for trading | 0 | 440 | 0 | 0 | 0 | 440 |
| **Financial assets 2012** | | | | | | |
| Loans and receivables | -328 | 0 | -1,990 | -2,437 | 0 | -4,755 |
| **Financial liabilities 2012** | | | | | | |
| Measured at amortized cost | -1,290 | 0 | 213 | 0 | 2,200 | 1,123 |
| **Derivative financial instruments 2012** | | | | | | |
| Held for trading | 0 | 2,228 | 0 | 0 | 0 | 2,228 |

The interest from financial instruments is presented as part of net interest income/expenses (see Note 8). In particular, this item includes interest income on loans extended, interest expenses for receivables from factoring and interest expenses for liabilities to banks and other financial liabilities. No interest income was generated in 2013 or 2012 on financial assets in which impairment losses had been recognized ("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 440 thousand (PY: EUR 2,228 thousand)

## Capital management

Gigaset's business model provides for both consolidation in the area of home-based telecommunications solutions, further development of sensor-based intelligent home networking and expansion of the business client area. The new orientation of the company, which provides for expansion in the tablets and smartphone market, is being carried out with the help of the entry of the strategic investor. In the original core business, the original goal of capital management remains securing the survival of Gigaset as a going concern. The expansion into new markets is being financed almost completely by the entry of the investor. Management of the Gigaset Group's capital structure is carried out at the parent company. On the Group level, capital management is monitored by means of a regular reporting process and is supported and optimized when necessary. Decisions on dividend payments or capital measures are made individually on the basis of the internal reporting system and in agreement with the Gigaset Group.

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

## Change in the gearing ratio:

| EUR'000 | 2013 | 2012[1] |
|---|---|---|
| Non-current liabilities | 71,122 | 101,141 |
| Current liabilities | 157,261 | 177,964 |
| **Liabilities** | **228,383** | **279,105** |
| **Equity** | **38,677** | **24,348** |
| Gearing Ratio | 5.9 | 11.5 |

1) Adjusted due to the amendments to IAS 19. Please see the discussion in the Notes under "Adjustment of the Comparative Information in the Consolidated Financial Statements."

# D. NOTES TO THE INCOME STATEMENT

## 1. Revenues

The consolidated revenues of the Group break down as follows:

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| EUR'000 | Continuing operations | Discontinued operations | Total | Continuing operations | Discontinued operations | Total |
| Revenues from sales of goods | 371,153 | 5,965 | 377,118 | 419,557 | 17,687 | 437,244 |
| **Total** | **371,153** | **5,965** | **377,118** | **419,557** | **17,687** | **437,244** |

The total revenues break down as follows:

| EUR'000 | 2013 | 2012 |
|---|---|---|
| Trading revenues | 5,965 | 17,732 |
| Production revenues | 371,153 | 419,512 |
| **Total** | **377,118** | **437,244** |

For a breakdown of revenues by geographic regions, 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 and tangible assets. All internal production capitalized continues to come from the Gigaset Group, as in the prior year.

## 2. Other operating income

The other operating income breaks down as follows:

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| **EUR'000** | **Continuing operations** | **Discontinued operations** | **Total** | **Continuing operations** | **Discontinued operations** | **Total** |
| Reversal of provisions | 7,565 | 160 | 7,725 | 2,719 | 961 | 3,680 |
| Exchange rate changes | 6,733 | 279 | 7,012 | 5,986 | 548 | 6,534 |
| Charge-off of liabilities | 4,076 | 683 | 4,759 | 2,200 | 0 | 2,200 |
| Income from derivatives | 440 | 0 | 440 | 958 | 1,750 | 2,708 |
| Reversal of valuation allowances | 274 | 52 | 326 | 1,109 | 4 | 1,113 |
| Deconsolidations | 16 | 0 | 16 | 604 | 0 | 604 |
| Disposal of non-current assets | 15 | 0 | 15 | 10 | 3 | 13 |
| Waiver of purchase price, Siemens AG | 0 | 0 | 0 | 9,893 | 0 | 9,893 |
| Miscellaneous operating income | 4,346 | 632 | 4,978 | 2,573 | 2,441 | 5,014 |
| **Total** | **23,465** | **1,806** | **25,271** | **26,052** | **5,707** | **31,759** |

The income from deconsolidations amounted to EUR 16 thousand in financial year 2013 and resulted from the sale of Gigaset Communications FZ-LLC, Dubai. The income from deconsolidations in the prior year in the amount of EUR 604 thousand were due to the writing off of currency differences affecting net income in the context of the liquidation of Schierholz Translift Global Manufacturing & Finance AG.

## 4. Purchased goods and services

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| **EUR'000** | **Continuing operations** | **Discontinued operations** | **Total** | **Continuing operations** | **Discontinued operations** | **Total** |
| Raw materials and supplies | 143,659 | 2,859 | 146,518 | 163,954 | 9,492 | 173,446 |
| Purchased goods | 33,511 | 21 | 33,532 | 47,283 | 40 | 47,323 |
| Purchased services | 196 | 68 | 264 | 267 | 77 | 344 |
| Other | 6,386 | 285 | 6,671 | 4,595 | 392 | 4,987 |
| **Total** | **183,752** | **3,233** | **186,985** | **216,099** | **10,001** | **226,100** |

In the reporting year, other purchased goods and services included write-ups of fixed assets in the amount of EUR 416 thousand (PY: EUR 7 thousand) in the category of continuing operations and write-ups of fixed assets in the amount of EUR 103 thousand (PY: EUR 0 thousand) in the category of discontinued operations. The write-ups reflect the actual sales value of the inventories, which were originally almost fully depreciated.

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

| EUR'000 | 2013 | 2012 |
|---|---|---|
| Gigaset Group | 179,242 | 216,099 |
| SM Electronic Group | 3,233 | 10,001 |
| Gigaset Mobile Pte. Ltd. | 4,510 | 0 |
| **Total** | **186,985** | **226,100** |

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

| EUR'000 | 2013 | 2012 |
|---|---|---|
| Gigaset Group | 143,659 | 163,954 |
| SM Electronic Group | 2,859 | 9,492 |
| **Total** | **146,518** | **173,446** |

The expenses for purchased goods derived from the following groups:

| EUR'000 | 2013 | 2012 |
|---|---|---|
| Gigaset Group | 29,001 | 47,283 |
| SM Electronic Group | 21 | 40 |
| Gigaset Mobile Pte. | 4,510 | 0 |
| **Total** | **33,532** | **47,323** |

The expenses for purchased services derived from the following corporate groups:

| EUR'000 | 2013 | 2012 |
|---|---|---|
| Gigaset Group | 196 | 267 |
| SM Electronic Group | 68 | 77 |
| **Total** | **264** | **344** |

The other purchased goods and services consisted mainly of impairments on inventories and energy supply costs.

## 5. Personnel expenses

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

| EUR'000 | 2013 | 2012 |
|---|---|---|
| Gigaset Group | 94,427 | 129,315 |
| Holding company | 5,082 | 2,599 |
| SM Electronic Group | 1,710 | 1,651 |
| **Total** | **101,219** | **133,565** |

The wages and salaries contained compensation of EUR 10 thousand reducing expenses (PY: EUR 65 thousand in expenses) for share-based payments. This amount is derived from the development of the liabilities arising from the cash-settled share-based compensation of the Executive Board.

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| EUR'000 | Continuing operations | Discontinued operations | Total | Continuing operations | Discontinued operations | Total |
| Wages and salaries | 82,845 | 1,459 | 84,304 | 111,788 | 2,204 | 113,992 |
| Social security, pension and other benefit costs | 16,664 | 251 | 16,915 | 19,178 | 395 | 19,573 |
| **Total** | **99,509** | **1,710** | **101,219** | **130,966** | **2,599** | **133,565** |

## 6. Other operating expenses

The other operating expenses break down as follows:

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| EUR'000 | Continuing operations | Discontinued operations | Total | Continuing operations | Discontinued operations | Total |
| Marketing and representation expenses | 30,364 | 2,069 | 32,433 | 34,167 | 3,390 | 37,557 |
| Administrative expenses | 14,564 | 704 | 15,268 | 20,366 | 1,744 | 22,110 |
| Outgoing freight/ transport costs | 9,096 | 902 | 9,998 | 11,072 | 1,735 | 12,807 |
| Addition to war-ranty provisions | 4,176 | 0 | 4,176 | 8,220 | 0 | 8,220 |
| Consulting expenses | 10,109 | 174 | 10,283 | 8,749 | 453 | 9,202 |
| Exchange rate changes | 9,806 | 589 | 10,395 | 7,651 | 599 | 8,250 |
| Personnel leasing | 4,641 | 0 | 4,641 | 4,245 | 0 | 4,245 |
| Expenses for land/ buildings (including rent) | 3,544 | 168 | 3,712 | 4,112 | 547 | 4,659 |
| Maintenance of technical equipment, machinery and operational and office equipment | 2,033 | 7 | 2,040 | 2,652 | 37 | 2,689 |
| Other taxes | 7,699 | 3 | 7,702 | 1,902 | 3 | 1,905 |
| Write-offs on receivables and losses on receivables | 910 | 807 | 1,717 | 982 | 97 | 1,079 |
| Patent and licensing fees | 1,051 | 370 | 1,421 | 698 | 2,382 | 3,080 |
| Expenses for financial derivatives | 0 | 0 | 0 | 479 | 0 | 479 |
| Losses on the disposal of non-current assets | 50 | 0 | 50 | 61 | 35 | 96 |
| Addition to provision for anticipated losses | 184 | 0 | 184 | 32 | 0 | 32 |
| Losses on deconsolidation | 27 | 4 | 31 | 0 | 0 | 0 |
| Miscellaneous operating expenses | 15,031 | 591 | 15,622 | 11,362 | 658 | 12,020 |
| **Total** | **113,285** | **6,388** | **119,673** | **116,750** | **11,680** | **128,430** |

The deconsolidation expense from the sale of Gigaset Malta GmbH (Munich), Hottinger Holding GmbH (Vienna) and SM Electronic Group – consisting of SME Holding GmbH, SME Electronic GmbH (Lübeck), Emanon GmbH and SM Electronic GmbH (Hamburg – amounts to EUR 31 thousand.

# 7. Impairments

The impairment losses break down as follows:

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| EUR'000 | Continuing operations | Discontinued operations | Total | Continuing operations | Discontinued operations | Total |
| SM Electronics-Gruppe | 0 | -1.935 | -1.935 | 0 | 1.935 | 1.935 |
| **Total** | **0** | **-1.935** | **-1.935** | **0** | **1.935** | **1.935** |

The impairment recognized at 12/31/2012, which resulted from the difference in the fair value less costs to sell and the reclassified net asset values pursuant to IFRS 5 (held-for-sale group), amounted to EUR 1,935 thousand and declined by EUR 1,935 thousand in financial year 2013 to a total of EUR 0 thousand. The reduction that occurred in the impairment to be recognized is shown as a positive amount in the "Impairment" item in the income statement under discontinued operations.

SM Electronic Group is shown under discontinued operations both in fiscal 2013 and in fiscal 2012, since this group represents a material operation measured by total assets or operating revenues

# 8. Net interest income/expenses

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| EUR'000 | Continuing operations | Discontinued operations | Total | Continuing operations | Discontinued operations | Total |
| Other interest and similar income | 577 | 0 | 577 | 911 | 1 | 912 |
| Interest and similar expenses | -4,430 | -28 | -4,458 | -2,160 | -145 | -2,305 |
| **Net interest income/ expenses** | **-3,853** | **-28** | **-3,881** | **-1,249** | **-144** | **-1,393** |

Other interest and similar income in the amount of EUR 577 thousand (PY: EUR 912 thousand) consisted mainly of interest on loans extended, current account balances and term deposits, which are assigned to the category of loans and receivables. The interest income arising from the discounting of provisions amounted to EUR 182 thousand (PY: EUR 257 thousand).

Interest and similar expenses in the amount of EUR 4,458 thousand (PY: EUR 2,305 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 includes interest expenses on receivables under factoring arrangements, which reduced the net result of the loans and receivables category by EUR 673 thousand (PY: TEUR 910 thousand).

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

## 9. Income taxes

The income tax expenses break down as follows:

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| **EUR'000** | **Continuing operations** | **Discontinued operations** | **Total** | **Continuing operations** | **Discontinued operations** | **Total** |
| Current tax expenses/income | 3,126 | 0 | 3,126 | 2,837 | 41 | 2,878 |
| Deferred tax expense | 12,443 | -210 | 12,233 | -8,110 | -451 | -8,561 |
| **Total income tax expenses** | **15,569** | **-210** | **15,359** | **-5,273** | **-410** | **-5,683** |

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: 33.0%).

| **EUR'000** | **2013** | **2012** |
|---|---|---|
| Profit/loss before income taxes | -20,721 | -34.255 |
| expected income tax rate | 33.0% | 33.0% |
| expected income tax expenses | -6,838 | -12,321 |
| Effect of income from reversals of negative goodwill recognized in the income statement | | 0 |
| Tax rate changes | -427 | 482 |
| Tax rate differences | -4,552 | 260 |
| Tax-exempt income | 13,280 | -337 |
| Non-deductible expenses | 2,229 | 429 |
| Change in valuation allowance for deferred tax assets and unrecognized deferred tax assets in respect of tax loss carry-forwards | 11,334 | 4,053 |
| Current taxes for different periods | 1,567 | 933 |
| Tax credits | 181 | 135 |
| Other effects | -1,416 | 683 |
| **Income tax expenses (+) / income (-) recognized in the income statement** | **15,359** | **-5,683** |
| Effective tax rate | -74.1% | 15.2% |

## 10. Non-controlling interests

The consolidated loss of EUR 36,080 thousand (PY: EUR 28,572 thousand) included non-controlling interests of EUR 0 thousand (PY: EUR 0 thousand).

## 11. Earnings per common share

The basic and diluted earnings per share amounted to EUR -0.61 in financial year 2012 (PY: EUR 0.57), as per the following calculation:

| | 2013 | | | 2012[1] | | |
|---|---|---|---|---|---|---|
| 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) | -34,637 | -1,443 | -36,080 | -26,042 | -2,530 | -28,572 |
| Effect of potentially diluting common shares: stock options | 0 | 0 | 0 | 0 | 0 | 0 |
| Basis for the diluted earnings per share | -34,637 | -1,443 | -36,080 | -26,042 | -2,530 | -28,572 |
| NUMBER OF SHARES | | | | | | |
| Weighted average common shares for the basic earnings per share | 58,581,435 | 58,581,435 | 58,581,435 | 50,014,911 | 50,014,911 | 50,014,911 |
| Effect of potentially diluting common shares: stock options | 0 | 0 | 0 | 0 | 0 | 0 |
| Weighted average common shares for the diluted earnings per share | 58,581,435 | 58,581,435 | 58,581,435 | 50,014,911 | 50,014,911 | 50,014,911 |
| Basic earnings per share (in EUR) | -0.59 | -0.02 | -0.61 | -0.52 | -0.05 | -0.57 |
| Diluted earnings per share (in EUR) | -0.59 | -0.02 | -0.61 | -0.52 | -0.05 | -0.57 |

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

## 12. Dividend proposal

No dividend was distributed to shareholders in 2013 for financial year 2012.

The 2013 financial year net loss calculated in accordance with the German Commercial Code (GCC) amounted to EUR 27,582 thousand. The Executive Board and the Supervisory Board will propose to the Annual Shareholders' Meeting that the company add the financial year net loss of Gigaset AG of EUR 5,398 thousand from 2012 and carry forward the resulting net loss for the year of EUR 32,980 thousand to new account.

1) Adjusted due to the amendments to IAS 19. Please see the discussion in the Notes under "Adjustment of the Comparative Information in the Consolidated Financial Statements."

# E. Notes to the Statement of Financial Position

## 13. Intangible assets

| EUR'000 | Franchises, intellectual property rights, and similar rights and licenses | Other intangible assets | Advance payments | Total |
|---|---|---|---|---|
| Acquisition cost at 1/1/2013 | 25,677 | 68,264 | 2,043 | 95,984 |
| Foreign currency translation | -1 | 0 | 0 | -1 |
| Additions | 144 | 14,419 | 992 | 15,555 |
| Disposals | 0 | 0 | 0 | 0 |
| Transfers | -6 | 8 | 0 | 2 |
| Balance at 12/31/2013 | 25,814 | 82,691 | 3,035 | 111,540 |
| Amortization at 1/1/2013 | -9,026 | -42,732 | 0 | -51,758 |
| Additions | -2,186 | -12,123 | 0 | -14,309 |
| Transfers | 5 | -8 | 0 | -3 |
| **Balance at 12/31/2013** | **-11,207** | **-54,863** | **0** | **-66,070** |
| Net carrying amount at 12/31/2012 | 16,651 | 25,532 | 2,043 | 44,226 |
| **Net carrying amount at 12/31/2013** | **14,607** | **27,828** | **3,035** | **45,470** |
| Acquisition cost at 1/1/2012 | 25,303 | 56,552 | 104 | 81,959 |
| Foreign currency translation | 5 | 0 | 0 | 5 |
| Additions | 517 | 11,795 | 2,043 | 14,355 |
| Disposals | -75 | -8 | 0 | -83 |
| Transfers | -73 | -75 | -104 | -252 |
| Balance at 12/31/2012 | 25,677 | 68,264 | 2,043 | 95,984 |
| Amortization at 1/1/2012 | -6,952 | -32,576 | 0 | -39,528 |
| Foreign currency translation | -4 | 0 | 0 | -4 |
| Additions | -2,323 | -10,223 | 0 | -12,546 |
| Disposals | 75 | 0 | 0 | 75 |
| Transfers | 178 | 67 | 0 | 245 |
| Balance at 12/31/2012 | -9,026 | -42,732 | 0 | -51,758 |
| Net carrying amount at 12/31/2011 | 18,351 | 23,976 | 104 | 42,431 |
| Net carrying amount at 12/31/2012 | 16,651 | 25,532 | 2,043 | 44,226 |

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

| Concessions, industrial property rights and similar rights in EUR'000 | 12/31/2013 | 12/31/2012 |
|---|---|---|
| Brand names | 8,399 | 8,399 |
| Patents | 5,082 | 6,152 |
| Franchises | 1,126 | 1,921 |
| Customer bases | 0 | 179 |
| | **14,607** | **16,651** |

The **customer bases** of the prior year in the total amount of EUR 179 thousand pertained to two subsidiaries of Gigaset Communications GmbH.

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 these brands on the basis of past experience data and the estimations of the management regarding the future development of these brands. The factors considered in making this determination included the anticipated usage of the brand, typical product life cycles, possible commercial obsolescence, competition, the industry environment, the level of brand maintenance expenditures, legal or similar usage restrictions and the influence of the company's other assets on the useful life of the brand in question.

At the reporting date, the brand name Gigaset was presented in the amount of EUR 8,399 thousand (PY: EUR 8,399 thousand). The brand name "Gigaset" is ascribed to the operating Gigaset Group, as the smallest cash-generating unit. The brand name was subjected to an impairment test at December 31, 2013 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. The planning was prepared using the established planning process and is based both on historical information and on estimates regarding future developments. It is not possible to reconcile it with external information. Appropriate growth rates were applied for the period thereafter. The applied discount factor after taxes was 9.62% per annum (PY: 10.36% per annum).The discount rate was calculated based on current market data using a risk surcharge based on Gigaset's peer group. Based on the detailed business plan, the growth discount was set at 1.0% (PY: 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 patents presented in the statement of financial position protect certain production processes of the Gigaset Group. They are amortized on a straight-line basis over an average useful life of about 10 years.

The franchises in the amount of EUR 1,126 thousand (PY: EUR 1,921 thousand) mainly consisted of software licenses held in the Gigaset Group.

Only capitalized development expenses are presented within the item of other intangible assets in the amount of EUR 27,828 thousand (PY: EUR 25,532 thousand). They were allocated exclusively to Gigaset Communications GmbH. The development activities of the Gigaset Group represent capitalized product developments. Research and development expenses of EUR 23,460 thousand (PY: EUR 27,831 thousand) were recognized as expenses in financial year 2013, primarily at Gigaset Communications GmbH.

No capitalized goodwill existed at the reporting date.

No impairment losses were recognized in intangible assets in financial year 2013 pursuant to IAS 36.

In addition, borrowing costs of EUR 554 thousand were capitalized in financial year 2013 (PY: EUR 249 thousand). The underlying interest rate is 6.41% (PY: 4.49%).

## 14. Property, plant and equipment

| EUR'000 | Land, leasehold rights | Buildings, including buildings on non-owned land (excluding finance leases) | Technical equipment, plant and machinery (excluding finance leases) | Other equipment, operational and office equipment (excluding finance leases) | Advance payments and construction in progress | Total |
|---|---|---|---|---|---|---|
| **Acquisition cost at 1/1/2013** | **4,025** | **20,578** | **5,317** | **58,283** | **798** | **89,001** |
| Foreign currency translation | 0 | -3 | -2 | -34 | 0 | -39 |
| Additions | 0 | 1 | 70 | 7,293 | 49 | 7,413 |
| Disposals | 0 | 0 | -653 | -2,903 | 0 | -3,556 |
| Transfers | 0 | 0 | 37 | 715 | -799 | -47 |
| **Balance at 12/31/2013** | **4,025** | **20,576** | **4,769** | **63,354** | **48** | **92,772** |
| **Amortization at 1/1/2013** | **0** | **-5,614** | **-1,983** | **-37,256** | **0** | **-44,853** |
| Foreign currency translation | 0 | 3 | 0 | 24 | 0 | 27 |
| Additions | 0 | -1,315 | -722 | -9,810 | 0 | -11,847 |
| Disposals | 0 | 0 | 652 | 2,847 | 0 | 3,499 |
| Transfers | 0 | 0 | 4 | 34 | 0 | 38 |
| **Balance at 12/31/2013** | **0** | **-6,926** | **-2,049** | **-44,161** | **0** | **-53,136** |
| **Net carrying amount at 12/31/2012** | **4,025** | **14,964** | **3,334** | **21,027** | **798** | **44,148** |
| **Net carrying amount at 12/31/2013** | **4,025** | **13,650** | **2,720** | **19,193** | **48** | **39,636** |

| EUR'000 | Land, leasehold rights | Buildings, including buildings on non-owned land (excluding finance leases) | Technical equipment, plant and machinery (excluding finance leases) | Other equipment, operational and office equipment (excluding finance leases) | Advance payments and construction in progress | Total |
|---|---|---|---|---|---|---|
| **Acquisition cost at 1/1/2012** | **4,025** | **20,666** | **6,490** | **55,680** | **666** | **87,527** |
| Foreign currency translation | 0 | -1 | -36 | -76 | 0 | -113 |
| Additions | 0 | 15 | 327 | 9,390 | 791 | 10,523 |
| Disposals | 0 | 0 | -1,542 | -6,693 | 0 | -8,235 |
| Transfers | 0 | -102 | 78 | -18 | -659 | -701 |
| **Balance at 12/31/2012** | **4,025** | **20,578** | **5,317** | **58,283** | **798** | **89,001** |
| **Amortization at 1/1/2012** | **0** | **-4,294** | **-2,685** | **-34,637** | **0** | **-41,616** |
| Foreign currency translation | 0 | 2 | 45 | 77 | 0 | 124 |
| Additions | 0 | -1,423 | -886 | -9,989 | 0 | -12,298 |
| Disposals of impairments (IAS 36) | 0 | 0 | 477 | 2,061 | 0 | 2,538 |
| Disposals | 0 | 0 | 1,065 | 4,633 | 0 | 5,698 |
| **Transfers** | **0** | **101** | **1** | **599** | **0** | **701** |
| **Balance at 12/31/2012** | **0** | **-5,614** | **-1,983** | **-37,256** | **0** | **-44,853** |
| **Net carrying amount at 12/31/2011** | **4,025** | **16,372** | **3,805** | **21,043** | **666** | **45,911** |
| **Net carrying amount at 12/31/2012** | **4,025** | **14,964** | **3,334** | **21,027** | **798** | **44,148** |

At the reporting date, as in the previous year, the property, plant and equipment did not include leased assets for which the Group was considered to be the beneficial owner by virtue of the underlying lease agreements.

No impairment losses were recognized on property, plant and equipment in 2013. For additional information on impairment losses, please refer to our comments in the section entitled "Impairment losses."

Property, plant and equipment in the amount of EUR 21,000 thousand (PY: EUR 15,000 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."

## 15. 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 financial year 2013:

| EUR'000 | 12/31/2013 | 12/31/2012 |
| --- | --- | --- |
| Balance at 01/01 | 0 | 2,334 |
| Changes in consolidation group | 0 | 0 |
| Additions | 98 | 137 |
| Impairment | -98 | -2,471 |
| **Balance at 12/31** | **0** | **0** |

The additions and value adjustments to financial assets relate to the loan to the van Netten Group. Interest calculation was continued in financial year 2013 despite the commencement of insolvency proceedings in the fourth quarter of 2012 in order to be able to assert the claims from the existing loan receivable. In the fourth quarter of 2013, however, it turned out to be impossible to service the claims from the loan; therefore, the fully value-adjusted loan was written off in the fourth quarter of 2013.

## 16. Inventories

The inventories break down as follows:

| EUR'000 | 12/31/2013 | 12/31/2012 |
| --- | --- | --- |
| Finished goods, trading stock and finished services | 17,920 | 23,096 |
| Semi-finished goods and services in progress | 1,083 | 1,568 |
| Raw materials, consumables and supplies | 8,341 | 8,016 |
| Advance payments | 160 | 738 |
| **Total** | **27,504** | **33,418** |

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 4,444 thousand at the reporting date (PY: EUR 1,495 thousand). The valuation allowances were mainly charged to account for slow-moving inventories and insufficient salability.

The amounts presented under inventories derived exclusively from Gigaset Communications GmbH and its subsidiaries.

Inventories in the amount of EUR 1,804 thousand have been pledged as security for financial liabilities (PY: EUR 1,226 thousand). A detailed presentation of security can be found in the notes on financial instruments in the section entitled "Liquidity risk."

## 17. Trade receivables

| EUR'000 | 12/31/2013 | 12/31/2012 |
|---|---|---|
| Receivables before valuation allowances | 52,503 | 55,587 |
| Valuation allowances | -2,303 | -4,589 |
| **Carrying amount of receivables** | **50,200** | **50,998** |

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

| EUR'000 | 2013 | 2012 |
|---|---|---|
| 01. 01. | 4,589 | 5,840 |
| Charge | 1,098 | 982 |
| Utilization | -3,085 | -1,124 |
| Release | -299 | -1,109 |
| **31. 12.** | **2,303** | **4,589** |

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

Some companies of the Gigaset Group assigned a portion of their trade receivables to a financing company. The maximum volume of factoring agreements concluded at the reporting date was EUR 46,793 thousand (PY: EUR 50,000 thousand). However, the maximum volume was not utilized at the reporting date. Receivables in the amount of EUR 46,200 thousand (PY: EUR 47,590 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 512 thousand (PY: EUR 302 thousand), which was composed of the remaining interest rate risk in the amount of EUR 256 thousand (PY: EUR 151 thousand) and the del credere risk remaining with the company by virtue of the purchase price retention, in the amount of EUR 256 thousand (PY: EUR 151 thousand). The expenses in connection with factoring amounted to EUR 878 thousand in the financial year (PY: EUR 1,174 thousand), which includes the factoring fees as well as interest expenses for factoring. There were no cash inflows to the factoring company from the purchase price retentions in connection with the factoring, either in the current year or in the prior year.

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 6,077 thousand (PY: EUR 5,819 thousand).

The age structure of trade receivables at December 31, 2013 is presented in the table below:

| EUR'000 | 12/31/2013 | 12/31/2012 |
|---|---|---|
| Carrying amount | 50,200 | 50,998 |
| thereof: neither impaired nor past due at the reporting date | 39,105 | 37,850 |
| thereof: impaired at the reporting date | 2,153 | 2,976 |
| thereof: not impaired, but past due by the following time intervals at the reporting date | 8,942 | 10,172 |
| Past due up to 90 days | 8,433 | 8,681 |
| Past due 90 days to 180 days | 316 | 555 |
| Past due 180 days to one year | 137 | 629 |
| Past due by more than one year | 56 | 307 |

Of the total trade receivables presented in the statement of financial position, an amount of EUR 6,123 thousand (PY: EUR 5,219 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.

The Gigaset Group received trade credit insurance, letters of credit and other credit improvements in the amount of EUR 30,383 thousand (PY: EUR 32,232 thousand) as security for trade receivables and outstanding invoices in financial year 2013.

The constituent items within trade receivables were allocated exclusively to the Gigaset group.

By reason of the international activity of the Gigaset Group, the following receivables denominated in foreign currencies were converted to the Group currency (EUR) at December 31, 2013:

| | 12/31/2013 | | 12/31/2012 | |
|---|---|---|---|---|
| **Foreign currency** | **EUR'000** | **%** | **EUR'000** | **%** |
| GBP (British pounds) | 4,740 | 28.5 | 3,629 | 18.2 |
| RUB (Russian rubles) | 2,501 | 15.0 | 1,791 | 9.0 |
| TRL (Turkish lira) | 2,218 | 13.3 | 2,090 | 10.5 |
| CHF (Swiss francs) | 2,150 | 12.9 | 3,288 | 16.5 |
| USD (U.S. dollars) | 1,663 | 10.0 | 2,696 | 13.5 |
| SEK (Swedish krona) | 1,076 | 6.5 | 519 | 2.6 |
| CNY (Chinese renminbi yuan) | 938 | 5.6 | 0 | 0.0 |
| PLN (Polish zloty) | 551 | 3.3 | 595 | 3.0 |
| MXN (Mexican pesos) | 309 | 1.9 | 672 | 3.4 |
| CAD (Canadian dollars) | 200 | 1.2 | 0 | 0.0 |
| ARS (Argentine pesos) | 83 | 0.5 | 1,195 | 6.0 |
| BRL (Brazilian reales) | 0 | 0.0 | 3,351 | 16.8 |
| Other | 227 | 1.3 | 142 | 0.5 |
| **Total** | **16,656** | **100.0** | **19,968** | **100.0** |

## 18. Other assets

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

| EUR'000 | 12/31/2013 | 12/31/2012 |
|---|---|---|
| Receivables from factoring | 14,349 | 11,859 |
| Tax receivables | 5,195 | 8,018 |
| Security deposits | 4,036 | 493 |
| Receivables from pension liability insurance | 606 | 685 |
| Debit balances in vendor accounts | 459 | 153 |
| Derivatives | 384 | 28 |
| Accruals and deferrals | 380 | 439 |
| Current loans | 300 | 934 |
| Other assets | 2,810 | 3,815 |
| **Total** | **28,519** | **26,424** |

The receivables from factoring in 2013 consisted mainly of the outstanding portion of the purchase price receivable still owed to the Gigaset Group, in the amount of EUR 14,349 thousand (PY: EUR 11,859 thousand).

The tax receivables do not include income tax receivables because those are presented separately. The tax receivables presented in this item were mainly composed of sales tax refund claims in the amount of EUR 4,768 thousand (PY: EUR 7,686 thousand) most of which were attributable, in turn, to the Gigaset Group, in the amount of EUR 4,490 thousand (PY: EUR 7,173 thousand).

The security deposits were mainly composed of security payments for a customs warehouse in Bocholt in the amount of EUR 3,500 thousand.

## 19. Current tax assets

This item in the amount of EUR 2,099 thousand (PY: EUR 2,017 thousand) was composed exclusively of current income tax assets, including an amount of EUR 2,025 thousand (PY: EUR 2,017) attributable to the Gigaset Group.

## 20. Cash and cash equivalents

This item comprises cash on hand, cash in banks for deposits that are due in less than three months and financial instruments with an original term to maturity of less than three months. Of the total amount presented herein, an amount of EUR 2,662 thousand (PY: EUR 1,797 thousand) has been pledged as security for credit facilities and for currency hedging transactions (restricted cash).

| EUR'000 | 12/31/2013 | 12/31/2012 |
|---|---|---|
| Cash on hand, cash in banks and checks | 54,325 | 52,854 |
| Restricted cash | 2,662 | 1,797 |
| **Total** | **56,987** | **54,651** |

## 21. 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."

SM Electronic Group, which had previously been classified as held for sale, was sold on December 23, 2013. Since the companies sold were already classified as held for sale prior to the sale, all assets and liabilities were carried in the statement of financial position in the items "Assets held for sale" or "Liabilities related to assets held for sale." Due to the deconsolidation at December 23, 2013, these items both have a value of EUR 0 thousand in the consolidated financial statements for 2013. Details on the deconsolidation can be found in the section entitled "Notes on significant company sales."

The corporate purpose of SM Electronic Group comprised trading in and sales of receiver technology and accessories.

The assets and liabilities of the SM Electronic disposal group (Other segment) each amounted to EUR 0 thousand at December 31, 2013, but broke down as follows at December 31, 2012:

| EUR'000 | 12/31/2013 | 12/31/2012 |
|---|---|---|
| **Assets** | | |
| Deferred tax assets | 0 | 1,312 |
| Inventories | 0 | 3,853 |
| Current receivables and other assets | 0 | 12,592 |
| Cash and cash equivalents | 0 | 1,031 |
| **Total** | **0** | **18,788** |
| **Liabilities** | | |
| Deferred tax liabilities | 0 | 3,505 |
| Provisions | 0 | 400 |
| Other liabilities | 0 | 14,883 |
| **Total** | **0** | **18,788** |

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 1,935 thousand was recognized in 2012 for the disposal group; however, this loss had to be reversed in 2013 due to ongoing developments. The write-up of EUR 1,935 thousand in 2013 is carried as a positive amount under impairment.

The following additional disclosures are made with regard to discontinued operations: SM Electronic Group is shown under discontinued operations in both 2012 and 2013, since this group represented a material operation measured by total assets or operating revenues.

The cash and cash equivalents attributable to discontinued operations are presented in the table below:

| EUR'000 | 12/31/2013 | 12/31/2012 |
|---|---|---|
| Cash inflow (+)/ outflow (-) from operating activities | -378 | 169 |
| Cash inflow (+)/ outflow (-) from investing activities | -1,628 | -32 |
| Cash inflow (+)/ outflow (-) from financing activities | 975 | 0 |
| **Change in cash and cash equivalents** | **-1,031** | **137** |

Since no disposal groups were carried at December 31, 2013, it is not necessary to present the disclosures concerning the financial instruments that must be measured in accordance with IAS 39 within the disposal group for 2013. For financial year 2012, the disclosures concerning the financial instruments within the abovementioned disposal group that must be measured in accordance with IAS 39 are presented in the table below:

| Carrying amounts, measurement methods and fair values by measurement category | | | | Measurement method per IAS 39 | | | |
|---|---|---|---|---|---|---|---|
| EUR'000 | Measurement category per IAS 39 | Carrying amount 2012 | Fair value 2012 | Amortized cost | Fair value recognized in equity | Fair value through profit and loss | Statement of financial position measurement method per IAS 17 |
| Assets | | | | | | | |
| Current assets | | | | | | | |
| Trade receivables | LaR | 694 | 694 | 694 | 0 | 0 | - |
| Other assets | LaR | 11,153 | 11,153 | 11,153 | 0 | 0 | - |
| Cash and cash equivalents | LaR | 1,031 | 1,031 | 1,031 | 0 | 0 | - |
| Liabilities | | | | | | | |
| Current liabilities | | | | | | | |
| Trade payables | FL-AC | 14,564 | 14,564 | 14,564 | 0 | 0 | - |
| Other liabilities | FL-HfT | 0 | 0 | 0 | 0 | 0 | - |
| Thereof aggregated by measurement category according to IAS 39: | | | | | | | |
| Financial assets | | | | | | | |
| Loans and receivables (LaR) | | 12,878 | 12,878 | | | | |
| Financial liabilities | | | | | | | |
| Measured at amortized cost (FL-AC) | | 14,564 | 14,564 | | | | |
| Financial liabilities held for trading (FL-HfT) | | 0 | 0 | | | | |

## 22. Equity

### Subscribed capital

The Company's share capital totals EUR 96,399,985.00 (PY: EUR 50,014,911.00) and is divided into 96,399,985 (PY: 50,014,911) no par value shares. It has thus increased by EUR 46,385,074 compared to the prior year due to three capital measures. The shares are bearer shares. Thus, every no-par share represents EUR 1.00 of the company's share capital.

The subscribed capital in accordance with IFRS regulations was EUR 97,927,740.00 at the reporting date and is thus EUR 1,527,755.00 higher than the share capital disclosed in accordance with the regulations of commercial law. This merely factors in the mandatory convertible bonds that were already converted at the reporting date.

Due to IFRS regulations, the number of shares (23,340,289) to be issued in conjunction with the mandatory convertible bond were required to be recognized in Gigaset's equity already at the time the mandatory convertible bond was issued, additionally compared to the regulations of commercial law. Supplementally, the costs of issuing the mandatory convertible bond had to be offset against the capital reserves and a portion of the mandatory convertible bond had to be recognized as a financial liability pursuant to IFRS regulations. Due to these IFRS provisions, the Subscribed Capital carried in the consolidated financial statements at 12/31/2013 amounts to EUR 97,927,740.00. The difference of EUR 1,527,755.00 relates to the mandatory convertible bonds not yet converted at 12/31/2013, which will be serviced in future periods from contingent capital (Contingent Capital 2012).

The subscribed capital was increased by EUR 24,572,540.00 by two further capital measures in addition to the mandatory convertible bond. The first capital increase was carried out in October 2013 from authorized capital (Authorized Capital 2010). It increased subscribed capital by EUR 19,571,049. The second capital increase was carried out in December 2013, likewise from authorized capital (Authorized Capital 2013). It increased subscribed capital by EUR 5,001,491.00.

At the extraordinary Shareholders' Meeting of December 19, 2013 a resolution for authorized capital (Authorized Capital 2013/2) up to EUR 25,000,000.00 was adopted. One shareholder filed a rescission suit dated January 21, 2014, against this and another resolutions adopted regarding the issuance of warrant-linked and/or convertible bonds (Contingent Capital 2013). Gigaset considers the legal action to be manifestly inadmissible and manifestly without merit and consequently filed a release request pursuant to Section 246a AktG on February 28, 2014. The competent Higher Regional Court is expected to rule on this release request within three months.

At the reporting date of December 31, 2013, no treasury shares were held, as also at December 31, 2012. By resolution of the Annual Shareholders' Meeting of June 12, 2012, the company was authorized to acquire up to 10% of the existing capital stock itself. This authorization is valid until June 11, 2017.

### Additional paid-in capital

The capital reserve at December 31, 2013, amounts to EUR 87,042 thousand, which is EUR 939 thousand less than the capital reserve of EUR 87,981 thousand disclosed in the prior year.

The decline in the capital reserve results from reducing the capital reserve by the costs directly incurred in connection with the capital measures or the costs to be assigned to the equity component, which must be offset directly against equity according to IFRS regulations.

## Retained earnings

Retained earnings are unchanged compared to the prior-year reporting data at EUR 68,979 thousand. By resolution of the Annual Shareholders' Meeting of June 12, 2012, the retained earnings rose from EUR 22,858 thousand to EUR 68,979 thousand in 2012 due to the appropriation of the profit of Gigaset AG for 2011 according to the GCC, in the amount of EUR 46,121 thousand.

## Non-controlling interests

At the reporting date of December 31, 2013, the adjustment entry for non-controlling interests amounted to EUR 0 thousand, as in the previous year.

## Accumulated other comprehensive income from discontinued operations

In the previous year, the item of accumulated other comprehensive income included currency translation differences from discontinued operations in the amount of EUR 3 thousand. Due to the deconsolidation of SM Electronic Group in 2013, the item of accumulated other comprehensive income no longer includes any items of discontinued operations.

## Authorized Capital / Conditional 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 19,833,335.00, 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 was authorized to decide upon the content of the stock rights and the terms of the stock issue with the consent of the Supervisory Board and to specify the details of implementation of the capital increase. The Supervisory Board was further authorized to amend the wording of the Articles of Incorporation in accordance with the specific scope of the capital increase from the Authorized Capital 2010. In 2013, EUR 19,571,049.00 of the Authorized Capital 2010 was utilized in conjunction with the capital increase in October. Therefore, EUR 262,286.00 of the Authorized Capital 2010 remain at December 31, 2013, for further capital measures.

The Annual Shareholders' Meeting of June 10, 2011, resolved to annul the Contingent Capital 2008/I and create a new Contingent Capital (Contingent Capital 2011/I), by means of which the company's share capital can be increased by up to EUR 1,300,000.00. However, the Contingent Capital serves the exclusive purpose of granting subscription rights ("stock options") to members of the company's Executive Board and selected employees of the company or its affiliated companies. The Executive Board is authorized, with the consent of the Supervisory Board, to grant stock options to beneficiaries in connection with the stock option plan in the time until December 31, 2014.

The Annual Shareholders' Meeting resolved on June 12, 2012, that the Company is authorized, with the consent of the Supervisory Board, to issue warrant-linked and/or convertible bonds once or multiple times, with or without term limits, with a total nominal amount of up to EUR 250,000,000.00 ("bonds") or to grant the holders or creditors of bonds option and/or conversion rights to a total of up to 23,500,000 no-par-value bearer shares of the Company with a proportional share of the capital stock of up to EUR 23,500,000.00 after further specification of the terms and conditions of the individual bonds. The shareholders are fundamentally entitled to a subscription right. However, it can be excluded under certain circumstances. The new shares 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 was authorized to decide upon the content of the stock rights and the terms of the stock issue with the consent of the Supervisory Board and to specify the details of implementation of the capital increase. The Annual Shareholders' Meeting of June 12, 2012, likewise resolved to annul the Contingent Capital 2009 and create a new Contingent Capital (Contingent Capital 2012), by means of which the company's share capital can be increased by up to EUR 23,500,000.00. This contingent capital is intended to be used to grant shares to the holder or creditor of warrant-linked and/or convertible bonds that are issued by the Company. The Management Board is authorized, with the consent of the Supervisory Board, to determine the other details for carrying out the conditional capital increase.

Gigaset used the authority to issue convertible bonds in 2013. A mandatory convertible bond was issued in October with a nominal volume of EUR 23,340,289.00. The mandatory convertible bonds with a nominal value of EUR 1.00 must be converted into shares of Gigaset AG no later than the end of the term. The necessary shares were or will be issued from the Contingent Capital 2012 for future conversions. Please see the section "Convertible Bond" for details.

The Annual Shareholders' Meeting of August 14, 2013, resolved to create new authorized capital (Authorized Capital 2013/1). Pursuant to Article 4 (6) of the Articles of Incorporation, the Executive Board is thus authorized to increase the Company's capital stock by issuing new shares in the period through August 13, 2018, with the consent of the Supervisory Board, by a total of up to EUR 5,100,000.00, 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 2013/1). 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 was authorized to decide upon the content of the stock rights and the terms of the stock issue with the consent of the Supervisory Board and to specify the details of implementation of the capital increase. The Supervisory Board was further authorized to amend the wording of the Articles of Incorporation in accordance with the specific scope of the capital increase from the Authorized Capital 2013. In 2013, EUR 5,001,491.00 of the Authorized Capital 2013 was utilized in conjunction with the capital increase in December. Therefore, EUR 98,509.00 of the Authorized Capital 2013/1 remain at December 31, 2013, for further capital measures.



## Stock options

Gigaset AG introduced a stock option plan in financial year 2005. Because it expired, is was replaced with a new stock option program in 2008. By reason of the changes made to the business model, the stock option plan authorized in 2008 was replaced with a new stock option program in 2011. The new stock option plan does not entail any changes to existing stock option contracts. The company is entitled to fulfill the stock options either by issuing shares from the Conditional Capital 2011 created for that purpose, or by buying back treasury shares, or by paying a cash settlement. The Supervisory Board or Executive Board may select the means of fulfillment in the interest of the shareholders and the company. In general, however, the company plans to service the claims arising from the Stock Option Plan 2011 by issuing shares from the Conditional Capital 2011 created for that purpose. No stock options were issued under this stock option plan in 2013, as in the previous year and no further stock options were outstanding at the reporting date. Cash-settled options totaling 370,000 shares (PY: 780,000 shares) of Gigaset AG were issued in the context of Executive Board agreements in 3 (PY: 6) different tranches. Unlike standard stock options, the subscription rights under this stock option plan or Executive Board agreements are not linked to fixed exercise prices, as a general rule. On any one of up to three delivery dates, the beneficiary can request delivery of a certain number of common shares of Gigaset AG or the payment of the vested claim. The number of shares or the vested claim to be delivered or paid on a given delivery date is determined on the basis of the performance of the Gigaset 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 decreases during that time, no shares will be delivered and no payments are made. As a general rule, the stock options expire if the employee leaves the Group before the stock options become vested.

The measurement results of the various cash-settled tranches still outstanding in 2013 are presented in the table below:

| Tranche | Grant date | Starting price | Delivery date | Closing price 12/31/2013 | Interest rate | Volatility | Fair value at the grant date | Fair value at the reporting date |
|---|---|---|---|---|---|---|---|---|
| 1 III / 2012 | 1/1/2012 | - | 12/31/2014 | € 0.98 | 0.15% | 55.38% | € 0.92 | € 0.21 |
| 2 II / 2012 | 9/28/2012 | - | 3/31/2014 | € 0.98 | 0.10% | 9.99% | € 0.27 | € 0.00 |
| 2 III / 2012 | 9/28/2012 | - | 3/31/2015 | € 0.98 | 0.16% | 57.16% | € 0.30 | € 0.22 |

Tranche 1 III / 2013 is limited to a maximum outpayment amount of EUR 300,000.00. Tranches 2 II / 2012 and 2 III / 2012 are each limited to a maximum outpayment amount of EUR 220,000.00 each.

At the reporting date, 370,000 stock options (all cash settled) (PY: 780,000, all cash settled) were outstanding, of which 370,000 (PY: 780,000) cannot yet be exercised. At the reporting date, the average weighted exercise price of the outstanding stock options was EUR 1.02 (PY: EUR 1.91). 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 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 derived from the yield curves for German government bonds for the individual measurement periods.

For measurement purposes, a dividend yield of 0.00% was applied.

The decision regarding the dividend proposal for 2013 will be made at the statement of financial position meeting of the Supervisory Board on March 25, 2014 and then published along with the annual financial statements approved by the Supervisory Board and the final annual report for fiscal year 2013. A dividend higher than the amount presented above would lead to a decrease in the value of the stock options and conversely a dividend lower than the amount presented above would lead to an increase 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.

The measurement based on Monte Carlo simulation was conducted on the basis of historical volatilities. The historical volatility applied was calculated on a weekly basis. The life span of the stock options was applied as the relevant period for determining the historical volatility.

No options were exercised in the reporting year 2013, as in the previous year.

The fair value of the cash-settled stock options to be recognized on a pro-rated basis at the reporting date was EUR 33 thousand (PY: EUR 43 thousand) and is presented as "other liabilities."

In the reporting year, there were a total of 410,000 (PY: 500,000) expired or forfeited stock options, with an average exercise price of EUR 1.67 (PY: EUR 2.71).

In 2013, the Group recognized expenses of EUR 0 thousand (PY: EUR 0 thousand) in connection with share-based payments to be settled with equity instruments and income of EUR 10 thousand (PY: EUR 65 thousand) for cash-settled stock options. The average remaining life of the stock options, based on the first possible exercise date, is 10 months (PY: 14 months) for the cash-settled stock options.

## 23. Convertible bond

The Annual Shareholders' Meeting of Gigaset AG on June 12, 2012, created the authority to issue warrant-linked and/or convertible bonds.

The Executive Board therefore resolved to issue a convertible bond with a total nominal amount of EUR 23,340,289.00 to strengthen liquidity. The convertible bond is designed in such a way that the convertible bonds are converted to no par value shares no later than the end of the term, unless conversion already occurs before the end of the term (mandatory convertible bond).

In September 2013, Gigaset published the securities prospectus for the public offering to subscribe an unsubordinated and unsecured convertible bond with a total volume of EUR 23,340,289.00 divided into 23,340,289 bearer bonds ranking pari passu with a nominal value of EUR 1.00 each (mandatory convertible bond). Listing occurred on October 22, 2013. The interest calculation on the mandatory convertible bond is 3% p.a. with the interest due at the time of conversion.

The mandatory convertible bonds can be converted individually into no-par value ordinary bearer shares with a calculated proportionate share in the share capital of EUR 1.00 per no par value share and entitled to participate in profits starting in the financial year they are issued. The mandatory convertible bond becomes due on April 22, 2015. All mandatory convertible bonds still outstanding that have not been converted by the bond holders will be converted on this date and the interest still outstanding will be paid according to the provisions of the mandatory convertible bond.

The shareholders of the Company were granted a subscription right. The Company offered its shareholders the opportunity to subscribe the mandatory convertible bonds at a subscription ratio of 15:7, meaning that each 15 shares owned entitle the shareholder to subscribe 7 mandatory convertible bonds. The subscription right was excluded for fractional amounts. No provision was made for stock exchange trading in subscription rights. Mandatory convertible bonds not acquired by shareholders who did not exercise their subscription right were acquired by Goldin Fund Pte. Ltd., Singapore, which acquired a total of 21,518,313 mandatory convertible bonds.

IFRS regulations required the mandatory convertible bond to be divided into an equity component and a debt component, since it represents a composite financial instrument.

The creditors of the mandatory convertible bond have a right of notice under certain circumstances, which arises in case of a change of control (this excludes the anchor investor, Mr. Pan Sutong, as well as his direct heirs or (legal) entities directly or indirectly controlled by Mr. Pan Sutong or his direct heirs), bankruptcy of Gigaset AG, breach of the obligation arising from the mandatory convertible bond, or breach of the contractual duties arising from the syndicate loan. Occurrence of one of these conditions is considered to be extremely unlikely. The issuer has a right of notice if the total nominal amount of the outstanding mandatory convertible bonds amounts to 20% or less of the total nominal amount.

The value of the debt component on the statement of financial position was calculated to be EUR 124 thousand at the date of issue and the value of the equity component to be EUR 22,773 thousand, which was allocated to subscribed capital in the amount of EUR 23,340 thousand and to capital reserves at EUR -567 thousand. The values on the statement of financial position were calculated by factoring in the directly attributable costs of the capital measure. The conversion right or conversion obligation was neither a self-standing derivative nor an embedded derivative that would have to be recognized separately in accordance with IAS 39.

The liability recognized on the statement of financial position from the mandatory convertible bond represents the debt component, which is carried using the effective interest method in accordance with IFRS regulations.

Through 12/31/2013, 21,812,534 mandatory convertible bonds were converted to no par value shares, of which 21,518,313 were converted by Goldin Fund Pte. Ltd., Singapore. At the reporting date, 1,527,755 mandatory convertible bonds were still outstanding.

# 24. Pension obligations

## 24.1 Description of the guaranteed pension payments

### 24.1.1 Geographical distribution of the guaranteed pension payments

The pension obligations of Gigaset AG and its subsidiaries are distributed over four countries: Germany, Switzerland, Italy and Austria. Pension obligations exist in all four countries. In Germany and Switzerland, plan assets also exist. The amount of the obligations and the plan assets are broken down by country in the following table:

Pension obligations and plan assets at 12/31/2013 (in EUR '000):

| Country | Pension obligation | Plan assets | Net obligation |
|---|---|---|---|
| Germany | 83,324 | 39,766 | 43,558 |
| Switzerland | 1,545 | 1,114 | 431 |
| Italy | 570 | 0 | 570 |
| Austria | 28 | 0 | 28 |
| **Total** | **85,467** | **40,880** | **44,587** |

Since Germany's share of the pension and net obligations is greater than 97% in each case, only the German pension plans and the risk factors for the German obligations will be described in more detail.

### 24.1.2 Description of the pension commitments in Germany

Because their legal predecessors originally belonged to the Siemens Group, the vast majority of the pension obligations held by Gigaset AG and its German subsidiaries (the Gigaset Group) were created based on Siemens promises. Siemens AG converted its guaranteed pension payments from pension benefits to a capital-based system. All employees who were already employed at a legal predecessor of the Gigaset Group received a status of possession in the form of a benefit obligation in the course of this conversion. In addition, all employees can receive contributions to the new capital account plan, if funds are allocated to it by the company. The company can make a new decision on an allocation annually. For 2013, no employer-financed contributions were paid into the capital account plan. Salary conversion also exists, which is likewise capital-based. It has been closed since 2007 and contributions are no longer being paid in. A death benefit is paid, as well as a transitional payment (six months of continued pay in case of an insured event) for some of the employees. A few retirees still receive installment payments according to another closed system for salary conversion (supplementary benefits option). In addition, two vested benefit obligations still exist under another pension plan (GOH). The payments from the capital account plan earn interest at 1.75% (PY: 1.75%).

New pension obligations are thus only generated by inclusion in the capital account plan as well as by vested rights in a death benefit. All other plans are closed to new hires and are no longer being serviced with contribution payments.

### 24.1.3 Significant risk factors

The primary risk consists of the pension obligations from status of possession, since they constitute more than75% of the total German pension obligations. They are sensitive to the discount rate, inflation and changes in life expectancy, but not to changes in wages and salaries. Only the death benefit and transitional payments are dependent on wages and salaries. Since this risk is not very significant (somewhat more than 5% of the pension obligations), however, no calculation was made of the sensitivities to projected salary increases. For all other risks, significant actuarial assumptions and sensitivity analyses are shown in Chapter 24.2.

### 24.1.4 Longevity risk factor

Pension plans such as the status of possession system react sensitively to any change in life expectancy. An increase in life expectancy thus represents a significant risk to the pension obligation. Since the obligation is distributed over a group of more than1000 people, there are no concentration risks. For all other plans, the longevity risks are negligible or do not exist.

### 24.1.5 Inflation risk factor

Pension plans are likewise susceptible to inflation risk through the pension adjustment. All other plans are not subject to inflation risk. Review of whether a pension adjustment is necessary occurs every three years and is based on the consumer price index.

### 24.1.6 Discount rate risk factor

Pension obligations depend very strongly on the discount rate. Since the discount rate is calculated at a reporting date and is based on the capital market, it has been subject to strong fluctuations since the financial crisis occurred. This means that it is very likely that the obligation will change by more than 10% from one year to the next. According to the current IAS 19 accounting regulation as revised in 2011, the actuarial gains and losses occurring (due inter alia to changes in parameters) must be recognized as losses against the company's equity. While large actuarial losses do not affect cash flow, they can reduce equity and thus weaken the company's financial strength.

## 24.2 Significant actuarial assumptions and sensitivity analysis

The sensitivity analysis is intended to show the effects of changes in measurement assumptions that could reasonably occur until the next reporting date (IAS 19.145 and IFRS 7). If a particular sensitivity does not occur for a partial obligation and the related DBO is thus identical to the original DBO, then it is omitted for reasons of space.

A Defined Benefit Obligation in Germany at 12/31/2013: EUR 83,324 thousand

B Weighted average duration of the obligation (Macaulay duration based on best-estimate assumptions): 18.6 years

C Significant actuarial assumptions at 12/31/2013:

| Parameter | Initial amount | Sensitivity | DBO in EUR'000 |
|---|---|---|---|
| Discount rate | 3.40% | +0.5% | 76,534 |
| Discount rate | 3.40% | -0.5% | 91,168 |
| Inflation | 2.00% | +0.25% | 85,669 |
| Inflation | 2.00% | -0.25% | 81,095 |
| Longevity | Heubeck 2005 G | +1 Year | 85,170 |
| Longevity | Heubeck 2005 G | -1 Year | 81,382 |

The sensitivity analysis above is based on changing one assumption while all other assumptions remain constant. It is improbable for this to occur in reality and changes in some assumptions may correlate. When calculating the sensitivity of the defined benefit obligation to actuarial assumptions, the same method was used as was used to determine the pension provisions in the statement of financial position (the present value of the defined benefit obligations was calculated using the projected unit credit method at the end of the reporting period).

## 24.3 Development of pension provisions in the Gigaset Group

Provisions for pensions and similar obligations have been recognized for a total of seven Group companies. The total amount of pension provisions was divided up among the following companies:

| EUR'000 | 2013 | 2012 |
|---|---|---|
| Gigaset Group | 44,099 | 45,289 |
| Holding company | 488 | 540 |
| **Total** | **44,587** | **45,829** |

The increase in the allocation to the provision for pensions results particularly from the amendments to IAS 19 Employee Benefits, which must be applied starting January 1, 2013. They have material effects on the presentation of the financial position, liquidity and financial performance of the Gigaset Group. The new provisions of IAS 19 must be applied retroactively and therefore also affect the prior-year figures and statements of financial year 2012.

The main amendment to IAS 19 is that unexpected fluctuations in pension obligations and any plan assets or revaluation effects from defined benefit plans must be presented directly in other comprehensive income (OCI) within equity. The option exercised up until now by Gigaset to defer recognition, known as the corridor method, has been eliminated. This will probably lead to equity becoming more volatile. A further accounting change requires interest expense to be determined on the basis of the benefit-oriented net obligation in the future. Furthermore, the amended standard requires more comprehensive disclosures than before.

The revaluation effects from defined benefit plans are recognized in a separate item within equity due to their magnitude. The item is labeled in the financial statements as "Revaluation effects, net debt from defined benefit plans"

The projected unit credit value of vested pension benefits under the defined benefit plans of the companies of the Gigaset Group showed the following development:

| EUR'000 | 2013 | 2012 |
|---|---|---|
| **Projected unit credit value** | | |
| Balance at 01/01 | 85,853 | 55,965 |
| Current service cost | 1,879 | 1,423 |
| Employee contributions | 68 | 33 |
| Interest expenses | 2,837 | 3,007 |
| Pension benefits paid | -773 | -769 |
| Plan settlements | 0 | -66 |
| Actuarial gains and losses from financial assumptions | -747 | 26,055 |
| Actuarial gains/losses from experience | -3,808 | 202 |
| Foreign currency effects | 158 | 3 |
| Balance at 12/31 | 85,467 | 85,853 |

The pension expenses recognized in fiscal year 2013 were composed of the following elements:

| EUR'000 | 2013 | 2012 |
|---|---|---|
| **Pension expenses** | | |
| Current service cost | 1,879 | 1,423 |
| Net interest on net debt | 1,506 | 973 |
| **Total pension expenses** | **3,385** | **2,396** |

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 871 thousand (PY: EUR 1,918 thousand).

The revaluation effects from defined benefit plans are recognized in a separate item within equity.

| EUR'000 | 2013 | 2012 |
|---|---|---|
| **Revaluation effects, net debt from defined benefit plans in equity** | | |
| **Revaluation effects in equity at 1/1** | **-34,132** | **-7,704** |
| Revaluation effects in current year | 4,087 | -26,428 |
| **Revaluation effects at 12/31** | **-30,045** | **-34,132** |

The plan assets showed the following development:

| EUR'000 | 2013 | 2012 |
|---|---|---|
| Fair value of plan assets at 1/1 | 40,079 | 38,170 |
| Divestitures | 0 | -734 |
| Expected net interest expense | 1,331 | 2,034 |
| Deviation between expected net interest expense and actual net interest expense | -460 | -116 |
| Employer contributions | 54 | 812 |
| Employee contributions | 68 | 27 |
| Benefits paid | -66 | -114 |
| Foreign currency effects | -126 | 0 |
| **Fair value of plan assets at 12/31** | **40,880** | **40,079** |

The plan assets for financial year 2011 break down as follows:

| EUR'000 | 2013 | 2012 |
|---|---|---|
| Institutional fund | 39,409 | 38,775 |
| Fixed-income securities | 470 | 382 |
| Equities | 381 | 269 |
| Real estate and real estate funds | 240 | 190 |
| Assets used or held by the company | 0 | 442 |
| Other | 380 | 21 |
| **Total** | **40,880** | **40,079** |

The special funds primarily contain bonds, corporate bonds and stocks. The plan assets must be primarily assigned to measurement category 1, i.e., the plan assets are traded on active markets.  Only the real estate and real estate funds are measured at current market value (using the DCF method).

The expected contributions to plan assets and the benefit payments in the following year (net obligation) totaled EUR 808 thousand (PY: EUR 366 thousand).

The current employer's contributions to the statutory pension insurance system are recognized as operating expenses in the respective year. In financial year 2013, they amounted to EUR 5,269 thousand (PY: EUR 6,204 thousand) for the Group.

No payments were made in respect of defined-contribution plans.

The calculation was based on the following actuarial assumptions:

| IN % | 2013 | 2012 |
|---|---|---|
| Discount factor | 3.37 | 3.31 |
| Salary trend | 2.25 | 2.25 |
| Pension trend | 1.95 | 1.96 |
| Mortality tables: | | |
| Germany | Heubeck 2005 G | Heubeck 2005 G |
| Italy | ISTAT 2002 | ISTAT 2002 |
| Austria | Pagler 2008 Generation Table, Salaried Employees | Pagler 2008 Generation Table, Salaried Employees |
| Switzerland | BVG 2005 | BVG 2005 |
| Brazil | - | RP-2000 |

The provision for pension obligations was measured as follows:

| EUR'000 | 2013 | 2012 |
|---|---|---|
| Projected unit credit value of pension obligations | 85,467 | 85,853 |
| - internally financed | 5,300 | 6,063 |
| - externally financed | 80,167 | 79,790 |
| Fair value of plan assets | -40,880 | -40,079 |
| Assets not recognized | 0 | 55 |
| **Total pension provisions** | **44,587** | **45,829** |

The provision showed the following development over time:

| EUR'000 | 2013 | 2012 |
|---|---|---|
| Pension provision 1/1 | 45,829 | 17,795 |
| Changes in consolidation group | 0 | 0 |
| Divestitures of plan assets | 0 | 734 |
| Current service cost | 1,879 | 1,423 |
| Net interest expense/income | 1,506 | 973 |
| Actuarial gains/losses in expectancy cash value | -4,555 | 26,257 |
| Deviation between expected net interest expense and actual net interest expense for plan assets | 460 | 116 |
| Change in assets not recognized | -55 | 55 |
| Pension benefits paid | -707 | -655 |
| Employer contributions | -54 | -812 |
| Employee contributions | 0 | 6 |
| Plan settlements | 0 | -66 |
| Foreign currency effects | 284 | 3 |
| **Pension provision 12/31** | **44,587** | **45,829** |

## 25. Provisions

| EUR'000 | Balance at 01/01/ 2013 | Changes in consoli- dation group | Utilization | Release | Charge | Reclassi- fication | Currency/ interest effects | Balance at 01/01/ 2012 |
|---|---|---|---|---|---|---|---|---|
| Warranties | 9,049 | -30 | -5,059 | -144 | 4,176 | 0 | -68 | 7,924 |
| Onerous contracts | 3,231 | -15 | -113 | -88 | 184 | 8 | 0 | 3,207 |
| Personnel | 5,306 | 0 | -198 | -2,222 | 3,522 | 142 | -9 | 6,541 |
| Restructuring | 13,934 | 0 | -10,444 | -909 | 141 | 0 | -32 | 2,690 |
| Environmental remediation | 243 | 0 | -6 | 0 | 0 | 0 | -62 | 175 |
| Other | 18,839 | -11 | -6,662 | -4,202 | 14,450 | 749 | -1,151 | 22,012 |
| **Total** | **50,602** | **-56** | **-22,482** | **-7,565** | **22,473** | **899** | **-1,322** | **42,549** |

1) Adjusted due to the amendments to IAS 19. Please see the discussion in the Notes under "Adjustment of the Comparative Information in the Consolidated Financial Statements."

The **restructuring provision** comprises measures aimed at reducing the impact of large-scale layoffs and severance pay in the amount of EUR 2,690 thousand (PY: EUR 13,934 thousand). The disbursements for severance pay have occurred for the most part. The provisions for residual costs are expected to be utilized by the beginning of 2015.

The **warranty provisions** of EUR 7,924 thousand (PY: EUR 9,049 thousand) pertained exclusively to the Gigaset Group and were calculated on the basis of experience values and estimates of future occurrence probabilities.

The **personnel provisions** for the past two financial years break down as follows:

| EUR'000 | 12/31/2013 | 12/31/2012 |
|---|---|---|
| Personnel | | |
| Early partial retirement (Altersteilzeit) | 5,168 | 1,877 |
| Service anniversary bonuses | 1,373 | 3,429 |
| **Total** | **6,541** | **5,306** |

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

| EUR'000 | 12/31/2013 | 12/31/2012 |
|---|---|---|
| Onerous contracts | | |
| Gigaset Group | 2,601 | 2,554 |
| Holding company | 606 | 677 |
| **Total** | **3,207** | **3,231** |

The provision for **environmental risks** in the amount of EUR 175 thousand (PY: EUR 243 thousand) was recognized in respect of a groundwater purification project at the production facility in Bocholt.

The maturity structure of provisions is presented below:

| EUR'000 | 12/31/2013 | 12/31/2012 |
|---|---|---|
| Non-current provisions | 11,043 | 9,318 |
| Current provisions | 31,506 | 41,284 |
| **Total** | **42,549** | **50,602** |

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

| EUR'000 | 12/31/2013 | 12/31/2012 |
|---|---|---|
| Personnel | 6,445 | 5,087 |
| Warranties | 2,025 | 2,149 |
| Onerous contracts | 606 | 677 |
| Environmental risks | 161 | 233 |
| Other | 1,806 | 1,172 |
| **Total** | **11,043** | **9,318** |

The other provisions in the amount of EUR 22.0 million (PY: EUR 19.0 million) primarily contain provisions for other taxes (EUR 7.8 million (PY: EUR 5.7 million)), provisions for lawsuits and legal costs (EUR 4.6 million (PY: EUR 3.8 million)), provisions for damages (EUR 1.9 million (PY: EUR 5.3 million)) and provisions for advertising cost subsidies (EUR 1.8 million (PY: EUR 2.0 million)).

## 26. Non-current financial liabilities

In the previous year, non-current financial liabilities related entirely to the syndicate loan. The non-current financial liabilities are as follows:

| EUR'000 | 12/31/2013 | 12/31/2012 |
|---|---|---|
| Loan obligations (syndicate loan) | 0 | 32,000 |
| thereof Gigaset Communications GmbH | 0 | 20,000 |
| thereof Gigaset AG | 0 | 12,000 |
| **Total** | **0** | **32,000** |

Due to the majority ratios changing in the company due to the entry of Goldin (change of control clause), the syndicate banks are demanding repayment of all utilizations of the granted credit facilities by April 30, 2014, in accordance with expectations and contracts. The liabilities from the syndicate loan at December 31, 2013, therefore had to be disclosed under current financial liabilities.

## 27. Other non-current liabilities

The other non-current liabilities contain derivative financial instruments (interest rate swaps) in the amount of EUR 172 thousand (PY: EUR 0 thousand) and the non-current portion of the liabilities from cash-settled stock options of the Executive Board at December 31, 2012 in the amount of EUR 12 thousand (PY: EUR 27 thousand).

## 28. Deferred tax assets and deferred tax liabilities

Deferred taxes result from the different values contained in the IFRS financial statements as compared to the financial statements prepared for tax purposes and from consolidation measures.

Deferred tax liabilities and assets were recognized in respect of the following items:

| EUR'000 | 12/31/2013 | 12/31/2012 |
|---|---|---|
| **Deferred tax assets** | | |
| Intangible assets | 198 | 309 |
| Property, plant and equipment | 3 | 28 |
| Financial assets | 57 | 0 |
| Inventories | 38 | 140 |
| Receivables and other current assets | 83 | 402 |
| Provisions | 14,078 | 12,043 |
| Liabilities | 6,219 | 884 |
| Tax loss carry-forwards | 3,146 | 17,519 |
| **Total deferred tax assets** | **23,822** | **31,325** |
| thereof current | 6,414 | 1,634 |
| thereof non-current | 17,408 | 29,691 |
| **Deferred tax liabilities** | | |
| Intangible assets | 12,835 | 12,571 |
| Property, plant and equipment | 3,284 | 3,521 |
| Inventories | 19 | 41 |
| Receivables and other current assets | 240 | 188 |
| Provisions | 471 | 14 |
| Liabilities | 5,560 | 174 |
| **Total deferred tax liabilities** | **22,409** | **16,509** |
| thereof current | 694 | 356 |
| thereof non-current | 21,715 | 16,153 |
| Net balance of deferred tax assets and liabilities | 7,177 | 2,542 |
| **Deferred tax assets presented in the statement of financial position** | **16,645** | **28,783** |
| **Deferred tax liabilities presented in the statement of financial position** | **15,232** | **13,967** |

No deferred tax assets were recognized in respect of corporate income tax loss carry-forwards totaling EUR 66,108 thousand (PY: EUR 148,142 thousand) and trade tax loss carry-forwards totaling EUR 5,018 thousand (PY: EUR 84,342 thousand). Of the non-recognized corporate income tax loss carry-forwards, an amount of EUR 65,880 thousand related to foreign companies (PY: EUR 70,855 thousand), of which, in turn, EUR 15,405 thousand (PY: EUR 13,578) will expire within 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 in the amount of EUR 26,961 thousand (PY: EUR 23,986 thousand).

For more information on this subject, please refer to the presentation of accounting and valuation methods and the explanations provided in Section 9.

## 29. Current financial liabilities

| EUR'000 | 12/31/2013 | 12/31/2012 |
|---|---|---|
| Liabilities to banks | 21,741 | 306 |
| Other current financial liabilities | 8,460 | 0 |
| **Total** | **30,201** | **306** |

Current financial liabilities at December 31, 2013, relate to the syndicate loan and related interest. The liabilities shown under other current financial liabilities relate to the share of the syndicate loan of the former WestLB AG, which is being liquidated by the Erste Abwicklungsanstalt (EAA).

The Erste Abwicklungsanstalt (EAA) [First Liquidation Office] is an institution under public law within the German Federal Office for Financial Market Stabilization (FMSA) that is organizationally and economically independent and partially capable of holding rights. EAA was founded on December 11, 2009. Its task is to liquidate the assets and risk positions taken over from WestLB AG – which has been operating under the name Portigon AG since July 1, 2012 – in such a way as to preserve their value. The EAA is a liquidation office under public law and as such, it is neither a financial institution within the meaning of the Banking and Credit Regulation Act (KWG), nor does it carry out transactions subject to permit within the meaning of EU Directive 2006/48/EC of June 14, 2006.

For the prior year the split up of these amounts among banks and the Erste Abwicklungsanstalt (EAA) was not available. Therefore prior year information was not adjusted."

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:

| EUR'000 | 12/31/2013 | 12/31/2012 |
|---|---|---|
| **Carrying amount** | 30,201 | 306 |
| thereof due in the following time periods: | | |
| < 30 days | 301 | 306 |
| 30 - < 90 days | 0 | 0 |
| 90 - < 180 days | 29,900 | 0 |
| 180 days – 1 year | 0 | 0 |

The current liabilities to banks consisted of current account overdrafts owed by the following corporate groups:

| EUR'000 | 12/31/2013 | 12/31/2012 |
|---|---|---|
| Gigaset Group | 179 | 169 |
| Gigaset AG | 122 | 123 |
| AT Operations 2 GmbH | 0 | 14 |
| **Total** | **301** | **306** |

The syndicate loan charges variable interest. The interest rate is determined from the three-month Euribor plus a creditworthiness surcharge, which in turn is calculated according to financial ratios. The interest rate is determined anew for each drawn tranche using a three-month cycle. The interest rate for the individual tranches at December 31, 2013, was between 4.62% and 4.63% (PY: between 3.47% and 4.61%) per annum.

The current liabilities to banks did not include any liabilities denominated in foreign currencies, as in the previous year.

## 30. Trade payables

Based on the usual payment terms agreed with suppliers and other business partners, the due dates and the corresponding cash outflows of current trade payables are presented in the table below:

| EUR'000 | 12/31/2013 | 12/31/2012 |
|---|---|---|
| **Carrying amount** | 71,476 | 86,644 |
| thereof due in the following time periods: | | |
| < 30 days | 29,025 | 45,805 |
| 30 – 90 days | 40,829 | 40,818 |
| 90 – 180 days | 1,507 | 21 |
| 180 days – 1 year | 115 | 0 |

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

| EUR'000 | 12/31/2013 | 12/31/2012 |
|---|---|---|
| Gigaset Group | 63,252 | 84,919 |
| Gigaset Mobile Group | 4,352 | 0 |
| Holding company | 3,872 | 1,725 |
| **Total** | **71,476** | **86,644** |

By reason of the international activity of the Gigaset Group, the trade payables at December 31, 2013 included the following amounts denominated in foreign currencies, which have been translated to the euro, as the Group currency:

| | 12/31/2013 | | 12/31/2012 | |
|---|---|---|---|---|
| **Foreign currency** | **EUR'000** | **%** | **EUR'000** | **%** |
| USD (U.S. dollars) | 27,427 | 85.0 | 38,999 | 86.5 |
| CNY (Chinese renminbi yuan) | 2,100 | 6.5 | 1,376 | 3.0 |
| GBP (British pounds) | 630 | 1.9 | 186 | 0.4 |
| JPY (Japanese yen) | 511 | 1.6 | 1,332 | 2.9 |
| CHF (Swiss francs) | 407 | 1.3 | 596 | 1.3 |
| TRL (Turkish lira) | 391 | 1.2 | 361 | 0.8 |
| RUB (Russian rubles) | 331 | 1.0 | 247 | 0.5 |
| PLN (Polish zloty) | 226 | 0.7 | 292 | 0.6 |
| ARS (Argentine pesos) | 146 | 0.5 | 442 | 1.0 |
| SEK (Swedish krona) | 48 | 0.1 | 638 | 1.4 |
| AED (United Arab Emirates dirham) | 0 | 0.0 | 565 | 1.2 |
| BRL (Brazilian reales) | 0 | 0.0 | 191 | 0.4 |
| Other | 87 | 0.2 | 20 | 0.0 |
| **Total** | **32,304** | **100.0** | **45,245** | **100.0** |

Of the trade payables presented in the statement of financial position, an amount of EUR 6,123 thousand (PY: EUR 5,219 thousand is secured by trade receivables and an amount of EUR 1,804 thousand (PY: 1,226 thousand) by inventories as security.

## 31. Tax liabilities

This item in the amount of EUR 2,589 thousand (PY: EUR 6,384 thousand) was composed exclusively of current income tax liabilities, including an amount of EUR 1,170 thousand (PY: EUR 6,384) attributable to the Gigaset Group.

## 32. Current other liabilities

| EUR'000 | 12/31/2013 | 12/31/2012 |
|---|---|---|
| Other personnel-related liabilities | 9,348 | 11,829 |
| Other taxes | 3,830 | 4,595 |
| Customs liabilities | 2,703 | 3,054 |
| Advance payments received | 962 | 986 |
| Social security contributions | 952 | 994 |
| Wages and salaries | 281 | 137 |
| Accruals and deferrals | 57 | 48 |
| Miscellaneous other liabilities | 3,356 | 2,915 |
| **Total** | **21,489** | **24,558** |

The other current liabilities did not bear interest in financial year 2012. Due to the fact that they are due in less than one year, the difference between the carrying amount of the liabilities and the fair values of the liabilities can be deemed to be immaterial. Therefore, the repayment amounts presented in the statement of financial position are equivalent to the market values of the liabilities.

The other personnel-related liabilities were mainly composed of the following items:

| EUR'000 | 12/31/2013 | 12/31/2012 |
|---|---|---|
| Profit-based bonuses and other bonuses | 3,534 | 4,674 |
| Vacation leave not yet taken | 2,461 | 2,386 |
| Work time accounts | 1,838 | 1,954 |
| Miscellaneous personnel-related liabilities | 1,515 | 2,815 |
| **Total** | **9,348** | **11,829** |

# F. OTHER INFORMATION

## 33. Segment report

Due to the reorientation of the business model of the Gigaset Group at the end of 2010, the segment report was adjusted accordingly. The activities of Gigaset are presented separately from those of the holding company. By reason of the information applied by Gigaset for internal management purposes, the activities of the Gigaset Group are additionally segmented by geographical regions.

Gigaset is principally active in the sector of communications technology. The geographical regions in which Gigaset operates are the following:

› "Europe"
  The geographical segment of "Europe" comprises all operating activities of the Gigaset Group in the European countries, as well as the operating activities in Russia, because they are co-managed by the European companies. Thus, this segment comprises the operating activities in Germany, France, Great Britain, Italy, Netherlands, Austria, Poland, Russia, Sweden, Switzerland, Spain and Turkey.

› "Americas"
  The geographical segment of "Americas" comprises the operating activities of the Gigaset Group in Canada, the United States, Brazil and Argentina.

› "Asia-Pacific/Middle East"
  The geographical segment of "Asia-Pacific / Middle East" comprises the operating activities in China and in the United Arab Emirates.

Because all companies which do not belong to the core activities of the Group have already been or will be closed or sold, the corresponding groups are presented within the "Other" segment.

The transfer prices charged between the segments are the same as those that could be achieved with third parties. Administrative services are on-debited as cost-sharing.

In financial year 2013, as in the prior year, the "Other" segment comprised the SM Electronic Group, which was held for sale and was sold in December 2013.

Activities are attributed to the individual geographical regions on the basis of the country of domicile of the respective legal entity. Therefore, revenues and profit/loss contributions are attributed to geographical regions on the basis of legal entities, in accordance with the internal reporting system. The breakdown of revenues by receiving entities (home country of the recipient) is presented in the table of revenues by region, which follows the summary tables on the individual segments.

| January 1 to December 31, 2013 in EUR'000 | Europe | Americas | Asia-Pacific/ Middle East | Gigaset Total |
|---|---|---|---|---|
| Revenues | | | | |
| External revenues | 335,797 | 12,722 | 22,634 | 371,153 |
| Continuing operations | 335,797 | 12,722 | 22,634 | 371,153 |
| *Discontinued operations* | *0* | *0* | *0* | *0* |
| Internal revenues | 0 | 0 | 0 | 0 |
| Continuing operations | 0 | 0 | 0 | 0 |
| *Discontinued operations* | *0* | *0* | *0* | *0* |
| Total revenues | 335,797 | 12,722 | 22,634 | 371,153 |
| Continuing operations | 335,797 | 12,722 | 22,634 | 371,153 |
| *Discontinued operations* | *0* | *0* | *0* | *0* |
| Segment EBITDA | 28,978 | -12,566 | 286 | 16,698 |
| Continuing operations | 28,978 | -12,566 | 286 | 16,698 |
| *Discontinued operations* | *0* | *0* | *0* | *0* |
| Depreciation and amortization | -26,136 | -13 | -12 | -26,161 |
| Continuing operations | -26,136 | -13 | -12 | -26,161 |
| *Discontinued operations* | *0* | *0* | *0* | *0* |
| Impairments | 0 | 0 | 0 | 0 |
| Continuing operations | 0 | 0 | 0 | 0 |
| *Discontinued operations* | *0* | *0* | *0* | *0* |
| Segment EBIT | 2,842 | -12,579 | 274 | -9,463 |
| Continuing operations | 2,842 | -12,579 | 274 | -9,463 |
| *Discontinued operations* | *0* | *0* | *0* | *0* |
| Value adjustment on financial assets | | | | |
| Net interest income/expenses | | | | |
| Income/expenses from ordinary activities | | | | |
| Income taxes | | | | |
| **Consolidated net loss** | | | | |
| Non-controlling interests | | | | |
| Consolidated net loss attributable to shareholders of Gigaset AG | | | | |

| Holding company | Other | Eliminations | Consolidated | January 1 to December 31, 2013 in EUR'000 |
|---:|---:|---:|---:|---:|
| | | | | Revenues |
| 0 | 5,965 | 0 | 377,118 | External revenues |
| 0 | 0 | 0 | 371,153 | Continuing operations |
| *0* | *5,965* | *0* | *5,965* | *Discontinued operations* |
| 0 | 41 | -41 | 0 | Internal revenues |
| 0 | 0 | 0 | 0 | Continuing operations |
| *0* | *41* | *-41* | *0* | *Discontinued operations* |
| 0 | 6,006 | -41 | 377,118 | Total revenues |
| 0 | 0 | 0 | 371,153 | Continuing operations |
| *0* | *6,006* | *-41* | *5,965* | *Discontinued operations* |
| -5,652 | -3,560 | 0 | 7,486 | Segment EBITDA |
| -5,652 | 0 | 0 | 11,046 | Continuing operations |
| *0* | *-3,560* | *0* | *-3,560* | *Discontinued operations* |
| -2 | 0 | 0 | -26,163 | Depreciation and amortization |
| -2 | 0 | 0 | -26,163 | Continuing operations |
| *0* | *0* | *0* | *0* | *Discontinued operations* |
| 0 | 1,935 | 0 | 1,935 | Impairments |
| 0 | 0 | 0 | 0 | Continuing operations |
| *0* | *1,935* | *0* | *1,935* | *Discontinued operations* |
| -5,654 | -1,625 | 0 | -16,742 | Segment EBIT |
| -5,654 | 0 | 0 | -15,117 | Continuing operations |
| *0* | *-1,625* | *0* | *-1,625* | *Discontinued operations* |
| | | | -98 | Value adjustment on financial assets |
| | | | -3,881 | Net interest income/expenses |
| | | | -20,721 | Income/expenses from ordinary activities |
| | | | -15,359 | Income taxes |
| | | | **-36,080** | **Consolidated net loss** |
| | | | 0 | Non-controlling interests |
| | | | -36,080 | Consolidated net loss attributable to shareholders of Gigaset AG |

| January 1 to December 31, 2012 in EUR'000 | Europe | Americas | Asia-Pacific/ Middle East | Gigaset Total |
|---|---|---|---|---|
| Revenues | | | | |
| External revenues | 368,031 | 23,839 | 27,641 | 419,511 |
| Continuing operations | 368,031 | 23,839 | 27,641 | 419,511 |
| *Discontinued operations* | *0* | *0* | *0* | *0* |
| Internal revenues | 5,877 | 0 | 0 | 5,877 |
| Continuing operations | 5,877 | 0 | 0 | 5,877 |
| *Discontinued operations* | *0* | *0* | *0* | *0* |
| Total revenues | 373,908 | 23,839 | 27,641 | 425,388 |
| Continuing operations | 373,908 | 23,839 | 27,641 | 425,388 |
| *Discontinued operations* | *0* | *0* | *0* | *0* |
| Segment EBITDA | 12,739 | -6,466 | 1,353 | 7,626 |
| Continuing operations | 12,739 | -6,466 | 1,353 | 7,626 |
| *Discontinued operations* | *0* | *0* | *0* | *0* |
| Depreciation and amortization | -24,741 | -21 | -79 | -24,841 |
| Continuing operations | -24,741 | -21 | -79 | -24,841 |
| *Discontinued operations* | *0* | *0* | *0* | *0* |
| Impairments | 0 | 0 | 0 | 0 |
| Continuing operations | 0 | 0 | 0 | 0 |
| *Discontinued operations* | *0* | *0* | *0* | *0* |
| Segment EBIT | -12,002 | -6,487 | 1,274 | -17,215 |
| Continuing operations | -12,002 | -6,487 | 1,274 | -17,215 |
| *Discontinued operations* | *0* | *0* | *0* | *0* |
| Value adjustment on financial assets | | | | |
| Net interest income/expenses | | | | |
| Income/expenses from ordinary activities | | | | |
| Income taxes | | | | |
| **Consolidated net loss** | | | | |
| Non-controlling interests | | | | |
| Consolidated net loss attributable to shareholders of Gigaset AG | | | | |

| Holding company | Other | Eliminations | Consolidated | January 1 to December 31, 2012 in EUR'000 |
|---|---|---|---|---|
| | | | | Revenues |
| 46 | 17,687 | 0 | 437,244 | External revenues |
| 46 | 0 | 0 | 419,557 | Continuing operations |
| *0* | *17,687* | *0* | *17,687* | *Discontinued operations* |
| 591 | 0 | -6,468 | 0 | Internal revenues |
| 591 | 0 | -6,468 | 0 | Continuing operations |
| *0* | *0* | *0* | *0* | *Discontinued operations* |
| 637 | 17,687 | -6,468 | 437,244 | Total revenues |
| 637 | 0 | -6,468 | 419,557 | Continuing operations |
| *0* | *17,687* | *0* | *17,687* | *Discontinued operations* |
| -10,377 | -861 | 0 | -3,612 | Segment EBITDA |
| -10,377 | 0 | 0 | -2,751 | Continuing operations |
| *0* | *-861* | *0* | *-861* | *Discontinued operations* |
| -3 | 0 | 0 | -24,844 | Depreciation and amortization |
| -3 | 0 | 0 | -24,844 | Continuing operations |
| *0* | *0* | *0* | *0* | *Discontinued operations* |
| 0 | -1,935 | 0 | -1,935 | Impairments |
| 0 | 0 | 0 | 0 | Continuing operations |
| *0* | *-1,935* | *0* | *-1,935* | *Discontinued operations* |
| -10,380 | -2,796 | 0 | -30,391 | Segment EBIT |
| -10,380 | 0 | 0 | -27,595 | Continuing operations |
| *0* | *-2,796* | *0* | *-2,796* | *Discontinued operations* |
| | | | -2,471 | Value adjustment on financial assets |
| | | | -1,393 | Net interest income/expenses |
| | | | -34,255 | Income/expenses from ordinary activities |
| | | | 5,683 | Income taxes |
| | | | **-28,572** | **Consolidated net loss** |
| | | | 0 | Non-controlling interests |
| | | | -28,572 | Consolidated net loss attributable to shareholders of Gigaset AG |

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 financial year 2013 and in the comparison year 2012 are broken down by the region of the receiving entities:

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| EUR'000 | Continuing operations | Discontinued operations | Total | Continuing operations | Discontinued operations | Total |
| Germany | 137,655 | 5,601 | 143,256 | 156,063 | 16,295 | 172,358 |
| Europe: EU (excluding Germany) | 163,605 | 280 | 163,885 | 167,518 | 621 | 168,139 |
| Europe - Other | 28,589 | 0 | 28,589 | 30,537 | 204 | 30,741 |
| Rest of world | 41,304 | 84 | 41,388 | 65,439 | 567 | 66,006 |
| **Total** | **371,153** | **5,965** | **377,118** | **419,557** | **17,687** | **437,244** |

In 2013, the operating revenues of the continuing segments break down essentially into operating revenues from the Consumer Products segment in the amount of EUR 333,264 thousand (PY: EUR 390,181 thousand) and the Business Customers segment in the amount of EUR 35,058 thousand (PY: EUR 29,376 thousand), as well as the new segments Nome Networks and Mobile in the amount of EUR 2,831 thousand (PY: EUR 0 thousand).

In accordance with IFRS 8.33 b), non-current assets were divided among the following regions in financial year 2013 and the comparison year 2012:

| EUR'000 | 12/31/2013 | 12/31/2012 |
|---|---|---|
| **Non-current assets** | | |
| Germany | 84,803 | 87,712 |
| Europe: EU (excluding Germany) | 268 | 547 |
| Europe - Other | 3 | 5 |
| Rest of world | 32 | 110 |
| **Total** | **85,106** | **88,374** |

## 34. 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.

| EUR'000 | 12/31/2013 | 12/31/2012 |
|---|---|---|
| Cash inflow (+)/ outflow (-) from operating activities | -35,022 | -24,124 |
| Cash inflow (+)/ outflow (-) from investing activities | -7,246 | -8,824 |
| **Free cash flow** | **-42,268** | **-32,948** |
| Cash inflow (+)/ outflow (-) from financing activities | 44,869 | 26,223 |
| **Change in cash and cash equivalents** | **2,601** | **-6,725** |

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, waivers of receivables and income from the reversal of valuation allowances charged against receivables.

No investments in companies were acquired in financial year 2013, as in the previous year. A cash outflow of EUR 1,643 thousand occurred in the context of selling investments in companies that were not classified as held for sale. No investments in companies were sold in the previous year.

The funds inflow from financing activities in 2013 results from issuing the mandatory convertible bond in the amount of EUR 22,773 thousand, the capital increases carried out in the amount of EUR 24,201 thousand and the repayment of current financial liabilities in the amount of EUR 2,105 thousand. In the previous year, the funds inflow from financing activities resulted from taking out the syndicate loan in the amount of EUR 32,000 thousand and repaying current financial liabilities in the amount of EUR 5,777 thousand.

The net funds at December 31, 2013 amounted to EUR 54,325 thousand (PY: EUR 53,885 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 2,662 thousand at December 31, 2013 (PY: EUR 1,797 thousand). Thus, the total amount of cash and cash equivalents amounted to EUR 56,987 thousand (PY: EUR 55,682 thousand). Due to the sale of the SM Electronic Group in 2013, there were no longer any assets held for sale recognized at the reporting date, where cash and cash equivalents were recognized in the previous year in the amount of EUR 1,031 thousand. Thus the item Cash and cash equivalents at December 31, 2013 comprises the entire portfolio that is recognized in the statement of financial position. In the previous year, the cash and cash equivalents amounted to EUR 54,651 thousand according to the statement of financial position due to recognition in the assets held for sale.

## 35. Sales of companies

The investment in the United Arab Emirates (Gigaset Communications FZ-LLC, Dubai) was sold to local management for a symbolic sales price (EUR 0 thousand) effective September 30, 2013, in the context of a management buy-out. The assets sold amounted to EUR 500 thousand, of which EUR 0 thousand were cash and cash equivalents and the liabilities were EUR 521 thousand. The preliminary deconsolidation profit amounts to EUR 16 thousand, taking into account consolidation effects as well as other expenses incurred in connection with the transaction and is carried under other operating income. The deconsolidation profit is preliminary because the financial statements of the sold company at September 30, 2013, must still be audited by an auditor for compliance with the provisions in the contract of sale, based on the agreement made.

The sold assets and transferred liabilities from a Group perspective are shown in the table below:

| EUR'000 | |
|---|---|
| **Assets** | |
| Intangible assets | 0 |
| Property, plant and equipment | 8 |
| Current receivables and other assets | 492 |
| **Total** | **500** |
| **Liabilities** | |
| Provisions | 56 |
| Liabilities | 465 |
| **Total** | **521** |

Effective December 11, 2013, Gigaset Malta GmbH, Munich and Hottinger Holding GmbH, Vienna, were sold to an investor for a symbolic purchase price (EUR 0 thousand). The assets sold amounted to EUR 30 thousand, of which EUR 25 thousand were cash and cash equivalents and the liabilities were EUR 3 thousand. The deconsolidation profit amounts to EUR 27 thousand, taking into account consolidation effects as well as other expenses incurred in connection with the transaction and is carried under other operating expenses.

SM Electronic Group, consisting of SME Holding GmbH, SM Electronic GmbH (Lübeck), Emanon GmbH and SM Electronic GmbH (Hamburg), was sold to a strategic investor for a symbolic purchase price (EUR 0 thousand) by contract of sale dated December 23, 2013. The assets sold amounted to EUR 16,003 thousand, of which EUR 1,618 thousand were cash and cash equivalents and the liabilities were EUR 16,435 thousand. Since the companies sold were already classified as held for sale prior to the sale, all assets and liabilities were carried in the statement of financial position in the items "Assets held for sale" or "Liabilities related to assets held for sale." The deconsolidation profit amounts to EUR 4 thousand, taking into account consolidation effects as well as other expenses incurred in connection with the transaction and is carried under other operating expenses.

The sold assets and transferred liabilities from a Group perspective are shown in the table below:

| EUR'000 | |
|---|---|
| **Assets** | |
| Deferred tax assets | 2.742 |
| Inventories | 1.997 |
| Current receivables and other assets | 11.264 |
| **Total** | **16.003** |
| **Liabilities** | |
| Deferred tax liabilities | 2.759 |
| Provisions | 240 |
| Liabilities | 13.436 |
| **Total** | **16.435** |

## 36. Other financial obligations

The other financial commitments at the reporting date of December 31, 2013 resulted from rental, lease and service agreements which cannot be terminated prior to expiry and have been entered into by the Group and its subsidiaries in the ordinary course of business. In the table below, the total future payments to be made under these agreements are broken down by due dates, as follows:

| 2013 in EUR'000 | Up to 1 year | 1-5 years | More than 5 years | Total |
|---|---|---|---|---|
| Rental and lease commitments | 2,468 | 3,147 | 0 | 5,615 |
| Other commitments | 2,313 | 12 | 0 | 2,325 |
| **Total** | **4,781** | **3,159** | **0** | **7,940** |

| 2012 in EUR'000 | Up to 1 year | 1-5 years | More than 5 years | Total |
|---|---|---|---|---|
| Rental and lease commitments | 2,949 | 2,315 | 8 | 5,272 |
| Other commitments | 2,535 | 734 | 0 | 3,269 |
| **Total** | **5,484** | **3,049** | **8** | **8,541** |

The total rental and lease commitments amounted to EUR 3,276 thousand (PY: EUR 5,272 thousand). Of this amount, rental and lease agreements for land and buildings accounted for EUR 1,952 thousand (PY: EUR 3,390 thousand), rental and lease agreements for other equipment, operational and office equipment accounted for EUR 1,123 thousand (PY: EUR 1,703 thousand) and operating leases for machinery and equipment accounted for EUR 201 thousand (PY: EUR 179 thousand).

The other financial commitments in the amount of EUR 2,325 thousand (PY: EUR 3,269 thousand) resulted from maintenance and service agreements for machinery and equipment, software and other operational and office equipment.

The Group was not subject to any material firm capital expenditure at the reporting date, December 31, 2013, as in the previous year.

## 37. Contingent liabilities

The contingent liabilities at the reporting date of December 31, 2013 were related to the following companies and matters:

Through Dessarrollos Enterprise Line S. L., a subsidiary of Arques Iberia S. A., Arques Industries Aktiengesellschaft acquired the shares in the automobile component supplier Calibrados de Precisión S.A. (Capresa) under a share purchase agreement dated April 18, 2007. The previous owners (a consortium centered on the company LAUC S. L.) granted various real property collateral to some of Capresa's creditors for Capresa's liabilities. Arques Industries Aktiengesellschaft agreed to provide coverage to LAUC in the amount of 50%, but to a maximum of EUR 2.0 million if the real property collateral would have to be liquidated. The liability for defaults at Capresa was reduced from the original EUR 2.0 million to the current EUR 295 thousand by settlement agreement dated December 28, 2012.

In connection with the sale of the Jahnel-Kestermann Group, a seller liability (guarantee for corporate relationships) was assumed in the amount of EUR 18.5 million, limited in time until April 11, 2018. The probability of occurrence is considered to be low.

In connection with the sale of the Teutonia Group, a seller liability of EUR 3 million was assumed within the framework of the purchase contract warranty. The probability of occurrence is considered to be very low.

In connection with the sales of the Rohé Group and the Sommer Group in 2009, guarantees for the corporate relationships of the sold companies are still in effect, in the amount of EUR 500 thousand. These guarantees expire at various times; the last responsibilities expire on March 31, 2015. The probability of occurrence is considered very low.

In connection with the sale of the subsidiary Fritz Berger, the customary seller guarantees were issued, also for corporate relationships, among other matters. This liability is limited in time until April 21, 2015 and is currently limited to an amount of EUR 650 thousand. There are no indications of possible utilization and therefore the risk is considered to be low. A liability for tax matters was agreed for up to 90% of any supplementary tax liabilities. The duration of this liability is determined with reference to the administrative finality of the respective assessments of the tax authorities. The external audit currently being conducted at Fritz Berger could lead to an additional tax liability owed to the taxing authorities, which would have to be paid by the Company, at least in part. However, the claim against the Company in such a case is secured up to EUR 300 thousand by a trust account. The Company currently assumes that the amount to be paid by it in case of an additional tax liability will not exceed the escrowed amount.

In connection with the sale of Golf House, a liability of up to EUR 1.7 million was assumed for tax matters. The duration of this liability is determined with reference to the administrative finality of the respective assessments of the tax authorities. There are no indications of possible utilization and therefore the risk is considered to be low.

In connection with the sale of the Anvis Group, Gigaset AG assumed a liability for the compliance with corporate law and the adequacy of the separate financial statements of the companies of the Anvis Group at December 31, 2009. The liability is limited to EUR 10.0 million and will expire on December 2, 2014. The company also assumed a liability for tax matters. The liability under this guarantee will expire six months after presentation of respective, administratively final tax assessments. The probability of occurrence is considered to be extremely low.

The company assumed a purchase contract guarantee of EUR 405 thousand in connection with the sale of van Netten. The probability of occurrence is considered very low.

In the context of the sale of the SM Electronic investment, which occurred in 2013, Gigaset AG is liable for the company law circumstances of the companies sold. The probability of occurrence is considered to be very low. In addition, the Company assumed a surety in the amount of up to EUR 2.5 million vis-à-vis the factoring company for the factoring of SM Electronic GmbH. At December 31, 2013, the utilization of SM Electronic GmbH's factoring line amounts to EUR 600 thousand. SM Electronic GmbH's existing factoring agreement was terminated following the sale of the SM Electronic Group, so that submission of new claims will no longer occur. Complete repayment of SM Electronic GmbH's factoring line occurred in January 2014 and the surety has been returned.

In connection with the sales of other subsidiaries in the years 2009, 2010 and 2011, the company issued guarantees for the corporate relationships of these subsidiaries. The probability of occurrence of these guarantees is considered to be very low.

At the reporting date, the Company has no contingent liabilities from guarantees in connection with the operating business of the subsidiaries (PY: EUR 224 thousand).

## 38. Disclosures pursuant to Section 264b HGB

The following domestic subsidiaries organized as 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
- Hortensienweg Grundstücksverwaltung GmbH & Co. KG

## 39. Executive Board and Supervisory Board of Gigaset AG

The following persons served on the Executive Board in financial year 2013 and in the time until the preparation of the annual financial statements:

- **Charles Fränkl**, businessman, Meerbusch (Executive Board Chairman, in charge of Marketing, Product Development, Supply Chain, M&A, Innovation & Strategy)
- **Dr. Alexander Blum**, businessman, Munich (in charge of Finance, IT, Legal, Human Resources and Investor Relations)
- **Maik Brockmann**, businessman, Hanover (in charge of Sales)

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 2013 and in the time until the preparation of the annual financial statements held the following seats on supervisory bodies (starting date and ending date are only indicated when those dates fall within the reporting period or in the time until the preparation of the annual financial statements):

**Dr. Alexander Blum**

| Company | Board | Starting date | Ending date |
|---|---|---|---|
| Inter-company | | | |
| Gigaset Communications (Shanghai) Ltd. | Chairman of the Board | | |

**Maik Brockmann**

| Company | Board | Starting date | Ending date |
|---|---|---|---|
| Outside the Group | | | |
| Planervilla AG, Hanover | Supervisory Board | | |

**Charles Fränkl**

The Executive Board member Charles Fränkl did not hold seats on supervisory bodies in 2013 and in the time until the preparation of the annual financial statements.

The Supervisory Board of the Company consisted of the persons listed below from January 1, 2013, until the regular Annual Shareholders' Meeting on August 14, 2013.

- Rudi Lamprecht (Chairman, resigned effective March 25, 2013)
- Prof. Dr. Michael Judis (Vice Chairman until December 19, 2013)
- Dr. Dr. Peter Löw (resigned effective May 31, 2013)
- Susanne Klöß-Braekler
- David Hersh
- Bernhard Riedel (Chairman since March 22, 2013)
- Barbara Münch (Member since March 26, 2013)

The Supervisory Board of the Company consisted of the persons listed below in the period from the regular Annual Shareholders' Meeting on August 14, 2013, until the extraordinary Shareholders' Meeting on December 19, 2013.

- Bernhard Riedel (Chairman since March 22, 2013)
- Prof. Dr. Michael Judis (Vice Chairman until December 19, 2013)
- Susanne Klöß-Braekler
- David Hersh
- Paolo Vittorio Di Fraia (Member since August 14, 2013)
- Barbara Münch (Member since March 26, 2013)

The Supervisory Board of the Company consisted of the persons listed below in the period from the extraordinary Shareholders' Meeting on December 19, 2013, until December 31, 2013.

- Bernhard Riedel (Chairman since March 22, 2013)
- David Hersh
- Paolo Vittorio Di Fraia (Member since August 14, 2013)
- Hau Yan Helvin Wong (Member and deputy chairman since December 19, 2013)
- Flora Ka Yan Shiu (Member since December 19, 2013)
- Xiaojian Huang (Member since December 19, 2013)

The members of the Supervisory Board listed below held the listed memberships on additional supervisory boards and controlling boards during their term of office on the Supervisory Board of the Company within the reporting timeframe.

**Rudi Lamprecht**, Chairman of the Supervisory Board, resigned as of March 25, 2013, businessman, Munich

- Member of the Supervisory Board of Gigaset Communications GmbH until March 28, 2013
- Member of the Supervisory Board of Fujitsu Technology Solutions GmbH
- Managing partner of EWC East-West-Connect GmbH

**Bernhard Riedel,** Chairman of the Supervisory Board since March 22, 2013, attorney, Munich

- Member of the Supervisory Board of Gigaset Communications GmbH since March 29, 2013

**Prof. Dr. Michael Judis**, Vice Chairman, resigned on December 19, 2013, attorney, Munich

- Alternate member of the Supervisory Board of Your Family Entertainment AG, Munich
- Member of the Supervisory Board of Gigaset Communications GmbH since January 1, 2014

**Dr. Dr. Peter Löw**, resigned effective May 31, 2013, businessman, Munich

- Dr. Löw did not provide any information to the Company regarding any seats held on other supervisory boards and other governing bodies within the meaning of Section 125 (1) of the German Stock Corporation Act (AktG).

**Susanne Klöß-Braekler**, resigned on December 19, 2013, Graduate in Business Administration, Munich

- Member of the Board of Directors, Eurex Frankfurt AG
- Member of the Supervisory Board, Deutsche Bank Bauspar AG
- Member of the Supervisory Board, Postbank Filialvertrieb AG, Bonn
- Member of the Supervisory Board, BHW Holding AG, Hameln
- Member of the Supervisory Board, BHW Bausparkasse AG, Hameln
- Member of the Board of Directors, Eurex Zurich AG, Zurich, Switzerland

**David Hersh**, Managing Partner Mantra Americas LLC, New York, USA

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

**Barbara Münch**, resigned on December 19, 2013, attorney, Munich

- Member of the Supervisory Board of Gigaset Communications GmbH since January 1, 2014

**Paolo Vittorio Di Fraia**, Member since August 14, 2013, businessman and corporate consultant, Paris, France

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

**Hau Yan Helvin Wong**, Member and deputy chairman since December 19, 2013, member of management and General Counsel, Goldin Properties Holdings Limited, also member of management and General Counsel, Goldin Financial Holdings Limited, Hong Kong, People's Republic of China

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

**Flora Ka Yan Shiu**, Member since December 19, 2013, member of management as head of Corporate Development, Goldin Real Estate Financial Holdings Limited, Hong Kong, People's Republic of China

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

**Xiaojian Huang**, Member since December 19, 2013, managing director, Matsunichi Digital Development (Shenzhen) Company Limited, Shenzhen, People's Republic of China

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

## 40. 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. Their compensation in financial year 2013 comprises a fixed annual salary, success-related components (stock price linked compensation, variable compensation), a company loyalty bonus and a transaction bonus. The individual components are as follows:

- The fixed compensation is paid in the form of a monthly salary in 12 equal parts.

- The stock price oriented compensation consists of a special payment that is calculated according to the increase in value of a "virtual stock portfolio."

› The variable compensation is based on a bonus agreement linked to corporate goals (sales, EBITDA, cash of the company) for all Executive Board members working in the reporting year.

› The company loyalty bonus, which is linked to achievement of goals, among other things, is intended to create an additional incentive for the Executive Board members to stay with the company. If an Executive Board member leaves the company within six months after disbursement, the bonus would have to be repaid in full by that Executive Board member.

› The transaction bonus is the method used by the company to recognize the performance of the Executive Board members in the context of a successful capital increase.

› There are no guaranteed pension payments for members of the Executive Board of Gigaset AG (and thus no obligations arising from guaranteed pension payments).

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 financial 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 Dr. Blum expired in financial year 2013. The original virtual share portfolio comprise 150,000 shares per delivery date. The valuation date of all shares were August 31, 2011, August 31, 2012 and January 31, 2013. The grant date was February 7, 2011.

At the grant date, the fair value of the granted stock options amounted to EUR 253,500.00 for the first tranche (expired in 2011), EUR 184,500.00 for the second tranche (expired in 2012) and EUR 205,500.00 for the third tranche (expired in 2013).

The virtual share portfolio of Mr. Charles Fränkl comprises 150,000 shares at each delivery date. The valuation dates are or were December 31, 2012, December 31, 2013 and December 31, 2014. The grant date was January 1, 2012.

The fair value of the virtual share portfolio for Mr. Fränkl amounted to EUR 20,706.00 for the third tranche of 150,000 shares, payable on December 31, 2014 (with a vested proportion of 66.67% according to IFRS). The disbursement with regard to the individual tranches is limited to EUR 300,000.00 per tranche. At the grant date, the fair value of the granted stock options amounted to EUR 97,500.00 for the first tranche (expired in 2012), EUR 88,500.00 for the second tranche (expired in 2013) and EUR 138,000.00 for the third tranche.

The virtual share portfolio of Mr. Maik Brockmann comprises 110,000 shares at each delivery date. The valuation dates are or were March 31, 2013, March 31, 2014 and March 31, 2015. The grant date was September 28, 2012.

The fair value of the virtual share portfolio for Mr. Brockmann amounted to EUR 175.83 for the first tranche of 110,000 shares, payable on March 31, 2014 (with a vested proportion of 83.33% according to IFRS), EUR 12,293.50 for the third tranche of 110,000 shares, payable on March 31, 2015 (with a vested proportion of 50% according to IFRS). The disbursement with regard to the individual tranches is limited to EUR 220,000.00 per tranche. At the grant date, the fair value of the granted stock options amounted to EUR 1,100.00 for the first tranche (expired in 2013), EUR 29,700.00 for the second tranche and EUR 33,000.00 for the third tranche.

| Virtual share portfolios/stock options, in units | Dr. Alexander Blum | Charles Fränkl | Maik Brockmann |
|---|---|---|---|
| Outstanding at 1/1/2013 | 150,000 | 300,000 | 330,000 |
| Granted in 2013 | 0 | 0 | 0 |
| Forfeited in 2013 | 0 | 0 | 0 |
| Exercised in 2013 | 0 | 0 | 0 |
| Average share price on exercise date, in EUR | Less than exercise price | Less than exercise price | Less than exercise price |
| Expired in 2013 | 150,000 | 150,000 | 110,000 |
| Outstanding at 12/31/2013 | 0 | 150,000 | 220,000 |
| Thereof exercisable | 0 | 0 | 0 |
| Range of exercise prices | n/a | 1.00 | 1.04 |
| Income (+)/ expenses (-) recognized in the reporting period as per IFRS, in EUR | 854.42 | 5,621.03 | 3,437.23 |

The market price of Gigaset AG was EUR 0.98 at the reporting date, December 31, 2013. The intrinsic value of the outstanding options was thus EUR 0.00 at the reporting date.

A bonus agreement has additionally been concluded with each Executive Board member working in the reporting year. It is based on the goals of sales, EBITDA and the company's cash. The goals were discussed with the Chairman of the company's Supervisory Board and with the Executive Board members at the beginning of the financial year.

The total compensation granted to members of the Executive Board in financial year 2013 is presented in the table below:

| EUR | Compensation | | In-kind benefit | | Success bonus | | Stock options[1] | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| Fiscal year | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Dr. Alexander Blum | 241,563 | 250,000 | 8,400 | 8,402 | 230,000 | 0 | 0 | 0 | 479,963 | 258,402 |
| Maik Brockmann | 270,553 | 249,000 | 13,200 | 7,350 | 255,000 | 0 | 0 | 0 | 538,753 | 256,350 |
| Charles Fränkl | 386,503 | 400,000 | 8,400 | 8,402 | 230,000 | 0 | 0 | 0 | 624,903 | 408,402 |

The stock options refer to those amounts that were disbursed. The wages and salaries in the consolidated financial statements contained compensation of EUR 10 thousand (PY: EUR 65 thousand) for share-based payments, reducing expenses.

The Executive Board member Dr. Alexander Blum has not entered into a separate Executive Board employment contract with the company. Instead, he receives his compensation on the basis of the managing director employment contract concluded between him and Gigaset Communications GmbH. This compensation also encompasses the compensation for his activity on the Executive Board; Gigaset Communications GmbH charges the company for the work performed by Dr. Blum for Gigaset AG. Beyond the foregoing, no further compensation was granted to the Executive Board members for their work in subsidiaries or affiliated companies.

The total expense for the payments to the Executive Board members amounted to EUR 1,644 thousand in the reporting year (PY: EUR 858 thousand).

## Vergütung des Aufsichtsrates

The compensation system adopted by the Annual Shareholders' Meeting on June 10, 2011, also applied in financial year 2013 until the regular Annual Shareholders' Meeting on August 14, 2013 and read as follows: "Every member of the Supervisory Board shall receive a fixed compensation of EUR 1,000.00 per started month of the term of office 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 in the amount of EUR 1,500.00 per started month of the term of office 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 Annual Shareholders' Meeting on August 14, 2013, adopted the following compensation regulation for the entire term of office of the Supervisory Board beginning at the end of the regular 2013 Annual Shareholders' Meeting: "Every member of the Supervisory Board shall receive a fixed compensation of EUR 3,000.00 per each started month in office 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 compensation increased by 50%. The Company shall reimburse the Supervisory Board members for the expenses incurred in performing their duties, including any value-added tax accruing on the compensation and the expense reimbursement. The Company shall conclude public liability insurance for the benefit of the Supervisory Board members that covers statutory liability arising from their activities as Supervisory Board members."

By resolution dated December 19, 2013, the Shareholders' Meeting rescinded the resolution of August 14, 2013 and adopted compensation for the Supervisory Board as follows:

1. **Base Compensation.** Each member of the Supervisory Board shall receive fixed compensation of EUR 3,000.00 ("Base Compensation") for each started month in office ("Settlement Month"). The beginning and end of each Settlement Month are determined in accordance with Sections 187 (1) and 188 (2) of the German Civil Code (BGB). Any compensation that an individual member of the Supervisory Board has already received for the same Settlement Month, for any legal reason whatsoever, shall be applied to the claim to Base Compensation. The claim to Base Compensation shall arise at the end of the Settlement Month.

2. **Compensation for meeting attendance.** Each member of the Supervisory Board shall receive compensation of EUR 1,000.00 (the "Meeting Fee") for participating in a meeting of the Supervisory Board or a committee thereof (a "Meeting") called in accordance with the Articles of Incorporation. Participation in the meeting by telephone as well as voting in writing pursuant to Article 9 (3)(2) of the Articles of Incorporation shall be equivalent to participating in the meeting. Multiple meetings of the same body on a single day shall be compensated as a single meeting. The claim to a Meeting Fee shall arise when the Chairman or the committee chairman signs the minutes. The prerequisites to making a claim can only be proven by the minutes of the meeting according to Section 107 (2) of the German Stock Corporation Act (AktG).

3. **Compensation for adoption of resolutions outside of meetings**. Each member of the Supervisory Board shall receive compensation of EUR 1,000.00 ("Resolution Fee") for casting his vote in the context of adopting a resolution outside of a meeting according to Article 9 (4) of the Articles of Incorporation ("Adoption of Resolutions Outside of a Meeting") ordered on a case-by-case basis by the Chairman and carried out in writing, by telegraph, telephone, fax, or using other means of telecommunications or data transfer. If multiple resolutions are adopted on the same day outside of meetings, then the claim to the Resolution Fee shall only be established once. The claim to a Resolution Fee shall arise when the Chairman or the committee chairman signs the minutes on the adoption of resolutions. The prerequisites to making a claim can only be proven by the minutes of the adoption of resolutions.

4. **Compensation of the Chairman.** The Chairman of the Supervisory Board shall receive a bonus of 100% and the Deputy Chairman of the Supervisory Board shall receive a bonus of 50% on all compensation specified in Nos. 1 to 3.

5. **Expense reimbursement.** The Company shall reimburse the Supervisory Board members for the expenses incurred in performing their duties, as well as any sales tax accruing on the compensation and the expense reimbursement. The claim to reimbursement of expenses shall arise as soon as the Supervisory Board member has paid the expenses himself.

6. **Creation and due date of claims**. All payment claims shall be due 21 days after receipt of an invoice by the Company that satisfies the requirements for orderly invoicing. When expense reimbursement is claimed, the invoice must include copies of receipts for the expenses. The Company is entitled to pay advances before the claims are due.

7. **Insurance.** The Company shall conclude public liability insurance for the benefit of the Supervisory Board members that covers statutory liability arising from their activities as Supervisory Board members.

8. **Applicability Period.** This compensation regulation shall enter into force with retroactive effect as of 8/15/2013 and shall remain in force until an Annual Shareholders' Meeting adopts a new regulation. This compensation regulation replaces the compensation regulation adopted by the Annual Shareholders' Meeting on 8/14/2013, which is simultaneously rescinded with retroactive effect. Insofar as compensation was already paid based on the rescinded compensation regulation, such compensation shall be applied to compensation claims under the new regulation."

The compensation granted to members of the Supervisory Board of Gigaset AG in financial year 2013 is presented in the table below:

| EUR | Settled | Set aside | Totalaufwand |
|---|---|---|---|
| Bernhard Riedel (Chairman) | 49,000 | 33,000 | 82,000 |
| David Hersh | 15,000 | 25,000 | 40,000 |
| Paolo Vittorio Di Fraia | 26,000 | 5,000 | 31,000 |
| Hau Yan Helvin Wong | 0 | 4,500 | 4,500 |
| Flora Ka Yan Shiu | 0 | 4,000 | 4,000 |
| Xiaojian Huang | 0 | 4,500 | 4,500 |
| Rudi Lamprecht (former Chairman) | 7,500 | 0 | 7,500 |
| Prof. Dr. Michael Judis | 20,000 | 20,000 | 40,000 |
| Dr. Dr. Peter Löw | 0 | 5,000 | 5,000 |
| Susanne Klöss-Braekler | 11,000 | 23,000 | 34,000 |
| Barbara Münch | 51,500 | 1,000 | 52,500 |
| **Total** | **180,000** | **125,000** | **305,000** |

Accordingly, the total compensation granted to the Supervisory Board amounted to EUR 305,000.00 (PY: EUR 126,500.00).

No further commitments have been made in the event of termination of Supervisory Board mandates. No loans or advances were extended to members of the Executive Board or Supervisory Board of Gigaset AG. No contingent liabilities have been assumed in favor of these persons.

## 41. Shareholdings of Executive Board and Supervisory Board members

According to their statements, the members of the Executive Board held 34,348 shares of Gigaset AG at the reporting date, representing 0.036 % of the total shares outstanding.

According to their statements, the members of the Supervisory Board together held 1,810 shares of Gigaset AG at the reporting date, representing 0.002 % of the total shares outstanding.

The shareholdings of Executive Board and Supervisory Board members were divided among the individual members as follows:

| | Number of shares at 12/31/2013 or at the resignation date | Number of shares at the date of prepa-ration of the financial statements | Number of options at 12/31/2013 or at the resignation date | Number of options |
|---|---|---|---|---|
| **Vorstand** | | | | |
| Charles Fränkl | 0 | 0 | 0 | 0 |
| Dr. Alexander Blum | 34,348 | 34,348 | 0 | 0 |
| Maik Brockmann | 0 | 0 | 0 | 0 |
| **Aufsichtsrat** | | | | |
| Bernhard Riedel | 1,810 | 1,810 | 607 | 607 |
| David Hersh | 0 | 0 | 0 | 0 |
| Paolo Vittorio Di Fraia | 0 | 0 | 0 | 0 |
| Hau Yan Helvin Wong | 0 | 0 | 0 | 0 |
| Flora Ka Yan Shiu | 0 | 0 | 0 | 0 |
| Xiaojian Huang | 0 | 0 | 0 | 0 |
| Rudi Lamprecht | 300 | -- | 0 | -- |
| Prof. Dr. Michael Judis | 10,604 | -- | 0 | -- |
| Dr. Dr. Peter Löw | unknown | -- | unknown | -- |
| Susanne Klöß-Braekler | 0 | -- | 0 | -- |
| Barbara Münch | 0 | -- | 0 | -- |

### Disclosures concerning stock option rights and similar incentives

Any stock options of Supervisory Board and Executive Board members presented in the table above are stock options that can be purchased in the open market. Gigaset AG did not grant stock options to the members of the Supervisory Board, nor to members of the Executive Board. Please refer to the comments in the Compensation Report for additional information on the virtual share portfolios of Executive Board members.

## 42. 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.

Please refer to Section 39 for information on the compensation of the Executive Board and Supervisory Board that must be disclosed in accordance with IAS 24 No.17.

## 43. Professional fees for the independent auditor

Professional fees in the total amount of EUR 778 thousand (PY: EUR 1,715 thousand) were incurred for the services of the independent auditor within the meaning of Section 318 HGB in financial year 2013.

| EUR'000 | 2013 | 2012 |
|---|---|---|
| Audit services for the annual financial statements | 352 | 388 |
| Other certification services | 14 | 247 |
| Tax advisory services | 43 | 0 |
| Other services | 369 | 1,080 |
| **Total** | **778** | **1,715** |

## 44. Employees

The Gigaset Group had an average of 1,540 employees in financial year 2013 (PY: 1,799 employees). The total number of employees at the reporting date of December 31, 2013, was 1,474 (PY: 1,743 employees).

| | Stichtag | | Durchschnitt | |
|---|---|---|---|---|
| EUR'000 | 2013 | 2012 | 2013 | 2012 |
| Wage-earning employees | 0 | 18 | 0 | 20 |
| Salaried employees | 1,382 | 1,665 | 1,486 | 1,718 |
| Apprentice-trainees | 47 | 60 | 52 | 61 |
| **Total** | **1,429** | **1,743** | **1,538** | **1,799** |

## 45. Declaration of Conformity with the German Corporate Governance Code

In February 2014, 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 13, 2013, 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.com). In this declaration, the Executive Board and Supervisory Board of Gigaset AG state that the Company was in compliance with the behavioral recommendations of the Code Commission on corporate management and monitoring published in the Federal Gazette with an effective date of May 13, 2013, with a few exceptions and will comply with them in the future. The Declaration of Conformity itself and the statements on the exceptions are reproduced verbatim at the specified location.

## 46. Shareholder structure

We received the following notifications as per Section 21 or Section 25 of the German Securities Trading Act (WpHG) in 2013.

1a) On October 25, 2013, we were notified pursuant to Section 21 (1) of the Securities Trading Act (WpHG) that the voting rights share of Mr. Pan Sutong in Gigaset AG, Munich, ISIN DE 0005156004, WKN 515600, exceeded the thresholds of 3%, 5%, 10%, 15% and 20% on October 22, 2013 and on that date the voting rights amounted to 24.47% (17,028,581 voting rights).

Of this amount, all 24.47% (17,028,581) of the voting rights are attributed to Mr. Pan Sutong pursuant to Section 22 (1)(1) WpHG. The voting rights attributed to Mr. Pan Sutong are held through the following companies controlled by him, whose voting rights share in Gigaset AG each meets or exceeds 3%:

- Goldin Investment (Singapore) Limited
- Goldin Fund Pte. Ltd.

On October 25, 2013, Goldin Fund Pte. Ltd. notified us pursuant to Section 21 (1) WpHG on behalf of Goldin Investment (Singapore) Limited that the voting rights share of Goldin Investment (Singapore) Limited in Gigaset AG, Munich, ISIN DE 0005156004, WKN 515600, exceeded the thresholds of 3%, 5%, 10%, 15% and 20% on October 22, 2013 and on that date the voting rights amounted to 24.47% (17,028,581 voting rights).

Of this amount, all 24.47% (17,028,581 voting rights) are attributed to Goldin Investment (Singapore) Limited pursuant to Section 22 (1)(1) WpHG. The voting rights attributed to Goldin Investment (Singapore) Limited are held through Goldin Fund Pte. Ltd., which is held by it, whose voting rights share in Gigaset AG meets or exceeds 3%.

On October 25, 2013, Goldin Fund Pte. Ltd. notified us pursuant to Section 21 (1) WpHG in its own name that the voting rights share of Goldin Fund Pte. Ltd. in Gigaset AG, Munich, ISIN DE 0005156004, WKN 515600, exceeded the thresholds of 3%, 5%, 10%, 15% and 20% on October 22, 2013 and on that date the voting rights amounted to 24.47% (17,028,581 voting rights).

1b) On October 25, 2013, we were notified pursuant to Section 25 of the Securities Trading Act (WpHG) that the voting rights share of Mr. Pan Sutong in Gigaset AG, Munich, ISIN DE 0005156004, WKN 515600, exceeded the thresholds of 3%, 5%, 10%, 15%, 20%, 25%, 30% and 50% on October 22, 2013 and on that date the voting rights amounted to 55.39% (38,546,894 voting rights).

These are composed of voting rights shares due to (financial/other) instruments under Section 25a WpHG in the amount of 30.92% of the voting rights (21,518,313 voting rights) that are indirectly held by Mr. Pan Sutong and 24.47% of the voting rights (17,028,581) under Sections 21, 22 WpHG.

Mr. Pan Sutong is the sole shareholder of Goldin Investment (Singapore) Limited.

On October 25, 2013, we were notified pursuant to Section 25 WpHG that the voting rights share of Goldin Investment (Singapore) Limited in Gigaset AG, Munich, ISIN DE 0005156004, WKN 515600, exceeded the thresholds of 3%, 5%, 10%, 15%, 20%, 25%, 30% and 50% on October 22, 2013 and on that date the voting rights amounted to 55.39% (38,546,894 voting rights).

These are composed of voting rights shares due to (financial/other) instruments under Section 25a WpHG in the amount of 30.92% of the voting rights (21,518,313 voting rights) that are indirectly held by Goldin Investment (Singapore) Limited and 24.47% of the voting rights (17,028,581) under Sections 21, 22 WpHG.

Goldin Investment (Singapore) Limited is the sole shareholder of Goldin Fund Pte. Ltd.

On October 25, 2013, Goldin Fund Pte. Ltd. notified us pursuant to Section 25 WpHG in its own name that the voting rights share of Goldin Fund Pte. Ltd. in Gigaset AG, Munich, ISIN DE 0005156004, WKN 515600, exceeded the thresholds of 3%, 5%, 10%, 15%, 20%, 25%, 30% and 50% on October 22, 2013 and on that date the voting rights amounted to 55.39% (38,546,894 voting rights).

These are composed of voting rights shares due to (financial/other) instruments under Section 25a WpHG in the amount of 30.92% of the voting rights (21,518,313 voting rights) that are directly held by Goldin Fund Pte. Ltd. and 24.47% of the voting rights (17,028,581) under Sections 21, 22 WpHG.

1c) On November 22, 2013, Goldin Fund Pte. Ltd. notified us pursuant to Section 25 of the Securities Trading Act (WpHG) on behalf of Mr. Pan Sutong that the voting rights share of Mr. Pan Sutong in Gigaset AG, Munich, ISIN DE 0005156004, WKN 515600, fell below the thresholds of 3%, 5%, 10%, 15%, 20%, 25%, 30% and 50% on November 18, 2013.

The voting rights on November 18, 2013, are composed of voting rights shares due to (financial/other) instruments under Section 25a WpHG in the amount of 0% of the voting rights (0 voting rights) and 24.39% of the voting rights (17,028,581) under Sections 21, 22 WpHG.

Mr. Pan Sutong is the sole shareholder of Goldin Investment (Singapore) Limited.

On November 22, 2013, we were notified pursuant to Section 25 WpHG that the voting rights share of Goldin Investment (Singapore) Limited in Gigaset AG, Munich, ISIN DE 0005156004, WKN 515600, exceeded the thresholds of 3%, 5%, 10%, 15%, 20%, 25%, 30% and 50% on November 18, 2013.

The voting rights on November 18, 2013, are composed of voting rights shares due to (financial/other) instruments under Section 25a WpHG in the amount of 0% of the voting rights (0 voting rights) and 24.47% of the voting rights (17,028,581) under Sections 21, 22 WpHG.

Goldin Investment (Singapore) Limited is the sole shareholder of Goldin Fund Pte. Ltd.

On November 22, 2013, Goldin Fund Pte. Ltd. notified us pursuant to Section 25 WpHG in its own name that the voting rights share of Goldin Fund Pte. Ltd. in Gigaset AG, Munich, ISIN DE 0005156004, WKN 515600, fell below the thresholds of 5%, 10%, 15%, 20%, 25%, 30% and 50% on November 18, 2013.

The voting rights on November 18, 2013, are composed of voting rights shares due to (financial/other) instruments under Section 25a WpHG in the amount of 0% of the voting rights (0 voting rights) and 24.39% of the voting rights (17,028,581) under Sections 21, 22 WpHG.

1d) On November 22, 2013, Goldin Fund Pte. Ltd. notified us pursuant to Section 21 (1) of the Securities Trading Act (WpHG) on behalf of Mr. Pan Sutong that the voting rights share of Mr. Pan Sutong in Gigaset AG, Munich, ISIN DE 0005156004, WKN 515600, exceeded the thresholds of 25% and 30% on November 19, 2013 and on that date the voting rights amounted to 42.20% (38,546,894 voting rights).

Of this amount, all 42.20% (38,546,894) of the voting rights are attributed to Mr. Pan Sutong pursuant to Section 22 (1)(1) WpHG. The voting rights attributed to Mr. Pan Sutong are held through the following companies controlled by him, whose voting rights share in Gigaset AG each meets or exceeds 3%:
› Goldin Investment (Singapore) Limited
› Goldin Fund Pte. Ltd.

On November 22, 2013, Goldin Fund Pte. Ltd. notified us pursuant to Section 21 (1) WpHG on behalf of Goldin Investment (Singapore) Limited that the voting rights share of Goldin Investment (Singapore) Limited in Gigaset AG, Munich, ISIN DE 0005156004, WKN 515600, exceeded the thresholds of 25% and 30% on November 19, 2013 and on that date the voting rights amounted to 42.20% (38,546,894 voting rights).

Of this amount, all 42.20% (38,546,894 voting rights) are attributed to Goldin Investment (Singapore) Limited pursuant to Section 22 (1)(1) WpHG. The voting rights attributed to Goldin Investment (Singapore) Limited are held through Goldin Fund Pte. Ltd., which is held by it, whose voting rights share in Gigaset AG meets or exceeds 3%.

On November 22, 2013, Goldin Fund Pte. Ltd. notified us pursuant to Section 21 (1) WpHG in its own name that the voting rights share of Goldin Fund Pte. Ltd. in Gigaset AG, Munich, ISIN DE 0005156004, WKN 515600, exceeded the thresholds of 25% and 30% on November 19, 2013 and on that date the voting rights amounted to 42.20% (38,546,894 voting rights).

1e) On November 26, 2013, Mr. Antoine Dréan, France, notified us pursuant to Section 21 (1) WpHG that the voting rights share of Mr. Antoine Dréan in Gigaset AG, Munich, ISIN DE 0005156004, WKN 515600, fell below the threshold of 5% on November 19, 2013 and on that date the voting rights share amounted to 4.76% of the voting rights (4,347,079 voting rights).

Of this amount, 4.76% (4,347,079 voting rights) are attributed to Mr. Antoine Dréan pursuant to Section 22 (1)(1)(1) WpHG. The voting rights attributable to Mr. Antoine Dréan are held through the following companies controlled by him, whose voting rights shares in Gigaset AG each meets or exceeds 3%:
› Elevon Invest SARL
› Mantra Gestion SAS
› Mantra Investissement SCA

On November 26, 2013, Elevon Invest SARL, Paris, France, notified us pursuant to Section 21 (1) WpHG that the voting rights share of Elevon Invest SARL in Gigaset AG, Munich, ISIN DE 0005156004, WKN 515600, fell below the threshold of 5% on November 19, 2013 and on that date the voting rights share amounted to 4.76% of the voting rights (4,347,079 voting rights).

Of this amount, 4.76% (4,347,079 voting rights) are attributed to Elevon Invest SARL pursuant to Section 22 (1)(1)(1) WpHG. The voting rights attributable to Elevon Invest SARL are held through the following companies controlled by Elevon Invest SARL, whose voting rights shares in Gigaset AG each meets or exceeds 3%:

- Mantra Gestion SAS
- Mantra Investissement SCA

On November 26, 2013, Mantra Gestion SAS, Paris, France, notified us pursuant to Section 21 (1) WpHG that the voting rights share of Mantra Gestion SAS in Gigaset AG, Munich, ISIN DE 0005156004, WKN 515600, fell below the threshold of 5% on November 19, 2013 and on that date the voting rights share amounted to 4.76% of the voting rights (4,347,079 voting rights).

Of this amount, 4.76% (4,347,079 voting rights) are attributed to Mantra Gestion SAS pursuant to Section 22 (1)(1)(1) WpHG. The voting rights attributable to Mantra Gestion SAS are held through the following companies controlled by Mantra Gestion SAS, whose voting rights shares in Gigaset AG each meets or exceeds 3%:

- Mantra Investissement SCA

On November 26, 2013, Mantra Investissement SCA, Paris, France, notified us pursuant to Section 21 (1) WpHG that the voting rights share of Mantra Investissement SCA in Gigaset AG, Munich, ISIN DE 0005156004, WKN 515600, fell below the threshold of 5% on November 19, 2013 and on that date the voting rights share amounted to 4.76% of the voting rights (4,347,079 voting rights).

1f) On December 4, 2013, we were notified pursuant to Section 25a of the Securities Trading Act (WpHG) that the voting rights share of Mr. Pan Sutong in Gigaset AG, Munich, ISIN DE 0005156004, WKN 515600, fell below the thresholds of 5%, 10%, 15%, 20%, 25% and 30% on October 22, 2013.

The voting rights on October 22, 2013, are composed of voting rights shares due to (financial/other) instruments under Section 25a WpHG in the amount of 0% of the voting rights (0 voting rights), voting rights shares due to (financial/other) instruments under Section 25 WpHG in the amount of 0% of the voting rights (0 voting rights) and 24.47% of the voting rights (17,028,581) under Sections 21, 22 WpHG.

Mr. Pan Sutong is the sole shareholder of Goldin Investment (Singapore) Limited.

On December 4, 2013, we were notified pursuant to Section 25 WpHG on behalf of Goldin Investment, (Singapore) Limited, Tortola, Singapore that the voting rights share of Goldin Investment (Singapore) Limited in Gigaset AG, Munich, ISIN DE 0005156004, WKN 515600, fell below the thresholds of 5%, 10%, 15%, 20%, 25% and 30% on October 22, 2013.

The voting rights on October 22, 2013, are composed of voting rights shares due to (financial/other) instruments under Section 25a WpHG in the amount of 0% of the voting rights (0 voting rights), voting rights shares due to (financial/other) instruments under Section 25 WpHG in the amount of 0% of the voting rights (0 voting rights) and 24.47% of the voting rights (17,028,581) under Sections 21, 22 WpHG.

Goldin Investment (Singapore) Limited is the sole shareholder of Goldin Fund Pte. Ltd.

On December 04, 2013, Goldin Fund Pte. Ltd. notified us pursuant to Section 25 WpHG in its own name that the voting rights share of Goldin Fund Pte. Ltd., Singapore, Republic of Singapore, in Gigaset AG, Munich, ISIN DE

0005156004, WKN 515600, fell below the thresholds of 5%, 10%, 15%, 20%, 25% and 30% on October 22, 2013.

The voting rights on October 22, 2013, are composed of voting rights shares due to (financial/other) instruments under Section 25a WpHG in the amount of 0% of the voting rights (0 voting rights), voting rights shares due to (financial/other) instruments under Section 25 WpHG in the amount of 0% of the voting rights (0 voting rights) and 24.47% of the voting rights (17,028,581) under Sections 21, 22 WpHG.

1g) On December 9, 2013, Prof. Dr. Dr. Peter Löw, Germany, notified us pursuant to Section 21 (1) WpHG that his voting rights share in Gigaset AG, Munich, Germany, fell below the threshold of 3% on July 29, 2011 and on that date the voting rights share amounted to 2.83% of the voting rights (corresponding to 1,415,663 voting rights).

1h) On December 23, 2013, we were notified pursuant to Section 21 (1) of the Securities Trading Act (WpHG) that the voting rights share of Mr. Pan Sutong in Gigaset AG, Munich, ISIN DE 0005156004, WKN 515600, exceeded the threshold of 50% on December 20, 2013 and on that date amounted to 50.47% (48,648,433 voting rights).

Of this amount, all 50.47% (48,648,433 voting rights) are attributed to Mr. Pan Sutong pursuant to Section 22 (1)(1) WpHG. The voting rights attributed to Mr. Pan Sutong are held through the following companies controlled by him, whose voting rights share in Gigaset AG each meets or exceeds 3%:

- Goldin Investment (Singapore) Limited
- Goldin Fund Pte. Ltd.

On December 23, 2013, we were notified pursuant to Section 21 (1) WpHG that the voting rights share of Goldin Investment (Singapore) Limited in Gigaset AG, Munich, ISIN DE 0005156004, WKN 515600, exceeded the threshold of 50% on December 20, 2013 and on that date amounted to 50.47% (48,648,433 voting rights).

Of this amount, all 50.47% (48,648,433 voting rights) are attributed to Goldin Investment (Singapore) Limited pursuant to Section 22 (1)(1) WpHG. The voting rights attributed to Goldin Investment (Singapore) Limited are held through Goldin Fund Pte. Ltd., which is held by it, whose voting rights share in Gigaset AG meets or exceeds 3%.

On December 23, 2013, Goldin Fund Pte. Ltd. notified us pursuant to Section 21 (1) WpHG in its own name that the voting rights share of Goldin Fund Pte. Ltd. in Gigaset AG, Munich, ISIN DE 0005156004, WKN 515600, exceeded the threshold of 50% on December 20, 2013 and on that date amounted to 50.47% (48,648,433 voting rights).

Gigaset AG is not included in consolidated financial statements of the majority owner.

We received the following voting rights notices after 12/31/2013, but before signing the financial statements.

2a) On January January 7, 2014, Maven Securities Limited, Birkirkara, Malta, notified us pursuant to Section 21 (1) WpHG that its share of voting rights in Gigaset AG, Munich, Germany, fell below the threshold of 3% on December 31, 2013, and on that date its voting rights share amounted to 0% of the voting rights (corresponding to 0 voting rights).

On January 7, 2014, Maven Trading Ltd., London, United Kingdom, notified us pursuant to Section 21 (1) WpHG that its share of voting rights in Gigaset AG, Munich, Germany, exceeded the threshold of 3% on December 19, 2013, and on that date its voting rights share amounted to 3.12% of the voting rights (corresponding to 3,011,610 voting rights).

On January 7, 2014, Maven Securities Limited, Birkirkara, Malta, notified us pursuant to Section 21 (1) WpHG that its share of voting rights in Gigaset AG, Munich, Germany, exceeded the threshold of 3% on December 19, 2013, and on that date its voting rights share amounted to 3.12% of the voting rights (corresponding to 3,011,610 voting rights).

3.12% of the voting rights (corresponding to 3,011,610 voting rights) are attributable to the company through Maven Securities Holding Ltd. and Maven Trading Ltd. pursuant to Section 22 (1) sentence 1 no. 1 WpHG.

On January 7, 2014, Maven Securities Holding Ltd., London, United Kingdom, notified us pursuant to Section 21 (1) WpHG that its share of voting rights in Gigaset AG, Munich, Germany, exceeded the threshold of 3% on December 19, 2013, and on that date its voting rights share amounted to 3.12% of the voting rights (corresponding to 3,011,610 voting rights).

3.12% of the voting rights (corresponding to 3,011,610 voting rights) are attributable to the company through Maven Trading Ltd. pursuant to Section 22 (1) sentence 1 no. 1 WpHG.

On January 7, 2014, Maven Trading Ltd., London, United Kingdom, notified us pursuant to Section 21 (1) WpHG that its share of voting rights in Gigaset AG, Munich, Germany, fell below the threshold of 3% on December 31, 2013, and on that date its voting rights share amounted to 0% of the voting rights (corresponding to 0 voting rights).

On January 7, 2014, Maven Securities Holding Ltd., London, United Kingdom, notified us pursuant to Section 21 (1) WpHG that its share of voting rights in Gigaset AG, Munich, Germany, fell below the threshold of 3% on December 31, 2013, and on that date its voting rights share amounted to 0% of the voting rights (corresponding to 0 voting rights).

2b) On January 14, 2014, Mr. Antoine Dréan, France, notified us pursuant to Section 21 (1) WpHG that his voting rights share in Gigaset AG, Munich, Germany, exceeded the threshold of 5% on January 13, 2014 and on that date the voting rights share amounted to 6.28% of the voting rights (corresponding to 6,058,525 voting rights).

4.51% of the voting rights (corresponding to 4,347,079 voting rights) are attributable to Mr. Dréan through Mantra Investissement SCA, Mantra Gestion SAS and Elevon Invest SARL pursuant to Section 22 (1)(1)(1) WpHG.

1.78% of the voting rights (corresponding to 1,711,446 voting rights) are attributable to Mr. Dréan pursuant to Section 22 (1)(1)(6) WpHG in conjunction with Section 22 (1)(2) WpHG.

On January 14, 2014, Elevon Invest SARL, Paris, France, notified us pursuant to Section 21 (1) WpHG that its voting rights share in Gigaset AG, Munich, Germany, exceeded the threshold of 5% on January 13, 2014 and on that date the voting rights share amounted to 6.28% of the voting rights (corresponding to 6,058,525 voting rights).

4.51% of the voting rights (corresponding to 4,347,079 voting rights) are attributable to the company through Mantra Investissement SCA and Mantra Gestion SAS pursuant to Section 22 (1)(1)(1) WpHG.

1.78% of the voting rights (corresponding to 1,711,446 voting rights) are attributable to the company pursuant to Section 22 (1)(1)(6) WpHG in conjunction with Section 22 (1)(2) WpHG.

On January 14, 2014, Mantra Gestion SAS, Paris, France, notified us pursuant to Section 21 (1) WpHG that its voting rights share in Gigaset AG, Munich, Germany, exceeded the threshold of 5% on January 13, 2014 and on that date the voting rights share amounted to 6.28% of the voting rights (corresponding to 6,058,525 voting rights).

4.51% of the voting rights (corresponding to 4,347,079 voting rights) are attributable to the company through Mantra Investissement SCA pursuant to Section 22 (1)(1)(1) WpHG.

1.78% of the voting rights (corresponding to 1,711,446 voting rights) are attributable to the company pursuant to Section 22 (1)(1)(6) WpHG in conjunction with Section 22 (1)(2) WpHG.

On January 14, 2014, Mantra Investissement SCA, Paris, France, notified us pursuant to Section 21 (1) WpHG that its voting rights share in Gigaset AG, Munich, Germany, exceeded the threshold of 5% on January 13, 2014 and on that date the voting rights share amounted to 6.28% of the voting rights (corresponding to 6,058,525 voting rights).

1.78% of the voting rights (corresponding to 1,711,446 voting rights) are attributable to the company pursuant to Section 22 (1)(1)(6) WpHG.

2c) On January 28, 2014, Mr. Tom Hiss notified us pursuant to Section 21 (1) WpHG that his voting rights share in Gigaset AG, Munich, Germany, exceeded the threshold of 3 % on January 24, 2014 and on that date the voting rights share amounted to 3.09 % of the voting rights (corresponding to 2,982,679 voting rights). 3.09 % of the voting rights (corresponding to 2,982,679 voting rights) are attributable to Mr. Hiss from Ludic GmbH pursuant to Section 22 (1)(1)(1) WpHG.

2c) On January 28, 2014, Ludic GmbH, Bad Oldeloe, notified us pursuant to Section 21 (1) WpHG that its voting rights share in Gigaset AG, Munich, Germany, exceeded the threshold of 3 % on January 24, 2014 and on that date the voting rights share amounted to 3.09 % of the voting rights (corresponding to 2,982,679 voting rights).

The following notices are attributable to the highest controlling company (Goldin Investment (Singapore) Limited) of Gigaset AG: 1a), 1b), 1c), 1d), 1f) and 1h).

## 47. 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 2009, 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 an anti-trust law investigation. In this context, a fine totaling EUR 13.3 million was imposed jointly and severally on SKW Stahl-Metallurgie Holding AG as well as its subsidiary SKW Stahl-Metallurgie

GmbH as direct cartel participants. The European Commission held the current Gigaset AG, as the Group parent company at that time, jointly and severally liable on the basis of the assumption that, as the Group parent company, it formed a "corporate unit" with the direct cartel participants. The portion of the fine attributable to Gigaset, in the amount of EUR 6.7 million, including interest, was paid in full, subject to reservation of appeal (EUR 1.0 million in 2009, the remainder including accrued interest in 2010). However, Gigaset also filed an appeal against the assessment of the Commission as well as a lawsuit against its former subsidiary for a possible reimbursement of the fine paid by Gigaset. Oral arguments in the action for declaration of nullity against the Commission's assessment took place on May 28, 2013, before the European Court of First Instance. In Gigaset's opinion, a ruling can be expected in the first quarter of 2014. The lawsuit between the Company and SKW Stahl-Metallurgie Holding AG together with SKW Stahl-Metallurgie GmbH has not yet produced any clarity regarding the legally accurate distribution of the total fine obligation between SKW Stahl-Metallurgie Holding AG and SKW Stahl-Metallurgie GmbH as the direct cartel participants on the one hand and the Company as the former group parent company that would merely be co-liable, on the other. The legal issue is currently before the German Federal Court of Justice for review on appeal. The Federal Court of Justice submitted the question of interpretation to the European Court of Justice for a preliminary ruling by decision dated July 9, 2013. Until final resolution of this legal issue on appeal by the Federal Court of Justice, which possibly will not be issued for several years, there is at least an abstract risk that a lower court will assign liability in internal relations to the detriment of the Company; this could lead to a circumstance where the Company would be obligated to reimburse fines that were imposed on SKW Stahl-Metallurgie Holding AG and SKW Stahl-Metallurgie GmbH.

Evonik Degussa GmbH is demanding payment of a contractual penalty in the amount of EUR 12.0 million from the Company based on a share purchase agreement dated September 8, 2006. Evonik Degussa GmbH filed a corresponding arbitration suit against the Company with the arbitral tribunal Deutsche Institution für Schiedsgerichtsbarkeit e. V. on April 30, 2012. In the context of the share purchase agreement, Oxy Holding GmbH acquired all shares in Oxxynova GmbH (formerly Oxxynova Holding GmbH) from Evonik Degussa GmbH (formerly Degussa AG) and issued various buyer warranties and guarantees. These also included the guarantee to operate Oxxynova GmbH's production locations in Lülsdorf and Steyerberg for at least an additional five years after completion of the share transfer (October 12, 2006). Today's Gigaset AG entered into an obligation as a guarantor to be responsible along with Oxy Holding GmbH for specific obligations of Oxy Holding GmbH, also including the location guarantee. In its arbitration complaint, Evonik Degussa is arguing that Oxy Holding violated its obligations arising from the location guarantee, which was provided with a penalty for breach of contract, because the subsidiary Oxxynova GmbH closed the location in Lülsdorf in 2007. Therefore, a contractual penalty in the amount of EUR 12.0 would have been forfeited, for which the Company would be jointly and severally liable as a guarantor. The Company requested dismissal of the complaint in a brief dated September 28, 2012. The Company considers the complaint to be insufficient because not all of the foundations for the asserted claim have been presented and furthermore unfounded because the contractual requirements for forfeiting the contractual penalty have not been satisfied. In the response to the complaint, the Company particularly argues that Oxxynova GmbH had lost significant customers and the world market for Oxxynova's product had developed in an extraordinarily negative manner, so that Oxxynova was entitled to close the location according to the wording of the contract. In the Company's opinion, furthermore, Evonik Degussa GmbH would have been obligated to consent to the closing of the Lülsdorf location. However, Evonik Degussa GmbH refused to enter into negotiations with the Company on waiver of the contractual penalty, in violation of the contract. Moreover, the closure of the Lülsdorf location had not been decided until March 23, 2010 (and implemented on June 30, 2010), for which reason the contractual penalty would amount to a maximum of EUR 7.0 million even if one were to agree with the arguments of Evonik Degussa GmbH. The arbitration tribunal issued an arbitration ruling on November 30, 2013, that sentenced Gigaset AG to pay the amount of EUR 3,500,000.00 to Evonik. Provisions in the amount of EUR 3,600,000.00 were already created in the prior year for this purpose. Since Gigaset AG was further sentenced to pay interest on the amount in the main issue, which is currently calculated to be about EUR 1,000,000.00, additional provisions were created in the amount of about EUR 1,000,000.00. The company is currently reviewing whether the arbitration ruling must be subjected to a review by a regular court by means of what is called an application for annulment.

The insolvency administrator of Sommer Road Cargo Solutions GmbH & Co. KG ("Sommer") had filed suit against Gigaset AG and its former Executive Board member Dr. Martin Vorderwülbecke. Sommer was an investee company of ARQUES Industries AG from October 2005 to March 2009. The plaintiff demanded joint and several payment of EUR 3.0 million from the defendant. The plaintiff alleged that ARQUES Industries AG, as the group parent of the Sommer Group in 2007, had impermissibly demanded repayment of a loan or carried out hidden distributions of profits from the assets of the Sommer Group in the form of contract terms not customary among third parties and thus violated the equity preservation regulations applicable at the time, among other things. This is alleged to have caused Sommer damage in at least the amount of the sum demanded in the suit, for which today's Gigaset would have to be responsible together with the managing director and Executive Board member at the time, Dr. Vorderwülbecke. Insolvency proceedings were commenced against Sommer's assets on December 31, 2009. Following extensive consideration of the opportunities and risks, Gigaset AG concluded a settlement with Sommer's insolvency administrator in October 2013, according to which Gigaset AG must pay an amount totaling EUR 800,000.00 in several installments through January 31, 2014. The first installment of EUR 150,000.00 was already paid in a timely manner.

In a criminal proceeding, the Munich Public Prosecutor's Office had accused two former Executive Board members of breach of fiduciary duty or accessory to breach of fiduciary duty committed in 2009. One former member of the Executive Board was accused of having granted disbursements in violation of the equity preservation regulations of Section 30 of the Limited Liability Companies Act (GmbHG) in his parallel function as managing director of Gigaset Communications GmbH; the other Executive Board member is alleged to have cooperated in this action. The Company had joined the proceeding as a co-participant. Before admitting the suit, the court suspended the proceedings against both accused parties against payment of a charge under Section 153a of the German Code of Criminal Procedure (StPO) and issued an administrative order imposing a fine of EUR 350,000.00 on the co-participants, which was served on February 5, 2013 and is legally valid and enforceable. The fine will be due in two installments on December 31, 2013 (EUR 200 thousand) and December 31, 2014 (EUR 150 thousand). This ruling has brought a lawsuit that has lasted for years to a close. The Company had created a provision in the corresponding amount in previous years, so that the earnings in financial year 2013 will not be affected.

## 48. Significant events after the reporting date

### Ruling by the European Court of First Instance reduces cartel fine against Gigaset AG by EUR 1.0 million

The European Court of First Instance issued a ruling on January 23, 2014, partially granting the suit by Gigaset AG (formerly Arques Industries AG) against the administrative order of the EU Commission imposing a fine in the SKW cartel case and reduced the fine imposed on Gigaset AG by EUR 1.0 million. Otherwise, the suit was dismissed.

In July 2009, the European Commission had imposed a total fine of EUR 61.1 million on various companies in the calcium carbide sector in the context of anti-trust proceedings. In this context, a fine totaling EUR 13.3 million was imposed jointly and severally on SKW Stahl-Metallurgie GmbH, the company directly involved in the cartel, as well as on its parent company, SKW Stahl-Metallurgie Holding AG (both referred to collectively below as “SKW”). The Commission also imposed joint and several liability on the current Gigaset AG for the fine imposed on SKW, because the Commission held that Gigaset AG had formed an “economic unit” with SKW as its group parent company at that time.

In response to the administrative fine notice, Gigaset AG paid the amount of EUR 6.65 million to the EU Commission in the years 2009 to 2010 on a preliminary basis (that is, for the duration of the appeal proceedings). Parallel to this, Gigaset AG defended itself against the administrative fine notice by filing suit. This suit was decided by a trial court. Based on the ruling, Gigaset AG expects to receive reimbursement of a portion of the fine already paid, according to a preliminary legal assessment. The ruling is not yet final and enforceable; Gigaset will carefully review whether an appeal must be filed against the portion of the decision dismissing the suit.

In parallel to the decided lawsuit, Gigaset filed suit against SKW with the civil courts based on the justification that SKW would have to pay the fine alone as the direct originator of the cartel and would consequently have to reimburse the fine already proportionally paid by Gigaset AG. Gigaset continues to assume that SKW must pay the fine alone in internal relations as the company directly involved in the cartel.

### Rescission suit against two resolutions adopted by the extraordinary Shareholders' Meeting

The shareholder Ludic GmbH filed a rescission suit dated January 21, 2014, against two of the resolutions adopted by the extraordinary Shareholders' Meeting of December 19, 2013. The suit disputes the adoption of resolutions on Agenda Items 2 (Authorized Capital 2013/2) and 3 (Authorization of the Executive Board to issue warrant-linked and/or convertible bonds, Contingent Capital 2013). The Plaintiff petitions to have the aforementioned resolutions declared partially null and void and alternatively in their entirety. The suit was served on February 17, 2014 and is being tried by the Munich Regional Court (Chamber for Commercial Matters) under case number 5 HKO 1196/14. The Court has initially ordered written preliminary proceedings. A date for oral arguments has not yet been set. The company does not expect an impact on it’s net assets or financial and earnings position.

## 49. Release for publication of the consolidated financial statements

The Executive Board released the present consolidated financial statements of Gigaset AG for publication on March 24, 2014. The company's shareholders will have the right and the opportunity to amend the consolidated financial statements at the annual shareholders' meeting.

Munich, March 24, 2014

The Executive Board of Gigaset AG

Charles Fränkl    Dr. Alexander Blum    Maik Brockmann

# FURTHER INFORMATION

# Report of the Executive Board

The Executive Board of Gigaset AG is responsible for the information contained in the consolidated financial statements and the combined management report. This information has been reported in accordance with the accounting regulations of the International Accounting Standards Committee. The combined management report was drafted in accordance with the provisions of the German Commercial Code.

By means of implementing uniform Group wide guidelines, using reliable software, selecting and training qualified personnel and continually optimizing the processes of the acquired companies, we are able to present a true and fair view of the company's business performance, its current situation and the opportunities and risks of the Group. To the necessary extent, appropriate and objective estimates were applied.

In accordance with the resolution of the annual shareholders' meeting, the Supervisory Board has engaged PricewaterhouseCoopers AG, Wirtschaftsprüfungsgesellschaft, Düsseldorf, to audit the consolidated financial statements of the Group in the capacity of independent auditors. The Supervisory Board discussed the consolidated financial statements and the consolidated management report with the auditors in the financial statements review meeting. The results of their review are presented in the Report of the Supervisory Board.

## Responsibility statement

"To the best of our knowledge, and in accordance with the required accounting principles, the consolidated financial statements provide a true and fair view of the assets, liabilities, financial position and earnings of the Group, and the combined management report provides a true and fair view of the Group's performance and the situation, along with a fair description of the principal opportunities and risks of the Group's future development."

Munich, March 25, 2014

The Executive Board of Gigaset AG

# Auditor‘s Report*

We have audited the consolidated financial statements prepared by Gigaset AG, Munich, comprising the balance sheet, income statement, statement of comprehensive income, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the Group management report of Gigaset AG, which is combined with the management report of the parent company, for the business year from January 1 to December 31, 2013. The preparation of the consolidated financial statements and the combined management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315a (1) HGB („Handelsgesetzbuch“ - German Commercial Code) are the responsibility of the parent company’s Executive Board. Our responsibility is to express an opinion on the consolidated financial statements and the combined management report based on our audit. We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB and german generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in consolidation, the determination of the companies to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the company’s Executive Board, as well as evaluating the overall presentation of the consolidated financial statements and the combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with the IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to Section 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these provisions. The combined management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group’s position and suitably presents the opportunities and risks of future development.

In accordance with our professional duties, we advise that the continued existence of the corporate group as a going concern is threatened by the risks described in section 12.3.2 “Cash flows of the Group” in the Management Report which is combined with the Group Management Report. Here it is stated that the ability to maintain the Group’s solvency is dependent upon the achievement of revenue and liquidity targets, the planned procurement of additional liquidity by way of capital increases and the already initiated cost-cutting measures aimed at security of liquidity.”

Munich, March 24, 2014

| | |
|---|---|
| ppa. Dr. Michael Wittekindt | ppa. Rainer Kroker |
| Wirtschaftsprüfer (German Public Auditor) | Wirtschaftsprüfer (German Public Auditor) |

* Translation of the auditor’s report issued in German on the annual/consolidated financial statements prepared in German by the management of Gigaset AG.

# Financial Calendar

## March 26, 2014

- Audited Financial Statements for the fiscal year 2013
- Year-End press conference

## May 22, 2014

- 1st quarterly report for the fiscal year 2014

## June 6, 2014

- Annual General Meeting in Munich, Germany

## August 7, 2014

- 2nd quarterly report for the fiscal year 2014

## November 11, 2014

- 3rd quarterly report for the fiscal year 2014

# Imprint

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# Gigaset List of Shareholdings

| | Location | | Equity share direct | Equity share indirect |
|---|---|---|---|---|
| Gigaset AG | Munich | Germany | | |
| CFR Holding GmbH | Munich | Germany | 100% | |
| GOH Holding GmbH | Munich | Germany | 100% | |
| Gigaset Industries GmbH | Vienna | Austria | 100% | |
| Gigaset Asset Invest GmbH | Vienna | Austria | | 100% |
| Gigaset Commercial GmbH | Vienna | Austria | | 100% |
| IVMP AG | Baar | Switzerland | | 100% |
| ARQUES Süd Beteiligungs GmbH i.L. | Vienna | Austria | | 100% |
| Gigaset Beteiligungsverwaltungs GmbH | Munich | Germany | 100% | |
| Gigaset Asset GmbH & Co. KG | Munich | Germany | 100% | |
| GIG Holding GmbH | Munich | Germany | | 100% |
| Gigaset Mobile Pte. Singapore (only founded end of 2013 ) | Singapore | Singapore | | 100% |
| Skymaster Electronic HK Limited | Hong Kong | PR China | | 100% |
| Gigaset Communications GmbH | Düsseldorf | Germany | | 100% |
| Gigaset International Sales & Services GmbH (Profit transfer agreement) | Munich | Germany | | 100% |
| Gigaset Communications Switzerland GmbH | Solothurn | Switzerland | | 100% |
| Gigaset Communications Polska Sp. z o.o. | Warsaw | Poland | | 100% |
| Gigaset Communications UK Limited | Chester | Great Britain | | 100% |
| Gigaset İletişim Cihazlari A.Ş. | Istanbul | Turkey | | 100% |
| Gigaset Communications Argentina S.R.L. | Buenos Aires | Argentiina | | 100% |
| OOO Gigaset Communications | Moscow | Russia | | 100% |
| Gigaset Communications Austria GmbH | Vienna | Austria | | 100% |
| Gigaset Equipamentos de Comunicação Ltda | Sao Paulo | Brazil | | 100% |
| Gigaset Communications (Shanghai) Limited | Shanghai | PR China | | 100% |
| Gigaset Communications France SAS | Courbevoie | France | | 100% |
| Gigaset Communications Italia S.R.L. | Milan | Italy | | 100% |
| Gigaset Communications Nederland B.V. | Zoetermeer | Netherlands | | 100% |

*2012 year-end figures

**incl. trainees

| Currency ´000[1] | Local Equity 2013 | Local profit/loss 2013 | Average no. of employees 2013 | |
|---|---|---|---|---|
| EUR | 221,194* | -27,582* | 31 | Gigaset AG |
| EUR | -6* | -1* | 0 | CFR Holding GmbH |
| EUR | 313* | -11* | 0 | GOH Holding GmbH |
| EUR | -1,617* | -473* | 0 | Gigaset Industries GmbH |
| EUR | 3,961* | 24* | 0 | Gigaset Asset Invest GmbH |
| EUR | -102* | 346* | 0 | Gigaset Commercial GmbH |
| CHF | 12,348* | 161* | 0 | IVMP AG |
| EUR | -2* | -5* | 0 | ARQUES Süd Beteiligungs GmbH i.L. |
| EUR | 11,020* | 1* | 0 | Gigaset Beteiligungsverwaltungs GmbH |
| EUR | 199,932* | -11,066* | 0 | Gigaset Asset GmbH & Co. KG |
| EUR | 42,612* | -1* | 0 | GIG Holding GmbH |
| USD | 25,006 | 382 | 0 | Gigaset Mobile Pte. Singapore (only founded end of 2013) |
| HKD | 1,445* | 302* | 2 | Skymaster Electronic HK Limited |
| EUR | 53,143* | -17,255* | 1,111 | Gigaset Communications GmbH |
| EUR | 1,515* | 0 | 41 | Gigaset International Sales & Services GmbH (Profit transfer agreement) |
| CHF | 336* | 93* | 5 | Gigaset Communications Switzerland GmbH |
| PLN | 2,982* | 1,262* | 121 | Gigaset Communications Polska Sp. z o.o. |
| GBP | 431* | 163* | 8 | Gigaset Communications UK Limited |
| TRL | 2,901* | -976* | 2 | Gigaset İletişim Cihazlari A.Ş. |
| ARS | -455* | -6,126* | 7 | Gigaset Communications Argentina S.R.L. |
| RUR | 42,072* | 18,764* | 15 | OOO Gigaset Communications |
| EUR | 1,359* | 97* | 11 | Gigaset Communications Austria GmbH |
| BRL | -8,319* | -9,182* | 7 | Gigaset Equipamentos de Comunicação Ltda |
| CNY | 16,855* | 7,855* | 59 | Gigaset Communications (Shanghai) Limited |
| EUR | 4,701* | 1,200* | 19 | Gigaset Communications France SAS |
| EUR | 710* | 317* | 14 | Gigaset Communications Italia S.R.L. |
| EUR | 669* | -200* | 13 | Gigaset Communications Nederland B.V. |

*2012 year-end figures

**incl. trainees

| | Location | | Equity share direct | Equity share indirect |
|---|---|---|---|---|
| Gigaset Communications Iberia S.L. | Madrid | Spain | | 100% |
| Gigaset Communications Sweden AB | Stockholm | Schweden | | 100% |
| Gigaset Communications Inc. | Dallas | USA | | 100% |
| Gigaset elements GmbH | Düsseldorf | Germany | | 100% |
| Hortensienweg Verwaltungs GmbH | Munich | Germany | 100% | |
| Hortensienweg Management GmbH | Munich | Germany | 100% | |
| AT Operations 1 GmbH | Munich | Germany | 100% | |
| AT Operations 2 GmbH | Munich | Germany | 8% | 92% |
| Arques Beta Beteiligungs GmbH i.L. | Vienna | Austria | | 100% |

*2012 year-end figures

**incl. trainees

| Currency ´000[1] | Local Equity 2013 | Local profit/loss 2013 | Average no. of employees 2013 | |
|---|---|---|---|---|
| EUR | 661* | 274* | 13 | Gigaset Communications Iberia S.L. |
| SEK | 3,324* | -6,693* | 9 | Gigaset Communications Sweden AB |
| USD | 2,082 | -591 | 0 | Gigaset Communications Inc. |
| EUR | 23* | -1* | 3 | Gigaset elements GmbH |
| EUR | -14* | -7* | 0 | Hortensienweg Verwaltungs GmbH |
| EUR | 2,911* | -114* | 0 | Hortensienweg Management GmbH |
| EUR | 132* | 4* | 0 | AT Operations 1 GmbH |
| EUR | -7,142* | -31* | 0 | AT Operations 2 GmbH |
| EUR | 11* | 9,251* | 0 | Arques Beta Beteiligungs GmbH i.L. |

*2012 year-end figures

**incl. trainees

Gigaset

# Annual Report 2013

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