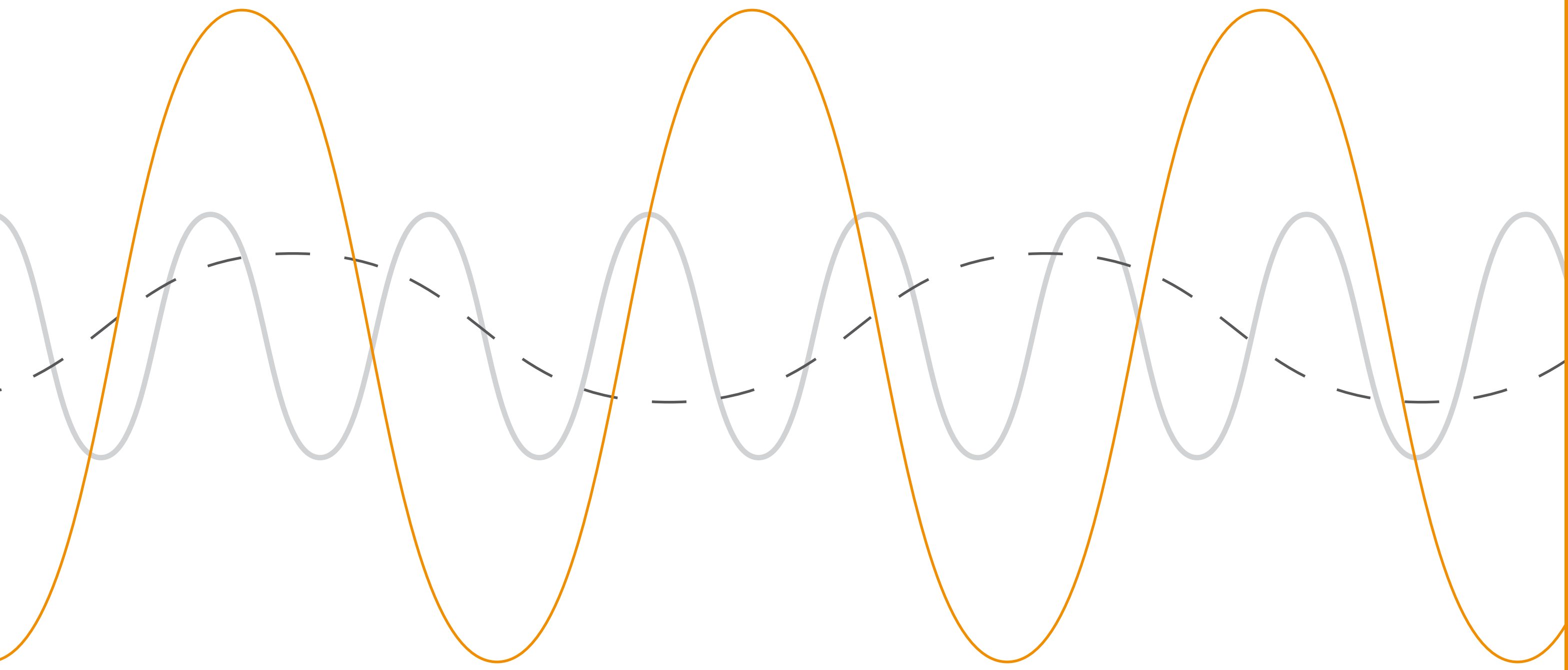
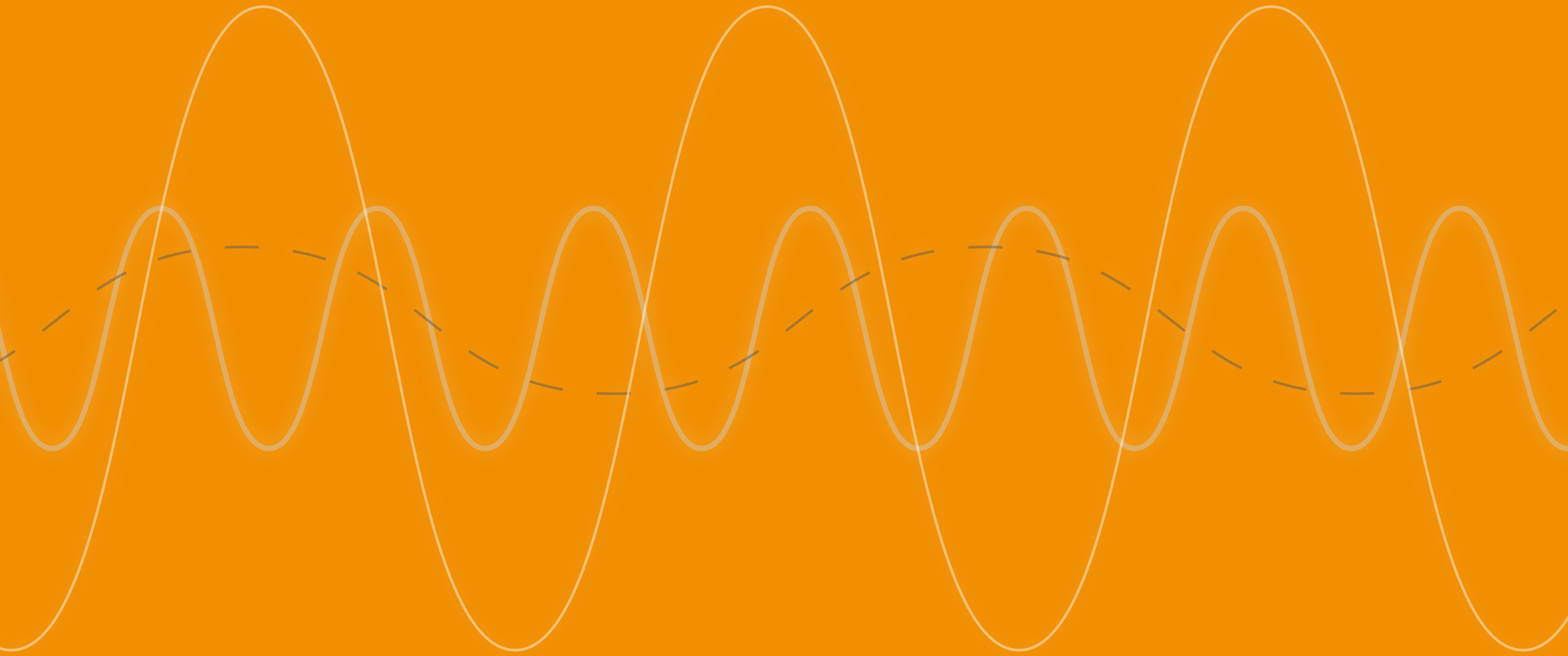
Gigaset



ANNUAL REPORT 2014



MANAGE FOR CASH

1

CORDLESS VOICE

Even now the business with cordless telephones still provides a valuable revenue base. Its profitability should be steadily improved so that it can contribute to the financing of new growth in the future. Costs and sales revenue have to be brought into an acceptable balance in the medium term. We only make capital investments here under the guiding principle of strict profitability.

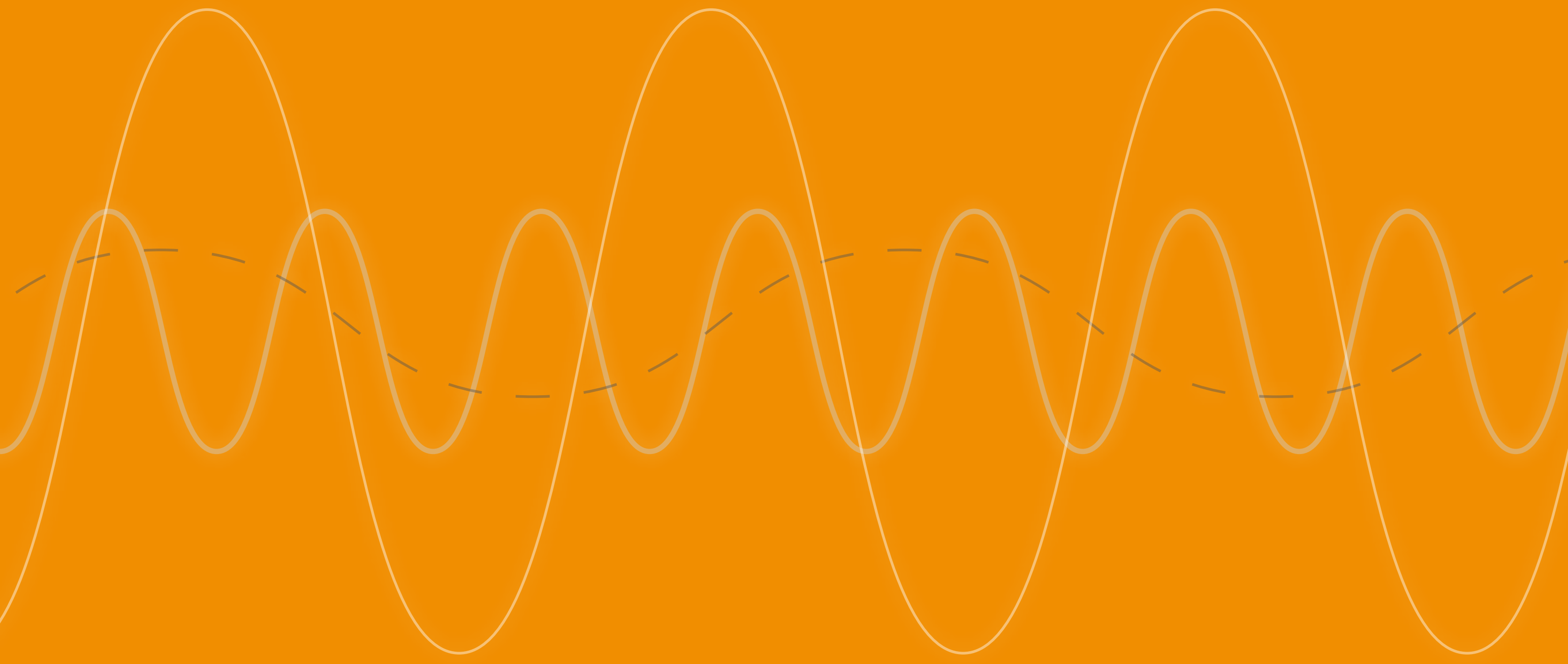
MANAGE FOR GROWTH

2

BUSINESS CUSTOMERS

The Business Customers segment was already restructured and reoriented in 2012. It has provided constantly rising sales revenue ever since. In fiscal 2014, these revenues increased again by 7%. The share of VoIP in the Business Customers market as a whole rose from 48% to 50%[1]. Gigaset pro only addresses the relatively expanding VoIP market in the VoIP environment with VoIP systems and so-called hybrid VoIP systems. This market segment is expected to continue to grow and increasingly crowd out the classic TDM technologies.

[1] MZA, PBX/ IP PBX Market, Quarterly Reporting Q3 2014



3

HOME NETWORKS

Gigaset has been on the market with its Smart Home system "Gigaset elements" since the end of 2013. The market for Smart Home Systems & Services (SHSS) in Western Europe is considered to be extremely promising. The number of Smart Home households should increase from around 20 million in 2014 to approximately 25 million in 2015 and to approximately 50 million by the end of 2019. Since the DECT-ULE standard is being implemented in the Smart Home area by an increasing number of Western European vendors, the market research institute Strategy Analytics expects sales revenue to more than double in this segment between 2014 and 2019 in Western Europe.[2]

4

MOBILE COMMUNICATION

Strategy Analytics expects global smartphone market volume to grow by 13% year-on-year in 2015. The reasons for the persistent demand on the part of consumers and corporate customers include in particular greater bandwidth thanks to new LTE networks, faster processors, and larger displays. In addition, Gigaset is entering a significantly larger market with mobile products. The worldwide market for DECT telephones covers approximately 30 million units. In contrast, the worldwide market for smartphones covers approximately 1 billion units. Thus, Gigaset is moving into much larger markets with considerably greater opportunities.[3]

WE CALL IT:

SHIFTING

DYNAMICS

[2] Strategy Analytics, Smart Home systems and Service Forecast Western Europe, Q4/2014

[3] Strategy Analytics, July 2014

KEY FIGURES

EUR Million.	2010	2011	2012[1]	2013	2014
Consolidated revenues	1,009.5	520.6	437.2	377.1	**326.1**
Earnings before interest, taxes, depreciation and amortization (EBITDA)	0	50.9	-3.6	7.5	**17.5**
Earnings before interest and taxes (EBIT)	-86.8	22.0	-30.4	-16.7	**-10.5**
Consolidated net income/net loss for the financial year	-100.6	17.5	-28.6	-36.1	**-16.6**
Free cash flow	-41.6	22.5	-32.9	-42.3	**-12.1**
Earnings per share (diluted) in EUR	-3.45	0.36	-0.57	-0.61	**-0.15**
Earnings per share in continuing operations	-0.26	0.42	-0.52	-0.59	**-0.15**
Total assets	345.6	311.4	303.5	267.1	**251.2**
Consolidated equity	35.0	76.2	24.3	38.7	**41.2**
Equity ratio (in %)	10.1	24.5	8.0	14.5	**16.4**
Employees	2,333	1,875	1,743	1,429	**1,366**

[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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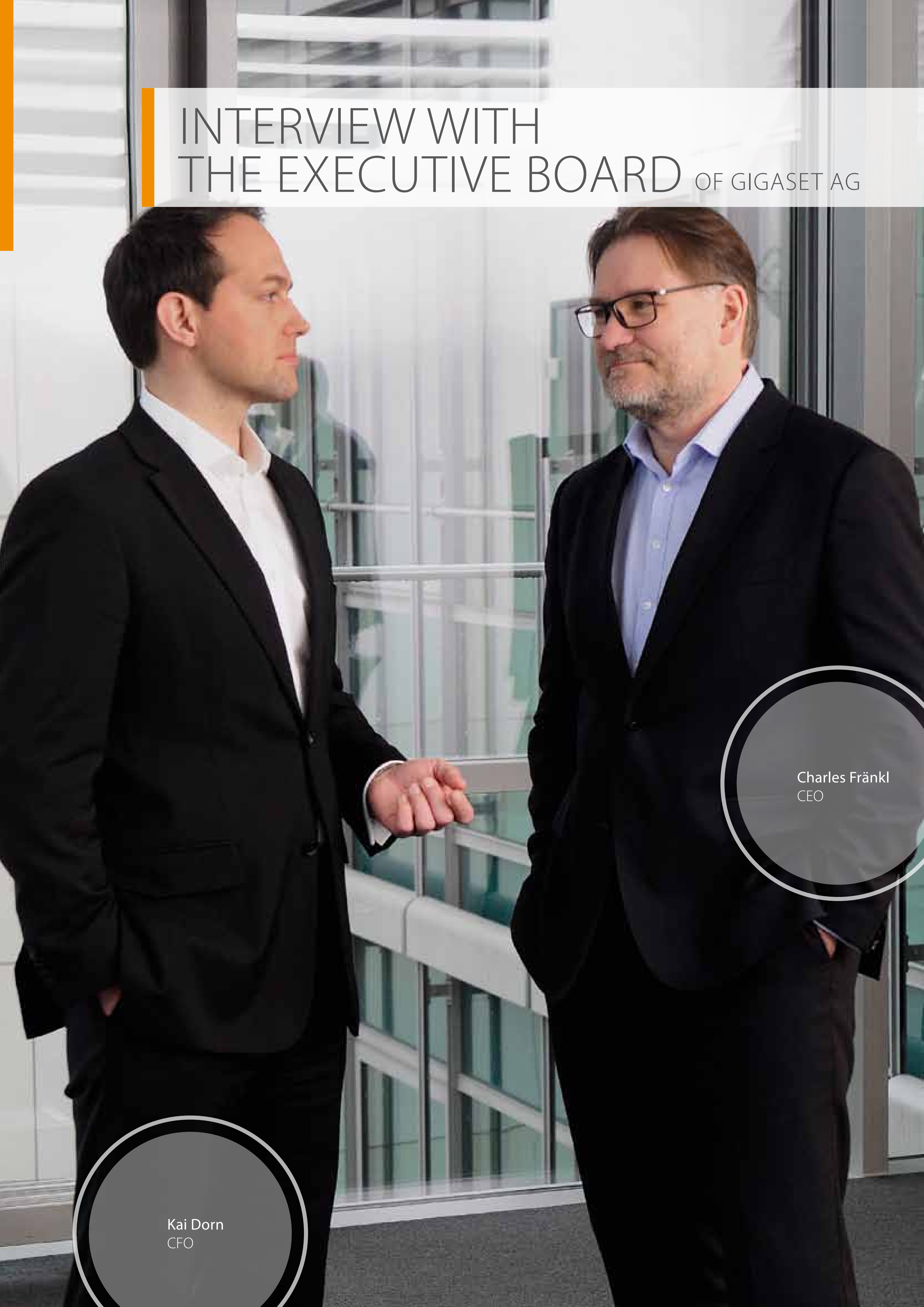
INTERVIEW WITH THE EXECUTIVE BOARD OF GIGASET AG



Charles Fränkl
CEO

Kai Dorn
CFO

KEY MILESTONES SUCCESSFULLY ACHIEVED

Gigaset is starting 2015 with a newly formed Executive Board. Stefan Zuber, Head of Corporate Communications and Investor Relations spoke with CEO Charles Fränkl and the new CFO Kai Dorn about the fiscal year just ended and the Gigaset Group's objectives.

Mr. Dorn, You have been the CFO of Gigaset since January 1, 2015. What appeals to you about this job?

Dorn: I have known the Company already since 2008. In this time, among other things I headed the department for Mergers and Acquisitions and worked in a series of management and senior executive positions in former investees. Therefore, I feel very committed to Gigaset. In addition, in my M&A role I also successfully accompanied the search for a strategic Investor. Now we need to follow through with what we started. In addition, I believe that the reorientation of Gigaset is one of the most exciting challenges currently to be found in the German industrial landscape. I am very pleased that the Supervisory Board placed its trust in me.

Mr. Fränkl, Mr. Dorn mentioned the reorientation of Gigaset. Where is the Company in this process?

Fränkl: We have successfully achieved key milestones. We have reoriented the product portfolio in all areas. With Goldin, we found a strategic investor that supports us in all our strategic objectives. In addition, Goldin has meanwhile invested more than 82 million euros in the Company together with other shareholders, which represented a crucial increase in equity funding. The Company also used these funds to clear its debts. Gigaset is now free from traditional financial liabilities and has gained another promising business segment with mobile products, which opens up further opportunities for growth.

Why is a reorientation necessary in the first place?

Fränkl: The sale of DECT telephones continues to characterize our business and will also retain a key role in the future. However, we have to acknowledge that the pace of technological changes has once again rapidly increased. The economic and financial crisis in recent years had a strong influence on the purchase decisions of consumers. Since then, they prefer in particular cell phones over landline telephones. This trend is additionally supported by increasingly faster cellular networks. Therefore, one of my key tasks since taking office in 2012 has been to get the Company into shape for the future. I think we made significant progress in the 2014 fiscal year just ended. Beyond restructuring our funding basis, we took important strategic steps for an ambitious future.

What steps were taken in particular?

Fränkl: We succeeded in integrating the Android operating system in the fixed-line world. In confirmation of our efforts, our top model SL930A was chosen as Product of the Year in the category of cordless telephones in the past year by the readers of the trade journal connect. With "Gigaset elements", we have introduced our first system for networked home living to the market. The starter kit comprises a DECT base station, a motion detector, a door sensor, an intelligent cloud solution, and a smartphone app. In the meantime, we have successfully introduced a siren and a camera to the market as additional actors and sensors. Thanks to "Gigaset elements", our customers know whether everything is all right at home. "Gigaset elements" is our entry in the extremely promising growth market of the Internet of Things. We are now continually expanding this system. The readers of connect also selected "Gigaset elements" as Product of the Year in the smart home category. We are especially proud of this, because we beat competitive products from well-known, financially stronger DAX corporations.

How are the new products being received by the market?

Fränkl: The products are well-received by the market. Just think about "Gigaset elements". The current sales volume increased steadily from the beginning to the end of the fiscal year. However, the products are still young. We are speaking of the first full year, one period since being introduced to the market at the end of 2013. In other words, even though the revenue base is growing robustly, it is nevertheless considerably smaller than the revenue base for the cordless telephone business. This is no surprise, but it clearly shows that we are focusing precisely on the correct and promising future issues. A visit to the largest electronics trade fair in the world, the CES in Las Vegas, convinced me of this once again at the beginning of the year. Smart Home and thereby the Internet of things were the predominant issues of the trade fair. The major market leaders from the area of consumer electronics took advantage of the opportunity and made significant announcements in this area. One thing is clear: with "Gigaset elements" we have achieved a clear lead that must now be maintained and expanded. In the cordless telephone segment, opportunities are opening up with respect to All-IP. In the Business Customers segment, the VOIP migration offers promising new opportunities for continuing the growth already achieved.

What additional strategic advantages does the introduction of "Gigaset elements" bring?

Fränkl: With "Gigaset elements", we have completed an important step along the way to becoming a digital company and opened up entirely new doors. It's not just that we now have a smart home product. We now have our own secure cloud that will occupy the center of our future eco-system. We can network all product categories over the cloud – whether long-standing or future, whether for the office, the home, or on-the-go – so that the customers in the Gigaset world have access to all their data, no matter where they are or what Gigaset device they are currently using.

This places high demands on data security.

Fränkl: Correct. That has to be our top priority. That is also why the servers for our cloud are located in Germany and therefore in a country with very high standards for this issue. The magazine Wirtschaftswoche examined the security of various smart home systems in depth. "Gigaset elements" emerged as the winner of this endurance test.

Lets discuss the new Business Customers segment. How has this developed?

Fränkl: This segment has also developed dynamically over the past two years. In the fiscal year just ended, sales revenue increased by seven percent. I am very proud of the fact that we were able to introduce the innovative Android-based business telephone Maxwell to the market, even though it was delayed somewhat. With Maxwell we are opening a new dimension for business telephones. You can do more than just make calls with it. Maxwell enables video conferences, lends itself to the playback presentations, and can be easily adapted to the various needs of our customers through the installation of apps thanks to the Android operating system. I think this is why the readers of the reputable trade journal Funkschau selected the Maxwell as Product of the Year in the area of desktop/ DECT telephones. The award is so valuable because the readers – and thereby the customers – bestowed it.

A great deal has also happened within the organization.

Dorn: Absolutely. We have reorganized the Company. The growth segments were strengthened not least due to the restructuring of our organization. We subjected our markets outside of Europe to a strict review from the perspective of profitability. We then pulled back from unprofitable markets or changed the sales model in order to operate more profitably there in the future.

In addition, we completed the transformation from a holding company to a telecommunications company. At the turn of 2013/2014, we sold SM Electronic, SME for short, to Microelectronic NH GmbH. Thus, we sold the last company that we had identified as no longer being a strategic investment.

Mr. Fränkl, following the restructuring of the Executive Board, you also took over Sales and Marketing. What are the main points that you wish to emphasize here?

Fränkl: Gigaset has a very solid model in two-step distribution at its disposal. That is, as a rule the products go over distributors to the retailers and then to the end customers. In this model we have very reliable partners as well as access to nearly 20,000 points of sale. In addition, I see further potential in marketing via online channels. We also still have to draw the transformation into a digital company to a close in the areas of Sales and Marketing.

Gigaset has announced its intention to enter the smartphone market. Is this still the case?

Fränkl: Yes. We intend to launch a portfolio of smartphones in the current fiscal year. In the joint venture that we established with Goldin, we are working intensely on the final preparations.

The smartphone market is already highly competitive. What makes you so certain that the business will be successful?

Fränkl: Let me make a comparison. The worldwide market for DECT telephones is approximately 30 million units. The worldwide market for smartphones is approximately 1 billion units. The market for the Internet of Things is estimated to be even larger. You see, we are entering significantly larger markets with considerably greater opportunities. Rest assured that we aren't just introducing another smartphone to the market. We will use the Gigaset DNA for an eco-system that positions us clearly in the market. We will put our best talent to work on this topic and make deliberate improvements where necessary. Together with Goldin we also have the necessary funds at our disposal to successfully enter this market.

Is the restructuring thus completed?

Fränkl: Unfortunately, not yet. Even though we were able to steadily maintain our leading position in the business with cordless telephones, it is nevertheless suffering from the general decline in the market. The new segments Home Networks with the smart home product "Gigaset elements" and the Business Customers segment report strong growth, but are still too young to be able to compensate the decrease in revenues in the cordless telephone business. That must change – and it will. The prerequisites for this are good. The new Mobile Products segment adds another positive perspective. Our objective is to establish a robustly growing company – and consequently one that is more financially sound with considerably greater sales volume – in the long term over our growth segments. It should leave the dimensions that we have so far been accustomed to far behind in the medium to long term. However, this won't happen overnight.

What challenges are arising from this?

Dorn: In the current fiscal year, we have to lay the foundations that will enable us to fundamentally change the momentum of our business. For this, we have to enable the business with cordless telephones to once again work profitably. We call this "manage to cash". Even now this business still provides a valuable revenue base. But it must not burn through any more money in the future. On the contrary, it must turn a profit and therefore contribute to the financing of new growth. Costs and sales revenue have to be brought into an acceptable balance here. We have to set the stage for this in the current year. In addition, we can only make capital investments here under the guiding principle of strict profitability.

And what premises apply for the new segments from which the Company is promising fresh growth?

Dorn: Our objective is to replace the hitherto familiar negative trend of our business with a fundamentally different positive momentum. Together with our new strategic partner Goldin, we will set the aforementioned cutting edge fields on a growth course, i.e. "manage to growth". Here is where we will concentrate our capital investments. In particular as we enter the market for smartphones, we will not shy away from new and disruptive approaches that will challenge our competitors' cherished market practices.

If the restructuring continues in 2015, what will that mean for the financial targets of the Gigaset Group?

Dorn: The strategic reorientation of the Company will be consistently continued. We expect that the market decline in our core business will slow down a little this year. Since the downward trend in the cordless telephone business nevertheless continues, Gigaset continues to invest in the establishment of new, promising segments and product groups. These investments will result in additional contributions to sales revenue that, however, will not be able to completely compensate the decline in the cordless telephone business this year. Therefore, we expect sales revenue from continuing operations to decline in the upper single-digit to lower double-digit percentage range for the current fiscal year in the Consumer Products, Business Customers, and Home Networks segments – i.e. excluding the business with mobile consumer devices. EBITDA is expected to once again turn out positive in the lower double-digit millions. However, due to the decrease in sales revenue, the necessary capital investments in the establishment of new segments, and the restructuring of the Company, EBITDA is expected to fall short of the previous year's result. I expect the EBITDA margin to be in the lower to intermediate single-digit range.

How do you expect cash flow to be for 2015?

Dorn: Due to the extensive capital investments in the new segments, I presume that free cash flow will be negative in the high single-digit to lower double-digit millions.

And what do the contributions from the new business with mobile consumer devices look like?

Dorn: Here we once again expect significant supplementary sales revenue and positive contributions to earnings, in particular from the future smartphone business. However, these figures will only become clear after we enter the market.

Mr. Fränkl, Mr. Dorn, I thank you for this discussion.

WORKSHOP REPORT

Ingo Butterweck
Oliver Diener

WE HAVE LEARNED OUR LESSON

Numerous meetings are held every day in a company. They always remain hidden from the eyes of the public. It is time to make an exception. Dare to look through the keyhole and follow a meeting between Oliver Diener – Head of Convenient Living – and Ingo Butterweck – Head of Sales and Business Development for this area. They are meeting to discuss the past as well as the next steps for the rapidly growing smart home solution "Gigaset elements". Read a situation report here.

Oliver Diener: Hello, Ingo. Good that it worked out with our regular meeting again today. We have been on the market with "Gigaset elements" since fall 2013. How is the product selling meanwhile?

Ingo Butterweck: Hello Oliver, I'm glad to see you. From a sales perspective, I can confirm that focusing on a smart home system such as "Gigaset elements" and thereby on the rapidly growing market for the Internet of Things was the right decision. "Gigaset elements" is meanwhile the product with the highest growth rates in the Group. Sales revenue tripled in the fiscal year just ended.

Oliver Diener: One of the greatest advantages of "Gigaset elements" is that we can expand it modularly. In the meantime, we're on the market with a whole series of sensors: the starter kit, whose door sensor ("door") and motion detector ("motion") can also be purchased separately, the window sensor ("window"), the alarm siren ("siren"), and also the camera ("camera") since fall 2014. Which product is selling the best?

Ingo Butterweck: Since the start of sales, we've noticed that customers normally purchase one sensor or the other with the starter kit. Naturally, that depends on the individual features of their home environment. But since we've added camera to the program, we've noticed that people buy it as an add-on product as well as purchase our solution now as new customers.

Oliver Diener: I have to say that I'm very pleased that the product has meanwhile been so well received by the market, because the initial phase was not very easy. We, too, had to learn our lessons, because what we have developed was completely new – not just for Gigaset. I remember well the first days of development and planning, when the market launch was still a distant future. At the time we made a series of significant design decisions. For example, we decided to design a cloud-based system so that the consumer's system is always up-to-date, similar to the way in which computer operating systems are updated. Moreover, it had

Dein Zuhause
All is good.
Alle geschlossen
1 geöffnet 1 geschlossen
Homecoming

to be simple for customers to install. It was particularly important that, in addition to a system that is always up-to-date thanks to remote maintenance, we also wanted to offer a system that is scalable. This way, the buyer always has the possibility of buying additional components later and integrating them into their existing system.

Ingo Butterweck: We are benefiting significantly from these decisions in Sales. The system doesn't age and it is constantly expanding. Those are key arguments for our sales partners and customers.

Oliver Diener: The question of communication between the base station and modules was also discussed. At that time, Gigaset had already been active in the DECT business with cordless telephones for more than 20 years and the DECT-Forum had presented the new DECT-ULE standard for network eco-systems for use in home and building technology in February 2013. For Gigaset, there was no longer any question of what we were going to do. DECT speaks for the longest ranges with respect to radio frequencies, high connection quality than cannot be disturbed by other protocols like WLAN, and DECT is also encrypted. In addition, DECT-ULE, i.e. ultra-low-energy, is also very energy-efficient. The batteries used last between one and two years. Naturally, low cost also played a role. But in the end, DECT-ULE is the optimum radio technology for smart home products and sensors for the transmission of many rather small data packets.

Ingo Butterweck: Incidentally, the fact that we decided in favor of DECT technologies is a big help to us in Sales. We are well-known and trusted in this area, since our cordless telephones have functioned extremely reliably with this standard for decades. It is our core competency. I don't have to spend much time explaining that to our sales partners. They understand it immediately. But honestly, Oliver, how much of the development work is done in-house and to what extent do we depend on help from other companies?

Oliver Diener: Even though Gigaset was already proficient with radio technology, there were a number of technologies and development methods that were new for us that were only resolved at the onset by external partners – from over 10 different companies and many European countries – and their expertise. We worked quite a bit virtually atthree of our company's locations. Over time, it was a matter of transferring the know-how back to Gigaset, because we consider “Gigaset elements” to be a core strategic pillar.

Ingo Butterweck: To what extent did you incorporate the customer perspective in advance?

Oliver Diener: Naturally, that was very important to us. We carried out comprehensive studies with focus groups and concerned ourselves intensively with what future customers would expect from such a system. One thing proved to be particularly crucial: the simple installation and operation of the entire system. It was important to customers that they do not need any craftsmen and that the operation was as simple as using one of our well-known cordless telephones. We took this to heart. I hope that this is emphasized over in Sales.

Ingo Butterweck: Of course! Together with our colleagues from Marketing, we have prepared a series of facts for our over-the-counter retailers as well as for use in online marketing. Another thing that is well-received is the understated, yet appealing design. You really succeeded with that. You wouldn't believe how many customers have already praised us for it.

Oliver Diener: Thanks! And one last thing related to your question would be to mention the production in Germany and the development of this cloud with operations being carried out 7 days a week 24 hours a day. Gigaset stood and stands for quality "Made in Germany" and that is something that we can also implement with “Gigaset elements”. But the cloud is the heart of this solution, and something we all had a lot to learn about.

Ingo Butterweck: I remember that well. In the beginning, i.e. at our first field test with approximately 300

users and also at the start of marketing for the 2013 IFA consumer electronics trade show, there were still a few malfunctions to complain about. That was no easy time.

Oliver Diener: Yes, I believe that was an instructive experience for everyone in the team. The stabilization of the system – in particular with respect to the cloud – was subsequently our overriding objective. We were able to achieve this goal with the outsourcing of the data processing center to a new partner in summer 2014. Optimizing the door and window sensors was also at first a challenge, which we have meanwhile mastered.

And now I also have a question for you, Ingo. We also intended to offer "Gigaset elements" outside of Germany. How far along are you in Sales with the internationalization?

Ingo Butterweck: We are also making progress here. At first we only traveled in our home market Germany and sold "Gigaset elements" through our existing successful distribution channels. You already touched upon the birth pangs. We held off a while on the internationalization due to these issues so that you could rectify them. But luckily you were able to get them quickly under control. That way we were able to press ahead with the internationalization. Meanwhile, "Gigaset elements" can be purchased in six European countries.

Oliver Diener: And now you also have the camera.

Ingo Butterweck: Which we in Sales naturally would rather have had much sooner, but yes, camera was a big help to us with the marketing in all countries. The market was now ready for cameras, which of course had played a rather minor role or even no role at all in your market research with consumers in 2013.

Oliver Diener: camera made it possible for us to think in an entirely new dimension for "Gigaset elements". As Gigaset, we were able to offer premium services for the first time, which could then be charged to our customers. A contractual relationship with consumers with permanent customer sales revenues – that was and is still new for us as a hardware manufacturer.

Ingo Butterweck: Incidentally, we offer this service as a three-month trial for 89 cents. In my opinion, that is very inexpensive. But Oliver, what's going to happen next with our intelligent, sensor-based system? What can I take away from this meeting for my sales partners?

Oliver Diener: As you know, the world likes to talk about the Internet of Things. And Gigaset also intends to accommodate this. You are meanwhile selling the bluetooth dongle G-tag, which enables extremely exciting application scenarios for our consumers. This product is easy to understand and offers great benefits for the user. For example, I can quickly locate my misplaced personal items.

Ingo Butterweck: What does your product road map for the future look like?

Oliver Diener: As you know, Ingo, we now have more of a security solution that keeps you informed of what is going on at home. But in the second quarter of 2015, we will be addressing the issue of energy and introduce a direct expansion in the form of an intelligent electrical outlet. In the summer of this year, we would then like to round out the security solution with a smoke detector. The legal stipulations for an upgrade in European households are an additional argument for this product.

Ingo Butterweck: From my point of view, we still need to more fully integrate our core business – cordless telephones – into this eco-system.

Oliver Diener: You are absolutely right, Ingo. This is also something that we have already done more than just think about. We call it Gigaset GO. It is an expansion of the "Gigaset elements" system to private communication and consequently a genuine unique selling proposition from Gigaset in the Connected Living environment. We have already announced the first GO-capable series of telephones.

Ingo Butterweck: Thank you, Oliver, for this discussion. I see that we have a lot of potential that we can make use of in Sales.

TO OUR SHAREHOLDERS

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Corporate Governance **18** | Report of the Supervisory Board **22**

MILESTONES 2014

January

- Gigaset sells SM Electronic GmbH
- Court decision reduces antitrust fine in SKW proceedings by EUR 1 million.

February

- Gigaset presents first highlights from CeBIT 2014

May

- Gigaset introduces a new designer telephone to the market with the “Dune”
- Gigaset presents a new app to simplify the transfer of contacts from smartphones to mobile components
- “Gigaset elements” now also at Tchibo
- Connect 2014 readers’ poll chooses “Gigaset elements” and the Android-based Gigaset SL930A as the best products of the year

June

- Gigaset approves issue of new shares and convertible bonds with subscription rights

July

- Brodos markets products from Gigaset
- Gigaset received around EUR 33.9 million from the successful placement of its capital increase and convertible bond
- Gigaset reduces all bank debts and completes comprehensive restructuring of the funding base
- CFO Dr. Alexander Blum leaves Gigaset at the turn of the year

August

- Annual shareholders' meeting confirms strategy –
  the actions of the Executive Board and Supervisory Board were approved by a large majorit

October

- "camera" expands "Gigaset elements" product family
- Gigaset begins exclusive sales partnership with Vodafone

November

- Gigaset Munich relocates within Munich
- David Hersh steps down from the Supervisory Board
- Gigaset at the 2015 Woman Buy Conference

December

- Supervisory Board of Gigaset AG appoints Kai Dorn as Chief Financial Officier –
  contract with CEO Charles Fränkl extended by two years

CAPITAL MARKET AND GIGASET SHARE

Following their successful performance in 2013, stock markets did not rally further at the start of 2014, but initially consolidated their gains at high levels. In late March, the Ukraine crisis escalated further and the publication of weaker economic data in Germany, for the first time in a long time, further increased investors' uncertainty. However, the decisions of central banks brightened the sentiment of stock markets in the second quarter. In May 2014, the European Central Bank (ECB) lowered its base interest rate to what was a historically low level of 0.15% at the time. International stock markets applauded this move and rallied further. On June 5, the German lead index DAX crossed the 10,000 market for the first time in its 26-year history.

The recovery tendencies in evidence within the Eurozone were accompanied by very strong economic growth in the United States, where the "cheap money" policies of the US Federal Reserve produced beneficial results. Investor uncertainty reared its head again in the third quarter, when stock markets successively gave back their previous gains. Since that time, the only positive support to market sentiment has emanated from the central banks, especially the European Central Bank, which lowered its base interest rate to a new historical low of 0.05 percent in early September. In addition to the known geopolitical crises, financial markets were further dampened in the early autumn by the worsening economic outlook, plunging commodity prices, and the spread of the Ebola virus. In mid-October, the German DAX index fell to its lowest level since September 2013.

In response to positive economic data from the United States and the postponement of the first interest rate increase in that country, stock markets returned to an upward trajectory, and the DAX reached a new all-time high of 10,093 in December, while the Dow Jones Industrial Average crossed the 18,000 mark, also setting a new record. Stock markets also responded to statements made by ECB President Mario Draghi about the intention to purchase sovereign bonds as an instrument of monetary policy. Due to the dramatic drop in oil prices and the further depreciation of the euro against other world currencies, stock markets gave back some of their gains at the end of December. For the full year, DAX eked out a meager gain of 2.65%. The TecDAX, which posted an increase of 17.53% on the year, was well ahead of all other German stock indices. Globally, the U.S. stock markets stood out from the rest. The technology-heavy NASDAQ posted a gain of 13.4%, the S&P 500 index gained 11.39%, and the Dow Jones Industrial Average ended the year with a gain of 7.52%.

Performance of the Gigaset share

The Gigaset share exhibited a mixed development at the start of the year. Intraday volatilities were very high, and even extremely high at times, in the first half of January. The Gigaset AG share was again volatile in February 2014, but its monthly performance was negative. The February high of EUR 1.02 was reached at the very start of the month, after which the share continually lost ground. The share price did not react at all initially to the publication of preliminary operating results on the morning of February 6. The following month was positive for the Gigaset share from the standpoint of chart-technical analysis. After hitting its monthly low of EUR 0.93 on the second trading day of March, the share price subsequently climbed moderately but continuously, resuming the upward trend that had begun in February. Furthermore, the very high intraday volatility observed at the start of the year diminished steadily since that time. Completely unimpressed by the losses sustained by leading stock market indices in mid-March, the Gigaset AG share traded within a constant range of EUR 0.96 and EUR 0.98 from March 13, 2014 onward. Particularly on the last trading days of the month, several buy orders in lot sizes of 30,000 shares provided a valid support level in the area of EUR 0.96, and the share did not fall below this level in the final days of the month. This development was driven by the publication of the Company's financial statements on March 26.

Investors applauded the Company's consequential reorganization of plan and its forward guidance, and the share reached its March high of EUR 0.98 on the same day.

Despite the nervous market environment at the start of the second quarter, the Gigaset share traded sideways above the level of EUR 0.97. The share price entered a phase of heightened volatility in May. For the first time since early February, the share crossed the EUR 1.00 mark to reach EUR 1.03. Starting on May 19, the EUR 1.00 mark served again as a firm resistance level, which the share did not fall below until June 11. After that, the share price reverted to its 38-day line. Although the June 25 announcement of the planned issuance of new shares and a convertible bond prompted the highest Xetra daily volume in the month of June, the share price hardly budged from the level of EUR 1.00. Amid a negative stock market environment, the Gigaset share was mixed in the final trading days of the second quarter, but it closed the month at EUR 1.00, representing a month-on-month gain of 0.91%.

The Gigaset share was not immune to the adverse factors affecting stock markets at the start of the third quarter, and consequently the share price lost ground in the third quarter of 2014. The third-quarter high of EUR 1.02 was reached on the first trading day of the quarter. Until July, the share always held at the level of EUR 1.00 or EUR 0.99. The latter price represented both the 100-day and the 200-day moving averages at this time. These lines were breached to the downside on July 18, and were never re-attained. The announcement of the restructuring of the capital funding base and the repayment of all bank loans provoked a small counter-movement on July 24. The EUR 0.88 level provided good support until the end of July, but the Gigaset share fell well below this level on August 7, when the Company published its second-quarter results, and on the following day as well. The next support level was encountered at around EUR 0.77. The share rebounded to EUR 0.87 on August 20, although the Company announced no news at this time. Throughout the month of September, the EUR 0.75 level provided very good support. On several occasions the Gigaset share attempted to break out above the 38-day line, which had been declining slightly from EUR 0.82 to EUR 0.81 and then EUR 0.80. However, these attempts were unsuccessful.

After stock markets proved to be very resilient in the second half of October, the upward trend resumed with renewed momentum in November. However, the Gigaset share did not benefit from these positive developments. The share started the fourth quarter at EUR 0.70, and closed the year at EUR 0.64. The fourth-quarter high of EUR 0.80 was reached on October 1. The low for the fourth quarter was EUR 0.63. The appointment of Kai Dorn as new CFO and the renewal of the Executive Board contract with CEO Charles Fränkl did not provoke a response from the financial markets. The volatility of the Gigaset share was relatively low in the fourth quarter.[1]

Dividend

No dividend was paid to shareholders in 2014.

Shareholder structure

Because the shares of a stock corporation can be traded freely, the number of voting rights held by a shareholder is known to the Company only when a shareholder discloses this information to the Company and/or the German Federal Financial Supervisory Office ("Bafin"). When such a disclosure is made, the Company is regularly required by law to acknowledge it (and publish it, where applicable) in the form in which the shareholder submitted it. The Company is not responsible for the declarations submitted by the shareholders.

[1] Monthly Reports Equinet Bank AG 2014.

Furthermore, the Company has no ability to compel shareholders to disclose the number of voting rights they hold.

Based on the latest obligatory disclosures by shareholders to the Company, the Company is currently cognizant of the ownership structure described below.

Name	Shares in %
Mr. Pan Sutong/Goldin Invest Pte. Ltd	76.55 %[2]
Antoine Drean/Mantra Investissement SCA	1.41 %
Ludic GmbH	2.7 %

According to the definition of Deutsche Börse AG, 23.45% of Gigaset AG were widely held at the end of fiscal year 2014.

In conformance with the German Securities Trading Act, reportable transactions of senior managers of Gigaset AG are published on our Company's website. Detailed disclosures of the shares and warrants held by members of the Executive Board and Supervisory Board, as well as reportable securities trades conducted by these members, are presented in the Corporate Governance section of the present Annual Report.

Information on the share	as of March 2014
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	2014	2013
Number of shares as of December 31	96,446,813	96,399,985
Share capital in EUR	96,446,813	96,399,985
Closing price on December 31 in EUR	0.642	0.983
Market capitalization on December 31 (EUR millions)	61.9	94.8
Average daily trading volume (shares)	567,943[3]	211,551
52 week high (EUR)	1.03	1.27
52 week low (EUR)	0.63	0.58
Earnings per share (diluted) at the end of the year in continuing operations (EUR)	-0.12	-0.61
Dividends	0.00	0.00

[2] The specification refers to an assumed total amount of voting rights of the issuer in the amount of: 121,498,092. This complies with the requirements of §§ 21,22 WpHG. The Gigaset AG does however point out that potential voting rights are included, which can arise at some point, due to the exercising of financial instruments, should the creditor choose to convert the financial instrument into voting rights (§ 25a WpHG). This complies with the legal requirements, but is misleading because it ignores the fact that the conversion of financial instruments in voting rights leads to new shares being issued and the voting base broadened.

[3] Values based on XETRA

Investor Relations and Corporate Communications in 2014

Continual and consistent communication with all capital market participants is very important to Gigaset AG. As part of our investor relations activity, we kept shareholders apprised of the Company's performance and business developments by means of quarterly, semiannual, and annual reports also in 2014. In addition, CFO Dr. Alexander Blum, Kai Dorn, Head of Mergers & Acquisitions, and Stefan Zuber, Head of Corporate Communications & Investor Relations, attended the Equity Forum of Deutsche Börse AG in Frankfurt, where they honored numerous engagements. As in prior years, telephone conferences were conducted with analysts in connection with the publication of the Company's annual financial statements. Investors were also given the opportunity to obtain a detailed understanding of Gigaset AG's performance and developments in personal meetings, at our website, and in the Company's blog.

In addition, both the Executive Board of Gigaset AG and representatives of Corporate Communications sought out regular contact with journalists.

Furthermore, all financial reports, ad-hoc announcements and press releases, financial calendar, annual shareholders' meeting documents, and a wide range of up-to-date information about the Company are promptly made available on the Company's website (www.gigaset.ag), particularly in the Investor Relations section.

Analysts

Financial analysts at 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	11/28/2014	0.90	ACCUMULATE
Equinet Bank AG	205/22/2014	1.0	Ratio Suspended
Equinet Bank AG	03/27/2014	1.0	HOLD

Contact

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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 June 24, 2014.

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 were no notices of directors dealings (according to para. 15a of the WpHG) at the date of preparation of the financial statements.

Declaration of conformity

In March 2015, the Executive Board and Supervisory Board of Gigaset AG issued the declaration of conformity with the German Corporate Governance Code in the version dated June 24, 2014, 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 June 24, 2014. 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 2012, 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 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

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

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

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

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

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

8. *Duration. This remuneration scheme takes effect retroactively as of August 15, 2013, and remains in force until replaced by an*

annual 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 remuneration has already been paid based on the annulled remuneration scheme, it is to offset 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 current members of the Supervisory Board hold 2,426 shares of Gigaset AG as of the balance sheet date. This corresponds to a share of approximately 0.02 per thousand of the issued shares.

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

Number of shares	**12/31/2014**	**as of the date on which the balance sheet was prepared**
Executive Board		
Charles Fränkl, (Vorstandsvorsitzender)	0	0
Kai Dorn (from 01/01/2015)	0	0
Dr. Alexander Blum (until 12/31/2014)	34,348	34,348
Maik Brockmann (until 01/28/2015)	0	0
Supervisory Board		
Bernhard Riedel	2,426	2,426
David Hersh (until 12/02/2014)	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
Ulrich Burkhardt (from 12/3/2014)	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 Supervisory Board closely followed the Company and its Executive Board for all significant transactions, which is also evident in the high number of meetings.

The past fiscal year was eventful for Gigaset AG. After the Company had set the course for sustainable growth in new markets by concentrating on the core telecommunication segment in the preceding year, it succeeded in securing financing for this growth at the end of fiscal year 2013.

The Company carried out two capital measures back in the fall of 2013 that decisively improved its 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 ("Convertible Bond 2013"). 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 followed especially closely and advised by the Supervisory Board.

In early summer 2014, the Executive Board of Gigaset AG resolved with the approval of the Supervisory Board to further increase the Company's share capital under partial utilization of the authorized capital by an additional EUR 25,051,279.00 by issuing 25,051,279 new no-par value shares in exchange for cash contributions. The new shares entitle the bearer to receive dividends beginning January 1, 2014, and were offered for subscription to the shareholders of the Company and the bearers of 2013 convertible bond. In addition, the Executive Board also resolved with the approval of the Supervisory Board to issue convertible bonds. These bonds mature in 2016 and are divided into 9,476,877 bearer bonds vested with mutually identical rights.

Collaboration with the Executive Board

The Executive Board and Supervisory Board worked together during the entire fiscal year constructively and successfully. The Supervisory Board discharged 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 the implementation of new corporate strategies, including the resulting intermediate and long-term opportunities for growth. In addition, the Supervisory Board provided intensive advice on the financing of the Company and its growth. Special emphasis was placed on the Company's liquidity situation as well as the nature and scope of contingent liabilities.

The Supervisory Board questioned the management in particular regarding its reports, current developments, and 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 continued to address 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 12 meetings in fiscal year 2014, namely on January 20, 2014, February 25, 2014, March 25, 2014, April 22, 2014, May 13, 2014, June 5, 2014, June 25, 2014, July 15, 2014, August 12, 2014, September 25, 2014, October 28, 2014, and December 10, 2014.

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, 2014.

Activity of the Audit Committee

The Audit Committee convened in preparation of the Supervisory Board's meeting to adopt the financial statements held on March 25, 2014, as well as on December 10, 2014. It received reports from the Executive Board and the auditor.

Activity of the Personnel Committee

The Personnel Committee convened on January 21, 2014, March 31, 2014, June 4, 2014, July 15, 2014, October 28, 2014, December 10, 2014, and December 22, 2014. It accompanied in particular the appointment of a replacement for Dr. Blum, who stepped down from the Executive Board.

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 2015, 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.

Corresponding to the recommendations of the Code, the Supervisory Board received a declaration of independence from the auditor on July 11, 2014, stating that there are no professional, financial, or other relationships between the auditor and the Company that could justify doubts regarding the auditor's independence.

Risk management

The Supervisory Board dealt with the issue of risk in detail in 2014, 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 Executive Board, which comprised three persons in the reporting period, led the Company throughout 2014 as a cohesive team. There were no changes until the end of the year.

Executive Board member Dr. Alexander Blum's service contract and term of office ended at his own request on December 31, 2014. He was replaced by Kai Dorn, who was appointed as a member of the Executive Board until December 31, 2017, by resolution of the Supervisory Board dated December 10, 2014. The Supervisory Board would like to thank Dr. Blum for his unwavering commitment in the interest of the Company.

The term of Charles Fränkl's service contract was extended until March 31, 2017, by resolution of the Supervisory Board dated December 10, 2014.

The service contract of Executive Board member Maik Brockmann ended as planned upon the expiry of March 31, 2015; Mr. Brockmann was irrevocably released from his obligations effective January 1, 2015, and removed from his office by resolution of the Supervisory Board dated January 28, 2015.

Personnel matters of the Supervisory Board

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

Name	from	until	
Ulrich Burkhardt	12/3/2014		Joined the Board as an alternate member
David Hersh	8/14/2013	12/2/2014	Stepped down
Paolo Vittorio Di Fraia	8/14/2013		
Helvin (Hau Yan) Wong (Vice Chairman)	12/19/2013		
Xiaojian Huang	12/19/2013		
Bernhard Riedel (Chairman)	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, Ulrich Burkhardt, Prof. Xiaojian Huang, and Flora Shiu at the time of this report.

The Supervisory Board would like to thank David Hersh, who stepped down from the Board, for his commitment in the interest of the Company.

Notes on the management report

With respect to the comments regarding the management report in accordance with section 171 AktG, please refer to the disclosures in the management report regarding sections 289(4), 315(4) 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.

Audit of the annual and consolidated financial statements

The Executive Board promptly presented the Supervisory Board with the annual financial statements and the management report, which is combined with the group management report, the consolidated financial statements, and the group management report that is combined with the management report as well as its proposal on the appropriation of the unappropriated surplus.

PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, which was appointed as the auditor and Group auditor ("auditor") by the annual shareholders' meeting for fiscal year 2014 upon recommendation by the Audit Committee and in accordance with the election proposal of the entire Supervisory Board, audited the annual financial statements as of December 31, 2014, as well as the consolidated financial statements as of December 31, 2014, including the respective management reports and issued an unqualified auditors' report in each case.

Prior to the adoption of a resolution by the Audit Committee regarding its recommendation to the Supervisory Board with respect to the election proposal to the annual shareholders' meeting, the auditor declared there are no business, financial, personal, or other relationships between the auditor and his governing bodies and chief auditors on the one hand and the Company and the members of its governing bodies on the other hand that could justify doubts regarding his independence. This declaration also included a statement regarding the extent of other services rendered for the Company in the preceding fiscal year as well as the extent of such services contractually agreed at that time for the following year. In connection with this, the Audit Committee examined and confirmed the existence of the requisite independence. The Supervisory Board was informed of the result of this examination before it adopted its resolution regarding the election proposal to the annual shareholders' meeting. The auditor also confirmed to the Audit Committee as well as to the Supervisory Board in their meetings to adopt the financial statements held on March 31, 2015, that there are no circumstances that would arouse concerns of a lack of impartiality on his part. In this context, he also presented information regarding services rendered in addition to the audit services. The Audit Committee reported to the Supervisory Board in its meeting held on March 31, 2015, on its monitoring of the auditor's independence in consideration of the non-audit-related services rendered and its assessment that the auditor continues to possess the requisite independence.

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

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

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

In its meeting held on March 31, 2015, the Audit Committee heard detailed comments by the Executive Board regarding the annual financial statements, the consolidated financial statements, and the combined management report and group management report as well as its proposal on the utilization of the accumulated loss for the year. Furthermore, the Audit Committee members' questions were answered. In addition, the auditor, who also participated in the meeting, reported on his audit, in particular the areas of audit emphasis defined in consultation with the Audit Committee and the Supervisory Board and the primary results of the audit and commented on his long-form audit report. No material weaknesses of the internal control system, the risk management system, or the accounting process were identified by the auditor. The members of the Audit Committee acknowledged the long-form audit report and the auditors' report, critically reviewed them, and also discussed them with the auditor as with the audit, which included questions regarding the nature and scope of the audit as well as the results of the audit, whereby the Audit Committee satisfied itself of the propriety of the audit and the long-form audit report. It was satisfied in particular that the audit report – as also the audit performed by the auditor – complied with the legal requirements. The Audit Committee shares the auditor's assessment that the internal controls and the risk management system, in particular also with respect to the accounting process, do not exhibit any material weaknesses. The Audit Committee recommended that the Supervisory Board approve the results of the auditor's audit and – since in his opinion there are no objections to be raised against the documents presented by the Executive Board – also endorse the annual financial statements, the consolidated financial statements, and the combined management report and group management report and endorse the Executive Board's proposal on the utilization of the accumulated loss for the year.

The Supervisory Board's final review of the annual financial statements, consolidated financial statements, and the combined management report and group management report as well as the Executive Board's proposal on the utilization of the accumulated loss for the year was conducted during the Supervisory Board meeting held on March 31, 2015, under consideration of the Audit Committee's report and recommendations as well as the auditor's long-form audit report. The Executive Board participated in this meeting, commented on the documents it presented and answered the Supervisory Board members' questions. The auditor also participated in this meeting and reported on his audit as well as the significant results of the audit and answered the Supervisory Board members's questions, in particular regarding the nature and scope of the audit and the audit results. Through this and on the basis of the report issued by the Audit Committee, the Supervisory Board satisfied itself of the propriety of the audit and the long-form audit report. Following the recommendation of the Audit Committee, the Supervisory Board approved the results of the auditor's audit.

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

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

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

As a result of the review of the Executive Board's proposal on the utilization of the accumulated loss for the year conducted in the Audit Committee meeting and in the Supervisory Board meeting held on March 31, 2015, which included a discussion with the auditor in both meetings, the Supervisory Board – following the recommendation of the Audit Committee – approved and endorsed the Executive Board's proposal on the utilization of the accumulated loss for the year. The proposal includes the report of the Executive Board on relationships with affiliated companies.

The Executive Board presented the report it prepared on relationships with affiliated companies in fiscal year 2014 (dependent company report) to the Supervisory Board in a timely manner.

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

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

1. the report's factual statements are accurate,

2. the consideration paid by the Company with respect to the transactions listed in the report was not inappropriately high."

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

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

In preparation for the review and decision on the part of the Supervisory Board, the Audit Committee first studied the aforementioned documents in detail. In its meeting held on March 31, 2015, the Audit Committee thoroughly heard comments from the Executive Board on its dependent company report. Furthermore, the Audit Committee members' questions were answered. In addition, the auditor, who also participated in the meeting, reported on his audit, in particular the areas of audit emphasis and the significant results of the audit and commented on his long-form audit report. The members of the Audit Committee acknowledged the long-form audit report and the auditors' report, critically reviewed them, and also discussed them with the auditor as with the audit, which included questions regarding the nature and scope of the audit as well as the results of the audit, whereby the Audit Committee satisfied itself of the propriety of the audit and the long-form audit report. It was satisfied in particular that the audit report – as also the audit performed by the auditor – complied with the legal requirements. The Audit Committee recommended that the Supervisory Board approve the results of the auditor's audit and – since in his opinion there are no objections to be raised against the Executive Board's explanation of the dependent company report – adopt a resolution on a corresponding opinion.

The Supervisory Board's final review was conducted during the Supervisory Board meeting held on March 31, 2015, in consideration of the resolution and the Audit Committee's recommendation as well as the auditor's long-form audit report. The Executive Board also participated in this meeting, commented on the dependent company report and answered the Supervisory Board members' questions. The auditor also participated in this meeting, reported on his audit of the dependent company report and the significant results of the audit, commented on his audit report, and answered questions placed by the Supervisory Board members, in particular regarding the nature and scope of the audit of the dependent company report and the audit results. Through this and on the basis of the report issued by the Audit Committee, the Supervisory Board satisfied itself of the propriety of the audit of the dependent company report and the long-form audit report. It was satisfied in particular that the audit report – as also the audit performed by the auditor – complied with the legal requirements. The Supervisory Board reviewed the dependent company report in particular with respect to its completeness and accuracy, whereby it satisfied itself that the group of affiliated companies had been determined with the requisite diligence and that the precautions necessary for the identification of reportable transactions and measures had been taken. No indications suggesting a reason to object to the dependent company report became apparent in this audit. Following the recommendation of the Audit Committee, the Supervisory Board approved the results of the auditor's audit of the dependent company report. Based on the final result of the review conducted by the Supervisory Board of the dependent company report, there are no objections to be raised against the Executive Board's explanation of the dependent company report.

The Supervisory Board would like to express its thanks to the Executive Board and to all the employees for their outstanding commitment in fiscal year 2014.

Munich, March 2015

Bernhard Riedel
Chairman of the Supervisory Board

COMBINED MANAGEMENT REPORT

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1 BASIS OF THE GROUP

1.1 Business Model

Gigaset AG is a corporate group with telecommunications operations all around the world. The Company, with its headquarters in Munich and its main production site in Bocholt, is a leading brand in Western Europe with the cordless telephones it develops and manufactures based on the "Digital Enhanced Cordless Telecommunications" (DECT) standard. Measured on the number of base stations sold, the Gigaset brand is in second place worldwide. As a premium vendor, Gigaset commands a predominantly extensive market presence in approximately 70 countries with around 1,350 employees in 2014.

The Gigaset Group divides its global operations into regional segments. Most of its sales revenue is generated in Europe, in particular in Germany and France. The majority of total sales can be attributed to the Consumer Products segment and therefore to the Cordless Voice Telecommunications business.

Gigaset is represented in the Americas region by separate companies in the United States and Argentina. Furthermore, the Gigaset Group in the Asia-Pacific/Middle East region is active with a separate company in China. Gigaset markets its products through a direct as well as indirect distribution structure.

The Group covers a broad market base with its Consumer Products, Business Customers, Home Networks, and Mobile Products segments. Gigaset is renowned for its high quality and forward looking telecommunications products.

1.1.1 Consumer Products

Gigaset is the European market and technology leader in DECT telephony. DECT stands for Digital Enhanced Cordless Telecommunications and is the most successful telecommunications standard for cordless telephones in the world. Gigaset helped to shape the DECT standard in the 1990s. Since then, the Company has maintained its position as a premium vendor in the European market and as the technology leader for DECT telephony. High market penetration is a key factor behind the Company's success. in 2013 a Gigaset phone is found in one in every four homes in Europe and one in every two in Germany. According to a study from 2012 Gigaset enjoys a brand awareness level of over 80% in Germany. The Company's 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 the kind of versatility and reliability that commercial users need in their day-to-day operations. These devices are designed to 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). The Gigaset pro product line is currently only sold in European markets, whereby the most important markets are Germany, France, Italy, and the Netherlands.

Gigaset has greatly expanded its product range with 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 (small and medium-sized enterprises) 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 fiscal year 2013, Gigaset launched a modular, sensor-based "Connected Living" system for private households. "Gigaset elements" enables the user to maintain a permanent connection to "Gigaset elements" in their home via smartphone. The starter kit offers customers the possibility of receiving relevant information about their house at all times and everywhere, and enables the user to react immediately to unforeseen events. The portfolio of sensors is continually expanding. Meanwhile, a siren, a window sensor, and a camera can be purchased to supplement the starter kit. The bluetooth product "G-tag" available starting in February 2015 also underscores the current focus on increased comfort through "Connected Living", by helping customers stay in contact with their personal things. The system is ready for additional applications regarding issues such as energy or assistance for the elderly and corresponding sensors or actuators can be added at any time.

1.1.4 Mobile Products

In December 2013, Gigaset successfully introduced its first portfolio of tablets to the market. The current models QV830 and QV1030 are based on Android – the most widely distributed operating system in the world. Furthermore, Gigaset plans to launch its own portfolio of smartphones on the market as soon as possible that will round out the Mobile Products segment.

1.2 Goals and strategy

The consumer goods industry in the information and communications (IuK) 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 8% in unit volume and value in 2014 compared to the previous year.[1] 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.

In contrast, a few product categories such as tablets and smartphones are among the clear winners of these market changes.[2]

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 segments such as networked home living and mobile devices

[1] The data was taken from surveys by the Retail Panel for cordless telephones of GfK Retail and Technology GmbH in the countries of Germany, France, the United Kingdom, Italy, the Netherlands, and Spain. Collection period: Jan - Dec 2014; Basis GfK Panel Market.
[2] Source: GfK, Growth Units % / Sales Growth Units Total GfK Market Europe 6, Jan-Sep 14 vs. Jan-Sep 13

Solutions in the Smart Home area become increasingly important. According to a current study, the Smart Home has arrived in Germany. More than half of all Germans are familiar with the term, and already one in seven Germans uses a Smart Home application.[3] 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 EUR 6 billion for 2014 alone in Western Europe and which is expected to increase to around EUR 12.4 billion by 2019.[4] In this dynamic environment, ″Gigaset elements″ – the new solution for networked home living – has been available for purchase in the markets Germany, Austria, Switzerland, France, the Netherlands, Sweden, and the Czech Republic 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". In the future, Gigaset will further develop this solution, both functionally as well as through additional partnerships.

According to surveys by GfK, the category of smartphones and tablets is currently the fastest growing category in the European information and communications environment.[5] Strategy Analytics sees a global market potential for 291 million tablets in 2015, which will increase to around 438 million units by 2018.[6] Gigaset sees opportunities to establish itself in this category with its market expertise and its brand name in order to live up to its claim of offering first-class communications tools for networked home living. Therefore, Gigaset entered this growth market in December 2013 with two new Android-based 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-system supplemented by additional services is and remains a central component of the corporate strategy. In addition to solutions for networking devices at home, this concept also includes the integration of mobile devices.

1.3 Management systems

The management analyzes and manages the development of the Group on a monthly basis using various key indicators. The Gigaset Group is oriented worldwide based on regional segments. The observation of sales revenue and the development of profit margins as well as EBITDA by region plays 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. In particular the effects of the restructuring measures 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] Bitkom, December 2014
[4] Smart Home systems and Services Forecast, December 2014
[5] GfK, Growth Units % / Sales Growth Units Total GfK Market Europe 6, Jan-Sep 14 vs. Jan-Sep 13
[6] Strategy Analytics, November 2014

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.

One area of focus of the development work in the fiscal year just ended was on the further conversion of the product portfolio to IP-networked products and the resulting integration of the classic DECT products in the "Gigaset elements" cloud. 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. The Internet-based service platform created with "Gigaset elements" was significantly further developed and is now the basis for value-added services, differentiating product features, and the first contributions to sales with services, which overall contributes to market differentiation and customer loyalty. With this solution, Gigaset is entering into the new market for the Internet of things (IoT), for which high rates of growth are being forecasted in the next few years.

In fiscal year 2014 Gigaset had expenses for researche and development amounting to EUR 20.3 million. Development expenses amounting to EUR 9.1 million were capitalized in the intangible assets. Therefore the capitalization rate is 44.8 %

2 SIGNIFICANT EVENTS IN FISCAL 2014

2.1 Gigaset elements enters partnerships with Securitas and Tchibo

Securitas and Gigaset have maintained a development partnership since the development phase of Gigaset elements, an innovative system for networked living. Now, the collaboration is bearing specific fruits. Securitas, the leading security service provider, intends to ensure that no alarm goes unanswered with the premium service "Gigaset elements monitored by Securitas". The service at the heart of the mutual cooperation 'Gigaset elements safety' is the computer-aided handling of alarms by Securitas, which can be ordered by all Gigaset elements customers. If Gigaset elements sets off an alarm, the Securitas system automatically notifies four contact persons defined by the customer until they accept the alert and address the matter.

At the iFA (Internationale Funk Ausstellung) trade fair Gigaset settled an exclusive sales partnership with Vodafone. Since October 2014 „Gigset elements" is available in more than 220 Vodafone shops.

2.2 Gigaset presents CeBIT 2014 trade fair highlights

Gigaset presented new products from all areas of the business at CeBIT 2014. "Maxwell 10" – an IP-based 10.1" HD video telephone with a touch screen – was presented to the Business Customers segment, while private users could observe the new "Dune" – a cordless telephone oriented to the design of nature – as well as new high-quality bluetooth headsets.

With the Maxwell 10, Gigaset presents corporate customers and entrepreneurs an innovative, IP-based 10.1" HD video telephone with touch screen display that is based on the Android operating system 4.2.2 (Jelly Bean) and can be optionally equipped with various cordless handsets. The completely redeveloped operating concept makes what used to be complex telephone processes, such as the switching of multiple parallel calls, simple as never before.

In the Retail Customers segment, hands free telephones that embed themselves into modern, individual living spaces, are becoming increasingly important. Gigaset is responding to this need with the "Dune" (CL540A, CL540 and CL540H). Inspired by the sweeping curves of a sand dune, it is a true gem for customers who pay attention to design, materials, and functionality.

Bluetooth headsets are becoming increasingly popular in the office as well as at home as a result of their versatility. Gigaset presented two new headsets in the premium and midrange segments at CeBIT 2014. Both ZX830 as well as ZX530 can connect with up to two devices at the same time thanks to Near Field Communication (NFC) technologies and Bluetooth 4.0 (10 meter range) and provide crystal clear sound with extremely long standby times.

2.3 Gigaset receives HTV-Life® mark of excellence

Planned obsolescence i.e. when manufacturers intentionally limit the life of a product, is currently a major topic. More and more consumers are demanding greater clarity and transparency when they purchase new products. The HTV-Life® mark of excellence, which Gigaset has now received as one of the first manufacturers in the world for the first four of its landline telephones should provide clarity.

The first telephone to receive the mark of excellence is the Gigaset C620 family telephone, which was introduced to the market in the middle of last year. The certification and mark of excellence were issued by HTV, one of the largest independent test houses in Europe. HTV has been testing electronic components for more than 27 years and specializes in the testing and identification of intentional weak points built into products.

2.4 Gigaset presents a new app to simplify the transfer of contacts from smartphones to mobile components

Gigaset's new ContactsPush app facilitates the transfer of smartphone contacts to Gigaset mobile components operated on IP base stations. The app is compatible with Android (4.x or higher) and iOS devices (6.x or higher) and is available for free on the Google Play Store™ or Apple App Store™. The ContactsPush app is another step towards Gigaset's own ecosystem, which was presented at the CeBIT 2014 under the name "GigasetGo".

2.5 Gigaset continues to excel: accolades for new products

At the annual presentation of connect's "Products, Networks & Services" awards, both Gigaset elements – the innovative solution for the smart home – and the Android-based cordless Gigaset SL930A were chosen as the top products by connect's readers.

Numerous design prizes in recent years document Gigaset's constant, cross-industry design leadership. The high product and design quality is also bearing many fruits in this year. Gigaset also received numerous awards for its products in fiscal year 2014, remaining true to its usual high standards. Design, worksmanship, technology, and user experience – they all flow into Gigaset's promise of quality that sets the benchmark for every new Gigaset Product. The current new products Gigaset C530 and Gigaset C430 as well as the Gigaset Dune, all of which received the Plus X Award, prove that it is worth the effort – the innovative Gigaset Dune was even chosen as the "Best Product of 2014" among landline telephones. The Gigaset A540 and the Gigaset Maxwell received Red Dot Design awards already in February of this year. In addition, the Gigaset AS405, the Gigaset A415, and once again the Gigaset Maxwell also received iF product design awards.

2.6 Action to rescind two resolutions on the part of the extraordinary shareholders' meeting

The shareholder Ludic GmbH filed suit on January 21, 2014, against two resolutions on the part of the extraordinary shareholders' meeting held on December 19, 2013. The action is directed against the resolution regarding agenda items 2 (authorized capital) and 3 (authorization of the Executive Board to issue bonds with warrants and/or convertible bonds, Contingent Capital 2013). The plaintiff is petitioning to have the aforementioned resolutions declared null and void in part or alternatively in full. The suit was filed on February 17, 2014, and is being conducted by the regional court Munich I (chamber for commercial matters) under file number 5 HKO 1196/14. The court first ordered written preliminary proceedings. Gigaset considers the action to be obviously inadmissible and obviously unfounded.

On February 28, 2014, Gigaset therefore filed an application for release under section 246a of the German Stock Exchange Act (Aktiengesetz, AktG) against Ludic GmbH. The higher regional court of Munich ruled to allow the application for release on April 4, 2014, and decided that the action filed by the shareholder Ludic GmbH did not prevent the change in the articles of association resolved by the annual shareholders' meeting from being entered in the commercial register. Therefore, theaction – even if it should prove unexpectedly successful – will not have any impact in the meantime on the execution of the decisions resolved by the annual shareholders' meeting.

2.7 Gigaset received around EUR 33.9 million from the successful placement of its capital increase and convertible bond

On June 25, 2014, the Executive Board resolved to increase its share capital by issuing subscription rights and to issue another convertible bond with the approval of the Supervisory Board of Gigaset AG.

During the subscription rights period of Gigaset AG (ISIN DE0005156004), which ended as planned on July 14, 2014, 3.5% of the subscription rights were exercised by shareholders for shares and 1.5% for convertible bonds. Goldin Fund Pte. Ltd. purchased the 24,178,308 new shares and 9,337,935 convertible bonds that were not subscribed based on the issue of subscription rights at a subscription price of EUR 1.00 for each new share and/or convertible bond. Therefore, net issuing proceeds in the total amount of EUR 33.9 million (amounting to EUR 34.5 milliion gross less emissions costs amounting to EUR 0.6 million) flowed to the Company on July 22, 2014, from the issue of new shares and debt securities. The total number of shares issued increased to 121,498,092 with the entry of the executed capital increase in the commercial register on July 22, 2014. This includes 46,828 shares that were issued from contingent capital since January 1, 2014, as a consequence of conversion rights exercised based on the 2013 convertible bond and have not yet been entered in the commercial register. On July 22, 2014, the new shares were also included in the existing quotation in the regulated market (Prime Standard) of the Frankfurt Stock Exchange. The convertible bonds were also delivered on July 22, 2014.

2.8 Gigaset reduces its financial liabilities

On July 24, 2014, Gigaset AG reduced all of its financial liabilities, including all interest not yet paid, totaling EUR 25.0 million. This was made possible as a result of the proceeds from the successfully placed capital measures. Gigaset received a net amount of EUR 33.9 million in proceeds.

2.9 Annual shareholders' meeting confirms strategy – the actions of the Executive Board and Supervisory Board were approved by a large majority

Around 150 shareholders, shareholder representatives, and guests met in the Hanns Seidel Foundation at Gigaset AG's annual shareholders' meeting in Munich. The attending investors had over six agenda items to vote on, which were approved by a large majority. Charles Fränkl, Chairman of the Executive Board of Gigaset AG, summarized the events of the past fiscal year and emphasized the fast pace of the Company's reorientation. He also presented the further strategic orientation of the Company. Gigaset plans to develop its own cloud-based ecosystem that links all products with a uniform user interface. A smartphone should also be introduced to the market in the near future. Charles Fränkl and Bernhard Riedel, the Chairman of the Supervisory Board, commended the merits of Chief Financial Officer Dr. Alexander Blum, who chose to step down for personal reasons. In addition, the actions of the Executive Board and Supervisory Board were approved for the 2013 fiscal year and a separate resolution was adopted for authorized capital. An action to rescind the resolutions approving the actions of the Executive Board and Supervisory Board (but not the other resolutions adopted by the annual shareholders' meeting) was brought by one shareholder and served to the Company on November 5, 2014.

2.10 Camera expends "Gigaset elements" product family

Gigaset expands the elements product family with camera. Since mid-October, elements customers have been able to inform themselves over the free elements app by more than just notifications from previously installed sensors. With camera they can now obtain a specific visual impression.

Equipped with the latest features, camera enables real-time, video transfer using WLAN (Wi-Fi 802.11 b/g/n) and HD 720p video quality with up to 30 FPS. The one-megapixel 0.25-inch CMOS image sensor with automatic white balance, the 30 infrared LEDs with an illumination range of up to 15 meters and a field of view of 80° in the horizontal and 45° in the vertical deliver flawless picture quality, even in night-vision mode. Naturally, audio data is also recorded and transmitted by means of the built-in microphone.

2.11 Changes in the structure of the Group

Gigaset AG continues to press ahead with the reorientation and streamlining of the Company.

Based on a contract dated January 29, 2014 Gigaset Beteiligungsverwaltungs GmbH was merged retroactively with effective date june 30, 2013. Thus the limited partner shares and the general partner shares of the Gigaset Asset GmbH & Co KG are consolidated at Gigaset AG. According to company law (paragraph 738 BGB) Gigaset Asset GmbH & Co KG disappeared and all assets and liabilities were transferred to Gigaset AG.

Goldin Digital Pte. Ltd. invested in Gigaset Mobile Pte. Ltd., Singapore, with a contribution of EUR 30 million, for which it received preferred shares (without voting rights, but convertible to ordinary shares carrying voting rights under certain conditions) of this company. As a result of the change in control of Gigaset Mobile Pte. Ltd., Singapore, this company is now included in the Gigaset Group using equity method accounting.

With notary contract of purchase dated may 26, 2014 the shares of AT Operations 1 GmbH and AT Operations 2 GmbH were sold.With effective date may 28, 2014 Arques Beta Beteiligungs GmbH were liquidated and deleted in the Austrian company register.

Furthermore, there were two mergers in the Gigaset Group in the third quarter. Effective August 28, 2014, Hortensienweg Verwaltungs GmbH, Munich, was merged with Hortensienweg Management GmbH, Munich, and Gigaset Asset Invest GmbH, Vienna/Austria, was merged with Gigaset Industries GmbH, Vienna/Austria.

In the fourth quarter Gigaset Mobile Europe GmbH, Düsseldorf, was newly established effective November 25, 2014. Moreover Gigaset Equipamentos de Comunicação Ltda, Sao Paulo/ Brasilien was deconsolidated due to bankruptcy.

2.12 Move to the future: Gigaset Munich is changing locations

The headquarters of the Munich-based telecommunications company Gigaset is moving to another part of Munich. The Seidl Forum in the heart of Munich will be the new head office of the European market leader for DECT cordless telephones. Thus, the Company is relocating from its former site at Siemensstadt in Obersendling, where it had it roots, to the center of Munich.

2.13 Changes in the Executive Board and Supervisory Board of Gigaset AG

There were personnel changes in the Executive Board and Supervisory Board in fiscal 2014.

Gigaset's Chief Financial Officer, Dr. Alexander Blum, informed the Supervisory Board on July 30, 2014, that his employment contract will end when it expires on December 31, 2014.

David Hersh, Supervisory Board member of Gigaset AG, stepped down from the board effective midnight December 2, 2014. Ulrich Burkhardt was elected to replace him effective December 3, 2014.

As a successor for Chief Financial Officer Dr. Alexander Blum, who stepped down at the end of the year, the Supervisory Board of Gigaset AG appointed Kai Dorn, (effective January 1, 2015) for three years as a member of the Company's Executive Board in a resolution dated December 10, 2014.

In addition, the Supervisory Board further resolved to extend the appointment of Charles Fränkl for another two years until March 31, 2017. Maik Brockmann's Executive Board member contract ends as agreed on March 31, 2015.

3 ECONOMIC REPORT

3.1 General economic climate and industry environment

3.1.1 General economic climate

According to the Kiel Institute for the World Economy (IfW), the global economic expansion once again sputtered over the course of 2014. According to the IfW, the global economy was far from an upswing supported by all regions. It remained susceptible to disturbances, be they due to geopolitical developments or the result of turbulence on the financial markets. The IfW may expect the global economy to consolidate in 2015, but the momentum will remain moderate for the time being. The recovery will be carried in particular by the advanced economies. In the United States, the increase in production will be tangible and the euro zone should once again emerge from the stagnation, according to the institute's experts. In contrast, the dynamic in the emerging markets will also remain muted in the coming year. In addition to the economic problems, the underlying growth momentum in the emerging markets has obviously weakened. All in all, the institute expects an increase in global production of 3.2% in 2014 in its fall report. For 2015, the institute expects an increase of 3.7%.[7]

The expansion of gross domestic product ground to a halt in the euro zone in the second quarter of the year just ended according to the IfW. The total increase in gross domestic product in 2014 will likely amount to 0.7%. In the coming year, the economy should once again pick up speed and production should also increase in the euro zone by 1.3%. Inflationary pressure will remain very low throughout the entire forecast period. The institute expects consumer prices to rise by an average of 0.6% for the current year. Annual average inflation for 2015 should amount to 1.1%.[8]

According to the Annual Economic Report by the German Federal Ministry for Economic Affairs and Energy, economic growth in 2014 weakened considerably following a strong first quarter. In particular, the overall pace of investments in businesses remained below expectations in light of global economic performance that disappointed the German federal government and the uncertainty due to elevated geopolitical risks. However, a recovery took hold in the final months of the year, driven by a strong labor market and robust consumption. According to the Annual Economic Report, the recovery can also be seen in the improved sentiment among businesses. This development should also continue in 2015. For 2015, the German federal government expects an average increase in gross domestic product of 1.5% for the year. Over the course of the year, i.e. from final quarter to final quarter, the German economy will grow more robustly in 2015 than in the prior year. The momentum of the internal economy will be driven in particular by the hefty increases in income and the sustained increase in employment. Due to geopolitical tensions and persistently weak growth in the euro zone, the foreign trade sector will continue to be difficult in the opinion of the German federal government. In contrast, the lower price of oil should stimulate growth. In total, the German federal government expects a moderate increase in exports in the annual economic report. As a result, the investment climate in the export-driven German economy is slowly brightening. The German current account surplus will turn out to be higher this year than in the past year due to the declining crude oil prices.[9]

[7] Kiel Institute for the World Economy (Institut für Weltwirtschaft), Sluggish World Economic Growth, Press Release dated September 11, 2014
[8] Kiel Institute for the World Economy (Institut für Weltwirtschaft), Euro Area: Recovery Loses Momentum, Press Release dated September 11, 2014
[9] German Federal Ministry for Economic Affairs and Energy (Bundesministerium für Wirtschaft und Energie), 2015 Annual Economic Report

3.1.2 Telecommunications market

Consumer Products market

The European market for cordless telephones continued to decline considerably in the past year both with respect to sales revenue as well as units sold. The global financial and sovereign debt crisis clouded in particular the consumer climate in Southern and Eastern European regions. The continuing practice of replacing landline telephones with smartphones or other text-based forms of communications (for example, e-mail, instant messaging, or social networks), continued to reinforce this trend. This applies in particular to the relatively saturated European markets.[10] The market as a whole for cordless telephones in Europe declined by just under 8% in 2014 based on sales revenue in the markets observed by Gigaset. This picture was seen in all of the observed markets. At the same time, Gigaset was able to maintain a steady share of European markets overall compared to the previous year with respect to units sold.[11] The market trend in Western Europe points to continued consolidation with an overall stable price level. The largest European markets are in Germany, France, and the United Kingdom.

Business Customer market

The European market for telecommunications solutions for corporate customers in the past year (comparison period Q4 2013 to Q3 2014 versus Q4 2012 to Q3 2013) declined by approximately 4%.[12] A differentiation is made within the overall market between extensions with classic "TDM" technologies (i.e. ISDN) and extensions with Voice-over-IP technologies (VoIP).

In the market segment addressed by Gigaset pro, VoIP declined moderately by 1%. Similar to the market for private customers, a substitution of fixed-line telephony in favor of cell phones can be observed, whereby this substitution is considerably slower in the corporate customer segment than in the market for private customers.

The share of VoIP in the market as a whole rose from 48% to 50%. Gigaset pro only addresses the relatively expanding VoIP market in the VoIP environment with VoIP systems and so-called hybrid VoIP systems. This market segment is expected to continue to grow and increasingly crowd out the classic TDM technologies.

Home Networks

The market for Smart Home Systems & Services (SHSS) in Western Europe is considered to be extremely promising. The number of Smart Home households should increase from around 20 million in 2014 to approximately 25 million in 2015 and to approximately 50 million by the end of 2019. Since the DECT-ULE standard is being implemented in the Smart Home area by an increasing number of Western European vendors, the market research institute Strategy Analytics expects sales revenue to more than double in this segment between 2014 and 2019 in Western Europe.

Based on an estimate by Strategy Analytics[13], approximately 11% of Western European households could be referred to as "smart" in 2014. Sales revenue in this area is expected to increase from EUR 6 billion in 2014 to EUR 7.2 billion in 2015 and to EUR 12.4 billion in 2019. In Germany alone, the market is expected to increase from EUR 1.4 billion in 2014 to EUR 2.8 billion in 2019.[14] By 2019, an expected 33% of German households will have at least one type of Smart Home system installed.

[10] Special Eurobarometer 414, 2014, Ofcom, Telecommunications Market Report

[11] The data was taken from surveys by the Retail Panel for cordless telephones of GfK Retail and Technology GmbH in the countries of Germany,

[12] MZA, PBX/ IP PBX Market, Quarterly Q3 2014

[13] Smart Home systems and Service Forecast Western Europe, Q4/2014

[14] Smart Home systems and Service Forecast Germany, 2014

Added value that is recognizable by the inhabitants and which increases the quality of living is important for the acceptance of the devices and services for intelligent home living. Plug & Play capability, reliability, and simple operation play a key role.

Since the share of newly constructed buildings compared to existing properties in Germany is negligible, the market in Germany can be conquered in particular with affordable, cable-free upgrade packages for existing buildings. According to consumer surveys, Smart Home solutions are already used by every seventh German resident (age 14 and older) and are now considered to be indispensable for 8 out of 10 users.[15]

Mobile Products

For 2015, Strategy Analytics expects global smartphone market volume to grow by 13% year-on-year. The reasons for the persistent demand on the part of consumers and corporate customers include in particular greater bandwidth thanks to new LTE networks, faster processors, and larger displays. In particular devices with large screens of more than 5 inches in size – so-called phablets – are in high demand according to market researchers. The majority of cell phone users prefer larger screens in particular because they ensure a clearer overview of websites, videos displayed in larger formats, and other data-centric applications.[16]

3.2 Business developments of the Gigaset Group

3.2.1 Consumer Products

Gigaset succeeded in maintaining its clear premium position on the marketplace and achieved an average selling price with its portfolio that is 25% higher than that of its competitors.[17]

The Company countered the decline of around 8% in sales revenue on the markets it observes by entering new business segments and expanding the portfolio in its Consumer Products segment. An IP telephone was added to the successful C430 product family in the first quarter in form of the C430IP. Customers obtain a single package comprising the high quality handset complete with base station that features both the usual analog port and a LAN port. This means that the device is ready to accompany the upcoming changeover to the imminent all-IP telephone network.

The CL540 – an upscale designer telephone – was rolled out during the second quarter. It captivates with its completely new interface and classy pearl white finish. The elegant, flat, illuminated keypad and a color display complete the appearance. In the third quarter, Gigaset launched the A540 in order to strengthen its presence in the entry-level segment. The A540 is a functional and simultaneously inexpensive telephone with an attractive design. Several colors can be selected for the high-contrast display. Users have the chance to configure their own personal phone. The individualistic aspiration of this new telephone is underscored by the large 1.8" display with 96x64 pixels, a choice of four background colors and the option of assigning an individual ringtone and a separate display color to selected VIP calls. The A540-CAT variant is another handset for CAT-iq-capable routers. CAT-iq is a separate special part of the DECT standard that is set to be employed increasingly in routers going forward. The first devices have already been delivered to an operator.

[15] Bitkom, Smart Home in Germany, December 2014

[16] Source: Strategy Analytics, July 2014

[17] The data are taken from surveys of the retail panel for cordless telephones (excluding IP telephones) of GfK Retail und Technology GmbH in Germany, France, the UK, Italy, the Netherlands and Spain. Survey period: January - December 2014; price premium calculated from the average market price excluding Gigaset. Basis: GfK Panel Market

3.2.2 Business Customers

Sales revenue in the Business Customers segment grew by 7% year-on-year. Within this total, the Gigaset pro product line expanded 15% while activities involving items under marketed other brands (OEM business) declined 4%. In regional terms, Italy, the Netherlands, Germany, and France performed particularly well. Furthermore, progress has been made on the regional expansion of sales activities in 2014. This includes a pilot project launched in Russia and Turkey to evaluate the local market opportunities for Gigaset business customer products. In light of the current political and economic situation in Russia, however, the focus at present is on entering the Turkish market.

The launch of the new flagship product, the Maxwell 10, in the fourth quarter of 2014 was one of the year's biggest highlights. The winner of several design and industry prizes, the Maxwell 10 is a business telephone based on the Android operating system and operated exclusively with a 10-inch touch display. The first big test for the Maxwell 10 came with the move to Gigaset's new offices in Munich, where around 100 workplaces and conference rooms were kitted out with the device. The Maxwell 10 is expected to make a significant contribution to the growth of Gigaset pro in 2015.

3.2.3 Home Networks

Gigaset started selling "Gigaset elements" starter kits through the German retail network and online in Germany in September 2013 and shortly thereafter also in France. The system has also been available in Switzerland, Austria, the Netherlands, and Sweden since April 2014. It was similarly rolled out in the Czech Republic in October 2014.

The starter kit forms the foundation for the multifaceted possibilities of "Gigaset elements." It consists of two intelligent DECT ULE-based sensors – a door sensor and a motion detector – as well as a base station and an app for smartphones. "Gigaset elements" is supported by an intelligent, adaptable and secure cloud that acts as an interface between home and smartphone. The system can be expanded on a modular basis. An alarm is also available together with separate door and window sensors.

In September 2014, Gigaset rolled out an innovative, HD-based camera for the "elements" system in France that is now also available in all other "Gigaset elements" countries. Equipped with state-of-the-art features, the camera enables real-time video transmission based on WLAN in HD image quality. Fantastic picture quality is ensured by the one-megapixel 0.25" CMOS image sensor with automatic white contrast, the 30 infrared LEDs with an illumination reach of up to 15 meters and the angle of vision of 80° in the horizontal and 45° in the vertical – even in night vision mode. It hardly needs saying that audio data are also recorded and transmitted by the built-in microphone. The camera makes it possible for users to acquire additional options in the form of various packages for the first time as of December 2014. The Freemium package supporting basic functions is already included in the scope of the camera. In order to check out the functionality offered by the Safety, Smart, and Director's Cut packages, users have the opportunity to test all the functions as part of the Welcome package costing EUR 0.89 for a period of three months following purchase. Once this period has expired, users can decide for themselves which package they want, choosing between monthly and annual services. The monthly packages provide greater flexibility, while the annual packages feature reduced rates. The individual packages are paid for conveniently by means of in-app purchases that are billed via the Apple App Store (iOS) or the Google Play store (Android).

Going forward, the launch of further "elements" is planned. The central software platform of the cloud will be kitted out successively with new functionalities. To enable new segments to be addressed, Gigaset is relying in the cloud upon machine learning and open interfaces, known as application programming interfaces (APIs), that make it easier for partners to connect devices and services. This is intended to make "Gigaset elements" even more attractive overall.

As of mid-January 2015, Gigaset is rolling out an innovative new product in the field of connected electronics: the G-tag. The G-tag is a next-generation, Bluetooth-based beacon that locates, observes and finds objects equipped with it. After all, things that people consider important, beloved or expensive should not be lost. This holds just as true for keys and laptops as for pets whose collars can be equipped with a G-tag.

Alongside its core function of locating objects, this innovation in the Bluetooth market supports other useful everyday features. These include: a location function that can be used to readily find a parked car or other objects; a list function that reminds people to take everything they need with them to work when they leave the house; and an alarm function that activates as soon as a marked object leaves the range of the smartphone Bluetooth.

All the functionalities of the G-tag are facilitated by the free Gigaset G-tag app, which is easy to install and then operate on any mobile device running Android 4.3 or iOS 7 or higher. The basis for this is formed by Bluetooth 4.0, which maintains a permanent connection with as many G-tags as wanted. The low energy consumption of this generation of Bluetooth means that the built-in battery can run for up to a year, after which it can be exchanged easily – unlike many of the common competitor products.

3.2.4 Mobile Products

In December 2013, Gigaset entered the expanding market for tablets with two Android-based models in 8" and 10.1" format. This represented the next step in the expansion of the Gigaset 2015 strategy. The market roll-out focused first on Germany, although distribution of the tablets was then expanded successively to other European countries. The Gigaset QV1030 has already won several awards. The Spanish magazine Gadget named the Gigaset QV1030 the best product in the "Tablets" category. Each year, the respected technology magazine picks out the best products in various categories. This time round, the Gigaset QV1030 won out against the high-end-tablets from the best names in the industry: Samsung, Sony, Google, Huawei, Toshiba, LG, Asus, HP, and Lenovo.

Gigaset is currently working on the development of a smartphone portfolio to be created in collaboration with Goldin Fund Pte. Ltd., Singapore. The first devices should be available in 2015.

3.2.5 Marketing

A number of promotional campaigns for Gigaset products were rolled out in marketing communications in fiscal 2014 in order to support product sales.

In its marketing activities, Gigaset is responding more actively to changed patterns of customer behavior. This includes increasingly shifting the Company's marketing activities away from standard advertising formats in traditional channels toward a stronger presence online and in social media. In this context, the Company is relying more on platforms like Facebook and Twitter. Gigaset is also looking increasingly to use innovative new forms of advertising in the offline world as well. For instance, the launch of the Gigaset C540 (Dune) under the slogan "Naturally beautiful" was supported by numerous online activities including a standalone website, online banners, and display ads.

In March 2014, Gigaset used its own booth at CeBIT 2014 to unveil new products from all segments. The Maxwell 10, an IP-based 10.1" HD videophone complete with touchscreen, was presented for business customers. Private users also had the chance to check out the new Dune together with new, high quality Bluetooth headsets for the first time.

Toward the end of the year, the roll-out of the Gigaset elements camera in time for the Christmas season was supported by targeted marketing activities. Alongside online advertising like display ads, banners and Google AdWords, print ads were also placed in specialist magazines and large formats employed in high footfall outdoor areas such as bus stops, train stations and shopping passages.

3.2.6 Sales and distribution

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

The launch of new product lines has been promoted under the Gigaset 2015 strategy, with the Android-based full-touch phone SL930A successfully introduced in the core European markets. This step served to add a much more modern presence to the landline telephone category and create adjacency to smartphones. In addition, Gigaset rolled out the Dune, a prize-winning bionic telephone with particularly ergonomic lines.

“Gigaset elements,” the new solution for networked home living, is now available from specialist outlets throughout western Europe. It connects people with their home through intelligent sensors and a DECT ULE base station connected to a cloud. The latest new product to be added to the “elements” family is an indoor camera which, together with the sensors, enables users to look directly into the area monitored online via the “elements” app.

The entry into the tablet market started at the end of 2013 was expanded in 2014 and significant volumes of the two products QV1030 and QV830 were sold.

The goals of Gigaset’s sales strategy are to defend the price advantage of the Gigaset brand on the market and to secure and increase the market share in Europe. In Asia, Middle East, Africa and Central and Eastern Europe, Gigaset aims to permanently strengthen its position by expanding its product portfolio.

Gigaset once again defended its position against competitors in its core markets in a generally difficult trading 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 performance varied depending on the region and country in question.

In Europe, Gigaset was able to further expand its market leadership, in particular in the core business of digital cordless telephones in its domestic market of Germany. In addition, Germany acted as pioneer in the roll-out of tablets and “Gigaset elements,” followed by core western European countries such as France, Austria and the Netherlands, Italy, Spain and the Nordics.

Despite the contracting cordless voice market, Gigaset succeeded in establishing and expanding several cooperation arrangements in its core countries. For instance, it constantly expanded its market share in Austria, Switzerland, and Turkey in terms of units shipped. Increasing numbers of established retail partners throughout Europe started marketing Gigaset tablets in their outlets.

In the MEA sales region, the change carried out in the sales model following the management buy-out was successfully continued and the internal expectations were exceeded.

Latin America was similarly characterized by changes in business models. The cost-intensive structure with local companies was converted to an efficient, centrally managed direct business in collaboration with local sales agents. This served to reduce risk without disrupting market access. Prestigious customers in the operator and retail channel continue to be served.

All in all, Gigaset remains market leader in many regions in its core business of landline telephony with its streamlined organization. Gigaset is leveraging its competitive cost structure to serve new customer groups and successfully roll out new products and solutions on the market.

3.2.7 Sustainability

In its global activities, Gigaset observes the principles of the sustainable conservation of the environment and the natural resources on which mankind depends.

Gigaset's products are manufactured at the Bocholt facility in accordance with the highest environmental and quality standards. Gigaset obtained DIN ISO 14001 certification for its environmental management system as early as 2007; this is subject to annual review.

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

The consumption of electricity and gas was reduced by 36% over the period from 2008 to 2014 by implementing numerous measures such as installing new climate-control equipment in infrastructure and production facilities.

Gigaset has helped to reduce waste by continuing to apply the HTV-Life® strategy. During the past year, a total of 11 further products received the HTV-Life® mark of excellence. This HTV-Life® mark identifies products that do not contain any features that deliberately aim to shorten the product lifecycle (planned obsolescence).

3.2.8 Employees

The number of people employed by Gigaset fell again in 2014 compared with the prior year. By December 31, 2014, 63 employees had left the Company. This reduction took place through compulsory redundancy, early retirement, natural fluctuation, and the non-extension of temporary contracts. The number of employees in the international subsidiaries had fallen from 294 to 275 by the reporting date of December 31, 2014. Gigaset began the construction of a product center in Düsseldorf in 2012 under the Gigaset 2015 growth strategy; this work continued in 2014.

Gigaset positions itself on the market as a leading international communications company in the areas of technology and products. This technology leadership and the international orientation of all its facilities put Gigaset in a very good position in the competition for the best workers. It proved possible to find suitable successors for key functions both internally and externally. The identification of the employees with the Gigaset Group and their commitment to the Company is very high. Fluctuation due to resignations and termination agreements amounted to just 2.1% in 2014.

The Company's vertical depth, spanning development, marketing and sales through to production and logistics, gives rise to a need for staff with a wide range of skills. This need is covered in part by its own workforce (including key talents and apprentices/trainees) and by external recruitment (mainly through jobs portals). The Company also relies on temporary workers primarily for semi-skilled activities to provide it with the flexibility it needs in a highly seasonal sales market.

The corporate group had an average number of 1,392 employees (prior year: 1,538) in fiscal 2014. At the reporting date of December 31, 2014, 1,366 people (prior year: 1,429) worked for the Gigaset Group.

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

Key figures of Gigaset AG	2014	2013
Non-current assets	EUR 230.0 Mio.	EUR 234.4 Mio.
Current assets	EUR 22.0 Mio.	EUR 39.7 Mio.
Equity	EUR 223.1 Mio.	EUR 221.2 Mio.
Non-current liabilities	EUR 10.1 Mio.	EUR 1.9 Mio.
Current liabilities	EUR 18.8 Mio.	EUR 51.0 Mio.
Equity as a percentage of assets	88.6 %	80.7 %
Return on equity	negative	negative
Return on investment	negative	negatie

3.3.1 Financial performance

Sales revenues in the amount of EUR 4.7 million (prior year: EUR 4.4 million) comprise almost exclusively advisory services rendered for associated companies in Germany.

Other operating income decreased from EUR 4.8 million to EUR 2.2 million. This can be mainly attributed to the EUR 2.7 million decrease in income from the reversal of provisions. This is offset by the EUR 0.3 million increase in income from the reversal of impairment allowances for trade receivables as well as the reversal of impairment write-downs of loan receivables.

Personnel expenses increased by EUR 1.5 million to EUR 6.5 million. The primary reason for the increase is the transfer of employees from several Group subsidiaries to Gigaset AG as part of the organizational reorientation of the Group. The transfer of a total of 10 employees was completed effective June 1, 2014. Furthermore, personnel expenses were negatively impacted by labor disputes in the amount of EUR 0.3 million and as well as variable remuneration components in the amount of EUR 0.3 million.

Other operating expenses were incurred in fiscal 2014 in the amount of EUR 8.6 million (prior year: EUR 13.0 million). Expenses were mainly incurred in relation to appropriations to a former investee's provision for compensation for losses in the amount of EUR 1.5 million (prior year: EUR 0 million) as well as legal and advisory expenses in the amount of EUR 1.6 million (prior year: EUR 2.2 million). Furthermore, cost allocations were recorded from Gigaset Communications GmbH, Düsseldorf, in the amount of EUR 1.4 million (prior year: EUR 1.7 million) and expenses for consulting in the amount of EUR 1.1 million (prior year: EUR 3.5 million). Moreover, other operating expenses include remuneration for members of the Supervisory Board in the amount of EUR 0.5 million (prior year: EUR 0.4 million) as well as expenses for insurance policies in the amount of EUR 0.4 million (prior year: EUR 0.4 million).

The Company did not generate any **income from equity investments** in the fiscal year. In the prior year, dividend income from Gigaset Industries GmbH, Vienna, was reported in the amount of EUR 0.5 million.

The line item interest and similar income mainly includes interest income from interest charged on loans to associates in the amount of EUR 0.4 million (prior year: EUR 0.3 million).

Write-downs of non-current financial assets and of current securities amount to EUR 0 million in the fiscal year. In the prior year, the write down in the amount of EUR 0.1 million resulted from write-downs on interest charged to former investees.

Interests and similar expences amount to EUR 2.3 million and contains essentially interest expenses due to the group wide internal financing (EUR 1.4 million), interest effects due to additions to accruals (EUR 0.6 million) and other interest expenses (EUR 0.3 million).

Income from the disposal of non-current financial assets in the amount of EUR 1.9 million can be attributed to the sale of 4.1% of the interest in GIG Holding GmbH, Munich, to Gigaset Communications Schweiz GmbH, Solothturn.

The **extraordinary expenses** of the company amounts to EUR 12.1 million and is based on the accretion of Gigaset Asset GmbH & Co. KG, Munich to Gigaset AG, Munich and on the merger of Gigaset Beteiligungsverwaltungs GmbH, Munich to Gigaset AG, Munich. The accretion of Gigaset Asset GmbH & Co. KG, Munich was effective on February 4, 2014. The merger of Gigaset Beteiligungsverwaltungs GmbH, Munich was retroactively with effective date June 30, 2013.

Income taxes in the amount of EUR 0.1 million (prior year: EUR 17.4 million) mainly include changes from the provisions for corporate income tax and provisions for trade tax. In the prior year, this line item included tax expenses from the write-down of deferred tax assets on losses carried forward in the amount of EUR 16.7 million. The write-downs resulted from the expiration of tax loss carryforwards in connection with the shifting of shareholdings as a consequence of the capital increase.

The income taxes includes basically subsequent VAT payment amounting to EUR 2.9 million (prior year: EUR 0 million) in connection with the tax declarations for the years 2009 till 2013.

In fiscal year 2014, a **net loss for the fiscal year** was incurred in the amount of EUR 23.2 million (prior year: EUR 27.6 million).

3.3.2 Cash flows and financing

Cash flow can be broken down as follows:

EUR million	2014	2013
Cash flow from operating activities	-10.6	-25.7
Cash flow from investing activities	-19.3	-9.2
Free cash flow	-29.9	-34.9
Cash flow from financing activities	22.5	47.9

In fiscal year 2014, Gigaset AG recorded a **cash outflow from continuing operations** in the amount of EUR -10.6 million (prior year: EUR -25.7 million). This can be mainly attributed to the conversion of a loan receivable from GIG Holding GmbH, Munich, into a contribution to the share premium as well as the accrual of the loan liability to Gigaset Asset GmbH & Co. KG, Munich, to Gigaset AG.

The **investing cashflow** amounts to EUR -19.3 million after EUR -9.2 million in prior year. The investements in 2014 mainly driven by the capital increase to subsidiaries (EUR -16.5 million) as well as by liquidity transfers to subsidiaries and pay back of fundings of subsidiaries amount to EUR -3.0 million.

Thus, **free cash flow** amounted to EUR -29.9 million compared to EUR -34.9 million in the previous fiscal year.

The **cash inflow from financing activities** amounts to EUR 22.5 million (prior year: EUR 47.9 million) and as in the prior year mainly results from the successful placement of the capital increase and the issuance of the convertible bond. This is offset by the repayment of the syndicated loan in the amount of EUR 12.0 million.

Cash and cash equivalents amounted to EUR 5.6 million (prior year: EUR 13.0 million) as of December 31, 2014.

3.3.3 Financial position

Gigaset AG's **total assets** amount to EUR 252.0 million as of December 31, 2014 (prior year: EUR 274.1 million), and thus decreased approximately 8.1% year-on-year. The decrease in assets can be mainly attributed to the decrease in loan receivables from associates as well as the merger of Gigaset Beteiligungsverwaltung GmbH, Munich, and the accrual of Asset GmbH & Co. KG, Munich, to Gigaset AG.

Non-current assets decreased year-on-year by EUR 4.4 million and now amount to EUR 230.0 million, representing 91.3% of total assets. These primarily include non-current financial assets and loans to associated companies. The decrease in interest in associated companies can be attributed to the sale of 4.1% of the interest in GIG Holding, Munich, to Gigaset Industries GmbH, Vienna, with a carrying amount of EUR 8.7 million. A contribution to the share premium of Gigaset Industries GmbH, Vienna, in the amount of EUR 2.1 million partially offset this decrease. The increase in loans to assocated companies can be attributed to the increase in a long-term loan to Gigaset Communications GmbH, Düsseldorf.

Current assets decreased to EUR 22.0 million (prior year: EUR 39.7 million) and represent 8.7% of total assets. They primarily include receivables from associated companies, other assets, and bank deposits. Receivables from associated companies decreased year-on-year by EUR 10.1 million to EUR 16.2 million. This can be mainly attributed to the contribution of a loan receivable from GIG Holding GmbH, Munich, in the amount of EUR 16.9 million to the share premium of GIG Holding GmbH, Munich. Furthermore, an other receivable from Gigaset Communications GmbH, Düsseldorf, was paid in the amount of EUR 2.0 million. This was offset by the sale of 4.1% of the interest in GIG Holding, Munich. The Company reported a purchase price claim in the amount of EUR 10.5 million against Gigaset Industries GmbH, Vienna. Other assets decreased by EUR 0.3 million and related to impairment allowances and the derecognition of loans to former investees.

With respect to equity and liabilities, the decrease in **total equity and liabilities** manifested itself primarily in the repayment of the syndicated loan and the associated decrease in liabilities to banks as well as the reduction in liabilities to associated companies. This is offset by the increase in non-current liabilities.

Gigaset AG's **equity** increased by EUR 1.9 million. This can be attributed in particular to the capital increase in July 2014 in the amount of EUR 25.1 million. The net loss for the fiscal year of EUR 23.2 million partially compensates the increase in equity. Equity as a percentage of assets increased due to the decrease in total assets from 80.7% to 88.6%.

Non-current liabilities mainly include the contributions made in the amount of EUR 9.5 million (prior year: EUR 1.5 million) from the issuance of convertible bonds in July 2014 for the acquisition of mandatory convertible bonds. Furthermore, non-current liabilities still include pension provisions in the amount of EUR 0.5 million (prior year: EUR 0.3 million) and other provisions in the amount of EUR 0.1 million (prior year: EUR 0.1 million).

In the fiscal year just ended, Gigaset AG's **current liabilities** decreased by EUR 32.2 million to EUR 18.8 million (prior year: EUR 51.0 million). At EUR 15.3 million (prior year: EUR 13.5 million), current provisions represent the majority of current liabilities. Other provisions were recognized in particular for legal disputes, guarantee claims and claims asserted for losses as well as for bonus payments. The contributions made in the amount of EUR 1.5 million and reported under non-current liabilities in the prior year for the acquisition of mandatory convertible bonds were reclassified to current liabilities due to their maturity on April 22, 2015. Furthermore, liabilities to associated companies in the amount of EUR 1.4 million (prior year: EUR 23.5 million) and provisions for taxes in the amount of EUR 1.1 million (prior year: EUR 1.0 million) were recognized.

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

3.4.1 Financial performance

In the 2014 fiscal year just ended, the Gigaset Group generated **sales revenue** in the total amount of EUR 326.1 million (prior year: EUR 377.1 million) in a difficult economic environment. After selling the SM Electronic Group in December 2013, no more sales revenue can be attributed to discontinued operations (previous year: EUR 4.7 million). Sales revenue from continuing operations result from the core Gigaset segment and are subject to the typical seasonal fluctuations in the consumer business. The 13.5% year-on-year decrease in sales revenue can be explained in particular by the declining market in the core business Consumer Products. Overall, revenue in Europe fell by 7.7% compared to the prior year to EUR 309.8 million. The decrease in sales revenue in the Americas was due in particular to restrictive import regulations and the negative exchange rate trend in Argentina as well as the change in the distribution model in the USA, Brazil, and Argentina. Sales revenue in the Asia-Pacific/ Middle East region also declined. In particular, the change in the distribution model in the United Arab Emirates and the political unrest in the Middle East are responsible for this development.

Sales revenue developed as follows:

Sales revenue in €m	2014	2013	Change
Europe	309.8	335.8	-7.7%
Americas	1.9	12.7	-85.0%
Asia-Pacific / Middle East	14.4	22.6	-36.3%
Gigaset total	326.1	371.1	-12.1%
Other	0.0	6.0	-100.%
Total	**326.1**	**377.1**	**-13.5%**
of which continuing operations	326.1	371.1	-12.1%
of which discontinued operations	0.0	6.0	-100.%

Other own work capitalized in the amount of EUR 11.4 million (prior year: EUR 17.3 million) can be attributed exclusively to continuing operations and mainly includes costs related to the development of innovative products. Capital investments decreased considerably year-on-year, which can be attributed to the reduction of the research and development budget for 2014 and the postponement of planned projects in 2015.

Other operating income amounts to EUR 35.3 million and is therefore EUR 10.0 million higher than in the comparison period of the prior year. The significant line items include income from exchange rate gains in the amount of EUR 10.1 million (prior year: EUR 7.0 million), income from deconsolidations in the amount of EUR 8.3 million (prior year: EUR 0.0) and income from the reversal of provisions in the amount of EUR 4.8 million (prior year: EUR 7.7 million). Income from the reversal of impairment write-downs and/or from the derecognition of liabilities in the amount of EUR 4.4 million (prior year: EUR 5.1 million) was also realized.

The **cost of materials** for raw materials, merchandise, finished goods, and purchased services was EUR 160.6 million – a decrease of EUR 26.4 million from EUR 187.0 million in the previous year. The cost of materials rate fell from 50.7% to 48.8%, including changes in inventories.

Personnel expenses for wages, salaries, social security contributions and old age pensions amount to EUR 102.3 million, a year-on-year increase of EUR 1.1 million. The increase can be mainly attributed to the EUR 4.7 million increase in provisions for restructuring compared to the prior year. In contrast, wages and salaries as well as expenses for partial retirement due to continuous reduction in the size of the workforce decreased by a total of EUR 3.6 million compared to the prior year.

Other operating expenses in the amount of EUR 95,0 million were incurred in the reporting period (prior year: EUR 119.7 million). These include in particular marketing expenses (EUR 23.7 million; prior year: EUR 32.4 million), general administrative expenses (EUR 13.0 million; prior year: EUR 15.3 million), exchange rate losses (EUR 12.3 million; prior year: EUR 10.4 million), transport costs (EUR 7.8 million; prior year: EUR 10.0 million), warranty provisions (EUR 6.4 million; prior year: EUR 4,2 million) and advisory fees (EUR 5.8 million; prior year: EUR 10.3 million). The cost-saving measures begun in the prior year are being consistently implemented.

EBITDA at 31 December 2014 amounts to EUR 17.5 million (prior year: EUR 7.5 million).

The results can be broken down as follows:

EBITDA in €m	2014	2013	Change
Europe	16.5	29.0	-43.1%
Americas	10.4	-12.6	> 100.0%
Asia-Pacific / Middle East	0.3	0.3	0.0%
Gigaset total	27.2	16.7	62.9%
Holding	-9.7	-5.7	-70.2%
Other	0.0	-3.5	100.0%
Total	**17.5**	**7.5**	**> 100.0%**
of which continuing operations	17.5	11.0	59.1%
of which discontinued operations	0.0	-3.5	100.0%

The improved EBITDA in the Americas region is mainly due to the earnings from the deconsolidation through the disposal of the Gigaset Equipamentos de Comunicação Ltda, São Paulo/ Brazil.

Depreciation and amortization for the current reporting period amounts to EUR 25.0 million (prior year: EUR 26.2 million) and results exclusively from continuing operations. Furthermore, impairment losses were recognized for intangible assets in the amount of EUR 3.0 million (prior year: EUR 0.0 million) in accordance with IAS 36. They relate in full to the accrued expenses previously reported under down payments for the implementation of new software, which however is not expected to be used. The prior year's impairment losses amounting to EUR 1.9 million represent impairment reversals on assets held for sale at SM Electronic GmbH that resulted from the measurement at net realizable value less costs to sell the disposal group as well as the disposal group's associated liabilities.

EBIT can be broken down as follows:

EBIT in €m	2014	2013	Change
Europe	-11.5	2.9	->100.0%
Americas	10.4	-12.6	> 100.0%
Asia-Pacific / Middle East	0.3	0.3	0.0 %
Gigaset total	-0.8	-9.4	91.5%
Holding	-9.7	-5.7	-70.2%
Other	0.0	-1.6	100.0%
Total	**-10.5**	**-16.7**	**37.1%**
of which continuing operations	-10.5	-15.1	30.5%
of which discontinued operations	0.0	-1.6	100.0%

The improved EBIT in the Americas region is mainly due to the earnings from the deconsolidation through the disposal of the Gigaset Equipamentos de Comunicacao Ltda, São Paulo/ Brazil.

Net financial income increased year-on-year by EUR 1.7 million to EUR –2.3 million. This can be explained primarily by the repayment of the syndicated loan in full on July 24, 2014, and the associated lower interest expenses.

The **consolidated net loss for the year** after non-controlling interests amounts to EUR 16.6 million compared to a consolidated net loss of EUR 36.1 million for the prior year.

This results in earnings per share of EUR –0.15 (basic/diluted) (prior year: EUR –0.61 (basic/diluted)).

3.4.2 Cash flow position

Cash flow can be broken down as follows:

€m	2014	2013
Cash flow from operating activities	8.6	-35.0
Cash flow from investing activities	-20.7	-7.2
Free cash flow	-12.1	-42.3
Cash flow from financing activities	3.7	44.9

In 2014, the Gigaset Group recorded **cash inflows from continuing operations** in the amount of EUR 8.6 million, whereas in comparison cash outflows of EUR 35.0 million were recorded in the prior year. The considerable increase in cash flows from continuing operations compared to the prior year can be explained in particular by the higher cash inflows from trade receivables and other assets as well as by the lower cash outflows from trade payables. Furthermore, the increased income from deconsolidation and the increases in inventories have to be seen alongside lower income taxes and lower non-cash income and expenses.

Cash outflows from investing activities amount to EUR -20.7 million and thus clearly exceed the prior year's level of EUR -7.2 million. Whereas the cash payments in the prior year were utilized in particular for investments in non-current assets, cash payments for non-current assets in the current fiscal period decreased by EUR 2.9 million to EUR 2.7 million. The majority of cash outflows from investing activities includes the cash resources disbursed by Gigaset Mobile Pte. Ltd., Singapore, in the amount of EUR 18.0 million in connection with the transitional consolidation to equity method accounting.

Thus, **free cash flow** amounted to EUR -12.1 million compared to EUR -42.3 million in the previous fiscal year.

Cash inflows from financing activities amount to EUR 3.7 million (prior year: EUR 44.9 million). The cash outflows from the successful repayment of the syndicated loan in the amount of EUR 30.2 million are offset by the cash inflows from the capital increase in the amount of EUR 24.6 million and from the issue of mandatory convertible bonds in the amount of EUR 9.3 million.

There are no cash inflows attributable to discontinued operations (prior year: EUR -1.0 million). In addition, cash flow includes changes in exchange rates in the amount of EUR 1.8 million (prior year EUR –1.3 million).

Cash and cash equivalents decreased year-on-year by EUR 6.5 million to EUR 50.5 million.

3.4.3 Financial position

The Gigaset Group's **total assets** as of December 31, 2014, amounted to around EUR 251.2 million and thus decreased by approximately 5.9% compared to the prior year. This can be attributed to the continued adjustment of the portfolio and the associated deconsolidations as well as the declining business with cordless DECT telephones. The further expansion of promising growth markets in the Business Customers and Home Networks segments and the entry in the Mobile Products market were unable to compensate this development.

Non-current assets increased slightly by EUR 4.2 million to EUR 106.0 million compared to December 31, 2013. The increase can be attributed mainly to the EUR 21.3 million increase in the equity-accounted investment in Gigaset Mobile Pte. Ltd., Singapore (prior year: EUR 0.0 million), which was still classified as a consolidated subsidiary in the prior year. Due to the loss of control in the first quarter of 2014, the investment in Gigaset Mobile Pte. Ltd., Singapore, was deconsolidated and included in the consolidated financial statements using equity method accounting as a result of the significant influence. Depreciation and the disposals from property, plant and equipment exceeded the investments in property, plant and equipment; as a result, property, plant and equipment decreased by a total of EUR 6.0 million to EUR 33.7 million. A decrease of EUR 8.0 million to EUR 37.5 million was also recorded for intangible assets. This results in particular from the amortization of capitalized expenses for the implementation of software that is not expected to be used.

Current assets represent 57.8% of total assets. These decreased by EUR 20.1 million compared to the prior year and now amount to EUR 145.2 million. At EUR 28.2 million (previous year: EUR 27.5 million), inventories are at a typically low level following the Christmas shopping season. Trade receivables decreased by EUR 12.1 million to EUR 38.1 million, which can be mainly attributed to a round of factoring that was delayed in the prior year due to the holidays. Other assets in the amount of EUR 27.3 million (prior year: EUR 28.5 million) include in particular purchase price retentions from the factoring, as well as value added tax receivables and deposits. Furthermore, the portfolio of cash and cash equivalents decreased year-on-year from EUR 57.0 million to now EUR 50.5 million. Please refer to the statement of cash flows in the notes for a breakdown of changes in cash and cash equivalents.

Total liabilities amount to EUR 210.1 million, 58.4% of which are current. The Group's total debt was decreased by an additional EUR 18.3 million in the current fiscal year following the significant reduction of debt in the preceding fiscal years.

The Gigaset Group's **equity** amounted to around EUR 41.2 million as of December 31, 2014, and is EUR 2.5 million higher than at the beginning of the year. The successfully executed capital increase in July 2014 in the amount of EUR 25.0 million and the issue of the convertible bond in the amount of EUR 9.5 million increased the subscribed capital by a total of EUR 34.5 million. The loss of the year amounts to EUR 16.6 million and partially compensates the positive effects from the capital increase. The actuarial losses from the lower discount rates for the measurement of pension obligations in the amount of EUR 23.9 million and the corresponding deferred taxes amounting to EUR 7.3 million are Equity as a percentage of assets as of the reporting date amounts to around 16.4% (prior year: 14.5 %).

Non-current liabilities mainly include pension obligations and deferred tax liabilities as well as long-term provisions for personnel expenses and provisions for guarantees. The increase in non-current liabilities of EUR 16.2 million to EUR 87.4 million mainly results from the considerable increase in pension obligations that increased accordingly in particular due to a reduction in the discount rate from 3.4% at the prior year's reporting date to 2.1% as of December 31, 2014. In contrast, deferred tax liabilities decreased by EUR 11.4 million to EUR 3.9 million.

At EUR 122.7 million, **current liabilities** are around 22.0% lower than reported in the annual financial statements as of December 31, 2013. **Current provisions** are primarily characterized by the decrease in other provisions of EUR 3.2 million to EUR 18.8 million as well as the lower provision for expected losses in the amount of EUR 0.9 million (prior year: EUR 3.2 million). The decrease in other provisions includes in particular the loss of provisions for taxes on the part of a foreign subsidiary that has meanwhile been deconsolidated in light of an insolvency. In contrast, an increase in restructuring provisions of EUR 2.1 million to now EUR 4.8 million was recorded. Current **financial liabilities**, which still included the syndicated loan in the amount of EUR 30.2 million in the prior year, were repaid in full in the current fiscal year from the cash inflows in connection with the capital increase and the issuance of the convertible bond. In contrast, trade payables decreased by EUR 8.8 million to EUR 62.6 million as a result of the optimized procurement and production process adjusted to declining sales revenue. In contrast, an increase in other liabilities of EUR 3.8 million was recorded, which is primarily related to the increase in provisions for personnel expenses of EUR 6.5 million to EUR 8.3 million.

3.4.4 General assessment of the Group's economic situation

As in the prior year, fiscal year 2014 was characterized by a declining telecommunications market. The Company is countering the decline in sales revenue in Europe by entering into new business segments as well as by expanding the portfolio in the Consumer Products segment. Whereas the Company in America and the Asia-Pacific/Middle East region had to accept considerable decreases in sales revenue, the decrease in sales revenue in Europe remained in the mid-single-digit percentage range. The expansion of the Business Customers and promising Home Networks segments were further advanced and the first successes in the Mobile Products segment were realized. The Group's liquidity plan was further stabilized due to the successful placement of the capital increase and the issuance of the convertible bond as well as the repayment of all liabilities to banks, including all interest. Whereas EBITDA of EUR 17.5 million at year-end (prior year: EUR 7.5 million) had clearly developed positively, consolidated net profit or loss was characterized by a high tax burden in the amount of EUR –3.8 million (prior year EUR –15.4 million) despite the clear improvement compared to the prior year.

Overall, the business trend corresponds with the expectations and the forecasts given in the outlook of the annual financial statements. Sales revenue decreased by 13.5% and is therefore in the expected lower double-digit percentage range. EBITDA was improved from EUR 7.5 million to EUR 17.5 million and thus corresponds to the considerable improvement in the operating business forecasted by us. Free cash flow in the amount of EUR –12.1 million (prior year: EUR –42.3 million) lies in the expected lower double-digit millions.

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

	2014	2013
Equity ratio	16.4 %	14.5 %
Ratio of non-current assets to total assets	36.8 %	31.9 %
Debt capital structure	58.4 %[18]	68.9 %
Return on sales	negative	negative
Return on equity	negative	negative
Return on investment	negative	negative

[18] Debt capital structure = current debt/ total debt

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 plays 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 primary 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, 3.2.6, and 3.2.7.

4 OPPORTUNITIES AND RISK REPORT AS OF DECEMBER 31, 2014

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 classification
< 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 classification
Market related risks	
Economic situation | branche | competitors	*
Products | patents | certifikates	**
Legal framework	*
Customers	*
Company and process risks	*
Financial risks	
Tax risks	***
Liquidity risks	*
Foreign currency exchange rate	**
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 Business with mobile devices, Gigaset is committing to marketing new product groups. 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 mobile devices 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 as well as in Russia and neighboring former CIS countries 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[19]. 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.

[19] Strategy Analytics, November 2014

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. Dies gilt insbesondere für den Markteintritt in den Tablet-Markt und für die Vorbereitungen des geplanten Markteintritts in den Smartphone-Markt. Gigaset could be exposed to additional risks in its new Home Networks segment, in particular liability risks.

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

Gigaset 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. The fact that Gigaset could violate the intellectual property of third parties or be obligated to pay for the use of third-party intellectual property can also not be ruled out.

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 mobile devices 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.

4.4 Financial risks

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

4.4.1 Liquidity of the Gigaset Group

Operations are financed both through own funds as well as through working capital lines of credit under a syndicated loan agreement.

As a result of the capital measures executed in October 2013 and July 2014, the Company's liquidity requirements have relaxed for a short time. The Company is completely free of bank debt after repaying the syndicated loan liabilities in July 2014.

A further decrease in sales revenue or a further increase in purchase prices in the course of the euro crisis could force the Company to raise new loans to bridge the summer months. The Group could be jeopardized as a going concern if additional liquidity cannot be procured as planned.

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

Gigaset AG has been free of bank debt since repaying the syndicated loan in July 2014.

4.4.3 Interest rate, currency and liquidity risks

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

In the Gigaset Group, income arises and expenses are also incurred in foreign currencies, e.g. for the procurement of numerous components for production that are paid for in U.S. dollars. As a rule, the associated currency risk is hedged by financing international activities in matching currencies or in individual cases by using derivative financial instruments to hedge foreign currency exposures.

If the financial crisis in Russia should expand, it could lead to a sharp drop in sales in Russia in the medium term. The Company currently delivers in Russia and the CIS countries only when paid in advance, thereby reducing its currency risk in rubles.

The sustained strength of the U.S. dollar increases the costs for a large part of the components used in production. Since a trend reversal is not foreseeable at this time, this will lead to an increase in manufacturing costs, despite currency hedging in the medium term. However, in contrast to its competitors from Asia, Gigasets manufacturing costs are not entirely determined by the dollar. As a result, Gigaset is under little pressure with respect to its sales prices from its customers, who are primarily located in Europe; however, it must pass the increased procurement prices on to its customers. Since the market has not yet provided any feedback on possible price increases and it cannot be ruled out that this can lead to an additional decrease in sales, the effects of the exchange rate fluctuations are not fully foreseeable at this time.

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 order to cover cash flow risks and to guarantee the liquidity in the group, Gigaset uses serveral instruments to re- finance and to reduce risks in the portfolio of account receivables e.g. factoring or commercial credit insurance

In case of expiration or termination of the existing factoring contracts or in case of a renegotiation of the terms and conditions of such arrangements, Gigaset is economically dependent on conditions then available.

The handling of interest risks, foreign exchange rate risks and liquidity risks is done centrally in cooperation with the finance 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 topic in particular are 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.

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

4.6.2 Legal disputes involving Gigaset AG

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

Cartel cases involving SKW:

In July 2009, the European Commission imposed a total administrative fine of EUR 61.1 million on various European companies in the calcium carbide sector in connection with an investigation under anti-trust laws. An administrative fine totaling EUR 13.3 million was imposed jointly and severally against SKW Stahl-Metallurgie GmbH, which was directly involved in the cartel, as well as its parent company SKW Stahl-Metallurgie Holding AG (hereinafter both together "SKW"). As the group parent company at the time, Gigaset AG is now also joint and severally liable for this administrative fine by order of the European Commission because it formed an "entrepreneurial unit" with SKW.

Gigaset AG provisionally paid an amount of EUR 6.65 million to the European Commission toward the fine in the years 2009 to 2010 (i.e. for the duration of the appeal) while simultaneously defending itself against the fine by filing a suit. In its decision handed down on January 23, 2014, the European court of first instance (European General Court) partially upheld the action brought by Gigaset AG (formerly: ARQUES Industries AG) against the fine imposed by the European Commission in the cartel case involving SKW and reduced Gigaset AG's administrative fine by EUR 1.0 million. The action was otherwise dismissed. The judgment against Gigaset AG is final. The action brought by SKW was refused, i.e. the administrative fine imposed on it was not reduced. SKW has filed an appeal against this judgment.

Based on a preliminary legal assessment, Gigaset expects a portion of the fine that has already been paid to be reimbursed as a result of the judgment. Parallel to the legal dispute that has been decided, Gigaset AG filed a suit against SKW in a civil court on the grounds that SKW alone should bear the administrative fine as the originator of the cartel and consequently should reimburse Gigaset AG for the administrative fine it has already paid. Gigaset continues to hold the view that, as a direct participant in the cartel, SKW alone should bear the cost of the fine internally. In the legal dispute between Gigaset and SKW regarding this, Gigaset considers itself confirmed insofar by the decision handed down by the Federal Court of Justice on November 18, 2014, which referred the matter back to the lower court for renewed negotiation and a decision.

Evonik in the matter of Oxxynova:

Evonik Degussa GmbH demanded that the Company pay a purchase price adjustment of EUR 12.0 million based on a share purchase agreement dated September 8, 2006. It submitted a corresponding request for arbitration against the Company dated April 30, 2012, at Deutsche Institution für Schiedsgerichtsbarkeit e.V. Under this share purchase agreement, Oxy Holding GmbH had 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 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, Gigaset AG undertook as the guarantor to guarantee certain obligations on the part of Oxy Holding GmbH, also including the production site guarantee. In a written statement of the case as well as in the oral proceedings in June 2013, Evonik Degussa GmbH took the view that Oxy Holding GmbH violated its obligations arising from the production site guarantee, because its subsidiary Oxxynova GmbH closed the site in Lülsdorf in 2007. The shareholding increased in value as a result, which is why a purchase price adjustment of EUR 12.0 million is to be paid, for which the Company as guarantor is joint and severally liable.

The court of arbitration dismissed the action for a purchase price adjustment from 2007 in a decision handed down on November 30, 2013, but ordered Gigaset AG to pay Evonik a contractual penalty of EUR 3.5 million due to the final closing of the plant in 2010.

After a careful examination of the award, Gigaset AG decided in February 2014 to seek to have it set aside by the competent higher regional court due to a clear lack of due process of law. After this appeal was not successful, Gigaset AG as the guarantor paid EUR 3.5 million plus interest in the amount of EUR 1.3 million to Evonik. In addition Gigaset claimed this amount towards the principal debtor OXY Holding GmbH . Since adequate provisions had been set aside for this in prior years, the payment had no impact on net profit for the year.

Sommer Road Cargo Solutions GmbH & Co. KG:

The insolvency administrator of Sommer Road Cargo Solutions GmbH & Co. KG ("Sommer") had brought charges against Gigaset AG and its former Executive Board member Dr. Martin Vorderwülbecke. Sommer was an investee of ARQUES Industries AG from October 2005 until March 2009. The plaintiff demanded that the defendant pay EUR 3.0 million on a joint and severally liable basis. The plaintiff alleged that, as the group parent company of the Sommer Group at the time in 2007, ARQUES Industries AG unlawfully demanded that Sommer repay a loan and/or carried out a constructive distribution of dividends from Sommer Group's assets in the form of contractual terms inconsistent with arm's length standards and thus, among other things, violated the applicable capital maintenance rules.

Sommer thereby incurred a loss equal at least to the amount in dispute, for which Gigaset in its present form should be jointly and severally liable together with the managing director at the time and Executive Board member Dr. Vorderwülbecke. Insolvency proceedings were initiated against Sommer's assets on December 31, 2009.

After extensively weighing the risks and opportunities, Gigaset AG effected a compromise with Sommer's insolvency administrator in October 2013 according to which Gigaset AG had to pay an amount of EUR 0.8 million in installments by January 31, 2014. Gigaset paid this amount on time and in full in accordance with the payment plan by means of installments totaling EUR 0.2 million by December 31, 2013, and a final installment of EUR 0.6 million on January 31, 2014. The proceedings were completed when the settlement was paid in full.

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.

In individual cases, sureties, guaranties, or warranties were granted to an appropriate extent. The Executive Board estimates the likelihood that such claims will be asserted as low or very low; as a result, Gigaset is not aware of any risks that could justify claims against the Company for liabilities on the part of the disposed equity investments.

4.8 General statement to the opportunities and risk report

Gigaset's significant opportunities lie in the further development of the promising Business Customer and Gigaset elements segments, as well as in the further development of the tablet and smartphone market. The mutual operations with Goldin Fund Pte. Ltd., Singapore, regarding the market entry in the smartphone business also represent an opportunity.

The main risk arises from securing liquidity through alternative sources of financing. Furthermore, the declining sales trend in the current core business represents a risk if the expected sales growth in the segments with potential for growth cannot offset the decline in sales in the core business. Furthermore, the sustained strength of the U.S. dollar increases the costs for a large part of the components used in production. Since the effects on the market are currently unforeseeable, the economic consequences of the exchange rate fluctuations for the Company can also not be appraised at this time. In addition, risks can result from past and future tax issues.

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, compliance, 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. Safeguarding 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, in particular the Audit Committee, is also integrated in Gigaset's internal monitoring system with process-independent audit activities.

5.2 Structural information

- The accounting is carried out in the Gigaset Group both locally in the subsidiaries as well as centrally in the 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 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. Risks are identified, systematically recorded, and measured and measures are defined wherever the greatest expertise and potential for assessment prevail.

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

R2C_risk to chance provides Gigaset with a systematic, web-based risk management system with which all risks can be recorded group-wide and presented in consolidated form for each company or from the perspective of the Group. The individual risks can be efficiently managed at the Group 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. However, personal discretionary decisions, flawed controls, and other mistakes or circumstances cannot normally be entirely ruled out; their occurrence can limit the effectiveness of the implemented control and risk management system.

6 REPORT PURSUANT TO SECTIONS 289 (4) AND 315 (4) HGB

Sections 289 (4), 315 (4) (1) HGB: As of December 31, 2014, the subscribed capital of Gigaset AG amounted to EUR 121,498,092. It is divided into 121,498,092 no-par bearer shares, each representing an imputed share of capital equal to EUR 1.00. Each share confers the same rights and one vote. This number includes 46,828 shares created by operation of law during the course of fiscal year 2014 from the conversion of convertible bonds, which had not yet been entered by way of correction in the Commercial Register as of December 31, 2014; for this reason, the Commercial Register as of December 31, 2014 showed subscribed capital of EUR 121,451,264 divided into 121,451,264 shares conferring 121,451,264 voting rights.

Sections 289 (4), 315 (4) (2) HGB: As a general rule, the shares are freely transferrable within the scope of applicable laws and regulations. Restrictions on the voting rights conferred by the shares may arise from the provisions of the German Stock Corporations Act (AktG) and other laws. Under certain conditions, for example, shareholders may be subject to a voting prohibition (Section 136 AktG). Furthermore, the Company holds no rights and therefore no voting rights in respect of treasury shares (Section 71b AktG). The Executive Board is not aware of any contractual restrictions on the voting rights or transfer of the Company's shares. However, reference is made to the fact that the Executive Board, employees and other persons who have access to insider information are restricted by the Company's Insider Guideline.

Sections 289 (4), 315 (4) (3) HGB: At the time of this report, the Company had received the following notices of capital holdings exceeding ten percent of voting rights:

On October 9, 2014, Goldin Fund Pte. Ltd., Singapore, notified the Company in accordance with Section 25a (1) WpHG, on behalf of Mr. Pan Sutong, Hong Kong, that the voting rights share of Mr. Sutong in Gigaset AG exceeded the threshold of 75% on July 23, 2014, and now represents 76.55% (corresponding to 93,010,710 voting rights) of the total 121,498,092 voting rights in the Company. According to the notification, this number includes 9,337,935 voting rights (7.69%) based on (financial / other) instruments according to Section 25a WpHG, as well as 83,672,775 voting rights (68.87%) according to Sections 21, 22 WpHG.

The Company points out that the (financial / other) instruments, the exercise of which will lead to the creation of new voting rights, are not yet included in the basic quantity of voting rights for purposes of the disclosures pursuant to Section 25a WpHG. The exercise of the instruments according to Section 25a WpHG will give rise to new voting rights, thus increasing the total quantity of voting rights and necessitating a recalculation of voting right shares.

Sections 289 (4), 315 (4) (4) HGB: At the time of this report, there existed no shares endowed with special rights conferring powers of control.

Sections 289 (4), 315 (4) (5) HGB: There are no provisions applicable to a coordinated exercise of the voting rights of shareholding employees.

Sections 289 (4), 315 (4) (6) HGB: The appointment and dismissal of Executive Board members are governed by the provisions of Sections 84 ff. AktG. According to Article 5 para. 1 of the Articles of Association, the Supervisory Board only determines the exact number of Executive Board members. The responsibility and requirements to be met for amending the Articles of Association are governed by the provisions of Sections 179-181 AktG. At the present time, the Company does not consider it necessary to adopt specific rules in the Company's Articles of Association. The further statutory provisions are found in the Stock Corporations Act (AktG), and the provisions of the Articles of Association are found in Section II (Executive Board) and Section III (Supervisory Board) and Article 16 of the Articles of Association.

Sections 289 (4), 315 (4) (7) HGB

› Contingent Capital 2011 (Article 4.3 of the Articles of Association)

The annual shareholders' meeting of July 3, 2008 created the possibility of a stock option plan with the "Contingent Capital 2008/I." By resolution of the annual shareholders' meeting of June 10, 2011, the Stock Option Plan 2008 and the Contingent Capital 2008/1 created for that purpose were annulled and a "Contingent Capital 2011" was created for the purpose of introducing a "Stock Option Plan 2011."

Under this resolution, the Company's share capital is conditionally increased by a nominal amount of up to EUR 1,300,000.00 through the issuance of up to 1,300,000 new bearer shares ("Contingent Capital 2011"). The contingent capital increase only serves the purpose of granting subscription rights ("warrants") to members of the Company's Executive Board, selected employees, and members of the Management and selected employees of affiliated companies ("subscription right beneficiaries") in connection with the "Gigaset AG Stock Option Plan 2011" ("Stock Option Plan"), which are to be issued in accordance with the more detailed provisions of the resolution of the annual shareholders' meeting of June 10, 2011. The contingent capital increase may be conducted only insofar as options are granted in connection with the stock option plan, the subscription right beneficiaries exercise these options, and the Company does not settle the options by granting treasury shares or cash compensation. The new shares qualify for dividends from the beginning of the fiscal year in which they were issued.

To this extent, the annual shareholders' meeting of June 10, 2011 authorized the Supervisory Board to grant options to members of the Company's Executive Board in connection with the stock option plan in the time until December 31, 2014. In connection with the Stock Option Plan, the Executive Board is authorized with the consent of the Supervisory Board to grant options to the other subscription right beneficiaries in the time until December 31, 2014. Insofar as members of the Management and employees of affiliated companies are affected, options will be granted in agreement with the respective governing bodies responsible for the compensation of these subscription right beneficiaries.

Other basic elements of the Stock Option Plan are presented below:

1. Content of options: Each option confers the right to purchase one share of Gigaset AG ("Gigaset share").

2. Group of subscription right beneficiaries: Member of the Company's Executive Board, selected employees of the Company, and members of the Management and selected employees of affiliated companies are eligible to subscribe the stock options. In total, up to 1,300,000 options may be granted ("total volume") for all groups in the time until December 31, 2014. The options are divided among the individual groups of beneficiaries as follows:

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

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

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

3. Purchase periods: Options may be granted in one or more tranches within 45 (forty five) days of the announcement of the results of the past fiscal year, or within 45 (forty five) days of the date of announcement of the results of the first, second, or third quarter of an ongoing fiscal year, but no later than two weeks before the end of the current quarter. The date of granting of the options ("grant date") should be uniform for the tranches, and shall be established by the Supervisory Board insofar as members of the Executive Board are affected, otherwise by the Executive Board.

4. Life of options, blocking periods: Options have a total life of 7 years from the grant date and may be exercised for the first time after expiration of a vesting period. The vesting period is at least 4 years from the grant date. Options that are not exercised by the end of their lives will be forfeited without replacement or compensation. Options may not be exercised in the period of 15 calendar days prior to the end of any quarter or fiscal year, up to and including the first trading day after publication of the quarterly results or annual results ("blocking periods"). In addition, the beneficiaries must observe the restrictions arising from general laws and regulations, including the Securities Trading Act (insider trading laws).

5. Success targets and exercise price

   (a) Success targets: The determining value for measuring the attainment of success targets is the unweighted opening price of the Gigaset share in the XETRA trading system (or comparable successor system) of the Frankfurt Stock Exchange on the option exercise date or with respect to the relative success target, and the level of the TecDAX (or comparable successor index) on the grant date and on the option exercise date.

   Options may be exercised only

   - If the opening price of the Gigaset share in the XETRA trading system (or comparable successor system) of the Frankfurt Stock Exchange on the option exercise date is at least 15% higher than the exercise price ("absolute success target"), and

   - If the price of the Gigaset share in the XETRA trading system (or comparable successor system) of the Frankfurt Stock Exchange has outperformed the TecDAX (or comparable successor index) in the period between the grant date and the exercise date ("relative success target").

   If the absolute and relative success targets have been attained, each option may be exercised within its respective life, in observance of the provisions of the Gigaset AG Stock Option Plan 2011.

   (b) Exercise price: The exercise price for a Gigaset share when an option is exercised is equal to the unweighted average of the opening price of the Gigaset share in the XETRA trading system (or comparable successor system) of the Frankfurt Stock Exchange in the ten trading days of the Frankfurt Stock Exchange prior to the respective option grant date. The lowest issue amount within the meaning of Section 9 (1) AktG represents the minimum exercise price to be paid.

6. Capital and structural measures, protection from dilution: If the Company increases its share capital while at the same time granting a direct or indirect subscription right to the shareholders during the life of the option, the exercise price shall be reduced in accordance with the terms and conditions of the options. It shall not be reduced if the beneficiary receives a direct or indirect subscription right for the new shares that would place him in the same position as though he had already exercised the options under the Stock Option Plan. The terms and conditions of the options may pre-

scribe adjustment rules applicable to other cases of capital, structural, or comparable measures. Section 9 AktG remains unaffected. The option terms and conditions must stipulate an appropriate upper limit on option gains in case of extraordinary developments. The same shall apply also if option gains would result in an inappropriately high overall compensation of the individual beneficiary.

7. Non-transferability: The options are not transferrable and may only be exercised by the beneficiaries, as a rule. However, the options are heritable. The option terms and conditions may stipulate that the heir or heirs of the beneficiary must exercise the options within three months of inheritance, but not earlier than after expiration of the vesting period.

8. Settlement of the options: The beneficiaries may be offered the option, at the choice of the Company, of purchasing the Company's treasury shares or receiving a cash settlement in lieu of the issuance of Gigaset shares from the Contingent Capital 2011 created for this purpose. The decision as to which alternative will be offered to the beneficiaries in every case shall be made by the Supervisory Board insofar as the beneficiaries are members of the Company's Executive Board, and otherwise by the Executive Board. In making this decision, the Executive Board and Supervisory Board shall be guided solely by the interest of the shareholders and the Company. The option terms and conditions shall be drafted in such a way as to allow the elective option for the Company. The cash settlement should be equal to the difference between the exercise price and the opening price of the Gigaset share in the XETRA trading system (or comparable successor system) on the option exercise date.

9. Other rules: The further details applicable to the granting and settlement of options and the further exercise conditions shall be established by the Supervisory Board, insofar as members of the Company's Executive Board are affected. For the other beneficiaries, this shall be done by the Executive Board, and insofar as members of the Management and employees of affiliated companies are affected, this shall be done in agreement with the respectively competent governing bodies. The other rules comprise the following, particular:

   (a) The allotment of options to individual beneficiaries or groups of beneficiaries,

   (b) The adoption of provisions applicable to the fulfillment of the Stock Option Plan,

   (c) The procedure for the granting and exercise of options,

   (d) The adoption of holding periods beyond the minimum vesting period of 4 years, particularly including the adoption of graduated holding periods for specific sub-quantities of the options granted, as well as the amendment of holding periods within the scope of legal requirements in special cases, such as a change of control over the Company,

   (e) The rules applicable to the treatment and exercise of options in special cases, such as (for example) the departure of the beneficiary from the Company, change of control over the Company, or the conduct of a "squeeze-out" procedure.

10. Taxes: The beneficiaries shall bear all taxes incurred in connection with the granting or exercise of the options or upon the sale of Gigaset shares by the beneficiaries.

11. Reporting obligation: The Executive Board and Supervisory Board shall report on the utilization of the Stock Option Plan and the options granted to beneficiaries in the Annual Report for the corresponding year.

The authorization granted in Article 4.3 of the Articles of Association in respect of "Contingent Capital 2011" has not yet been utilized.

› 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 consent of the Supervisory Board to issue bonds with warrants and/or convertible bonds. The Executive Board exercised this authorization in 2013 and carried out a convertible bond issue ("Convertible Bond 2013") in the amount of up to EUR 23,500,000 with the consent 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 an imputed nominal value of EUR 23,340,289. Therefore, the imputed balance of Contingent Capital 2012 available for other future capital measures is EUR 159,711.

Under the Convertible Bond 2013, a total of 21,812,534 new shares representing an imputed nominal value of EUR 21,812,534 were issued by the end of fiscal year 2013, so that the Executive Board was still authorized as of December 31, 2013 to issue bonds with warrants and/or convertible bonds under the Contingent Capital 2012 (Article 4.4 of the Articles of Association) in the nominal amount of EUR 1,687,466.00. Of this amount, however, EUR 1,527,755 was reserved for the conversion of convertible bonds under the Convertible Bond 2013 that had already been issued, but not yet converted.

During the course of fiscal year 2014, another 46,828 new shares representing an imputed nominal value of EUR 46,828 had been issued under the Convertible Bond 2013, so that the Executive Board was still authorized as of December 31, 2014 to issue bonds with warrants and/or convertible bonds under the Contingent Capital 2012 (Article 4.4 of the Articles of Association) in the nominal amount of EUR 1,640,638. Of this amount, however, EUR 1,480,927 was reserved for the conversion of convertible bonds under the Convertible Bond 2013 that had been issued, but not yet converted.

› Authorized Capital 2010 and Authorized Capital 2013/II (Article 4.5 of the Articles of Association)

The Authorized Capital 2010 originally provided for by Art. 4 (5) (old version) of the Articles of Association was largely depleted by the utilization of the corresponding authorization in 2013; only EUR 262,286.00 of it still remained. This Authorized Capital 2010 was therefore annulled by a resolution of the special shareholders' meeting held on December 19, 2013.

By resolution of the special 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 consent of the Supervisory Board to increase the share capital in the period up to December 18, 2018, on one or more occasions by up to EUR 25,000,000.00 through the issuance of new no-par bearer shares qualifying for dividends 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 may 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 consent of the Supervisory Board to decide on the contents of the share rights and the terms under which the shares are to be issued, as well as the details of the execution of the capital increase.

Furthermore, the Executive Board is authorized with the consent of the Supervisory Board to exclude 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 excluding shareholders' pre-emptive rights in exchange for cash contributions at either December 19, 2013, or at the effective date or the date on which this authorization is exercised. The proportionate amount of share capital attributed to shares that are issued or sold in the time from December 19, 2013 to when this authorization expires while excluding shareholders' pre-emptive rights directly or indirectly pursuant to Section 186 (3) (4) AktG is to be applied toward this amount of 10% of the share capital. Furthermore, the proportionate 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 debentures were issued during the term of this authorization while excluding shareholders' pre-emptive subscription rights pursuant to Section 186 (3) (4) AktG must also be applied toward this amount;

b) To the extent necessary in order to grant to the bearers or creditors of convertible bonds or bonds with warrants that have been or will be issued by the Company or subordinated 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 further authorized to adapt the wording of the Articles of Association to reflect the respective scope of the capital increase under the Authorized Capital 2013/II."

The Company utilized the full amount of this Authorized Capital 2013/II in the early summer of 2014. By resolution of July 15, 2014, the Company's Supervisory Board corrected the wording of the Articles of Association in that it eliminated Article 4 No. 5.

› Authorized Capital 2014 (Article 4 para. 6 of the Articles of Association)

The Authorized Capital 2013 originally contained in Article 4 para. 6 (old version) of the Articles of Association was largely depleted through the utilization of the authorization and existed still only in the amount of EUR 98,509.00.

In a new Article 4 para. 6 of the Articles of Association, the Executive Board was authorized with the consent of the Supervisory Board to increase the share capital on one or more occasions by a total of up to EUR 22,000,000.00 through the issuance of up to 22,000,000 new bearer shares qualifying for dividends from the beginning of the fiscal year in which they were issued against payment of cash capital contributions in the time until August 11, 2019 (Authorized Capital 2014). The shareholders are entitled to a pre-emptive subscription right. The new shares may 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 consent of the Supervisory Board to establish the content of share rights and the terms and conditions of the share issue, as well as details applicable to the conduct of the capital increase.

This authorization has not yet been utilized to date.

› 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 consent of the Supervisory Board to issue bonds with warrants and/or convertible bonds. The Executive Board exercised this authorization in 2013 with the consent of the Supervisory Board and issued convertible bonds for an amount 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) had a remaining balance 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 special 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. This resolution is the subject of an action for annulment pursuant to Section 246 AktG; in its ruling of April 7, 2014, however, the Munich Higher Regional Court established in accordance with Section 246a AktG that the action for annulment does not stand in the way of entering the resolution in the Commercial Register, and any defects in the resolution of the annual shareholders' meeting will not affect the validity of the entry.

Therefore, the annual shareholders' meeting resolved to conditionally increase the share capital by up to EUR 9,500,000.00 through the issuance of up to 9,500,000 new no-par bearer shares qualifying for dividends from the beginning of the fiscal year in which they are issued. The conditional capital increase serves the purpose of granting shares to the bearers or creditors of bonds with warrants and/or convertible bonds issued by the Company or a subordinated Group company in the time until December 18, 2018 against cash compensation, on the basis of the authorization of the annual shareholders' meeting of December 19, 2013. New shares are issued respectively at the option or conversion price specified under the aforementioned authorization. The conditional capital increase may be carried out only insofar as option rights and/or conversion rights arising from the bonds are exercised and/or conversion requirements from the debentures are met, and insofar as cash compensation is not paid or treasury shares are not offered for subscription. The Executive Board is authorized with the consent of the Supervisory Board to establish the 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 consent 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 ("subordinated Group companies"), bearer or registered bonds with warrants and/or convertible bonds with or without a term limitation for a total nominal amount of up to EUR 150,000,000.00 (the "debentures"), and

   - To assume the guarantee for such debentures issued by subordinate Group companies of the Company, and

- To grant to the bearers or creditors of debentures options and/or conversion rights for a total amount of up to 9,500,000 no-par 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 debentures.

- The individual issues may be subdivided into individual bonds, each bearing the same rights, and must be issued in exchange for cash.

In the case of issuance of bonds with warrants, one or more warrants that entitle the bearer or creditor, as the case may be, to subscribe Gigaset shares according to the terms of the bond or option will be attached to each bond.

The relevant warrants may be separable from the respective 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 bearers or creditors will have the right or obligation, as the case may be, to convert their convertible bonds to Gigaset shares as provided for 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 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 terms of the bond issue may further provide for a conversion requirement. The proportionate amount of the share capital for the shares to be subscribed for each bond may not exceed the nominal value or issue price, if the issue price is less than the nominal value, of the convertible bond.

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

As a general rule, the shareholders are entitled to pre-emptive subscription rights for the debentures; the debentures 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 consent of the Supervisory Board to exclude shareholders' pre-emptive right to subscribe the debentures,

- Insofar as the issue price is not significantly lower than the theoretical market value of the debentures as determined by recognized financial-mathematical methods; this shall 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 proportionate amount of share capital attributed to shares that are issued or sold in the time from December 19, 2013 to when this authorization expires while excluding shareholders' pre-emptive rights directly or indirectly pursuant to Section 186 (3) (4) AktG must be applied toward this amount of 10% of the share capital. Furthermore, the proportionate amount of the share capital for the shares that were issued to settle option and/or conversion rights or conversion requirements or can still be issued if the underlying debentures were issued during the term of this authorization on the basis of another authorization while excluding the shareholders' pre-emptive rights pursuant to Section 186 (3) (4) AktG must also be applied toward this amount,

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- In order to remove fractional amounts resulting from the subscription ratio from the shareholders' pre-emptive rights, or

- In order to grant to the bearers or creditors of options or conversion rights or conversion requirements subscription rights, so as to compensate for dilution, to the extent to which they would be entitled after the exercise of those rights or the satisfaction of those obligations.

c) Option or conversion price, protection from dilution

aa) The option or conversion price may not be less than 80% of the stock exchange price of Gigaset stock in the Xetra trading system (or in a comparable successor system). This price is to be determined as the average closing price on the ten trading days before the Executive Board's final decision to publish an offer for the subscription of debentures 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 for in further detail in the debentures terms and conditions, or cash components may be amended, or subscription rights may be granted if the Company increases the share capital before the expiration of the option or conversion term while granting pre-emptive subscription rights to its shareholders, or if it issues or guarantees further debentures without granting the bearers of option rights and/or the creditors of convertible bonds a subscription right equivalent to the right to which they would be entitled after exercising their option or conversion rights or conversion requirements. The same will also apply to other measures that may result in a dilution of the value of the option and/or conversion rights or conversion requirements. In any case, however, the proportionate amount of the share capital for the shares to be subscribed for each bond may not exceed the nominal amount of the bond or the lower issue price.

Sections 9 (1) and 199 AktG remain unaffected.

d) Further structuring alternatives

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

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

"7. The share capital is conditionally increased by up to EUR 9,500,000.00 through the issuance of up to 9,500,000 new no-par bearer shares qualifying for dividends in the time from the beginning of the fiscal year in which they are issued. The contingent capital increase serves the purpose of granting shares to the bearers or creditors of options and/or convertible bonds issued by the Company or a subordinated Group company until December 18, 2018 against cash compensation, on the basis of the authorization by the shareholders' meeting of 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 be carried out only insofar as option rights and/or conversion rights arising from the bonds are exercised and/or conversion requirements from the debentures are met, and only insofar as cash compensation is not paid or treasury shares are not offered for subscription. The Executive Board is authorized with the consent of the Supervisory Board to establish the other details regarding the execution of the conditional capital increase (Contingent Capital 2013)."

In 2014, the Executive Board utilized this authorization with the consent of the Supervisory Board to issue a convertible bond ("Convertible Bond 2014"). In total, the Company issued 9,476,877 convertible bonds conferring the right to convert into 9,476,877 shares representing an imputed nominal value of EUR 9,476,877.

No new shares were issued under this Convertible Bond 2014 in the time until December 31, 2014. Therefore, the Contingent Capital 2013 still formally exists in the amount of EUR 9,500,000, although EUR 9,476,877 of this amount is already reserved for the conversion of convertible bonds under the Convertible Bond 2014 that have been issued, but not yet converted. The imputed freely available balance of Contingent Capital 2013 amounted to EUR 23,123 as of December 31, 2014.

› Contingent Capital 2014 (Article 4 para. 8 of the Articles of Association)

Because the authorization of the Executive Board set out in Article 4.4 of the Articles of Association to issue bonds with warrants and/or convertible bonds, and the Contingent Capital 2012 created for that purpose, and the authorization of the Executive Board set out in Article 4.7 of the Articles of Association to issue bonds with warrants and/or convertible bonds, and the Contingent Capital 2013 created for that purpose were largely depleted, the annual shareholders' meeting of August 12, 2014 resolved a new, additional authorization to issue bonds with warrants and/or convertible bonds, and a new Contingent Capital 2014 for this purpose, and amended the Articles of Association accordingly.

By virtue of this authorization, the share capital is conditionally increased by up to EUR 35,000,000.00 through the issuance of up to 35,000,000 new bearer shares qualifying from dividends from the beginning of the fiscal year in which they were issued. The contingent capital increase serves the purpose of issuing shares to the holders or creditors or bonds with warrants and/or convertible bonds that were issued by the Company or a subordinated Group company in exchange for cash performance in the time until August 11, 2019 by virtue of the authorization of the annual shareholders' meeting of August 12, 2014. The new shares are to be issued at the warrant or conversion price established in the aforementioned authorization. The contingent capital increase may be conducted only insofar as the warrant and/or conversion rights under the debentures are exercised and or the conversion obligations under the debentures are fulfilled, and only insofar as no cash compensation is granted or treasury shares are used to settle the obligation. The Executive Board is authorized with the consent of the Supervisory Board to establish the further details applicable to the conduct of the contingent capital increase (Contingent Capital 2014).

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

"8. The share capital is conditionally increased by up to EUR 35,000,000.00 through the issuance of up to 35,000,000 new bearer shares qualifying from dividends from the beginning of the fiscal year in which they were issued. The contingent capital increase serves the purpose of issuing shares to the holders or creditors of bonds with warrants and/or convertible bonds that were issued by the Company or a subordinated Group company in exchange for cash performance in the time until August 11, 2019 by virtue of the authorization of the annual shareholders' meeting of August 12, 2014. The new shares are to be issued at the warrant or conversion price established in the aforementioned authorization. The contingent capital increase may be conducted only insofar as the warrant and/or conversion rights under the debentures are exercised and or the conversion obligations under the debentures are fulfilled, and only insofar as no cash compensation is granted or treasury shares are used to settle the obligation. The Executive Board is authorized with the consent of the Supervisory Board to establish the further details applicable to the conduct of the contingent capital increase (Contingent Capital 2014).

The main points of the authorization to issue bonds with warrants and/or convertible bonds are presented in the following:

a) Authorization period, nominal amount, number of shares

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

- To issue, through the Company or through companies in which the Company directly or indirectly holds a majority ownership ("subordinated Group companies"), bearer or registered bonds with warrants and/or convertible bonds with or without a term limitation for a total nominal amount of up to EUR 150,000,000.00 (the "debentures"), and

- To assume the guarantee for such debentures issued by subordinate Group companies of the Company, and

- To grant to the bearers or creditors of debentures options and/or conversion rights for a total amount of up to 35,000,000 no-par bearer shares of the Company representing a proportionate amount of the share capital of up to EUR 35,000,000.00 as further specified by the terms of the respective debentures.

The individual issues may be subdivided into individual bonds, each bearing the same rights, and must be issued in exchange for cash.

In the case of issuance of bonds with warrants, one or more warrants that entitle the bearer or creditor, as the case may be, to subscribe Gigaset shares according to the terms of the bond or option will be attached to each bond.

The relevant warrants may be separable from the respective 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 bearers or creditors will have the right or obligation, as the case may be, to convert their convertible bonds to Gigaset shares as provided for 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 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 terms of the bond issue may further provide for a conversion requirement. The proportionate amount of the share capital for the shares to be subscribed for each bond may not exceed the nominal value or issue price, if the issue price is less than the nominal value, of the convertible bond.

b) Pre-emptive subscription right

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

c) Option or conversion price, protection from dilution

aa) The option or conversion price may not be less than 80% of the stock exchange price of Gigaset stock in the Xetra trading system (or in a comparable successor system). This price is to be determined as the average closing price on the ten trading days before the Executive Board's final decision to publish an offer for the subscription of debentures 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 for in further detail in the debentures terms and conditions, or cash components may be amended, or subscription rights may be granted if the Company increases the share capital before the expiration of the option or conversion term while granting pre-emptive subscription rights to its shareholders, or if it issues or guarantees further debentures without granting the bearers of option rights and/or the creditors of convertible bonds a subscription right equivalent to the right to which they would be entitled after exercising their option or conversion rights or conversion requirements. The same will also apply to other measures that may result in a dilution of the value of the option and/or conversion rights or conversion requirements. In any case, however, the proportionate amount of the share capital for the shares to be subscribed for each bond may not exceed the nominal amount of the bond or the lower issue price.

Sections 9 (1) and 199 AktG remain unaffected.

d) Further structuring alternatives

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

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

Sections 289 (4), 315 (4) (8) HGB: As of December 31, 2014, there were no longer any significant agreements of the parent company that would take effect upon a change of control resulting from a takeover offer because the Company completely repaid in fiscal year 2014 the syndicated loan that had been declared due and payable immediately by reason of a so-called "change-of-control" clause.

Sections 289 (4), 315 (4) (9) HGB: There are no indemnification agreements between the Company and the members of the Executive Board that would take effect 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. The Executive Board and Supervisory Board understand corporate governance to be a process that is continuously further developed and improved.

With only a few exceptions, Gigaset AG complies with the German Corporate Governance Code (the "Code"), which was issued in 2002 and most recently revised on June 24, 2014.

On March 25, 2015, the Executive Board and Supervisory Board of Gigaset AG submitted the declaration of conformity with the German Corporate Governance Code in the version dated June 24, 2014, 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.ag). The Executive Board and Supervisory Board of Gigaset AG thereby declare that, with few exceptions, they have complied and will comply in the future with the Code Commission's recommendations regarding the management and supervision of the enterprise published in the electronic Federal Gazette in the current version.

The deviations are explained in the following statement.

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 is to be oriented on 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 shall 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 to take unreasonable risks. The amount of compensation shall be capped, both overall and for individual compensation components. The variable compensation components shall 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 in 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. When entering into Executive Board contracts, care is to be taken to ensure that payments made to a Management Board member on premature termination of his/her contract, including fringe benefits, do not exceed the value of two years' compensation (severance payment 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 payment cap is to be calculated on the basis of the total compensation for the past full financial year and if appropriate also the expected total compensation for the current financial year. Payments promised in the event of premature termination of a Executive Board member's contract due to a change of control shall not exceed 150% of the severance payment cap. The Chairman of the Supervisory Board are to outline once to the 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 board members Dr. Alexander Blum and Maik Brockmann are not based on a multi-year assessment. The executive employment contract of Mr. Dorn has a three-year term. The executive employment contract of Mr. Fränkl only has a two-year term. The expired executive employment contract of Mr. Brockmann also had only a two-year term. Dr. Blum's expired employment contract could be terminated with six month's notice at the end of the month. Therefore, the specification of a multi-year measurement base would not offer any additional protection or added value in the view of the Company.

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.

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 did not perceive a compelling necessity at the time to establish by-laws at the present time. In light of the increased internationalization of the Supervisory Board's work, the Supervisory Board is currently drafting by-laws and assumes that they will be adopted in 2015.

Contrary to **Section 5.3.2 of the German Corporate Governance Code**, the Audit Committee set up by the Supervisory Board does not deal with questions of compliance. Moreover, the Supervisory Board handles the subject of compliance in plenary meetings due to its importance.

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, its manageable size of six members, and 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. Insofar, it should be noted that even without such a recommendation one woman currently sits on the Supervisory Board, corresponding to a proportionate share of one-sixth, whereas in previous fiscal years two women sat on the Supervisory Board also without such a recommendation, representing a proportionate share of one-third.

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 Declaration of conformity

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.

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

7.1.2.2 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. As in the prior year, the Supervisory Board also reviewed the dependent company report, which the Executive Board – together with the report by the auditor – presented to the Supervisory Board together with the auditors' report on the dependent company report after it was signed. As in the prior year, the Supervisory Board reviewed the dependent company report insofar independently and comprehensively just as it reviewed the completeness of the statements made therein.

7.1.2.3 Supervisory Board committees

Audit Committee: Since the Supervisory Board meeting held on January 21, 2014, the Audit Committee has comprised four members of the Supervisory Board, namely the Supervisory Board members Hersh (Chairman), Riedel, di Fraia, and Shiu. After Supervisory Board member Hersh stepped down, the Audit Committee has comprised the members Riedel, di Fraia, and Shiu since December 3, 2014.

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: The Supervisory Board had also formed a Capital Market Committee pursuant to section 107(3) AktG that discharged the duties and exercised the authority of the Supervisory Board under Articles 4.4 and 4.5 of the old version of the Company's Articles of Association as well as its additional powers of authority under Article 11 of the Articles of Association. The corresponding responsibilities of the Supervisory Board Merchandise were transferred to the Capital Market Committee to be decided and exercised independently. Since August 14, 2013, the Capital Market Committee has comprised the Supervisory Board members Hersh, Prof. Judis, and Münch. After all members of the Capital Market Committee had meanwhile stepped down from the Supervisory Board, the committee was not restaffed, because it had essentially fulfilled all of its tasks with the capital measures from October 2013 and from the spring of 2014. The committee will be dissolved in accordance with the resolution that had established it during the 2015 annual shareholders' meeting.

Personnel Committee: The Supervisory Board formed a Personnel Committee in its constituent session held on August 14, 2013. The Committee is directly responsible for dealing with all personnel matters of the Executive Board. Following the new election of the Supervisory Board in the extraordinary shareholders' meeting held on December 19, 2013, the Supervisory Board appointed Helvin Wong to the Personnel Committee in its meeting held on January 21, 2014, to replace retired Supervisory Board member Münch. The Personnel Committee now comprises Supervisory Board members Riedel, di Fraia, and Wong.

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 Company did not receive any notifications as required under section 15a WpHG in fiscal year 2014.

7.1.2.5 Corporate 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.

7.1.2.6 Extensive reporting

In order to ensure a high level of transparency, we notify our shareholders, financial analysts, media and other interested parties at regular intervals regarding the position of the Company and key commercial developments. Gigaset AG 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 half-yearly 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 Main features of the remuneration system for Gigaset AG's governing bodies

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 2014 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 member (dependent on the success of that area).

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

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

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

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

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

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

8. Duration. This remuneration scheme takes effect retroactively as of August 15, 2013, and remains in force until replaced by an annual 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 remuneration has already been paid based on the annulled remuneration scheme, it is to offset claims to payment under the new scheme."

8 SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

Legal dispute with Evonik ends

The legal dispute with Evonik Degussa GmbH with respect to the action brought to enforce the claim for the purchase price adjustment in the amount of EUR 12.0 million on the basis of the share purchase agreement dated September 8, 2006, was ended by means of a payment on March 4, 2015, in the amount of EUR 3.5 million plus accrued interest in the amount of EUR 1.3 million. A provision was recognized as of the reporting date in the amount of EUR 4.8 million to ensure that the net profit or loss for fiscal year 2015 will not be impacted.

9 FORECAST REPORT AND OUTLOOK

9.1 General economic development

After the global economy remained below expectations in 2014, the German Council of Economic Experts forecasts a slight acceleration for the coming year in its Annual Economic Report 2014/15[20]. At 3.1% and 2.6% respectively, the rates of growth for GDP (gross domestic product) for the U.S.A. and the United Kingdom are seen as extremely positive, whereas the overall trend in the euro zone is rather restrained with a rate of around 1%. For Germany, all leading economic institutes are predicting that GDP will grow at a rate of at least 1.1%, and in the most optimistic case (ifW) even 1.7%.

The crisis of European financial markets is also not yet overcome in 2015. Further consolidations and adjustments will take place. Inflation in the euro zone has clearly decreased. The expectation is that the key rate will also fluctuate at a very low level of nearly zero in 2015. This should have a positive influence on investment activity as well as consumer behavior. This is correspondingly reflected in the trend of the business climate index.

9.2 Development of the industry

Market for cordless telephones[21]

According to experts, the global market for cordless telephony will shrink at an annual rate anticipated in the mid-single-digit range due to increasing competition from smartphones and cell phones. Within this market, the DECT standard is playing an increasingly important role, while the analog standard and other digital standards are decreasing in significance. The DECT standard had a share of approximately 70% of the worldwide installed basis in 2012, whereas this number is expected to reach 90% by 2018.

According to experts, Western Europe will continue to be the most important market, followed by North America and Asia Pacific.

A lower price level is becoming apparent across all standards for the coming years, whereby the price decline with respect to the analog standard and other digital standards will be particularly significant.

Market for corporate customers[22]

According to market studies, development in the European telecommunications market is leaning heavily in the direction of IP telephony. The market for extensions with IP technology should expand from 8.3 million in 2014 to 11.8 million in 2018, whereas by comparison Eastern Europe will clearly make up the leeway and expand to 16% of the market as a whole. It can also be clearly foreseen that the market for IP technology in the segment for smaller enterprises of less than 100 employees on which the Company is focusing with the Gigaset PRO brand will grow considerably from 36% of the market as a whole in 2014 to 41% in 2018.

[20] Source: German Council of Economic Experts – condensed version of the Annual Economic Report 2014/15
[21] Source: MZA World - Consumer Cordless Telephony Market – 2013 Forecast Edition (published October 2013)
[22] Source: MZA PBX/IP PBX – 2013 Forecast Edition (published October 2013)

Market for Home Networks

The market for Smart Home Systems & Services (SHSS) in Western Europe is considered to be extremely promising. The number of Smart Home households will increase from 8 million at the beginning of 2013 to 40 million by the end of 2018. In 2012, it was still only 5.8 million households. This corresponds to sales revenue of USD 6.6 billion in 2013 and an expected sales revenue of USD 14.2 billion in 2018. The market research institute Strategy Analytics expects the potential for hardware sales to triple in the coming years, which represents the largest component at 60%.

According to a study by VDI/VDE Innovation + Technik GmbH, the cumulative sales revenue from Smart Home alone in the German market will reach up to EUR 19 billion by 2025. The average value added by German suppliers is estimated to be EUR 11.4 billion, whereby the German industry scores in the global growth markets, among other things, with expertise in the areas of system integration and embedded systems.

Market for tablets and smartphones

The global smartphone market once again grew in 2014. Since the unit volumes will continue to rise in the coming years based on these forecasts, worldwide sales revenues will also continue to increase. However, growth rates will slow down to the lower single-digit range, whereby falling prices will increasingly compensate the growth in volume. Strategy Analytics assumes that the smartphone market will expand up to around 250 million smartphones Europe-wide by 2020. The Android and Apple iOS operating systems will continue to dominate the global smartphone market as they have in prior years. These two operating systems accounted for over 80% of all smartphone sales in Western Europe in 2014, whereby two-thirds of the smartphone market can be attributed to Android alone.[23]

9.3 Development of the Gigaset Group

9.3.1 Financial performance

The market as a whole for cordless telephones in Europe declined by around 12% in 2014 measured on sales. This trend is expected to continue in the market in 2015, whereby the decline in sales revenue will lie within the communicated expectations. The new product categories are not yet expected to be able to compensate for the revenue loss in the core business.

The trend in fiscal year 2015 will depend significantly on the looming and further forecasted decline of the classic telecommunications market, but also on the successful expansion of the Business Customers, Home Networks, and Mobile Products segments. The experts are assuming that the market for cordless telephony will continue to decline. Gigaset will not be able to avoid this trend, even if it continues to expand its share of the market. However, the goal is to stabilize the cordless telephone business in the next few years and to secure it as an important source of sales revenue. The product variance in the core business, with product types varying based on customer segment and functionality, is an important factor for success. Gigaset intends to address the identifiable consumer needs through specific product offerings. This will express itself, for example, in product designs that are oriented to current lifestyle factors. However, Gigaset will also continue to focus in 2015 on the further development of a proprietary ecosystem with which it should be possible to integrate as many Gigaset products and services as possible.

At the same time, the plan is to further expand the Business Customers segment with the Gigaset PRO brand, which has grown continuously in the past two years. Distribution and in particular distribution partnerships are to be further expanded. An intensification of activities is planned in particular for the regions United Kingdom, Austria and Italy, whereby addressing

[23] Source: Stategy Analytics, 2013

local needs will play an increasingly more important role. The focus lies on the distribution of complete solutions. This will lead to an increase in the sales of desktop, PBX and base stations.

The solutions in the Smart Home area are also gaining in significance. According to a current study by Fittkau & Maß Consulting, 78% of consumers in Germany alone are interested in a Smart Home solution. According to surveys by Strategy Analytics, international consumer interest is just as strong. A market potential of around USD 14 billion is expected for 2014 in Western Europe alone[24]. In this dynamic environment, "Gigaset elements" – the new solution for networked home living – has been available from Gigaset since September 2013. The new sensor and cloud-based system connects people with their home. Additional benefits arise as a result of the collaboration with partners, such as the leading security service provider Securitas. Users have been able to take advantage of the premium service "Gigaset elements monitored by Securitas" thanks to a development partnership that has united Gigaset and Securitas since the development phase of "Gigaset elements". Securitas intends to ensure that no alarm goes unanswered through the computer-aided handling of alarms. These types of solutions are to be further developed, both functionally as well as through additional partnerships.

Gigaset will also continue to expand its portfolio of mobile products in the future. With its market expertise and strong brands in this category, Gigaset considers itself to be in a good position to enter into this market and thereby continue to meet its standard of offering first-class communications tools for networked living. Other devices in the mobile environment are to follow. Additional price points and therefore also additional target groups are to be addressed with an expanded product range.

In light of this, Gigaset expects a further decline in sales revenue for fiscal year 2015 (excluding Mobile Products). Additional sales revenue from the mobile business are expected for the Gigaset Group. However, the expansion of joint operations with Goldin is still in its start-up phase; as a result, specific predictions are difficult to make.

Thanks to the consistently implemented savings program announced in 2012, our net operating profit or loss (EBITDA) clearly increased in 2014. Due to the invoicing primarily in US dollar on the procurement markets, a strong US dollar will have a sustained 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 through acquisitions. In addition, the forecast is based on a USD/EUR exchange rate of 1.16.

9.3.2 Cash flows

The Company currently finances itself primarily by way of the implemented factoring program.

As of December 31, 2014, Gigaset is free from financial liabilities. Due to the change in control of the Company as a result of the investment on the part of Goldin, the syndicating banks demanded repayment of all amounts drawn down in a volume of up to EUR 32.9 million of the extended credit line by July 24, 2014, as expected and in accordance with the agreement. Thanks to the capital measures carried out in this year and the increase in the capital base provided by Goldin, the credit line was repaid in accordance with the banks' demands. On October 9, 2014, Mr. Sutong and Goldin notified Gigaset that they meanwhile have access to 75% of the shares of Gigaset AG.

Despite the very positive starting point, Gigaset will continue to focus on liquidity management in the next two years. The Company's strategy with respect to securing financial stability remains conservative in order to preserve the Group's operational and strategic flexibility.

[24] Strategy Analytics, Smart Home Systems and Services Forecast: Western Europe, July 2013)

Gigaset will continue to invest in established markets as part of its investment planning in order to secure market shares as well as to secure and expand competitive advantages. Additional investments will also be made in new product categories and growth segments that will permanently secure the Company's existence and competitiveness.

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 revenues. Gigaset AG's earnings are thus determined primarily based on personnel costs and other expenses for the management, the Legal & Tax department, Audit, Corporate Communications, Group Brand Communications, Business Development, and Investor Relations. Since the income from the group allocations is not expected to cover all expenses, Gigaset AG is expected to generate an operating loss (EBITDA) in the mid-single-digit millions.

As a holding company, Gigaset AG's performance is heavily influenced by the development of its subsidiaries, particularly the operating Gigaset Communications Group. For fiscal year 2015, no dividend income is planned in Gigaset AG.

9.4.2 Cash flows

Gigaset AG has access to the subsidiaries' cash as a result of its integration in the Group cash pooling scheme. In addition, the Company will continue to finance itself by charging Group subsidiaries for services. Furthermore, the capital base was significantly expanded as a result of two capital measures carried out in the past two years.

9.5 Overall statement regarding expected development

The necessary measures for long-term growth were already 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 2015, the new segments will make additional contributions to sales, which however will not yet suffice to compensate the decline in our core business. Gigaset AG therefore expects the following for fiscal year 2015:

- Decreasing sales revenue in continuing operations in the high single digit to lower double digit percentage range

- Once again positive EBITDA in the lower double-digit millions. However, due to the decrease in sales revenue, the necessary investments in the establishment of new segments, and the restructuring of the Company, EBITDA is expected to fall short of the previous year's result. The EBITDA margin is expected to be in the lower to mid-single-digit range.

- A negative free cash flow in the high single-digit to lower double-digit millions

In addition, Gigaset once again expects supplementary sales revenue from the business with mobile consumer devices, in particular from the future smartphone business. However, these figures will only become clear after we enter the market.

Gigaset AG
The Executive Board

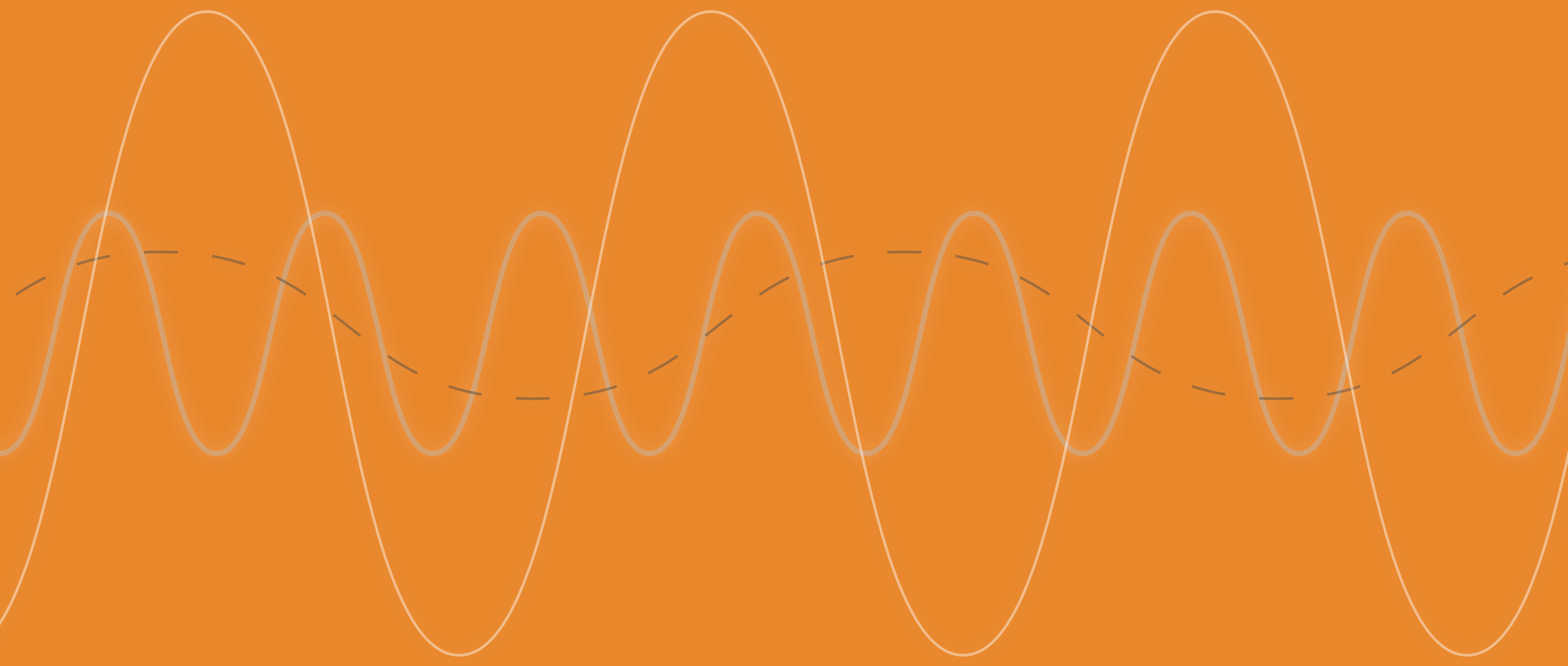
10 DEPENDENCY REPORT

Goldin Fund Pte. Ltd., Singapore, holds a majority interest. In accordance with section 312 AktG, we issued a report on March 24, 2015, regarding our relationships with associates that closes with the following statement: “We declare that the Company received an appropriate level of consideration in every transaction with respect to the transactions and measures from January 1, 2014, to December 31, 2014, listed in the report on relationships with associated companies based on the circumstances of which we were aware at the time in which the transactions were executed or the measures taken or not taken. The Company was not put at a disadvantage as a result of the measures taken or not taken.”

Munich, March 24, 2015

The Executive Board of Gigaset AG

Charles Fränkl Kai Dorn



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Consolidated Income Statement for the period from January 1 to December 31, 2014

		01/01 – 12/31/2014		
EUR'000	Note	Continuing operations	Discontinued operations	Total
Revenues	1	326,078	0	326,078
Change in inventories of finished and unfinished goods		1,632	0	1,632
Other internal production capitalized	2	11,371	0	11,371
Other operating income	3	35,334	0	35,334
Purchased goods and services	4	-160,623	0	-160,623
Personnel expenses	5	-102,344	0	-102,344
Other operating expenses	6	-94,968	0	-94,968
Result from investments accounted for by the equity method	15	1,015	0	1,015
EBITDA		**17,495**	**0**	**17,495**
Depreciation and amortization		-24,962	0	-24,962
Impairment losses	7	-3,035	0	-3,035
EBIT		**-10,502**	**0**	**-10,502**
Impairment on financial assets		0	0	0
Other interest and similar income	8	183	0	183
Interest and similar expenses	8	-2,471	0	-2,471
Net financial result		**-2,288**	**0**	**-2,288**
Income from ordinary activities		**-12,790**	**0**	**-12,790**
Income taxes	9	-3,833	0	-3,833
Consolidated loss for the year		**-16,623**	**0**	**-16,623**
Share of consolidated loss attributable to minority interests	10	0	0	0
Share of consolidated loss attributable to shareholders of Gigaset AG		-16,623	0	-16,623
Earnings per common share	**11**			
- Basic earnings per share, in EUR		-0,15	0	-0,15
- Diluted earnings per share, in EUR		-0,15	0	-0,15

Consolidated Income Statement for the period from January 1 to December 31, 2014

01/01/ – 12/31/2013				
Continuing operations	**Discontinued operations**	**Total**	**Note**	**EUR'000**
371,153	5,965	377,118	1	Revenues
-4,365	0	-4,365		Change in inventories of finished and unfinished goods
17,339	0	17,339	2	Other internal production capitalized
23,465	1,806	25,271	3	Other operating income
-183,752	-3,233	-186,985	4	Purchased goods and services
-99,509	-1,710	-101,219	5	Personnel expenses
-113,285	-6,388	-119,673	6	Other operating expenses
0	0	0	15	Result from investments accounted for by the equity method
11,046	**-3,560**	**7,486**		**EBITDA**
-26,163	0	-26,163		Depreciation and amortization
0	-1,935	1,935	7	Impairment losses
-15,117	**-1,625**	**-16,742**		**EBIT**
-98	0	-98		Impairment on financial assets
577	0	577	8	Other interest and similar income
-4,430	-28	-4,458	8	Interest and similar expenses
-3,951	**-28**	**-3,979**		**Net financial result**
-19,068	**-1,653**	**-20,721**		**Income from ordinary activities**
-15,569	210	15,359	9	Income taxes
-34,637	**-1,443**	**-36,080**		**Consolidated loss for the year**
0	0	0	10	Share of consolidated loss attributable to minority interests
-34,637	-1,443	-36,080		Share of consolidated loss attributable to shareholders of Gigaset AG
			11	Earnings per common share
-0,59	-0,02	-0,61		- Basic earnings per share, in EUR
-0,59	-0,02	-0,61		- Diluted earnings per share, in EUR

FINANCIAL STATEMENTS & NOTES

Statement of Comprehensive Income

	01/01/ – 12/31/2014		
EUR'000	Continuing operations	Discontinued operations	Total
Consolidated loss for the year	**-16,623**	**0**	**-16,623**
Items that may be reclassified subsequently to net income/loss			
Currency translation differences	4	0	4
Other income from investments accounted for by the equity method	2,183	0	2,183
Items that will not be reclassified to net income/loss			
Revaluation effects, net debt from defined benefit plans	-23,944	0	-23,944
Recognized income taxes for this item	7,300	0	7,300
Total changes not recognized in the income statement	**-14,457**	**0**	**-14,457**
Total comprehensive income and expenses	**-31,080**	**0**	**-31,080**
Thereof attributable to minority interests	0	0	0
Thereof attributable to shareholders of Gigaset AG	**-31,080**	**0**	**-31,080**

Statement of Comprehensive Income

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

Consolidated Statement of Financial Position at December 31, 2014

EUR'000	Note	12/31/2014	12/31/2013
ASSETS			
Non-current assets			
Intangible assets	13	37,485	45,470
Property, plant and equipment	14	33,685	39,636
Investments accounted for by the equity method	15	21,251	0
Deferred tax assets	28	13,568	16,645
Total non-current assets		105,989	101,751
Current assets			
Inventories	16	28,158	27,504
Trade receivables	17	38,097	50,200
Other assets	18	27,329	28,519
Current tax assets	19	1,174	2,099
Cash and cash equivalents	20	50,484	56,987
Total current assets		145,242	165,309
Total assets		**251,231**	**267,060**

Consolidated Statement of Financial Position at December 31, 2014

EUR'000	Note	12/31/2014	12/31/2013
EQUITY AND LIABILITIES			
Equity	22		
Subscribed capital		132,456	97,928
Additional paid-in capital		86,076	87,042
Retained earnings		68,979	68,979
Accumulated other comprehensive income		-246,352	-215,272
Total equity		**41,159**	**38,677**
Non-current liabilities			
Convertible bonds	23	396	76
Pension obligations	24	71,012	44,587
Provisions	25	12,098	11,043
Other liabilities	26	0	184
Deferred tax liabilities	27	3,857	15,232
Total non-current liabilities		**87,363**	**71,122**
Current liabilities			
Convertible bonds	23	66	0
Provisions	25	28,826	31,506
Financial liabilities	28	0	30,201
Trade payables	29	62,649	71,476
Current tax liabilities	30	5,869	2,589
Other liabilities	31	25,299	21,489
Total current liabilities		**122,709**	**157,261**
Total equity and liabilities		**251,231**	**267,060**

Consolidated Statement of Changes in Equity at December 31, 2014

	EUR'000	Subscribed capital	Additional paid-in capital	Retained earnings
	January 1, 2013	**50,015**	**87,981**	**68,979**
1	Capital increase	47,913	-939	0
2	Consolidated loss of the year 2013	0	0	0
3	Minority interests	0	0	0
4	Consolidated loss after minority interests	0	0	0
5	Currency translation differences	0	0	0
6	Other income from investments accounted for by the equity method	0	0	0
7	Revaluation effects net debt from defined benefit obligations	0	0	0
8	Total changes not recognized in the income statement	0	0	0
9	Total net income (4+8)	0	0	0
	December 31, 2013	**97,928**	**87,042**	**68,979**
1	Capital increase	34,528	-966	0
2	Consolidated loss of the year 2014	0	0	0
3	Minority interests	0	0	0
4	Consolidated loss after minority interests	0	0	0
5	Currency translation differences	0	0	0
6	Other income from investments accounted for by the equity method	0	0	0
7	Revaluation effects net debt from defined benefit obligations			
8	Total changes not recognized in the income statement	0	0	0
9	Total net income (4+8)	0	0	0
	December 31, 2014	**132,456**	**86,076**	**68,979**

Consolidated Statement of Changes in Equity at December 31, 2014

Accumulated other comprehensive income	Adjustment items for minority interests	Consolidated equity		
-182,627	**0**	**24,348**	**January 1, 2013**	
0	**0**	**46,974**	**Capital increase**	1
-36,080	**0**	**-36,080**	**Consolidated loss of the year 2013**	2
0	0	0	Minority interests	3
-36,080	0	-36,080	Consolidated loss after minority interests	4
1,051	**0**	**1,051**	**Currency translation differences**	5
0	0	0	Other income from investments accounted for by the equity method	6
2,384	0	2,384	Revaluation effects net debt from defined benefit obligations	7
3,435	0	3,435	Total changes not recognized in the income statement	8
-32,645	**0**	**-32,645**	**Total net income (4+8)**	9
-215,272	**0**	**38,677**	**December 31, 2013**	
0	**0**	**33,562**	**Capital increase**	1
-16,623	0	-16,623	Consolidated loss of the year 2014	2
0	0	0	Minority interests	3
-16,623	0	-16,623	Consolidated loss after minority interests	4
4	0	4	Currency translation differences	5
2,183	0	2,183	Other income from investments accounted for by the equity method	6
-16,644		-16,644	Revaluation effects net debt from defined benefit obligations	7
-14,457	**0**	**-14,457**	**Total changes not recognized in the income statement**	8
-31,080	**0**	**-31,080**	**Total net income (4+8)**	9
-246,352	**0**	**41,159**	**December 31, 2014**	

Consolidated Cash Flow Statement for the Period from January 1 to December 31, 2014

EUR'000	01/01/ – 12/31/2014	01/01/ – 12/31/2013
Earnings before taxes (EBT)	-12,790	-20,721
Depreciation and amortization of property, plant and equipment and intangible assets	24,962	26,163
Impairment losses	3,035	-1,935
Increase (+)/decrease (-) in pension provisions	2,481	2,845
Gain (-)/loss (+) on the sale of non-current assets	-162	35
Gain (-)/loss (+) on deconsolidation	-7,845	15
Gain (-)/loss (+) on currency translation	2,186	3,312
Result from investments accounted for by the equity method	-1,015	0
Other non-cash income and expenses	-11,371	-17,339
Net interest income	2,288	3,881
Interests received	27	238
Interests paid	-1,967	-3,013
Income taxes paid	-751	-7,704
Impairment of financial assets	0	98
Increase (-)/ decrease (+) in inventories	-654	5,914
Increase (-)/ decrease (+) in trade receivables and other receivables	13,132	-1,789
Increase (+)/ decrease (-) in trade payables, other liabilities and other provisions	300	-26,744
Increase (+)/ decrease (-) in other balance sheet items	-3,263	1,722
Cash inflow (+)/ outflow (-) from operating activities (net cash flow)	**8,593**	**-35,022**
Derecognized cash due to the change of consolidation method from full consolidation to the equity method	-18,000	0
Cash transferred with the sale of shares in companies and negative purchase prices	-130	-1,643
Proceeds from the sale of non-current assets	203	9
Payments for investments in non-current assets	-2,736	-5,612
Cash inflow (+)/ outflow (-) from investing activities	**-20,663**	**-7,246**
Free cash flow	**-12,070**	**-42,268**

Consolidated Cash Flow Statement for the Period from January 1 to December 31, 2014

EUR'000	01/01/ – 12/31/2014	01/01/ – 12/31/2013[1]
Cash flows from the borrowing (+)/ repayment (-) of current financial liabilities	-30,201	-2,105
Convertible bonds	9,305	22,773
Capital increase	24,629	24,201
Cash inflow (+)/ outflow (-) from financing activities	**3,733**	**44,869**
Net funds at beginning of period	56,159	52,589
Changes due to exchange rate differences	1,834	-1,296
Net funds at beginning of period, measured at prior-year exchange rate	54,325	53,885
Increase (-)/ decrease (+) in restricted cash	-2,304	-865
Change in cash and cash equivalents	-8,337	2,601
Net funds at end of period	**45,518**	**54,325**
Restricted cash	4,966	2,662
Cash and cash equivalents presented in the balance sheet	**50,484**	**56,987**

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 Seidlstrasse 23, in 80335 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 about 1,350 employees and a market presence in ca. 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. 32, Segment Reporting, for the composition of the discontinued and continuing divisions.

The consolidated financial statements of Gigaset are prepared on 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 2014 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 2014 have been observed.

Application of the following standards and interpretations revised and newly issued by the IASB was obligatory starting from fiscal 2014:

- IFRS 10, Consolidated Financial Statements

The new standard, IFRS 10, Consolidated Financial Statements, replaces the previously applicable regulations of IAS 27, Consolidated and Separate Financial Statements, as well as SIC-12, Consolidation. IFRS 10 prescribes "control" of investee companies by the parent as the basis for consolidating such investee companies. According to IFRS 10, control exists when the following three conditions are all satisfied: (a) Decision-making power over an investee company, (b) the risk of or rights to variable economic successes arising from the investment in an investee company, and (c) the possibility of influencing the amount of economic success of the investor by exercising its decision-making power over the investee company. In addition, an exception regulation was implemented for investment companies and their investee companies. Due to the new design in IFRS 10 regarding mandatory consolidation of investee companies, it was necessary to review the status of the existing investments regarding the duty and method of consolidation. The new provisions apply for fiscal years beginning on or after January 1, 2014. The amendments had no effect on the consolidated financial statements.

› IFRS 11, Joint Arrangements

The new IFRS 11 standard, Joint Arrangements, replaces the previously applicable regulations of IAS 31, Interests in Joint Ventures, as well as SIC-13, Jointly Controlled Entities - Non-Monetary Contributions by Venturers. The standard newly regulates the principles for financial accounting of companies that invest in agreements that are jointly controlled. Jointly controlled agreements are defined as agreements in which the parties are bound by contractual agreements and the contractual agreements entitle two or more parties to exercise joint control. This may involve joint activities or a joint venture company. In the context of accounting policies, the joint operator must recognize the following items in connection with its shares in the joint activity: (a) its assets, including its share of jointly held assets, (b) its liabilities, including its share of jointly accepted debts, (c) its proceeds from the sale of its share in the products or services of the joint activity, (d) its share in the proceeds from the sale of the products or services of the joint activity, and (e) its expenditures, including its share of jointly incurred expenditures. Lump sum proportional consolidation accounting of assets and liabilities or income statements (proportionate consolidation) is no longer permitted. Investments in joint venture companies are now required to be recognized using the equity method pursuant to IAS 28, Investments in Associates and Joint venture companies. The new provisions apply for fiscal years beginning on or after January 1, 2014. The amendments had no effect on the consolidated financial statements.

› IFRS 12 Disclosure of Interests in Other Entities

The new standard IFRS 12, Disclosure of Interests in Other Entities, replaces the disclosure obligations of the previously applicable standards IAS 27, Consolidated and Separate Financial Statements, IAS 28, Investments in Associates, and IAS 31, Interests in Joint Ventures. The new standard applies to companies that hold shares in an investee company, a joint agreement, an affiliated company, as well as a consolidated or non-consolidated structured company. Along with information on significant discretionary decisions and assumptions or the status of investee companies, the disclosure obligations for companies falling within the scope were specified. The new provisions apply for fiscal years beginning on or after January 1, 2014. The required additional disclosures are taken into account in the statements of the Company at December 31, 2014.

› Changes to IAS 27, Separate Financial Statements

The revised standard IAS 27, Separate Financial Statements, now regulates the recognition and disclosure obligations for investments in subsidiaries, joint venture companies, and affiliated companies when a company prepares a separate financial statement. Application of the amendments is obligatory for financial years starting on or after January 1, 2014. The amendments had no effect on the consolidated financial statements.

› Amendments to IAS 28, Investments in Associates and Joint Ventures

The amendments to IAS 28, Investments in Associates and Joint Venture Companies, now provide that investments in joint venture companies are required to be recognized using the equity method. Application of the amendments is obligatory for financial years starting on or after January 1, 2014. The amendments had no effect on the consolidated financial statements.

› Amendments to IAS 32, Amendments to Offsetting Financial Assets and Financial Liabilities

The amendments to IAS 32 on offsetting financial assets and financial liabilities contain clarifications on the offsetting of financial instruments. The amendments explain the significance of the current legal claim to offsetting at the closing date. In addition, they explain which systems with gross settlement can be considered as net settlement within the meaning of the standard. As a consequential amendment, there was an adjustment of the required information in the notes pursuant to IFRS 7, Financial Instruments: Disclosures Application of the amendments is obligatory for financial years starting on or after January 1, 2014. The amendments had no effect on the consolidated financial statements.

› Amendments to IAS 39, Amendments to Novation of Derivatives and Continuing Hedge Accounting

The amendments to IAS 39 on novation of derivatives and continuing hedge accounting supplementally clarify the fact that, under certain circumstances, a novation of a hedging instrument with a central counterparty does not lead to the reversal of hedge accounting as a consequence of legal or regulatory requirements. Application of the amendments is obligatory for financial years starting on or after January 1, 2014. The amendments had no effect on the consolidated financial statements.

Application of the following revised and newly issued standards and interpretations already adopted by the IASB was not yet obligatory in fiscal 2014:

Standards		Application mandatory for Gigaset from	Adopted by EU Commission
Various	Annual improvement cycle to International Financial Reporting Standards (2011-2013 cycle)	01/01/2015	Yes
Various	Annual improvement cycle to International Financial Reporting Standards (2010-2012 cycle)	01/01/2016	Yes
IAS 19	Employee benefits – Defined benefit plans: Employee contributions	01/01/2016	Yes
IFRS 14	Regulatory accrual items	01/01/2016	No
IFRS 11	IFRS 11, Joint Arrangements – Acquisition of Shares in Joint Venture Activities	01/01/2016	No
IAS 16 / IAS 38	Clarification of acceptable depreciation methods in IAS 16, Property, Plant and Equipment, and IAS 38, Intangible Assets	01/01/2016	No
IAS 16 / IAS 41	Recognition of certain biological assets pursuant to IAS 41, Agriculture, according to the provisions of IAS 16, Property, Plant and Equipment	01/01/2016	No
IFRS 10 / IAS 28	Sale of an investor's assets to or contribution to his affiliated company or joint venture company	undetermined	No
IAS 27	Equity Method in Separate Financial Statements	01/01/2016	No
Various	Annual improvement cycle to International Financial Reporting Standards (2012-2014 cycle)	01/01/2016	No
IFRS 10 / IFRS 12 / IAS 28	Investment Entities: Application of the Consolidation Exception	01/01/2016	No
IAS 1	Adjustments to IAS 1, Presentation of Financial Statements, as a consequence of the initiative to improve disclosure obligations	01/01/2016	No
IFRS 15	Revenue from Contracts with Customers	01/01/2017	No
IFRS 9	Financial Instruments	01/01/2018	No
IFRS 9 / IFRS 7	Amendments to Mandatory Effective Date and Transition Disclosures	01/01/2018	No
Interpretations			
IFRIC 21	Levies	01/01/2015	Yes

IFRS 15, Revenue from Contracts with customers, was adopted in May 2014. The Company is currently engaged in investigating the effects of the new standard on the consolidated financial statements. However, the analysis had not yet been concluded at the publication date.

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 2016, cannot be reliably estimated at the present time. However, the Company assumes that they will not have any material effects.

As for the amendments resulting from the annual improvement cycle for 2011-2013 (adjustments to IFRS 1, IFRS 3, IFRS 13, and IFRS 40) and the new IFRIC 21 (Levies), the Company assumes that they will not have any material effects.

Scope and method of consolidation

The present consolidated financial statements at December 31, 2014 include the separate financial statements of the parent company, Gigaset, and its subsidiaries, where appropriate together with special purpose entities.

Subsidiaries are all companies in which the Company holds control over the individual company. This is generally the case with a share of voting rights in excess of 50%. However, additional circumstances such as the existence and effect of potential voting rights, for instance, are also taken into account when determining whether such control exists. Similarly to the regulations currently in force, the new regulations do not provide for automatic addition of potential voting rights; instead, they make it clear that all relevant facts and circumstances must be taken into account. Substantial potential voting rights may provide the holder with the opportunity to currently steer the activity of the other company. Rights are substantial when the actual possibility of exercising the rights exists. The management must assess whether potential voting rights are substantial. In this process, the terms and conditions of the instrument must be factored in, specifically, among other things, whether exercise would be advantageous for the holder and whether the instruments can be exercised when decisions on material activities must be made. In this way, the circumstances must be taken into account on a case-by-case basis more strongly than in the past.

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. Organi for which the Group does not hold a majority or any of the voting rights are nevertheless included in the group of subsidiaries when the Group has control.

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

Acquisition cost is measured as the fair value of the assets transferred, the equity instruments issued, and the liabilities created or assumed on the date of exchange. 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.

Companies in which Gigaset has a significant influence on financial policy and business policy decisions are included in the consolidated financial statements according to the equity method pursuant to IAS 28 Investments in Associates and Joint Venture Companies. When applying the equity method, the investment is initially recognized at cost of purchase. This recognition is then adjusted by any changes in Gigaset's share in the net assets of the investee company. Gigaset's profit or loss includes the share in the profit or loss as well as the other comprehensive income (changes recognized in equity) of the investee company. The financial statement information to be included is adjusted to the extent necessary to match Gigaset's accounting principles.

Besides the parent company, 26 subsidiaries – consisting of 8 domestic and 18 foreign companies – were included in the consolidated financial statements of Gigaset at December 31, 2014.

Compared to December 31, 2013, one company was deconsolidated due to liquidation. In addition, three companies were sold and three companies were merged, that is, one company was discontinued by accrual into another Group company. There were no business acquisitions in fiscal 2014, however, one company was newly established. One company that was still fully consolidated in 2013 was only included in the consolidated financial statements according to the equity method in 2014 due to loss of control.

One company has been accounted for by the equity method at December 31, 2014. No companies were accounted for in the consolidated financial statements by the equity method in the prior year.

As in the prior year, there were no subsidiaries with an immaterial effect on the Company's financial position, financial performance, and cash flows as of December 31, 2014, that were not included in the consolidated financial statements.

Details of the subsidiaries that belong to the consolidation group are included in the list of shareholdings (Section 313 (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 *)**	
		12/31/2014	**12/31/2013**	**2014**	**2013**
United Arab Emirates	AED	4,4646	5,0564	4,8816	4,8789
Argentina	ARS	10,4058	8,3548	10,7329	7,1751
Australia	AUD	1,4809	1,5395	1,4725	1,3772
Brazil	BRL	3,2394	3,2208	3,1229	2,8648
Canada	CAD	1,4075	1,4636	1,4670	1,3686
Switzerland	CHF	1,2023	1,2268	1,2146	1,2309
China	CNY	7,5442	8,3555	8,1912	8,1692
Denmark	DKK	7,4452	7,4596	7,4549	7,4579
United Kingdom	GBP	0,7788	0,8331	0,8065	0,8492
Hong Kong	HKD	9,4264	10,6747	10,3063	10,3038
Japan	JPY	145,0400	144,5100	140,3853	129,6531
Mexico	MXN	17,8645	18,0282	17,6672	16,9659
Norway	NOK	9,0242	8,3599	8,3604	7,8085
Poland	PLN	4,2805	4,1502	4,1847	4,1971
Russia	RUB	72,0790	45,2640	51,0198	42,3293
Sweden	SEK	9,3982	8,8262	9,0967	8,6516
Singapore	SGD	1,6059	1,7391	1,6832	1,6622
Turkey	TRL	2,8292	2,9452	2,9068	2,5330
USA	USD	1,2155	1,3767	1,3290	1,3284
South Africa	ZAR	14,0432	14,5001	14,4083	12,8328

*) Equivalent for EUR 1

B. SUMMARY OF PRINCIPAL ACCOUNTING AND VALUATION METHODS

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

Recognition of income and expenses

Revenue is recognized as the fair value of the consideration received or to be received in the future. It represents the amounts that are receivable for goods and services in the ordinary course of business. Discounts, sales taxes, and other sales-related taxes are deducted from revenue. Sales taxes and other taxes are only deducted from revenue when Gigaset is not the economic tax debtor, in which case the taxes are merely a transitory item. Gigaset recognizes revenue on the sale of goods when substantially all the risks and rewards of ownership of the goods have been transferred to the customer and the company no longer holds a right of disposal of the kind that is customarily associated with ownership, nor any other effective right of disposal over the goods, and when 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 (PY: 33.0%).

A uniform rate of 15.0% for corporate income tax plus a solidarity surcharge of 5.5% is applied to distributed and retained profits 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 15.2% (PY: 3.9%) to 17.2% (PY: 17.2%).

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 19.0% (PY: 8.5%) and 35.0% (PY: 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 surplus is subject to the following rules:

- In the case of company acquisitions, deferred tax assets are not normally recognized on tax loss carryforwards and temporary differences 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 and deferred tax assets on temporary differences.

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 A period of four years was used as the planning period for recognizing deferred tax assets. This is the period upon which the Group's budget is based.

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 in accordance with IAS 36 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.

Companies accounted for by the equity method

Companies in which Gigaset has a significant influence on financial policy and business policy decisions are included in the consolidated financial statements according to the equity method pursuant to IAS 28 Investments in Associates and Joint Venture Companies. Significant influence generally exists in case of indirect or direct voting rights shares of 20% to 50%, but other situations and circumstances may lead to significant influence existing even at different investment shares.

The equity method is applied starting on the date on which Gigaset acquires significant influence and terminated starting on the date on which the significant influence over the investee company ends.

In the equity method, the investment is first recognized at cost of purchase and then a difference is calculated based on the proportionate newly valuated net assets. The financial statement information to be included is adjusted to the extent necessary to match Gigaset's accounting principles. The valuation base of the investment is then adjusted by any changes in Gigaset's share in the net assets of the investee company (e.g., capital increases, dividends, or capital reductions). Gigaset's profit or loss, which is disclosed in the income statement, includes the share in the profit or loss of the investee company. The share of the profit or loss of other comprehensive income (changes not affecting net income) of the investee company is also recognized at Gigaset in other comprehensive income (changes recognized in equity).

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

At each reporting date, Gigaset reviews whether there are objective indications of impairment of the share in the affiliated company. If such indications exist, Gigaset calculates the impairment need as the difference between the recoverable amount and the carrying amount of the affiliated company.

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, intangible assets during the development phase, or customer-specific inventories.

Non-current assets held for sale

Non-current assets (and groups of assets) classified as held for sale are measured at the lower of amortized cost or fair value, less 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. The moving average price method was used as a measurement simplification procedure for measuring the inventory.

Trade receivables

Trade receivables are measured at amortized cost less 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.

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 counterparty credit risk has to be taken into consideration.

Financial assets at fair value through profit or loss

This category has two subcategories: financial assets 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.

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 counterparty credit risk has to be taken into consideration.

Shareholders' equity

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

If a Group company purchases company shares (treasury shares), the value of the consideration paid, including the directly allocable additional costs (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 transaction between market participants at the measurement date. For the determination of fair value, the counterparty credit risk has to be taken into consideration.

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.

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.

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.

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

C. NOTES ON FINANCIAL INSTRUMENTS

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. 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 2014 in the amount of EUR 54,611 thousand (PY: EUR 69,345 thousand), EUR 21,902 or 40.1% (PY: EUR 30,383 or 43.8%) 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 54,611 thousand, PY: EUR 69,345 thousand) is reduced by trade credit insurance, letters of credit, and other credit improvements to a maximum default risk of EUR 32,709 thousand (PY: EUR 38,962 thousand).

2014 in EUR'000	Carrying amount	Maximum default risk	Secured portion	2014[1] %
Total	**54,611**	**32,709**	**21,902**	**40.1**
Trade receivables	38,097	16,195	21,902	40.1
Other receivables	16,514	16,514	0	0.0

2013 in 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

[1] With reference to the entire carrying amount

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

	12/31/2014		12/31/2013	
	EUR'000	%	EUR'000	%
Total	**54,611**	**100.0**	**69,345**	**100.0**
Germany	18,567	34.0	11,308	16.3
Europe - EU	28,440	52.1	40,016	57.7
Europe - Other	2,889	5.3	8,280	11.9
Rest of world	4,715	8.6	9,741	14.1

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:

2014 in EUR'000	Carrying amount	Total outflow	< 1 year	1-5 years	> 5 years
Non-derivative financial liabilities	63,111	63,142	62,715	427	0
Trade payables	62,649	62,649	62,649	0	0
Liabilities to banks	0	0	0	0	0
Other financial liabilities	462	493	66	427	0
Other liabilities	0	0	0	0	0
Derivative financial liabilities	108	108	108	0	0
Total	**63,219**	**63,250**	**62,823**	**427**	**0**

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**

A more detailed presentation of current liabilities to banks and current financial liabilities in the maturity range "< 1 year" is provided in Note 28 "Current financial liabilities"; the same for trade payables is provided in Note 29 "Trade payables" and the same for derivative financial liabilities is provided in Note 31 "Current other liabilities" and Note 26 "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 underwriters demanded repayment of all utilizations of the granted credit facilities in accordance with expectations and contracts. Current financial liabilities at December 31, 2013, related to the syndicate loan and related interest. The liabilities shown under other current financial liabilities related 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 2014 in the amount of EUR 63,219 thousand (PY: EUR 102,184 thousand), EUR 7,902 or 12.5% (PY: EUR 28,927 thousand or 28.3%) is hedged. The security items are broken down in the table below:

2014 in EUR'000	Intangible assets	Land and buildings	Other property, plant and equipment	Invento-ries	Trade receiv-ables	Other security	in %
Trade payables	0	0	0	2,874	5,028	0	12.5
Liabilities to banks	0	0	0	0	0	0	0.0
Other financial liabilities	0	0	0	0	0	0	0.0
Other liabilities	0	0	0	0	0	0	0.0
Total	**0**	**0**	**0**	**2,874**	**5,028**	**0**	**12.5**

2013 in EUR'000	Intangible assets	Land and buildings	Other property, plant and equipment	Invento-ries	Trade receiv-ables	Other security	in %
Trade payables	0	0	0	1,804	6,123	0	7.8
Liabilities to banks	0	15,034	0	0	0	0	14.7
Other financial liabilities	0	5,996	0	0	0	0	5.8
Other liabilities	0	0	0	0	0	0	0.0
Total	**0**	**21,000**	**0**	**1,804**	**6,123**	**0**	**28.3**

In the prior year, the collateral provided regarding land and buildings related 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:

	12/31/2014		12/31/2013	
	EUR'000	%	EUR'000	%
Total	**63,219**	**100.0**	**102,184**	**100.0**
Germany	42,204	66.8	52,353	51.2
Europe - EU (excluding Germany)	10,826	17.1	15,343	15.0
Europe - Other	453	0.7	874	0.9
Rest of world	9,736	15.4	33,614	32.9

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 43,638 thousand (PY: EUR 37,376 thousand) consisted of financial assets denominated in foreign currencies and an amount of EUR 30,894 thousand (PY: EUR 32,555 thousand) consisted of financial liabilities denominated in foreign currencies. The risk concentrations based on foreign currencies are presented in the table below:

	12/31/2014		12/31/2013	
Financial assets in	**EUR'000**	**%**	**EUR'000**	**%**
USD (U.S. dollars)	23,022	52.8	14,987	40.0
GBP (British pounds)	5,402	12.4	5,404	14.5
CNY (Chinese renminbi yuan)	3,417	7.8	2,344	6.3
TRL (Turkish lira)	3,341	7.7	3,128	8.4
CHF (Swiss francs)	2,977	6.8	2,150	5.8
RUB (Russian rubles)	2,150	4.9	3,220	8.6
PLN (Polish zloty)	1,712	3.9	1,257	3.4
SEK (Swedish krona)	1,091	2.5	1,502	4.0
NOK (Norwegian krone)	271	0.6	335	0.9
DKK (Danish krone)	163	0.4	217	0.6
ARS (Argentine pesos)	92	0.2	2,158	5.8
MXN (Mexican pesos)	0	0.0	309	0.8
CAD (Canadian dollars)	0	0.0	200	0.5
JPY (Japanese yen)	0	0.0	92	0.2
Other	0	0.0	73	0.2
Total	**43,638**	**100.0**	**37,376**	**100.0**

	12/31/2014		12/31/2013	
Financial liabilities in	**EUR'000**	**%**	**EUR'000**	**%**
USD (U.S. dollars)	25,577	82.8	27,679	85.2
CNY (Chinese renminbi yuan)	2,535	8.2	2,100	6.5
GBP (British pounds)	823	2.7	630	1.9
TRL (Turkish lira)	628	2.0	391	1.2
JPY (Japanese yen)	420	1.4	511	1.6
SEK (Swedish krona)	288	0.9	48	0.1
CHF (Swiss francs)	224	0.7	407	1.2
PLN (Polish zloty)	224	0.7	226	0.7
RUB (Russian rubles)	87	0.3	331	1.0
ARS (Argentine pesos)	31	0.1	146	0.4
Other	57	0.2	86	0.2
Total	**30,894**	**100.0**	**32,555**	**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, 2014, the equity presented in the functional currency would have been EUR - 1,161 thousand lower or EUR 1,416 thousand higher, respectively (PY: EUR -431 thousand lower or 527 thousand higher).

The hypothetical effect on profit or loss (after taxes) of EUR -1,161 thousand (PY: EUR -431 thousand) or EUR 1,416 thousand (PY: EUR 527 thousand), respectively, is broken down in the table below on the basis of the corresponding currency sensitivities:

	2014		2013	
EUR'000	**+10 %**	**-10 %**	**+10 %**	**-10 %**
EUR/USD	232	-284	1,154	-1,410
EUR/JPY	38	-47	38	-46
EUR/SGD	-1	1	0	0
EUR/ARS	-6	7	-183	223
EUR/DKK	-12	14	-13	16
EUR/NOK	-23	28	-29	35
EUR/CNY	-80	98	-22	27
EUR/SEK	-73	89	-132	162
EUR/PLN	-135	165	-94	115
EUR/RUB	-188	229	-263	321
EUR/TRL	-247	301	-249	304
EUR/CHF	-250	306	-158	194
EUR/GBP	-416	509	-434	530
EUR/CAD	0	0	-18	22
EUR/MXN	0	0	-28	34
Total	**-1,161**	**1,416**	**-431**	**527**

At the reporting date, the Group held no foreign currency derivatives. In the prior year, the Group held 22 foreign currency derivatives to hedge the exchange rate of the U.S. dollar against the euro, for a total notional amount of USD 107,500 thousand Of these derivatives, 21 were designed as "bonus-eventual" currency futures contracts, which were concluded in October or December 2013. The remaining currency futures contract was designed as a "strip of plain vanilla" currency futures contract and was concluded in December 2013.

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

USD Hedging transactions in million USD period until month	**2014**
January	12.0
February	13.5
March	11.0
April	8.0
May	4.0
June	9.0
July	8.0
August	8.0
September	9.0
October	6.0
November	7.0
December	12.0
	107.5

In the prior year, these derivatives were measured at their fair value of EUR +384 thousand and EUR 251 thousand at 12/31/2013, and were recognized under other current assets or other current liabilities.

The currency sensitivity analysis for the foreign currency derivative existing at the prior year reporting date yielded the result that if the U.S. dollar exchange rate had been 10% higher, the fair value would have been lower by EUR 1,869 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.

Forward foreign exchange contracts were concluded in January 2015 for hedging purposes with a nominal amount of USD 96.5 million.

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 - 108 thousand (PY: EUR -172 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.

In the prior year, 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 have led to an increase in the interest cash flow payable by EUR 446 thousand, and an interest rate 100 basis points lower would have led to a decrease in the interest cash flow payable by EUR 379 thousand.

Other price risks

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

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

	Note	Measurement method per IAS 39		
EUR'000		Measurement category per IAS 39	Carrying amount 2014	Fair value 2014
Assets				
Current assets				
Trade receivables	17	LaR	38,097	38,097
Other assets	18	LaR	16,514	16,514
Cash and cash equivalents	20	LaR	50,484	50,484
Liabilities				
Non-current liabilities				
Financial liabilities	23	FL-AC	396	406
Other liabilities	26	FL-HfT	0	0
Current liabilities				
Current financial liabilities	23.28	FL-AC	66	66
Trade payables	29	FL-AC	62,649	62,649
Other liabilities	31	FL-AC. FL-HfT	108	108
Thereof aggregated by measurement category according to IAS 39:				
Financial assets				
Loans and receivables (LaR)			105,095	105,095
Financial assets held for trading (FA-HfT)			0	0
Financial liabilities				
Measured at amortized cost (FL-AC)			63,111	63,121
Financial liabilities held for trading (FL-HfT)			108	108

Measurement method per IAS 39			Statement of financial position measurement method per IAS 17	
Amortized cost	Fair value recognized in equity	Fair value through profit and loss		EUR'000
				Assets
				Current assets
38,097	0	0	0	Trade receivables
16,514	0	0	0	Other assets
50,484	0	0	0	Cash and cash equivalents
				Liabilities
				Non-current liabilities
396	0	0	0	Financial liabilities
0	0	0	0	Other liabilities
			0	Current liabilities
66	0	0	0	Current financial liabilities
62,649	0	0	0	Trade payables
0	0	108	0	Other liabilities
				Thereof aggregated by measurement category according to IAS 39:
				Financial assets
				Loans and receivables (LaR)
				Financial assets held for trading (FA-HfT)
				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

	Note	Measurement method per IAS 39		
EUR'000		Measurement category per IAS 39	Carrying amount 2013	Fair value 2013
Assets				
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	23	FL-AC	76	77
Other liabilities	26	FL-HfT	172	172
Current liabilities				
Current financial liabilities	23.28	FL-AC	30,201	30,201
Trade payables	29	FL-AC	71,476	71,476
Other liabilities	31	FL-AC. FL-HfT	259	259
Thereof aggregated by measurement category according to IAS 39:				
Financial assets				
Loans and receivables (LaR)			126,332	126,332
Financial assets held for trading (FA-HfT)			384	384
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			Statement of financial position measurement method per IAS 17	
Amortized cost	Fair value recognized in equity	Fair value through profit and loss		EUR'000
				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	0	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)
				Financial assets held for trading (FA-HfT)
				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 2014 as supplemental information.

2014		Hierarchy level		
EUR'000	1	2	3	Total
Financial assets				
Derivative financial instruments	0	0	0	0
Financial liabilities				
Financial liabilities	0	406	0	406
Derivative financial instruments	0	108	0	108

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 2014, the category of other assets included no derivative financial assets (PY: EUR 384 thousand). The other liabilities include current derivative liabilities in the amount of EUR 108 thousand (PY: EUR 251 thousand) and no noncurrent derivative liabilities (PY: EUR 172 thousand).

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

Liabilities under finance leases do not fall within the scope of IAS 39 and are therefore presented separately. 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 7, 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			From disposal	
2014		At fair value	Currency translation	Value adjustment		Net gain or loss
Financial assets						
Loans and receivables	-596	0	627	1,340	0	1,371
Financial liabilities						
Measured at amortized cost	-1,183	0	-930	0	601	-1,512
Derivative financial instruments						
Held for trading	0	-69	0	0	0	-69
2013						
Financial assets						
Loans and receivables	-395	0	-1,074	-98	-1,391	-2,958
Financial liabilities						
Measured at amortized cost	-3,682	0	284	0	4,759	1,361
Derivative financial instruments						
Held for trading	0	440	0	0	0	440

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 2014 or 2013 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 -69 thousand (PY: EUR 440 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	2014	2013
Non-current liabilities	87,363	71,122
Current liabilities	122,709	157,261
Liabilities	**210,072**	**228,383**
Equity	**41,159**	**38,677**
Gearing Ratio	5.1	5.9

D. NOTES TO THE INCOME STATEMENT

1. Revenues

The consolidated revenues of the Group break down as follows:

	2014			2013		
EUR'000	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Revenues from sales of goods	326,078	0	326,078	371,153	5,965	377,118
Total	**326,078**	**0**	**326,078**	**371,153**	**5,965**	**377,118**

The total revenues break down as follows:

EUR'000	2014	2013
Trading revenues	12,389	5,965
Production revenues	313,689	371,153
Total	**326,078**	**377,118**

Trading revenues in 2014 relate primarily to revenues from tablets, which have been sold since 2014. Trading revenues in 2013 come from the discontinued operation of SM Electronic Group, which was deconsolidated in 2013.

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.

3. Other operating income

The other operating income breaks down as follows:

	2014			2013		
EUR'000	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Exchange rate differences	10,098	0	10,098	6,733	279	7,012
Deconsolidations	8,292	0	8,292	16	0	16
Reversal of provisions	4,826	0	4,826	7,565	160	7,725
Reversal of valuation allowances	2,279	0	2,279	274	52	326
Charge-off of liabilities	2,081	0	2,081	4,076	683	4,759
Disposal of non-current assets	189	0	189	15	0	15
Income from derivatives	39	0	39	440	0	440
Miscellaneous operating income	7,530	0	7,530	4,346	632	4,978
Total	**35,334**	**0**	**35,334**	**23,465**	**1,806**	**25,271**

The income from deconsolidations amounted to EUR 8,292 thousand in financial year 2014 and resulted from the disposal of Gigaset Equipamentos de Comunicação Ltda, Sao Paulo/Brazil.

The income from deconsolidations in the prior year amounted to EUR 16 thousand and resulted from the sale of Gigaset Communications FZ-LLC, Dubai/United Arab Emirates.

4. Purchased goods and services

	2014			2013		
EUR'000	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Raw materials and supplies	123,251	0	123,251	143,659	2,859	146,518
Purchased goods	35,855	0	35,855	33,511	21	33,532
Purchased services	19	0	19	196	68	264
Other	1,498	0	1,498	6,386	285	6,671
Total	**160,623**	**0**	**160,623**	**183,752**	**3,233**	**186,985**

In the reporting year, other purchased goods and services exclusively included write-ups of fixed assets in the amount of EUR 388 thousand (PY: EUR 519 thousand) in the category of continuing operations.

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

EUR'000	2014	2013
Gigaset Group	160,623	179,242
SM Electronic Group	0	3,233
Gigaset Mobile Pte. Ltd.	0	4,510
Total	**160,623**	**186,985**

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

EUR'000	2014	2013
Gigaset Group	123,251	143,659
SM Electronic Group	0	2,859
Total	**123,251**	**146,518**

The expenses for purchased goods derived from the following groups:

EUR'000	2014	2013
Gigaset Group	35,855	29,001
SM Electronic Group	0	21
Gigaset Mobile Pte. Ltd.	0	4,510
Total	**35,855**	**33,532**

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

EUR'000	2014	2013
Gigaset Group	19	196
SM Electronic Group	0	68
Total	**19**	**264**

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

5. Personnel expenses

	2014			2013		
EUR'000	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Wages and salaries	86,529	0	86,529	82,845	1,459	84,304
Social security, pension and other benefit costs	15,815	0	15,815	16,664	251	16,915
Total	**102,344**	**0**	**102,344**	**99,509**	**1,710**	**101,219**

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

EUR'000	2014	2013
Gigaset Group	95,713	94,427
Holding company	6,631	5,082
SM Electronic Group	0	1,710
Total	**102,344**	**101,219**

The wages and salaries contained compensation of EUR 33 thousand reducing expenses (PY: EUR 10 thousand) 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.

6. Other operating expenses

The other operating expenses break down as follows:

	2014			2013		
EUR'000	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Marketing and representation expenses	23,717	0	23,717	30,364	2,069	32,433
Administrative expenses	13,023	0	13,023	14,564	704	15,268
Exchange rate changes	12,285	0	12,285	9,806	589	10,395
Outgoing freight/transport costs	7,758	0	7,758	9,096	902	9,998
Addition to warranty provisions	6,395	0	6,395	4,176	0	4,176
Consulting expenses	5,805	0	5,805	10,109	174	10,283
Other taxes	3,937	0	3.937	7,699	3	7,702
Personnel leasing	3,210	0	3,210	4,641	0	4,641
Expenses for land/buildings (including rent)	3,197	0	3,197	3,544	168	3,712
Maintenance of technical equipment, machinery and operational and office equipment	1,886	0	1,886	2,033	7	2,040
Addition to provision for anticipated losses	1,170	0	1,170	184	0	184
Patent and licensing fees	980	0	980	1,051	370	1,421
Write-offs on receivables and losses on receivables	939	0	939	910	807	1,717
Losses on deconsolidation	447	0	447	27	4	31
Losses on the disposal of non-current assets	27	0	27	50	0	50
Miscellaneous operating expenses	10,192	0	10,192	15,031	591	15,622
Total	**94,968**	**0**	**94,968**	**113,285**	**6,388**	**119,673**

The deconsolidation loss derives from the entry of Goldin Digital Pte. Ltd., Singapore, and the majority ratios that are therefore changed in Gigaset Mobile Pte. Ltd., Singapore, and the sale of AT Operations 1 GmbH and AT Operations 2 GmbH. In the prior year, a deconsolidation loss resulted 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) - that amounted to EUR 31 thousand.

7. Impairments

In financial year 2014, impairment losses were recognized in the Gigaset Group in the amount of EUR 3,035 thousand. The impairment losses in 2013 affected the SM Electronics Group, which was deconsolidated in the prior year:

	2014			2013		
EUR'000	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Gigaset Group	3,035	0	3,035	0	0	0
SM Electronics Group	0	0	0	0	-1,935	-1,935
Total	**3,035**	**0**	**3,035**	**0**	**-1,935**	**-1,935**

In financial year 2014, impairment losses were recognized in the amount of EUR 3,035 thousand (PY: EUR 0 thousand) in the intangible assets pursuant to IAS 36. The depreciation and amortization relate in the full amount to the accrued expenses for implementation of new software previously recognized under advance payments, which, however, will probably not be able to be used.

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.

In financial year 2013, SM Electronic Group was shown under discontinued operations, since this group represented a material operation measured by total assets or operating revenues.

8. Net interest income/expenses

	2014			2013		
EUR'000	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Other interest and similar income	183	0	183	577	0	577
Interest and similar expenses	-2,471	0	-2,471	-4,430	-28	-4,458
Net interest income/expenses	**-2,288**	**0**	**-2,288**	**-3,853**	**-28**	**-3,881**

Other interest and similar income in the amount of EUR 183 thousand (PY: EUR 577 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 expence arising from the discounting of provisions amounted to EUR 115 thousand (PY: income from discounting amounted to EUR 182 thousand).

Interest and similar expenses in the amount of EUR 2,471 thousand (PY: EUR 4,458 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 730 thousand (PY: TEUR 673 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:

	2014			2013		
EUR'000	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Current tax expenses/income	4,848	0	4,848	3,126	0	3,126
Deferred tax expence (+)/ income (-)	-1,015	0	-1,015	12,443	-210	12,233
Total income tax expenses/income	**3,833**	**0**	**3,833**	**15,569**	**-210**	**15,359**

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	2014	2013
Profit/loss before income taxes	-12,790	-20,721
expected income tax rate	33.0%	33.0%
expected income tax expenses	-4,221	-6,837
Tax rate changes	-2	-427
Tax rate differences	-261	-4,552
Tax-exempt income	-66	13,280
Non-deductible expenses	5,834	2,229
Change in valuation allowance for deferred tax assets and unrecognized deferred tax assets in respect of tax loss carry-forwards	6,336	11,334
Current taxes for different periods	2,635	1,567
Tax credits	35	181
Other effects	- 6,457	-1,416
Income tax expenses (+) / income (-) recognized in the income statement	**3,833**	**15,359**
Effective tax rate	-30.00%	-74.1%

10. Non-controlling interests

The consolidated loss of EUR 16,623 thousand (PY: EUR 36,080 thousand) included no non-controlling interests, as was also the case in the prior year.

11. Earnings per common share

The basic and diluted earnings per share amounted to EUR -0.15 in financial year 2014 (PY: EUR 0.61), as per the following calculation:

	2014			2013		
EUR'000	Continuing operations	Discontinued operations	Group	Continuing operations	Discontinued operations	Group
PROFIT/LOSS						
Basis for the basic earnings per share (share of period profit or loss attributable to shareholders of the parent company)	-16,623	0	-16,623	-34,637	-1,443	-36,080
Effect of potentially diluting common shares: stock options	0	0	0	0	0	0
Basis for the diluted earnings per share	-16,623	0	-16,623	-34,637	-1,443	-36,080
NUMBER OF SHARES						
Weighted average common shares for the basic earnings per share	113,149,830	113,149,830	113,149,830	58,581,435	58,581,435	58,581,435
Effect of potentially diluting common shares: stock options	0	0	0	0	0	0
Weighted average common shares for the diluted earnings per share	113,149,830	113,149,830	113,149,830	58,581,435	58,581,435	58,581,435
Basic earnings per share (in EUR)	-0.15	0.00	-0.15	-0.59	-0.02	-0.61
Diluted earnings per share (in EUR)	-0.15	0.00	-0.15	-0.59	-0.02	-0.61

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 2014 for financial year 2013.

The 2014 financial year net loss calculated in accordance with the German Commercial Code (GCC) amounted to EUR -23,165 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 -32,980 thousand from 2013 and carry forward the remaining net loss for the year of EUR -56,145 thousand to new account.

E. NOTES TO THE STATEMENT OF FINANCIAL POSITION

13. Intangible assets

EUR'000	Franchises, intellectual property rights, and similar rights and licenses	Other intangible assets	Advance payments	Total
Acquisition cost at 1/1/2014	25,814	82,691	3,035	111,540
Foreign currency translation	-1	0	0	-1
Additions	5	9,097	0	9,102
Disposals	-280	0	0	-280
Transfers	-1	0	0	-1
Balance at 12/31/2014	**25,537**	**91,788**	**3,035**	**120,360**
Amortization at 1/1/2014	-11,207	-54,863	0	-66,070
Additions	-1,728	-12,323	0	-14,051
Impairments (IAS 36)	0	0	-3,035	-3,035
Disposals	280	0	0	280
Transfers	1	0	0	1
Balance at 12/31/2014	**-12,654**	**-67,186**	**-3,035**	**-82,875**
Net carrying amount at 12/31/2013	14,607	27,828	3,035	45,470
Net carrying amount at 12/31/2014	12,883	24,602	0	37,485
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

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

EUR'000	12/31/2014	12/31/2013
Brand names	8,399	8,399
Patents	4,013	5,082
Franchises	471	1,126
Total	**12,883**	**14,607**

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, 2014 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. For the period EBIT margins from operations were calculated as beingbetween -1.6% per annum and 13.7%. Additionally, EBIT margins from planned royalty income were calculated to be between 3.8% per annum and 7.1%. Appropriate growth rates were applied for the period thereafter. The applied discount factor after taxes was 10.2% per annum (PY: 9.6 % 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: 1.0%). 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 471 thousand (PY: EUR 1,126 thousand) mainly consisted of software licenses held in the Gigaset Group.

Capitalized development expenses are presented within the item of other intangible assets in the amount of EUR 24,602 thousand (PY: EUR 27,828 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 20,282 thousand (PY: EUR 23,460 thousand) were recognized as expenses in financial year 2014, primarily at Gigaset Communications GmbH.

No capitalized goodwill existed at the reporting date.

In financial year 2014, impairment losses were recognized in the amount of EUR 3,035 thousand (PY: EUR 0 thousand) in intangible assets pursuant to IAS 36. The depreciation and amortization relate in the full amount to the accrued expenses for implementation of new software previously recognized under advance payments, which, however, will probably not be able to be used.

In addition, borrowing costs of EUR 372 thousand were capitalized in financial year 2013 (PY: EUR 554 thousand). The underlying interest rate is 3.1% (PY: 6.4%).

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 1/1/2014	**4,025**	**20,576**	**4,769**	**63,354**	**48**	**92,772**
Foreign currency translation	0	16	-2	-28	0	-14
Additions	0	0	219	4,433	366	5,018
Disposals	0	0	0	-160	0	-160
Balance at 12/31/2014	**4,025**	**20,592**	**4,986**	**67,599**	**414**	**97,616**
Amortization at 1/1/2014	**0**	**-6,926**	**-2,049**	**-44,161**	**0**	**-53,136**
Foreign currency translation	0	-16	-1	25	0	8
Additions	0	-1,163	-623	-9,126	0	-10,912
Disposals	0	0	0	115	0	115
Transfers	0	0	0	-6	0	-6
Balance at 12/31/2014	**0**	**-8,105**	**-2,673**	**-53,153**	**0**	**-63,931**
Net carrying amount at 12/31/2013	**4,025**	**13,650**	**2,720**	**19,193**	**48**	**39,636**
Net carrying amount at 12/31/2014	**4,025**	**12,487**	**2,313**	**14,446**	**414**	**33,685**

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 con-struction 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**

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 2014. For additional information on impairment losses, please refer to our comments in the section entitled "Impairment losses."

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

Property, plant and equipment in the amount of EUR 0 thousand (PY: EUR 21,000 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. Investments accounted for by the equity method

Due to the entry of Goldin Digital Pte. Ltd., Singapore, the company Gigaset Mobile Pte. Ltd., Singapore, which was fully consolidated in the previous year due to ownership of 100% of the shares, was no longer fully consolidated starting January 16, 2014, but rather included in the consolidated financial statements using the equity method due to the current voting rights ratios. The “Shareholders Agreement” between Gigaset and Goldin Digital Pte. Ltd., Singapore, regulates the contractual relationships between the companies. The Company is expected to develop, produce, and distribute tablets, smartphones, or other mobile communications devices and related accessories. Inclusion of the attributable earnings components according to the equity method is carried out for the consolidated financial statements of Gigaset AG using a share of 32.43% with a voting rights ratio of 37.50%, taking potential voting rights into account. Financial investments accounted for by the equity method showed the following development in the past fiscal year:

EUR’000	2014
Balance at January 1	0
Addition	18,053
Attributable comprehensive income based on the equity method	3,198
Balance at December 31	**21,251**

The comprehensive income of Gigaset Mobile Pte. Ltd., Singapore, in financial year 2014 amounts to EUR 3,198 thousand, of which EUR 1,015 thousand relates to the profit from continuing operations (recognized in the item “Result from investments accounted for by the equity method”) and EUR 2,183 thousand relates to other comprehensive income (recognized in the item “Other income from Investments accounted for by the equity method”).

The financial information of Gigaset Mobile Pte. Ltd., Singapore, and its subsidiaries showed the following development for the reporting period or at the reporting data based on the foreign currency translation rates used in the consolidated financial statements for the functional currency of the Company (values shown based on 100% and not on the proportional share):

EUR’000	12/31/2014
Current assets	364,291
Thereof cash and cash equivalents	16,969
Non-current assets	288
Current liabilities	306,554
Thereof financial liabilities (excluding trade payables, other obligations, and provisions)	72,928
Non-current liabilities	0

EUR'000	01/01/ - 12/31/2014
Revenues	593,112
Depreciation	17
Interest income	62
Interest expense	-44
Income tax expenses	-938
Profit from continuing operations	3,129
Other comprehensive income	6,732
Total comprehensive income and expenses	**9,861**

In the reporting period, no dividends were distributed by Gigaset Mobile Pte. Ltd. to the shareholders. There were also no discontinued operations.

The reconciliation of the net assets to the carrying amount shown in the statement of financial position is as follows

EUR'000	2014
Net assets at consolitation date	18,164
Capital increase	30,000
Profit from continued operations	3,129
Other comprehensive income	6,732
Net assets as of 31.12.	**58,025**
Share in share capital	18,000
Share in accumulated other comprehensive income	3,251
Book value	**21,251**

16. Inventories

The inventories break down as follows:

EUR'000	12/31/2014	12/31/2013
Finished goods, trading stock and finished services	18,587	17,920
Semi-finished goods and services in progress	1,917	1,083
Raw materials, consumables and supplies	7,401	8,341
Advance payments	253	160
Total	**28,158**	**27,504**

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 3,389 thousand at the reporting date (PY: EUR 4,444 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 2,874 thousand have been pledged as security for financial liabilities (PY: EUR 1,804 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	12/31/2014	12/31/2013
Receivables before valuation allowances	38,614	52,503
Valuation allowances	-517	-2,303
Carrying amount of receivables	**38,097**	**50,200**

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

EUR'000	2014	2013
01/01.	2,303	4,589
Charge	106	1,098
Utilization	156	-3,085
Release	-2,017	-299
Changes in consolidation group	-31	0
31/12.	**517**	**2,303**

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 46,141 thousand (PY: EUR 46,793 thousand). 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 460 thousand (PY: EUR 512 thousand), which was composed of the remaining interest rate risk in the amount of EUR 230 thousand (PY: EUR 256 thousand) and the del credere risk remaining with the Company by virtue of the purchase price retention, in the amount of EUR 230 thousand (PY: EUR 256 thousand). The expenses in connection with factoring amounted to EUR 994 thousand in the financial year (PY: EUR 878 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 5,727 thousand (PY: EUR 6,077 thousand).

The age structure of trade receivables at December 31, 2014 is presented in the table below:

EUR'000	12/31/2014	12/31/2013
Carrying amount	38,097	50,200
thereof: neither impaired nor past due at the reporting date	31,770	39,105
thereof: impaired at the reporting date	265	2,153
thereof: not impaired, but past due by the following time intervals at the reporting date	6,062	8,942
Past due up to 90 days	5,289	8,433
Past due 90 days to 180 days	550	316
Past due 180 days to one year	190	137
Past due by more than one year	33	56

Of the total trade receivables presented in the statement of financial position, an amount of EUR 1,804 thousand (PY: EUR 6,123 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 21,902 thousand (PY: EUR 30,383 thousand) as security for trade receivables and outstanding invoices in financial year 2014.

All 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, 2014:

	12/31/2014		12/31/2013	
Foreign currency	EUR'000	%	EUR'000	%
GBP (British pounds)	4,147	30.8	4,740	28.5
USD (U.S. dollars)	2,397	17.8	1,663	10.0
TRL (Turkish lira)	2,359	17.5	2,218	13.3
RUB (Russian rubles)	1,865	13.9	2,501	15.0
CNY (Chinese renminbi yuan)	1,480	11.0	938	5.6
SEK (Swedish krona)	279	2.1	1,076	6.5
PLN (Polish zloty)	567	4.2	551	3.3
CHF (Swiss francs)	277	2.1	2,150	12.9
MXN (Mexican pesos)	0	0.0	309	1.9
CAD (Canadian dollars)	0	0.0	200	1.2
ARS (Argentine pesos)	0	0.0	83	0.5
Other	80	0.6	227	1.3
Total	**13,451**	**100.0**	**16,656**	**100.0**

18. Other assets

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

EUR'000	12/31/2014	12/31/2013
Receivables from factoring	10,034	14,349
Tax receivables	6,352	5,195
Receivables from affiliated companies	3,114	0
Security deposits	2,063	4,036
Receivables from insurance	1,010	0
Receivables from pension liability insurance	551	606
Accruals and deferrals	329	380
Debit balances in vendor accounts	163	459
Current loans	20	300
Derivatives	0	384
Other assets	3,693	2,810
Total	**27,329**	**28,519**

The receivables from factoring in 2014 consisted mainly of the outstanding portion of the purchase price receivable still owed to the Gigaset Group, in the amount of EUR 10,034 thousand (PY: EUR 14,349 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 6,116 thousand (PY: EUR 4,768 thousand) most of which were attributable, in turn, to the Gigaset Group, in the amount of EUR 5,957 thousand (PY: EUR 4,490 thousand).

The security deposits were mainly composed of security payments for a customs warehouse in Bocholt in the amount of EUR 1,500 thousand (PY: EUR 3,500 thousand).

19. Current tax assets

This item in the amount of EUR 1,174 thousand (PY: EUR 2,099 thousand) was composed exclusively of current income tax assets, including an amount of EUR 1,098 thousand (PY: EUR 2,024) 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 4,966 thousand (PY: EUR 2,662 thousand) has been pledged as security for credit facilities and for currency hedging transactions (restricted cash).

EUR'000	12/31/2014	12/31/2013
Cash on hand, cash in banks and checks	45,518	54,325
Restricted cash	4,966	2,662
Total	**50,484**	**56,987**

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 was classified as held for sale during financial year 2013, 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 2014 and the consolidated financial statements for 2013.

The corporate purpose of SM Electronic Group comprised trading in and sales of receiver technology and accessories.

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: In financial year 2013, SM Electronic Group is shown under discontinued operations, 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	01/01 - 12/31 2013
Cash inflow (+)/ outflow (-) from operating activities	-378
Cash inflow (+)/ outflow (-) from investing activities	-1,628
Cash inflow (+)/ outflow (-) from financing activities	975
Change in cash and cash equivalents	**-1,031**

Since no disposal groups were carried in the statement of financial position at both December 31, 2014, and 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 these reporting periods.

22. Equity

Subscribed capital

The Company's share capital totals EUR 121,498,092.00 (PY: EUR 96,399,985.00) and is divided into 121,498,092 (PY: 96,399,985) no par value shares. It has thus increased by EUR 25,098,107.00 compared to the prior year due to two capital measures. The increase results on the one hand from a capital increase in July 2014 in the amount of EUR 25,051,279.00 with a corresponding number of no par value shares from the authorized capital (Authorized Capital 2013 and Authorized Capital 2013/2) and on the other hand from mandatory convertible bonds (issued in 2013) that were converted in the course of 2014 in the amount of EUR 46,828.00 with a corresponding number of no par value shares. The shares are bearer shares. Thus, every no-par share represents EUR 1.00 of the Company's share capital.

New shares not subscribed by shareholders who did not exercise their subscription right in the context of the 2014 capital increase were acquired by Goldin Fund Pte. Ltd., Singapore (Singapore). Overall, about 3.5% of the subscription rights to new shares were exercised, so that Goldin Fund Pte. Ltd., Singapore (Singapore) subscribed a total of 24,178,308 new shares.

The subscribed capital in accordance with IFRS regulations was EUR 132,455,896.00 at the reporting date (PY: EUR 97,927,740.00), and is thus EUR 10,957,804.00 (PY: EUR 1,527,755.00) higher than the share capital disclosed in accordance with the regulations of commercial law. This merely factors in the debentures that were already converted at the reporting date.

Due to IFRS regulations, the number of shares (9,476,877, PY: 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 convertible bond had to be offset against the capital reserves, and a portion of the 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 12/31/2014 amounts to EUR 132,455,896.00 (PY: 97,927,740.00). The difference of EUR 10,957,804.00 (PY: EUR 1,527,755.00) relates to the mandatory convertible bonds not yet converted from 2013 (1,480,927 bonds) and 2014 (9,476,877 bonds), which will be serviced in future periods from contingent capital (Contingent Capital 2012 and Contingent Capital 2013).

At the reporting date of December 31, 2014, no treasury shares were held, as also at December 31, 2013. 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, 2014, amounts to EUR 86,076 thousand, which is EUR 966 thousand less than the capital reserve of EUR 87,042 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 of the convertible bond, which must be offset directly against equity according to IFRS regulations. The costs from the capital increase to be offset directly against the additional paid-in capital amounted to EUR 422 thousand. The breakdown of the remaining amount of EUR 544 thousand is explained in Section 23, Convertible bond.

Retained earnings

Retained earnings are unchanged compared to the prior-year reporting data at EUR 68,979 thousand.

Non-controlling interests

At the reporting date of December 31, 2014, the adjustment entry for non-controlling interests amounted to EUR 0 thousand, as in the previous year.

Authorized Capital / Contingent Capital

Authorized Capital 2010

Pursuant to Article 4 (5) of the Articles of Incorporation, the Executive Board was 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 were fundamentally entitled to a subscription right, but it could be excluded under certain circumstances. The new shares could 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 2013. Therefore, EUR 262,286.00 remained at December 31, 2013. However, the Authorized Capital 2010 was annulled by resolution of the Annual Shareholders' Meeting dated December 19, 2013, so that the Authorized Capital 2010 is no longer available. The Company was successfully able to avert the action for declaration of nullity filed against the resolutions of the Annual Shareholders' Meeting of December 19, 2013.

Authorized Capital 2013

The Annual Shareholders' Meeting of August 14, 2013, resolved to create new authorized capital (Authorized Capital 2013). Pursuant to Article 4 (6) of the Articles of Incorporation, the Executive Board was 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). The existing shareholders were fundamentally entitled to a subscription right, but it could be excluded under certain circumstances. The new shares could 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 2013. Therefore, EUR 98,509.00 remained at December 31, 2013. In 2014, EUR 51,279.00 of this amount was utilized for the capital increase in July 2014. The remaining EUR 47,230.00 was annulled by resolution of the Annual Shareholders' Meeting dated August 12, 2014, so that the Authorized Capital 2013 is no longer available.

Authorized Capital 2013/II

The Annual Shareholders' Meeting of December 19, 2013, resolved to create new authorized capital (Authorized Capital 2013/II). Pursuant to the amended Article 4 (5) of the Articles of Incorporation, the Executive Board is thus authorized to increase the Company's capital stock by issuing new shares in the period through December 18, 2018, with the consent of the Supervisory Board, by a total of up to EUR 25,000,000.00, 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/II). 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/II. The Company was successfully able to avert the action for declaration of nullity filed against the resolutions of the Annual Shareholders' Meeting of December 19, 2013. In 2014, EUR 25,000,000.00 of the Authorized Capital 2013/II was utilized in the context of the capital increase in July 2014, thus fully exhausting the Authorized Capital 2013/II.

Authorized Capital 2014

The Annual Shareholders' Meeting of August 12, 2014, resolved to create new authorized capital (Authorized Capital 2014). Pursuant to the amended Article 4 (6) of the Articles of Incorporation, the Executive Board is thus authorized to increase the Company's capital stock by issuing new shares in the period through August 11, 2019, with the consent of the Supervisory Board, by a total of up to EUR 22,000,000.00, all at once or in partial amounts, through the issuance of new bearer shares that participate in profits starting at the beginning of the year of issue, against cash or in-kind capital contributions (Authorized Capital 2014). The existing shareholders are fundamentally entitled to a subscription right, but it can be excluded under certain circumstances. The new shares 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 2014. At December 31, 2014, the Authorized Capital 2014 remained unchanged at EUR 22,000,000.00.

Contingent Capital 2011/I

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.

Conditional Capital 2012

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 bearer no-par-value 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 convertible bond was issued in October 2013 with a nominal volume of EUR 23,340,289.00. The 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. Of the convertible bond from 2013, 1,480,927 units that were not converted were still outstanding at December 31, 2014, so that the total amount of the Contingent Capital 2012 amounted to EUR 1,640,638.00 at the closing key date.

Contingent Capital 2013

The Annual Shareholders' Meeting resolved on December 19, 2013, that the Company is authorized, with the consent of the Supervisory Board, to issue warrant-linked and/or convertible bonds once or multiple times until December 18, 2018, with or without term limits, with a total nominal amount of up to EUR 150,000,000.00 ("bonds") or to grant the holders or creditors of bonds option and/or conversion rights to a total of up to 9,500,000 bearer no-par-value shares of the Company with a proportional share of the capital stock of up to EUR 9,500,000.00 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 December 19, 2013, likewise resolved to create a new Contingent Capital (Contingent Capital 2013), by means of which the Company's share capital can be increased by up to EUR 9,500,000.00. 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. The Company was successfully able to avert the action for declaration of nullity filed against the resolutions of the Annual Shareholders' Meeting of December 19, 2013.

Gigaset used the authority to issue convertible bonds in 2014. A convertible bond was issued in June 2014 with a nominal volume of EUR 9,476,877.00. The 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 2013 for future conversions. Please see the section "Convertible Bond" for details. Of the convertible bond from 2014, 9,476,877 units were still outstanding for conversion at December 31, 2014, so that the total amount of the Contingent Capital 2013 amounted to EUR 9,500,000.00 at the closing key date.

Contingent Capital 2014

The Annual Shareholders' Meeting resolved on August 12, 2014, that the Company is authorized, with the consent of the Supervisory Board, to issue warrant-linked and/or convertible bonds once or multiple times until August 11, 2019, with or without term limits, with a total nominal amount of up to EUR 150,000,000.00 ("bonds") or to grant the holders or creditors of bonds option and/or conversion rights to a total of up to 35,000,000 bearer no-par-value shares of the Company with a proportional share of the capital stock of up to EUR 35,000,000.00 after further specification of the terms and conditions of the individual bonds. The shareholders are fundamentally entitled to a subscription right. However, it can be excluded under certain circumstances. The new shares 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 August 12, 2014, likewise resolved to create a new Contingent Capital (Contingent Capital 2014), by means of which the Company's share capital can be increased by up to EUR 35,000,000.00. This contingent capital is intended to be used to grant shares to the 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.

Stock options

Gigaset AG introduced a stock option plan in financial year 2005. Because it expired, it 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 Contingent Capital 2011/I 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 Contingent Capital 2011/I created for that purpose. No stock options were issued under this stock option plan in 2014, as in the previous year, and no further stock options were outstanding at the reporting date. Cash-settled options totaling 110,000 shares (PY: 370,000 shares) of Gigaset AG were issued in the context of Executive Board agreements in 1 (PY: 3) different tranche. 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 issued or still outstanding in 2014 are presented in the table below:

Tranche	Grant date	Starting price	Delivery date	Closing price 12/31/2014	Interest rate	Volatility	Fair value at the grant date	Fair value at the reporting date
2 III / 2012	9/28/2012	-	3/31/2015	€ 0.64	-0.11%	43.38%	€ 0.30	€ 0.00

At the reporting date, 110,000 stock options (all cash settled) (PY: 370,000, all cash settled) were outstanding, of which 110,000 (PY: 370,000) cannot yet be exercised. At the reporting date, the average weighted exercise price of the outstanding stock options was EUR 0.97 (PY: EUR 1.02). 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 calculated on the basis of 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 2014 will be made at the statement of financial position meeting of the Supervisory Board on March 31, 2015, and then published along with the annual financial statements approved by the Supervisory Board and the final annual report for financial year 2014. 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 2014, 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 0 thousand (PY: EUR 33 thousand) and is presented as "other liabilities."

In the reporting year, there were a total of 260,000 (PY: 410,000) expired or forfeited stock options, with an average exercise price of EUR 1.02 (PY: EUR 1.67).

In 2014, as in the prior year, the Group recognized no expenses in connection with share-based payments to be settled with equity instruments and income of EUR 33 thousand (PY: EUR 10 thousand) for cash-settled stock options. The average remaining life of the stock options, based on the first possible exercise date, is 3 months (PY: 10 months) for the cash-settled stock options.

23. Convertible bond

The extraordinary Annual Shareholders' Meeting of Gigaset AG on December 19, 2013, 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 9,476,877.00 to strengthen liquidity in 2014. 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 June 2014, Gigaset published the securities prospectus for the public offering to subscribe an unsubordinated and unsecured convertible bond with a total volume of EUR 9,476,877.00 divided into 9,476,877 bearer bonds ranking pari passu with a nominal value of EUR 1.00 each (mandatory convertible bond). The interest calculation on the mandatory convertible bond is 3% per annum 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 January 23, 2016. 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 and the holders of the convertible bond 2014 the opportunity to subscribe the mandatory convertible bonds at a subscription ratio of 31:3, meaning that each 31 subscription rights entitled the right holder to subscribe 3 mandatory convertible bonds. Here, each old share or each fractional bond of the convertible bond 2013 granted one subscription right. 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. Overall, about 1.5% of the subscription rights to mandatory convertible bonds were exercised, so that Goldin Fund Pte. Ltd., Singapore (Singapore) acquired a total of 9,337,935 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 (which was directly repaid in full following the capital measures that were carried out). Occurrence of one of these conditions was and 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 384 thousand at the date of issue, and the value of the equity component to be EUR 8,933 thousand, which was allocated to subscribed capital in the amount of EUR 9,477 thousand and to capital reserves at EUR -160 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 December 31, 2014, no mandatory convertible bonds were converted to no par value shares. Therefore, all of the mandatory convertible bonds issued were still outstanding at the reporting date. Due to its term, this liability is recognized under the long-term liabilities from convertible bonds.

At December 31, 2014, there were still 1,480,927 (PY: 1,527,755) mandatory convertible bonds still outstanding from the mandatory convertible bond issued in 2013. The related debt component is recognized under current liabilities from mandatory convertible bonds due to its term through April 22, 2015.

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 12/31/2014 (in EUR '000):

Country	Pension obligation	Plan assets	Net obligation
Germany	109,753	40,184	69,569
Switzerland	2,301	1,512	789
Italy	607	0	607
Austria	47	0	47
Total	**112,708**	**41,696**	**71,012**

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

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 2014, as in the prior year, no employer-financed contributions were paid into the capital account plan. Salary conversion also exists, which is likewise capital-based. It has been closed since 2007 and contributions are no longer being paid in. A death benefit is paid, as well as a transitional payment (six months of continued pay in case of an insured event) for some of the employees. A few retirees still receive installment payments according to another closed system for salary conversion (supplementary benefits option). In addition, two vested benefit obligations still exist under another pension plan (GOH). The payments from the capital account plan earn interest at 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 about 83% (PY: about 75%) of the total German pension obligations. They are sensitive to the discount rate, inflation, and changes in life expectancy, but not to changes in wages and salaries. Only the death benefit and transitional payments are dependent on wages and salaries. Since this risk is not very significant (about 5% (PY: about 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 the sensitivity analysis 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 than 1000 people, as in the prior year, 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. Review of whether a pension adjustment is necessary occurs every three years and is based on the consumer price index. All other plans are not subject to inflation risk.

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 have a negative effect on equity.

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 (Defined Benefit Obligation) is thus identical to the original DBO, then it is omitted for reasons of space.

A Defined Benefit Obligation (DBO) in Germany at 12/31/2014: EUR 109,753 thousand

B Weighted average duration of the obligation (Macaulay duration based on best-estimate assumptions): 21.0 years

C Significant actuarial assumptions at 12/31/2014

Parameter	Initial amount	Sensitivity analysis	DBO in EUR'000
Discount rate	2.10%	+0.5%	99,723
Discount rate	2.10%	-0.5%	121,691
Inflation (projected pension increase)	2.00%	+0.25%	113,192
Inflation (projected pension increase)	2.00%	-0.25%	106,489
Longevity	Heubeck 2005 G	+1 Jahr	113,192
Longevity	Heubeck 2005 G	-1 Jahr	106,299

A Defined Benefit Obligation (DBO) 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 analysis	DBO in EUR'000
Discount rate	3.40%	+0.5%	76,534
Discount rate	3.40%	-0.5%	91,168
Inflation (projected pension increase)	2.00%	+0.25%	85,669
Inflation (projected pension increase)	2.00%	-0.25%	81,095
Longevity	Heubeck 2005 G	+1 Jahr	85,170
Longevity	Heubeck 2005 G	-1 Jahr	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 (PY: seven) Group companies. The total amount of pension provisions was divided up among the following companies:

EUR'000	12/31/2014	12/31/2013
Gigaset Group	69,925	44,099
Holding company	1,087	488
Total	**71,012**	**44,587**

The increase in the allocation to the provision for pensions compared to the prior year results particularly from the change in the discount rate, which declined from an average of 3.37% in the prior year to an average of 2.08% in the current year.

The revaluation effects from defined benefit plans are recognized in "accumulated other comprehensive income" within equity, while the ongoing change in the period is disclosed separately in the Statement of Changes in Equity.

The projected unit credit value of vested pension benefits under the defined benefit plans of the companies of the Gigaset Group showed the following development:

EUR'000	2014	2013
Balance at 01/01	85,467	85,853
Carryover of claims	116	0
Current service cost	1,877	1,879
Past service cost	-4	0
Employee contributions	97	68
Interest expenses	2,862	2,837
Pension benefits paid	-990	-773
Actuarial gains and losses from financial assumptions	23,370	-747
Actuarial gains/losses from experience	-127	-3,808
Foreign currency effects	40	158
Balance at 12/31	112,708	85,467

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

EUR'000	2014	2013
Current service cost	1,877	1,879
Past service cost	-4	0
Net interest on net debt	1,494	1,506
Total pension expenses	**3,367**	**3,385**

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 667 thousand (PY: EUR 871 thousand).

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

EUR'000	2014	2013
Revaluation effects, net debt from defined benefit plans in equity		
Balance at 01/01	**-30,045**	**-34,132**
Revaluation effects in current year	-23,944	4,087
Balance at 12/31	**-53,989**	**-30,045**

The plan assets showed the following development:

EUR'000	2014	2013
Fair value of plan assets at 01/01	40,880	40,079
Carryover of claims	116	0
Expected net interest expense	1,368	1,331
Deviation between expected net interest expense and actual net interest expense	-701	-460
Employer contributions	65	54
Employee contributions	98	68
Benefits paid	-154	-66
Foreign currency effects	24	-126
Fair value of plan assets at 12/31	**41,696**	**40,880**

The plan assets for financial year 2011 break down as follows:

EUR'000	2014	2013
Institutional fund	39,892	39,409
Fixed-income securities	637	470
Equities	526	381
Real estate and real estate funds	301	240
Other	340	380
Total	**41,696**	**40,880**

The special funds primarily contain bonds, corporate bonds, and stocks. The plan assets must be primarily assigned to measurement category 1, i.e., the plan assets are traded on active markets. Only the real estate and real estate funds are measured at current market value (using the DCF method).

The expected contributions to plan assets for the following year totaled EUR 163 thousand (PY: EUR 0 thousand). The expected benefit payments in the following year are expected to total EUR 936 thousand (PY: EUR 808 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 6,568 thousand (PY: EUR 5,269 thousand) for the Group.

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

The calculation was based on the following actuarial assumptions:

IN %	2014	2013
Discount rate	2.07	3.37
Salary trend	2.25	2.25
Pension trend	1.95	1.95
Mortality tables:		
Germany	Heubeck 2005 G	Heubeck 2005 G
Switzerland	BVG 2005	BVG 2005
Italy	SIM2012M, SIM2012F	ISTAT 2002
Austria	Pagler 2008 Generation Table, Salaried Employees	Pagler 2008 Generation Table, Salaried Employees

The provision for pension obligations was measured as follows:

Provision in EUR'000	2014	2013
Projected unit credit value of pension obligations	112,708	85,467
- internally financed	6,178	5,300
- externally financed	106,530	80,167
Fair value of plan assets	-41,696	-40,880
Total pension provisions	**71,012**	**44,587**

The provision showed the following development over time:

Pension provision in EUR'000	2014	2013
Pension provision 1/1	44,587	45,829
Current service cost	1,877	1,879
Past service cost	-4	0
Net interest expense/income	1,494	1,506
Actuarial gains and losses from financial assumptions	23,370	-747
Actuarial gains/losses from experience	-127	-3,808
Deviation between expected net interest expense and actual net interest expense for plan assets	701	460
Change in assets not recognized	0	-55
Pension benefits paid	-836	-707
Employer contributions	-65	-54
Employee contributions	-1	0
Foreign currency effects	16	284
Pension provision 12/31	**71,012**	**44,587**

25. Provisions

EUR'000	Balance at 01/01/ 2014	Changes in consolidation group	Utilization	Release	Charge	Reclassi-fication	Currency/ interest effects	Balance at 12/31/ 2014
Personnel	6,541	-4	-842	-9	2,709	-131	-7	8,257
Warranties	7,924	0	-6,544	-144	6,653	0	29	7,918
Restructuring	2,690	0	-1,667	-823	4,741	-151	5	4,795
Onerous contracts	3,207	0	-920	-2,493	1,153	0	0	947
Environmental remediation	175	0	-8	-43	5	0	33	162
Other	22,012	-366	-7,886	-1,314	12,727	-6,400	72	18,845
Total	**42,549**	**-370**	**-17,867**	**-4,826**	**27,988**	**-6,682**	**132**	**40,924**

The **restructuring provision** comprises severance pay and residual costs in the amount of EUR 4,795 thousand (PY: EUR 2,690 thousand). The provisions for residual costs are expected to be utilized by mid-2015.

The miscellaneous other provisions include a provision at the reporting date in the amount of EUR 4,800 thousand (PY: EUR 4,600 thousand) for the purchase price adjustment to be paid to Evonik Degussa GmbH, which was paid on March 4, 2015.

The warranty provisions of EUR 7,918 thousand (PY: EUR 7,924 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	12/31/2014	12/31/2013
Early partial retirement (Altersteilzeit)	7,018	5,168
Service anniversary bonuses	1,239	1,373
Total	**8,257**	**6,541**

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

EUR'000	12/31/2014	12/31/2013
Gigaset Group	397	2,601
Holding company	550	606
Total	**947**	**3,207**

The provision for environmental risks in the amount of EUR 162 thousand (PY: EUR 175 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	12/31/2014	12/31/2013
Non-current provisions	12,098	11,043
Current provisions	28,826	31,506
Total	**40,924**	**42,549**

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

EUR'000	12/31/2014	12/31/2013
Personnel	8,199	6,445
Warranties	2,047	2,025
Onerous contracts	551	606
Environmental risks	152	161
Other	1,149	1,806
Total	**12,098**	**11,043**

26. Other non-current liabilities

No other non-current liabilities existed in the reporting year. The other non-current liabilities in the prior year contained derivative financial instruments (interest rate swaps) in the amount of EUR 172 thousand and the non-current portion of the liabilities from cash-settled stock options of the Executive Board at December 31, 2013 in the amount of EUR 12 thousand.

27. 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	12/31/2014	12/31/2013
Deferred tax assets		
Intangible assets	21	198
Property, plant and equipment	181	3
Financial assets	0	57
Inventories	67	38
Receivables and other current assets	43	83
Provisions	11,032	14,078
Liabilities	9,515	6,219
Tax loss carry-forwards	4,264	3,146
Total deferred tax assets	**25,123**	**23,822**
thereof current	1,874	6,414
thereof non-current	23,249	17,408
Deferred tax liabilities		
Intangible assets	11,555	12,835
Property, plant and equipment	3,155	3,284
Inventories	32	19
Receivables and other current assets	286	240
Provisions	131	471
Liabilities	253	5,560
Total deferred tax liabilities	**15,412**	**22,409**
thereof current	701	694
thereof non-current	14,711	21,715
Net balance of deferred tax assets and liabilities	11,555	7,177
Deferred tax assets presented in the statement of financial position	**13,568**	**16,645**
Deferred tax liabilities presented in the statement of financial position	**3,857**	**15,232**

No deferred tax assets were recognized in respect of corporate income tax loss carry-forwards totaling EUR 87,800 thousand (PY: EUR 66,108 thousand) and trade tax loss carry-forwards totaling EUR 20,011 thousand (PY: EUR 5,018 thousand). Of the non-recognized corporate income tax loss carry-forwards, an amount of EUR 67,919 thousand related to foreign companies (PY: EUR 65,880 thousand), of which, in turn, EUR 1,087 thousand (PY: EUR 15,405) 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.

Gigaset did not recognize deferred tax assets on temporary differences in the amount of EUR 3,178 thousand (PY: EUR 4,330 thousand).

No deferred tax liabilities were recognized in respect of temporary differences related to shares in subsidiaries in the amount of EUR 96,891 thousand (PY: EUR 26,961 thousand).

For more information on this subject, please refer to the presentation of accounting and valuation methods and the explanations provided in Section 9.

28. Current financial liabilities

EUR'000	12/31/2014	12/31/2013
Liabilities to banks	0	21,741
Other current financial liabilities	0	8,460
Total	**0**	**30,201**

Current financial liabilities at December 31, 2013, related to the syndicate loan and related interest. The liabilities shown under other current financial liabilities related 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.

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 were as follows at 12/31/2013:

EUR'000	12/31/2013
Carrying amount	30,201
thereof due in the following time periods:	
< 30 days	301
30 - < 90 days	0
90 - < 180 days	29,900
180 days – 1 year	0

The current liabilities to banks consisted of current account overdrafts that were owed by the following corporate groups at 12/31/2013:

EUR'000	12/31/12013
Gigaset Group	179
Gigaset AG	122
AT Operations 2 GmbH	0
Total	**301**

The syndicate loan charged variable interest. The interest rate was determined from the three-month Euribor plus a creditworthiness surcharge, which in turn was calculated according to financial ratios. The interest rate was 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% per annum.

The current liabilities to banks in the previous year did not include any liabilities denominated in foreign currencies.

29. 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	12/31/2014	12/31/2013
Carrying amount	62,649	71,476
thereof due in the following time periods:		
< 30 days	31,482	29,025
30 – 90 days	30,461	40,829
90 – 180 days	614	1,507
180 days – 1 year	92	115

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

EUR'000	12/31/2014	12/31/2013
Gigaset Group	62,128	63,252
Gigaset Mobile Group	0	4,352
Holding company	521	3,872
Total	**62,649**	**71,476**

By reason of the international activity of the Gigaset Group, the trade payables at December 31, 2014 included the following amounts denominated in foreign currencies, which have been translated to the euro, as the Group currency:

	12/31/2014		12/31/2013	
Foreign currency	**EUR'000**	**%**	**EUR'000**	**%**
USD (U.S. dollars)	25,577	82.8	27,427	85.0
CNY (Chinese renminbi yuan)	2,535	8.2	2,100	6.5
GBP (British pounds)	823	2.7	630	1.9
TRL (Turkish lira)	628	2.0	391	1.2
JPY (Japanese yen)	420	1.4	511	1.6
SEK (Swedish krona)	288	0.9	48	0.1
CHF (Swiss francs)	224	0.7	407	1.3
PLN (Polish zloty)	224	0.7	226	0.7
RUB (Russian rubles)	87	0.3	331	1.0
ARS (Argentine pesos)	31	0.1	146	0.5
Other	46	0.2	87	0.2
Total	**30,883**	**100.0**	**32,304**	**100.0**

Of the trade payables presented in the statement of financial position, an amount of EUR 5,028 thousand (PY: EUR 6,123 thousand) is secured by trade receivables, and an amount of EUR 2,874 thousand (PY: 1,804 thousand) by inventories as security.

30. Tax liabilities

This item in the amount of EUR 5,869 thousand (PY: EUR 2,589 thousand) was composed exclusively of current income tax liabilities, including an amount of EUR 4,740 thousand (PY: EUR 1,170) attributable to the Gigaset Group.

31. Current other liabilities

EUR'000	12/31/2014	12/31/2013
Other personnel-related liabilities	11,479	9,348
Other taxes	4,256	3,830
Customs liabilities	2,703	2,703
Advance payments received	889	962
Social security contributions	724	952
Wages and salaries	249	281
Accruals and deferrals	0	57
Miscellaneous other liabilities	4,999	3,356
Total	**25,299**	**21,489**

The other current liabilities did not bear interest in the current financial year. 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	12/31/2014	12/31/2013
Profit-based bonuses and other bonuses	5,160	3,534
Vacation leave not yet taken	2,451	2,461
Work time accounts	1,783	1,838
Miscellaneous personnel-related liabilities	2,085	1,515
Total	**11,479**	**9,348**

F. OTHER INFORMATION

32. 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, 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 01 to December 31, 2014 in EUR'000	**Europe**	**Americas**	**Asia-Pacific/ Middle East**	**Gigaset Total**
Revenues				
External revenues	309,757	1,865	14,456	326,078
Continuing operations	309,757	1,865	14,456	326,078
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	309,757	1,865	14,456	326,078
Continuing operations	309,757	1,865	14,456	326,078
Discontinued operations	*0*	*0*	*0*	*0*
Segment EBITDA	16,495	10,406	272	27,173
Continuing operations	16,495	10,406	272	27,173
Discontinued operations	*0*	*0*	*0*	*0*
Depreciation and amortization	-24,949	-3	-9	-24,961
Continuing operations	-24,949	-3	-9	-24,961
Discontinued operations	*0*	*0*	*0*	*0*
Impairments	-3,035	0	0	-3,035
Continuing operations	-3,035	0	0	-3,035
Discontinued operations	*0*	*0*	*0*	*0*
Segment EBIT	-11,489	10,403	263	-823
Continuing operations	-11,489	10,403	263	-823
Discontinued operations	*0*	*0*	*0*	*0*
Value adjustment on financial assets				
Net interest income/expenses				
Income/expenses from ordinary activities				
Income taxes				
Consolidated net income/loss				
Non-controlling interests				
Consolidated net income/loss attributable to shareholders of Gigaset AG				

Holding company	Other	Eliminations	Consolidated	January 01 to December 31, 2014
				Revenues
0	0	0	326,078	External revenues
0	0	0	326,078	Continuing operations
0	*0*	*0*	*0*	*Discontinued operations*
0	0	0	0	Internal revenues
0	0	0	0	Continuing operations
0	*0*	*0*	*0*	*Discontinued operations*
0	0	0	326,078	Total revenues
0	0	0	326,078	Continuing operations
0	*0*	*0*	*0*	*Discontinued operations*
-9,678	0	0	17,495	Segment EBITDA
-9,678	0	0	17,495	Continuing operations
0	*0*	*0*	*0*	*Discontinued operations*
-1	0	0	-24,962	Depreciation and amortization
-1	0	0	-24,962	Continuing operations
0	*0*	*0*	*0*	*Discontinued operations*
0	0	0	-3,035	Impairments
0	0	0	-3,035	Continuing operations
0	*0*	*0*	*0*	*Discontinued operations*
-9,679	0	0	-10,502	Segment EBIT
-9,679	0	0	-10,502	Continuing operations
0	*0*	*0*	*0*	*Discontinued operations*
			0	Value adjustment on financial assets
			-2,288	Net interest income/expenses
			-12,790	Income/expenses from ordinary activities
			-3,833	Income taxes
			-16,623	**Consolidated net income/loss**
			0	Non-controlling interests
			-16,623	Consolidated net income/loss attributable to shareholders of Gigaset AG

January 01 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 income/loss				
Non-controlling interests				
Consolidated net income/loss attributable to shareholders of Gigaset AG				

Holding company	Other	Eliminations	Consolidated	January 01 to December 31, 2013
				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 income/loss**
			0	Non-controlling interests
			-36,080	Consolidated net income/loss attributable to shareholders of Gigaset AG

The profit or loss effects of deconsolidations have been assigned to the respective segments.

In the table below, the revenues generated in financial year 2014 and in the comparison year 2013 are broken down by the region of the receiving entities:

	2014			2013		
EUR'000	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Germany	123,622	0	123,622	137,655	5,601	143,256
Europe: EU (excluding Germany)	148,510	0	148,510	163,605	280	163,885
Europe - Other	20,463	0	20,463	28,589	0	28,589
Rest of world	33,483	0	33,483	41,304	84	41,388
Total	**326,078**	**0**	**326,078**	**371,153**	**5,965**	**377,118**

In 2014, the operating revenues of the continuing segments break down essentially into operating revenues from the Consumer Products segment in the amount of EUR 272,831 thousand (PY: EUR 333,264 thousand) and the Business Customers segment in the amount of EUR 37,643 thousand (PY: EUR 35,058 thousand), as well as the new segments Home Networks and Mobile in the amount of EUR 15,604 thousand (PY: EUR 2,831 thousand).

In accordance with IFRS 8.33 b), non-current assets were divided among the following regions in financial year 2014 and the comparison year 2013:

EUR'000	12/31/2014	12/31/2013
Non-current assets		
Germany	70,971	84,803
Europe: EU (excluding Germany)	185	268
Europe - Other	3	3
Rest of world	11	32
Total	**71,170**	**85,106**

33. 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	2014	2013
Cash flow statement		
Cash inflow (+)/ outflow (-) from operating activities	8.593	-35,022
Cash outflow from investment activities	-20,663	-7,246
Free cash flow	-12,070	-42,268
Cash inflow from financing activities	3,733	44,869
Change in cash and cash equivalents	**-8,337**	**2,601**

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 2014, as in the previous year. A cash outflow of EUR 130 thousand (PY: 1,643 thousand) occurred in the context of selling investments in companies.

In the context of the transitional consolidation of Gigaset Mobile Pte. Ltd. to the equity method, EUR 18,000 thousand flowed out of the cash and cash equivalents of the Gigaset Group.

The funds inflow from financing activities in 2014 results from the capital increase carried out in the amount of EUR 24,629 thousand and issuing the convertible bond in the amount of EUR 9,317 thousand, as well as the repayment of current financial liabilities in the amount of EUR 30,201 thousand and disbursements in connection with the conversion of convertible bonds that were issued in 2013, in the amount of EUR 12 thousand. In the previous year, the funds inflow from financing activities resulted from issuing the 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.

The net funds at December 31, 2014 amounted to EUR 45.518 thousand (PY: EUR 54,325 thousand). This item comprises immediately available cash in banks, checks and cash on hand. Restricted cash, which has been pledged as security for liabilities and currency hedging transactions, amounted to EUR 4,966 thousand at December 31, 2014 (PY: EUR 2,662 thousand). Thus, the total amount of cash and cash equivalents amounted to EUR 50.484 thousand (PY: EUR 56,987 thousand).

34. Sales of companies and other deconsolidations

In the first quarter, one company (Gigaset Asset GmbH & Co. KG) was discontinued by accrual into Gigaset AG, and one company (Gigaset Beteiligungsverwaltungs GmbH) was merged into Gigaset AG. By business combination agreement dated January 29, 2014, Gigaset Beteiligungsverwaltungs GmbH transferred its assets in their entirety, with all rights and obligations, excluding liquidation pursuant to Sections 2 et seq., 46 et seq., 60 et seq. of the German Reorganization Act (UmwG) to Gigaset AG - its sole shareholder - in the course of a business combination. The business combination agreement was based on the closing financial statements of the transferring company at June 30, 2013. Takeover of the assets of the transferring legal entity by the accepting legal entity occurred in internal affairs effective at the end of June 30, 2013, at midnight. The entry in the Commercial Register on February 4, 2014, simultaneously led to abolition of the general partner and the deletion of Gigaset Asset GmbH & Co. KG as well as accrual of the limited partnership assets to Gigaset AG pursuant to Section 738 of the German Civil Code (BGB).

Another change in the consolidation group occurred compared to December 31, 2013. Due to the entry of Goldin Digital Pte. Ltd., Singapore, the company Gigaset Mobile Pte. Ltd., which was previously fully consolidated due to ownership of 100% of the shares, was no longer fully consolidated starting January 16, 2014, but rather included in the consolidated financial statements using the equity method due to the current voting rights ratios. In the context of deconsolidation, the assets disposed of amounted to EUR 18,000 thousand, of which EUR 18,000 thousand were cash and cash equivalents, and the liabilities were EUR 4,408 thousand. The deconsolidation loss amounts to EUR 235 thousand, taking into account consolidation effects, revived payables and receivables of Gigaset Mobile Pte. Ltd., as well as other expenses incurred in connection with the transaction, and is carried under other operating expenses. The fair value of the shares remaining as measured at the date of deconsolidation amounted to EUR 18,053 thousand, which subsequently represents the value of goods received for recognition according to the equity method.

The assets and liabilities disposed of from a Group perspective are shown in the table below:

EUR'000	
Assets	
Cash and cash equivalents	18,000
Total	**18,000**
Liabilities	
Liabilities	4,408
Total	**4,408**

On May 26, 2014, AT Operations 1 GmbH, Munich, AT Operations 2 GmbH, Munich, and the wholly-owned subsidiary of AT Operations 2 – Arques Beta Beteiligungs GmbH i.L., Vienna/Austria – were sold to an investor. The negative sale price was EUR -130 thousand. The assets sold amounted to EUR 143 thousand, of which EUR 0 thousand were cash and cash equivalents, and the liabilities were EUR 139 thousand. The deconsolidation loss amounts to EUR 212 thousand, taking into account consolidation effects as well as other expenses incurred in connection with the transaction, and is carried under other operating expenses.

On August 28, 2014, 100% of the shares in Hortensienweg Management GmbH, Munich, were sold by Gigaset AG, Munich, to Hortensienweg Verwaltungs GmbH, Munich, which is likewise a wholly-owned investee company of Gigaset AG. On the same date, Hortensienweg Management GmbH transferred its assets in their entirety, with all rights and obligations, excluding liquidation pursuant to Sections 2 et seq., 46 et seq., of the German Reorganization Act (UmwG) to Hortensienweg Verwaltungs GmbH - its sole shareholder - in the course of a business combination pursuant to a business combination agreement dated August 28, 2014. The business combination agreement was based on the closing financial statements of the transferring company at July 31, 2014. Takeover of the assets of the transferring legal entity by the accepting legal entity occurred in internal affairs effective at the end of July 31, 2014, at midnight.

Gigaset Asset Invest GmbH, Vienna, was merged into its 100% parent company, Gigaset Industries GmbH, Vienna, by a business combination agreement dated August 28, 2014. In internal affairs, the business combination date was specified to be December 31, 2013. Starting in 2014, the economic success of that company shall be attributed to Gigaset Industries GmbH, Vienna. The exemptions provided under Article I of the Reorganization Tax Act (Austria) were utilized for the business combination.

On December 19, 2014, insolvency was filed for the Brazilian subsidiary (Gigaset Equipamentos de Comunicacao Ltda., Sao Paulo). That company was therefore deconsolidated due to the loss of control. The assets disposed of amounted to EUR 26 thousand, of which EUR 0 thousand were cash and cash equivalents, and the liabilities were EUR 7,622 thousand. The deconsolidation profit amounts to EUR 8,292 thousand, taking into account consolidation effects as well as other expenses and consolidation effects incurred in connection with the transaction, and is carried under other operating income.

The assets and liabilities disposed of from a Group perspective are shown in the table below:

EUR'000	
Assets	
Property, plant and equipment	5
Deferred tax assets	2
Current receivables and other assets	19
Total	**26**
Liabilities	
Deferred tax liabilities	2
Provisions	353
Liabilities	7,267
Total	**7,622**

35. Other financial obligations

The other financial obligations at the reporting date of December 31, 2014 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:

2014 in EUR'000	Up to 1 year	1-5 years	More than 5 years	Total
Rental and lease commitments	2,815	5,858	0	8,673
Other commitments	1,458	484	0	1,942
Total	**4,273**	**6,342**	**0**	**10,615**

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**

The total rental and lease commitments amounted to EUR 8,673 thousand (PY: EUR 5,615 thousand). Of this amount, rental and lease agreements for land and buildings accounted for EUR 7,373 thousand (PY: EUR 4,090 thousand), rental and lease agreements for other equipment, operational and office equipment accounted for EUR 1,100 thousand (PY: EUR 1,123 thousand) and operating leases for machinery and equipment accounted for EUR 200 thousand (PY: EUR 402 thousand).

The other financial commitments in the amount of EUR 1,942 thousand (PY: EUR 2,325 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, 2014, as in the previous year.

36. Contingent liabilities

The contingent liabilities at the reporting date of December 31, 2014 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 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. In addition, the Company created provisions for this purpose in the amount of EUR 1.5 million at December 31, 2014.

In connection with the sale of Golf House, a liability of up to EUR 1.7 million was assumed for tax matters. The duration of this liability is determined with reference to the administrative finality of the respective assessments of the tax authorities. There are no indications of possible utilization and therefore the risk is considered to be low.

In connection with the sale of the Anvis Group, Gigaset AG assumed a liability for tax circumstances. The liability under this guarantee will expire six months after presentation of respective, administratively final tax assessments. The probability of occurrence is considered to be extremely low.

The Company assumed a purchase contract guarantee of EUR 405 thousand in connection with the sale of van Netten. The probability of occurrence is considered very low.

In 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 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.

37. Executive Board and Supervisory Board of Gigaset AG

The following persons served on the Executive Board in financial year 2014:

- 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 or chief executive positions of affiliated companies and subsidiaries of Gigaset AG.

Specifically, the Executive Board members who served on the board in 2014 and in the time until the preparation of the annual financial statements held the following seats on supervisory bodies (starting date and ending date indicated when those dates fall within the reporting period 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
Inter-company			
Planervilla AG. Hannover	Supervisory Board		

The Executive Board member Charles Fränkl did not hold seats on supervisory bodies in 2014 and in the time until the preparation of the annual financial statements.

Mr. Kai Dorn was appointed as a member of the Executive Board effective January 1, 2015. He did not hold seats on supervisory bodies in the time until the preparation of the annual financial statements.

With effect from 31 December 2014 Dr. Alexander Blum was dismissed as a member of the Executive Board. Mr. Maik Brockmann was dismissed as a member of the Executive Board effective January 28, 2015.

The Supervisory Board consisted of the following persons in the reporting period:

Name	from	to	
Ulrich Burkhardt	12/3/2014		Joined as substitute member
David Hersh	8/14/2013	12/2/2014	Left by resignation
Paolo Vittorio Di Fraia	8/14/2013		
Helvin (Hau Yan) Wong (deputy chair)	12/19/2013		
Prof. Xiaojian Huang	12/19/2013		
Bernhard Riedel (Chair)	12/19/2013		
Flora (Ka Yan) Shiu	12/19/2013		

Consequently, the Supervisory Board at the time this report was prepared consisted of Mr. Bernhard Riedel (Chair), Mr. Hau Yan Helvin Wong (deputy Chair), Mr. Paolo Vittorio Di Fraia, Mr. Ulrich Burkhardt, Prof. Xiaojian Huang, and Ms. Flora Shiu.

The members of the Supervisory Board listed below held the listed memberships on additional supervisory boards and controlling boards during their term of office on the Supervisory Board of the Company within the reporting timeframe.

Bernhard Riedel, Chairman of the Supervisory Board, attorney, Munich

- Member of the Supervisory Board of Gigaset Communications GmbH since March 29, 2013

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.

Ulrich Burkhardt, tax consultant, independent auditor, Fürstenfeldbruck:

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

Paolo Vittorio Di Fraia, 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.

38. 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 2014 comprises a fixed annual salary as well as success-related components (bonuses, stock price linked compensation, variable compensation). The individual components are as follows:

- The fixed compensation is paid in the form of a monthly salary in 12 equal parts.
- The 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 (EBITDA) for all Executive Board members working in the reporting year.
- In some cases, personal targets are agreed upon with Executive Board members based on qualitative milestones.

The basis for calculating the variable compensation based on the "virtual share portfolio" for Mr. Fränkl and Mr. Brockmann is a specific number of shares of Gigaset AG (the "virtual share portfolio"), measured at a certain share price ("initial value"). The amount of variable compensation is calculated in every case from the possible appreciation of the virtual share portfolio over a certain period of time, that is, relative to a pre-determined future date (“valuation date”). The difference between the value of the virtual share portfolio measured at the share price at the valuation date and the initial value (“capital appreciation”) yields the amount of variable compensation. As a general policy, the capital appreciation amount (converted at the share price at the valuation date) is settled in cash.

The virtual share portfolio of Mr. Fränkl expired in financial year 2014. The original virtual share portfolio of Mr. Charles Fränkl comprised 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 disbursement with regard to the individual tranches was 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 (expired in 2014).

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 Friday, September 28, 2012.

The fair value of the virtual share portfolio for Mr. Brockmann amounted to EUR 127.80 for the third tranche of 110,000 shares, payable on March 31, 2015 (with a vested proportion of 90% 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 (expired in 2014) and EUR 33,000.00 for the third tranche.

Virtual share portfolios/stock options, in units	Charles Fränkl	Maik Brockmann
Outstanding at 1/1/2014	150,000	220,000
Granted in 2014	0	0
Forfeited in 2014	0	0
Exercised in 2014	0	0
Average share price on exercise date, in EUR	Less than exercise price	Less than exercise price
Expired in 2014	150,000	110,000
Outstanding at 12/31/2014	0	110,000
Thereof exercisable	n/a	0
Range of exercise prices	n/a	0.97
Income (+)/ expenses (-) recognized in the reporting period as per IFRS, in EUR	20,706.00	12,341.53

The market price of Gigaset AG was EUR 0.64 at the reporting date, December 31, 2014. The intrinsic value of the outstanding options was thus EUR 0.00 at the reporting date.

In addition, variable compensation agreements exist for the Executive Board members based on a bonus agreement linked to corporate goals (EBITDA) and partially also based on personal targets with qualitative milestones. The goals were discussed with the Chairman of the Company's Supervisory Board and with the Executive Board members at the beginning of the financial year.

The possible granted total compensation of the members of the Executive Board for financial year 2014 break down as follows in accordance with the requirements of the German Corporate Governance Code (effective June 2014), Sample Table 1 for Number 4.2.5 Paragraph 3:

Payments granted to Executive Board members, in EUR		Fixed compensation	Fringe benefits	Total of fixed compensation components	Single year variable compensation	Multi-year variable compensation	Total of fixed and variable compensation	Pension expense	Total compensation
Dr. Alexander Blum (until 12/31/2014)	2013	241,563	8,400	249,963	230,000	0	479,963	0	479,963
	2014	400,000	8,400	408,400					
	2014 (Min)				0	0	408,400	0	408,400
	2014 (Max)				600,000	0	1,008,400	0	1,008,400
Maik Brockmann	2013	270,553	13,200	283,753	255,000	0	538,753	0	538,753
	2014	400,000	14,500	414,500					
	2014 (Min)				0	0	414,500	0	414,500
	2014 (Max)				1,350,000	0	1,764,500	0	1,764,500
Charles Fränkl	2013	386,503	8,400	394,903	230,000	0	624,903	0	624,903
	2014	650,000	8,400	658,400					
	2014 (Min)				0	0	658,400	0	658,400
	2014 (Max)				1,056,250	0	1,714,650	0	1,714,650

The recognized expenses for members of the Executive Board for financial year 2014 break down as follows in accordance with the requirements of German Financial Accounting Standard (DRS) 17 (Reporting on the Remuneration of Members of Executive Boards, amended 2010) and IAS 24, Related Party Disclosures:

Figures in EUR	Remuneration		In-kind benefit		Success bonus		Stock options[1]		Total	
Financial year	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Dr. Alexander Blum	400,000	241,563	8,400	8,400	600,000	230,000	0	0	1,008,400	479,963
Maik Brockmann	400,000	270,553	14,500	13,200	600,000	255,000	0	0	1,014,500	538,753
Charles Fränkl	650,000	386,503	8,400	8,400	650,000	230,000	0	0	1,308,400	624,903
Total	**1,450,000**	**898,619**	**31,300**	**30,000**	**1,850,000**	**715,000**	**0**	**0**	**3,331,300**	**1,643,619**

1. The stock options refer to those amounts that were disbursed. The wages and salaries in the consolidated financial statements contained compensation of EUR 33 thousand (PY: EUR 10 thousand) for share-based payments, reducing expenses.

Supplementally to the payments from executive activity, EUR 256 thousand was recognized for Mr. Brockmann at the reporting date as expenses for termination benefits.

The inflows to the members of the Executive Board for financial year 2014 break down as follows in accordance with the requirements of the German Corporate Governance Code (effective June 2014), Sample Table 2 for Number 4.2.5 Paragraph 3:

	Dr. Alexander Blum (until 12/31/2014)		Maik Brockmann		Charles Fränkl	
Inflow to Executive Board members, in EUR	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Fixed compensation	400,000	241,563	400,000	270,553	650,000	386,503
Fringe benefits	8,400	8,400	14,500	13,200	8,400	8,400
Total of fixed compensation components	408,400	249,963	414,500	283,753	658,400	394,903
Single year variable compensation	6,459	230,000	23,683	255,000	32,295	230,000
Multi-year variable compensation	0	0	0	0	0	0
Total of fixed and variable compensation	414,859	479,963	438,183	538,753	690,695	624,903
Pension expense	0	0	0	0	0	0
Total compensation	**414,859**	**479,963**	**438,183**	**538,753**	**690,695**	**624,903**

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 inflows from the total compensation of the Executive Board amounted to EUR 1,544 thousand in the reporting year (PY: EUR 1,644 thousand).

Compensation of the Supervisory Board

The compensation of the Supervisory Board was adopted as follows by resolution dated December 19, 2013, retroactive to August 14, 2013:

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 Super¬visory Board or a committee thereof (a "Meeting") called in accordance with the Articles of Incor¬poration. 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 tele¬graph, 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 Super¬visory 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 2014 is presented in the table below:

EUR	Settled	Set aside	Total expenses
Bernhard Riedel	172,000.00	33,500.00	205,500.00
David Hersh (until 12/02/2014)	43,000.00	-	43,000.00
Paolo Vittorio Di Fraia	48,000.00	10,000.00	58,000.00
Wong Hau Yan Helvin	75,000.00	7,500.00	82,500.00
Flora Shiu Ka Yan	38,000.00	16,000.00	54,000.00
Huang Xiaojian	43,000.00	8,500.00	51,500.00
Ulrich Burkhardt (since 12/03/2014)		4,000.00	4,000.00
Total	**419,000.00**	**79,500.00**	**498,500.00**

Accordingly, the total compensation granted to the Supervisory Board amounted to EUR 498,500.00 (PY: EUR 305,000.00).

No further commitments have been made in the event of termination of Supervisory Board mandates. No loans or advances were extended to members of the Executive Boards or Supervisory Boards of Gigaset AG. No contingent liabilities have been assumed in favor of these persons.

39. Shareholdings of Executive Board and Supervisory Board members

According to their statements, the members of the Executive Board together held 34,348 shares of Gigaset AG at the reporting date, representing less than 0.1% of the total shares outstanding.

According to their statements, the members of the Supervisory Board together held 2,426 shares of Gigaset AG at the reporting date, representing less than 0.1% of the total shares outstanding.

The shareholdings of Executive Board and Supervisory Board members were divided among the individual members as follows:

	Number of shares at 12/31/2014 or at the resignation date	Number of shares at the date of preparation of the financial statements	Number of options at 12/31/2014 or at the resignation date	Number of options at the date of preparation of the financial statements
Executive Board				
Charles Fränkl	0	0	0	0
Dr, Alexander Blum	34,348	34,348	0	0
Maik Brockmann	0	0	0	0
Kai Dorn	0	0	0	0
Supervisory Board				
Bernhard Riedel	2,426	2,426	838	838
Ulrich Burkhardt	0	0	0	0
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

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.

40. Disclosures concerning dealings with related parties

Pursuant to IAS 24, Related Party Disclosures, the business relationships with Gigaset Mobile Pte. Ltd., Singapore, must be carried out as business relationships with related parties starting in 2014. In this context, Gigaset Mobile Pte, Ltd, Singapore, acts as a supplier to Gigaset. Gigaset in turn charges contractually agreed upon services and fees to Gigaset Mobile Pte. Ltd. From a Group perspective, the transactions and balances for the reporting periods and at the reporting date break down as follows:

in EUR'000	Expenses 01/01/-12/31/2014	Revenues/Income 01/01/-12/31/2014	Receivables 12/31/2014	Liabilities 12/31/2014
Gigaset	11,381	706	3,114	6,679
Gigaset Mobile Pte. Ltd.	706	11,381	6,679	3,114

No valuation adjustments or expenses for uncollectible or doubtful receivables were recorded for existing receivables in the reporting period. In addition, no collateralization exists for the individual receivables.

Pursuant to IAS 24, Related Party Disclosures, the business relationships with Guangzhou Cyber Digital Technology Company Limited, Guangzhou/China, must be carried out as business relationships with related parties starting in 2014. From a Group perspective, the transactions and balances for the reporting period and at the reporting date break down as follows:

in EUR'000	Expenses 01/01/-12/31/2014	Revenues/Income 01/01/-12/31/2014	Receivables 12/31/2014	Liabilities 12/31/2014
Gigaset	0	623	623	306
Guangzhou Cyber Digital Technology Company Limited	623	0	306	623

The receivables include income from fixed asset sales in the amount of EUR 0.2 million.

No valuation adjustments or expenses for uncollectible or doubtful receivables were recorded for existing receivables in the reporting period. In addition, no collateralization exists for the individual receivables.

No significant transactions were conducted between the Group and related parties except for the circumstances listed.

No significant transactions were conducted between the Group and related parties in the prior year.

41. Professional fees for the independent auditor

Professional fees in the total amount of EUR 715 thousand (PY: EUR 778 thousand) were incurred for the services of the independent auditor within the meaning of Section 318 HGB in financial year 2014.

EUR'000	2014	2013
Audit services for the annual financial statements	339	352
Other certification services	367	14
Tax advisory services	0	43
Other services	9	369
Total	**715**	**778**

42. Employees

The Gigaset Group had an average of 1,392 employees in financial year 2014 (PY: 1,538 employees). The total number of employees at the reporting date of December 31, 2014, was 1,366 (PY: 1,429 employees).

	Closing date		Average	
EUR'000	**12/31/2014**	**12/31/2013**	**2014**	**2013**
Wage-earning employees	0	0	0	0
Salaried employees	1.327	1,382	1.352	1,486
Apprentice-trainees	39	47	40	52
Total	**1.366**	**1,429**	**1.392**	**1,538**

43. Declaration of Conformity with the German Corporate Governance Code

In March 2015, the Executive Board and Supervisory Board of Gigaset AG issued the Declaration of Conformity with the German Corporate Governance Code in its version of June 24, 2014, 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 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.

44. Shareholder structure

The following notifications as per Section 21 or Section 25 of the German Securities Trading Act (WpHG) were received in 2014:

1a) On January 7, 2014, Maven Securities Limited, Birkirkara, Malta, notified us pursuant to Section 21 (1) WpHG that its voting rights share in Gigaset AG, Munich, Germany, fell below the threshold of 3% on December 31, 2013, and on that date the voting rights share amounted to 0% of the voting rights (0 voting rights).

On January 7, 2014, Maven Trading Ltd., London, United Kingdom, notified us pursuant to Section 21 (1) WpHG that its voting rights share in Gigaset AG, Munich, Germany, exceeded the threshold of 3% on December 19, 2013, and on that date the voting rights share amounted to 3.12% of the voting rights (3,011,610 voting rights).

On January 7, 2014, Maven Securities Limited, Birkirkara, Malta, notified us pursuant to Section 21 (1) WpHG that its voting rights share in Gigaset AG, Munich, Germany, exceeded the threshold of 3% on December 19, 2013, and on that date the voting rights share amounted to 3.12% of the voting rights (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)(1)(1) WpHG.

On January 7, 2014, Maven Securities Holding Ltd., London, United Kingdom, notified us pursuant to Section 21 (1) WpHG that its voting rights share in Gigaset AG, Munich, Germany, exceeded the threshold of 3% on December 19, 2013, and on that date the voting rights share amounted to 3.12% of the voting rights (3,011,610 voting rights). 3.12% of the voting rights (corresponding to 3,011,610 voting rights) are attributable to the Company from Maven Trading Ltd. pursuant to Section 22 (1)(1)(1) WpHG.

On January 7, 2014, Maven Trading Ltd., London, United Kingdom, notified us pursuant to Section 21 (1) WpHG that its voting rights share in Gigaset AG, Munich, Germany, fell below the threshold of 3% on December 31, 2013, and on that date the voting rights share amounted to 0% of the voting rights (0 voting rights).

On January 7, 2014, Maven Securities Holding Ltd., London, United Kingdom, notified us pursuant to Section 21 (1) WpHG that its voting rights share in Gigaset AG, Munich, Germany, fell below the threshold of 3% on December 31, 2013, and on that date the voting rights share amounted to 0% of the voting rights (0 voting rights).

1b) 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.

1c) 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.

On January 28, 2014, Ludic GmbH 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).

1d) On July 28, 2014, UniCredit S.p.A., Rome, Italy, notified Gigaset AG pursuant to Section 21 (1) WpHG that its voting rights share in Gigaset AG exceeded the thresholds of 3%, 5%, 10%, 15%, and 20% on July 22, 2014, and on that date the voting rights share amounted to 20.63% of the voting rights (corresponding to 25,051,279 voting rights). Of this amount, 20.63% (25,051,279 voting rights) are attributed to UniCredit S.p.A. pursuant to Section 22 (1)(1)(1) WpHG. Attributed voting rights are held through the following companies controlled by it, whose voting rights share in Gigaset AG each meets or exceeds 3%: - UniCredit Bank AG - Bankhaus Neelmeyer AG On July 24, 2014, UniCredit Bank AG, Munich, Germany, notified Gigaset AG pursuant to Section 21 (1) WpHG that its voting rights share in Gigaset AG exceeded the thresholds of 3%, 5%, 10%, 15%, and 20% on July 22, 2014, and on that date the voting rights share amounted to 20.63% of the voting rights (corresponding to 25,051,279 voting rights). Of this amount, 20.63% (25,051,279 voting rights) are attributed to UniCredit Bank AG pursuant to Section 22 (1)(1)(1) WpHG. Attributed voting rights are held through the following company controlled by it, whose voting rights share in Gigaset AG meets or exceeds 3%: - Bankhaus Neelmeyer AG On July 24, 2014, Bankhaus Neelmeyer AG, Bremen, Germany, notified Gigaset AG pursuant to Section 21 (1) WpHG that its voting rights share in Gigaset AG exceeded the thresholds of 3%, 5%, 10%, 15%, and 20% on July 22, 2014, and on that date the voting rights share amounted to 20.63% of the voting rights (corresponding to 25,051,279 voting rights).

1e) On July 28, 2014, UniCredit S.p.A., Rome, Italy, notified Gigaset AG pursuant to Section 21 (1) WpHG that its voting rights share in Gigaset AG fell below the thresholds of 20%, 15%, 10%, 5%, and 3% on July 23, 2014, and on that date the voting rights share amounted to 0% of the voting rights (corresponding to 0 voting rights). On July 24, 2014, UniCredit Bank AG, Munich, Germany, notified Gigaset AG pursuant to Section 21 (1) WpHG that its voting rights share in Gigaset AG fell below the thresholds of 20%, 15%, 10%, 5%, and 3% on July 23, 2014, and on that date the voting rights share amounted to 0% of the voting rights (corresponding to 0 voting rights). On July 24, 2014, Bankhaus Neelmeyer AG, Bremen, Germany, notified Gigaset AG pursuant to Section 21 (1) WpHG that its voting rights share in Gigaset AG fell below the thresholds of 20%, 15%, 10%, 5%, and 3% on July 23, 2014, and on that date the voting rights share amounted to 0% of the voting rights (corresponding to 0 voting rights).

1f) On August 4, 2014, Mr. Antoine Dréan, France, notified us pursuant to Section 21 (1) WpHG that his voting rights share in Gigaset AG, Munich, Germany, fell below the threshold of 5% on July 22, 2014, and on that date the voting rights share amounted to 4.99% of the voting rights (corresponding to 6,058,525 voting rights). 3.58% of the voting rights (corresponding to 4,347,079 voting rights) would be attributable to Mr. Dréan through Mantra Investissement SCA, Mantra Gestion SAS and Elevon Invest SARL pursuant to Section 22 (1)(1)(1) WpHG. 1.41% of the voting rights (corresponding to 1,711,446 voting rights) would be attributable to Mr. Dréan pursuant to Section 22 (1)(1)(6) WpHG in conjunction with Section 22 (1)(2) WpHG.

On August 4, 2014, Elevon Invest SARL, Paris, France, notified us pursuant to Section 21 (1) WpHG that its voting rights share in Gigaset AG fell below the threshold of 5% on July 22, 2014, and on that date the voting rights share amounted to 4.99% of the voting rights (corresponding to 6,058,525 voting rights). 3.58% of the voting rights (corresponding to 4,347,079 voting rights) would be attributable to the Company through Mantra Investissement SCA and Mantra Gestion SAS pursuant to Section 22 (1)(1)(1) WpHG. 1.41% of the voting rights (corresponding to 1,711,446 voting rights) would be attributable to the Company pursuant to Section 22 (1)(1)(6) WpHG in conjunction with Section 22 (1)(2) WpHG.

On August 4, 2014, Mantra Gestion SAS, Paris, France, notified us pursuant to Section 21 (1) WpHG that its voting rights share in Gigaset AG fell below the threshold of 5% on July 22, 2014, and on that date the voting rights share amounted to 4.99% of the voting rights (corresponding to 6,058,525 voting rights). 3.58% of the voting rights (corresponding to 4,347,079 voting rights) would be attributable to the company through Mantra Investissement SCA pursuant to Section 22 (1)(1)(1) WpHG. 1.41% of the voting rights (corresponding to 1,711,446 voting rights) would be attributable to the Company pursuant to Section 22 (1)(1)(6) WpHG in conjunction with Section 22 (1)(2) WpHG.

On August 4, 2014, Mantra Investissement SCA, Paris, France, notified us pursuant to Section 21 (1) WpHG that its voting rights share in Gigaset AG fell below the threshold of 5% on July 22, 2014, and on that date the voting rights share amounted to 4.99% of the voting rights (corresponding to 6,058,525 voting rights). 1.41% of the voting rights (corresponding to 1,711,446 voting rights) would be attributable to the Company pursuant to Section 22 (1)(1)(6) WpHG.

1g) On October 9, 2014, Goldin Fund Pte. Ltd., Republic of Singapore, notified the Company pursuant to Section 25a WpHG that its voting rights share in Gigaset AG, Munich, Germany, exceeded the thresholds of 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50%, and 75% of the voting rights on July 23, 2014. It stated that it held 76.55% of the voting rights on this date (93,010,710 of 121,498,092). These were composed of 83,672,775 voting rights (68.87%) pursuant to Section 21 WpHG (shares of the Company) as well as financial instruments establishing a right to acquire an additional 9,337,935 voting rights pursuant to Section 25a (1) WpHG (mandatory convertible bonds DE000A11QXX2 with a due date of January 23, 2016).

1h) On October 9, 2014, Goldin Investment (Singapore) Ltd., British Virgin Islands, notified the Company pursuant to Section 25a WpHG that its voting rights share in Gigaset AT, Munich, Germany, exceeded the thresholds of 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50%, and 75% of the voting rights on July 23, 2014. It stated that it held 76.55% of the voting rights on this date (93,010,710 of 121,498,092). These were composed of 83,672,775 voting rights (68.87%) pursuant to Sections 21, 22 WpHG (shares of the Company) as well as financial instruments establishing a right to acquire an additional 9,337,935 voting rights pursuant to Section 25a (1) WpHG (mandatory convertible bonds DE000A11QXX2 with a due date of January 23, 2016). This was stated to involve an indirect investment; all of the aforementioned voting rights and financial instruments were held by the company Goldin Fund Pte. Ltd., Republic of Singapore, which it controlled, whose voting rights share in Gigaset AG amounted to 3% or more, and would be attributable to Goldin Investment (Singapore) Ltd. pursuant to Section 22 WpHG, or to be added to its voting rights under Section 25a (1)(7) WpHG.

1i) On October 9, 2014, Mr. Pan Sutong, Hong Kong, China, notified the Company pursuant to Section 25a WpHG that his voting rights share in Gigaset AG, Munich, Germany, exceeded the thresholds of 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50%, and 75% of the voting rights on July 23, 2014. He stated that he held 76.55% of the voting rights on this date (93,010,710 of 121,498,092). These were composed of 83,672,775 voting rights (68.87%) pursuant to Sections 21, 22 WpHG (shares of the Company) as well as financial instruments establishing a right to acquire an additional 9,337,935 voting rights pursuant to Section 25a (1) WpHG (mandatory convertible bonds DE000A11QXX2 with a due date of January 23, 2016). This was stated to involve an indirect investment; all of the aforementioned voting rights and financial instruments were held by the companies Goldin Investment (Singapore) Ltd. and Goldin Fund Pte. Ltd., which he controlled, whose voting rights shares in Gigaset AG each amounted to 3% or more, and would be attributable to him pursuant to Section 22 WpHG, or to be added to his voting rights under Section 25a (1)(7) WpHG. According to Mr. Pan's statement, the chain of controlled companies is as follows: Goldin Investment (Singapore) Limited, Road Town, Tortola, British Virgin Islands; Goldin Fund Pte. Ltd., Singapore, Republic of Singapore. According to Mr. Pan's statement, the ISIN or description of the (financial/other) instrument is as follows: DE000A11QXX2 with a due date of January 23, 2016.

1j) On October 22, 2014, Mr. Antoine Dréan, France, notified the Company pursuant to Section 21 (1) WpHG that his voting rights share in Gigaset AG, Munich, Germany, fell below the threshold of 3% on October 17, 2014, and on that date the voting rights share amounted to 1.41% of the voting rights (corresponding to 1,711,446 voting rights). 1.41% of the voting rights (corresponding to 1,711,446 voting rights) would be attributable to Mr. Dréan pursuant to Section 22 (1)(1)(6) WpHG in conjunction with Section 22 (1)(2) WpHG.

On October 22, 2014, Elevon Invest SARL, Paris, France, notified us pursuant to Section 21 (1) WpHG that its voting rights share in Gigaset AG, Munich, Germany, fell below the threshold of 3% on October 17, 2014, and on that date the voting rights share amounted to 1.41% of the voting rights (corresponding to 1,711,446 voting rights). 1.41% of the voting rights (corresponding to 1,711,446 voting rights) would be attributable to the Company pursuant to Section 22 (1)(1)(6) WpHG in conjunction with Section 22 (1)(2) WpHG.

On October 22, 2014, Mantra Gestion SAS, Paris, France, notified us pursuant to Section 21 (1) WpHG that its voting rights share in Gigaset AG, Munich, Germany, fell below the threshold of 3% on October 17, 2014, and on that date the voting rights share amounted to 1.41% of the voting rights (corresponding to 1,711,446 voting rights). 1.41% of the voting rights (corresponding to 1,711,446 voting rights) would be attributable to the Company pursuant to Section 22 (1)(1)(6) WpHG in conjunction with Section 22 (1)(2) WpHG.

On October 22, 2014, Mantra Investissement SCA, Paris, France, notified us pursuant to Section 21 (1) WpHG that its voting rights share in Gigaset AG, Munich, Germany, fell below the threshold of 3% on October 17, 2014, and on that date the voting rights share amounted to 1.41% of the voting rights (corresponding to 1,711,446 voting rights). 1.41% of the voting rights (corresponding to 1,711,446 voting rights) are attributable to the Company pursuant to Section 22 (1)(1)(6) WpHG.

Gigaset AG is not included in consolidated financial statements of the majority owner.

We received the following voting rights notices after December 31, 2014, but before signing the financial statements.

The following notices are attributable to the highest controlling company (Goldin Investment (Singapore) Limited) of Gigaset AG: 1g), 1h) and 1i).

45. 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 court 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 (hereinafter jointly referred to as "SKW") as direct cartel participants. The European Commission held the current Gigaset AG, as the Group parent company at that time, jointly and severally liable 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 AG, 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. 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. The judgment is final and enforceable against Gigaset AG. SKW's complaint was decided in the negative, i.e., the fine assessed against it was not reduced. SKW has filed an appeal against this judgment. Based on the ruling, Gigaset AG expects to receive reimbursement of a portion of the fine already paid, according to a preliminary legal assessment. 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. In the litigation on this matter between Gigaset and SKW, Gigaset considers its position to have been affirmed by the judgment of the Federal Court of Justice dated November 18, 2014, which has remanded the case to the lower court for renewed arguments and decision.

Evonik Degussa GmbH demanded 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. Evonik Degussa GmbH argued in its briefs and oral arguments in June 2013 that OXY Holding GmbH violated its obligations arising from the location guarantee because the subsidiary Oxxynova GmbH closed the location in Lülsdorf in 2007. This was argued to have caused the investment to become more valuable, for which reason a purchase price adjustment in the amount of EUR 12.0 would have to be paid, for which the Company would be jointly and severally liable as a guarantor. By an arbitration ruling dated November 30, 2013, the arbitral tribunal rejected the action for a purchase price adjustment from 2007, but sentenced Gigaset AG to pay a penalty of EUR 3.5 million for breach of contract to Evonik due to the final closure of the plant in 2010.

Following a careful review of the arbitration ruling, Gigaset AG decided in February 2014 to have the arbitration ruling rescinded by the competent Higher Regional Court due to evident legal defects. After this appeal was unsuccessful, Gigaset AG as the guarantor paid an amount of EUR 3.5 million plus interest of EUR 1.2 million to Evonik on March 4, 2015 and filed a claim against the principal debtor, OXY Holding GmbH, for reimbursement of this amount. Since adequate provisions were already created in prior years for this case, the net income for the year is hereby charged with only EUR 0.2 million.

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 had to pay an amount totaling EUR 0.8 million in several installments through January 31, 2014. Gigaset paid this amount timely and in full in accordance with the installment payment plan proportionately at EUR 0.2 million through December 31, 2013, and with the final installment of EUR 0.6 million at January 31, 2014. This proceeding was ended with the conclusion of the settlement.

46. Significant events after the reporting date

The legal dispute with Evonik Degussa GmbH with respect to the action brought to enforce the claim for the purchase price adjustment in the amount of EUR 12.0 million on the basis of the share purchase agreement dated September 8, 2006, was ended by means of a payment on March 4, 2015, in the amount of EUR 3.5 million plus accrued interest in the amount of EUR 1.3 million. A provision was recognized as of the reporting date in the amount of EUR 4.8 million to ensure that the net profit or loss for fiscal year 2015 will not be impacted.

47. 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, 2015. 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, 2015

The Executive Board of Gigaset AG

Kai Dorn

Charles Fränkl

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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 Commercial GmbH	Vienna	Austria		100 %
IVMP AG	Baar	Switzerland		100 %
GIG Holding GmbH	Munich	Germany	89.9 %	10.1 %
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 Europe GmbH	Düsseldorf	Germany		100 %
Gigaset Communications Schweiz GmbH	Solothurn	Switzerland		100 %
Gigaset Communications Polska Sp. z o.o.	Warsaw	Poland		100 %
Gigaset Communications UK Limited	Chester	Großbritannien		100 %
Gigaset İletişim Cihazlari A.Ş.	Istanbul	Turkey		100 %
Gigaset Communications Argentina S.R.L.	Buenos Aires	Argentina		100 %
OOO Gigaset Communications	Moscow	Russia		100 %
Gigaset Communications Austria GmbH	Vienna	Austria		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 %
Gigaset Communications Iberia S.L.	Madrid	Spain		100 %
Gigaset Communications Sweden AB	Stockholm	Sweden		100 %
Gigaset Communications Inc.	Dallas	USA		100 %
Gigaset elements GmbH	Düsseldorf	Germany		100 %
Hortensienweg Management GmbH	Munich	Germany	100 %	
Other investments included in the final statements using the equity method				
Gigaset Mobile Pte. Ltd.	Singapore	Singapore		32.4%

*2013 final figures

Currency '000	local equity 2014*	local profit/ loss 2014*	Average no. of employes 2014	
EUR	223,125	-23,165	36	Gigaset AG
EUR	1*	-1*	0	CFR Holding GmbH
EUR	313*	-1*	0	GOH Holding GmbH
EUR	3,005*	5,102*	0	Gigaset Industries GmbH
EUR	3,058*	8,540*	0	Gigaset Commercial GmbH
CHF	1,141*	492*	0	IVMP AG
EUR	19,381*	-781*	0	GIG Holding GmbH
HKD	-73*	-1,518*	0	Skymaster Electronic HK Limited
EUR	36,659*	-11,734*	1,033	Gigaset Communications GmbH
EUR	1,747*	0*	43	Gigaset International Sales & Services GmbH (profit transfer agreement)
EUR	24	-1	0	Gigaset Europe GmbH
CHF	928*	592*	5	Gigaset Communications Schweiz GmbH
PLN	1,434*	-286*	113	Gigaset Communications Polska Sp. z o.o.
GBP	4,892*	125*	8	Gigaset Communications UK Limited
TRL	6,462*	2,592*	2	Gigaset İletişim Cihazlari A.Ş.
ARS	43,228*	15,883*	1	Gigaset Communications Argentina S.R.L.
RUR	-5,719*	-46,941*	14	OOO Gigaset Communications
EUR	-146*	-1,505*	11	Gigaset Communications Austria GmbH
CNY	18,926*	9,926*	54	Gigaset Communications (Shanghai) Limited
EUR	5,175*	475*	18	Gigaset Communications France SAS
EUR	51*	-208*	14	Gigaset Communications Italia S.R.L.
EUR	-202*	467*	15	Gigaset Communications Nederland B.V.
EUR	625*	214*	13	Gigaset Communications Iberia S.L.
SEK	6,199*	2,875*	10	Gigaset Communications Sweden AB
USD	2,347	265	0	Gigaset Communications Inc.
EUR	-1,011*	-1,034*	2	Gigaset elements GmbH
EUR	-657*	-3,568*	0	Hortensienweg Management GmbH
USD				

* 2013 final figures

AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by the Gigaset AG, comprising the statement of financial position, the 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, which is combined with the management report of the Gigaset AG for the business year from January 1 to December 31, 2014. 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 § (Article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) and supplementary provisions of the articles of incorporation are the responsibility of the parent Company's Board of Managing Directors. 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 § 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 those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company´s Board of Managing Directors, 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 and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and supplementary provisions of the articles of incorporation 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.

Düsseldorf, den 24. März 2015

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Rainer Kroker	ppa. Dr. Michael Wittekindt
Wirtschaftsprüfer	Wirtschaftsprüfer

REPORT OF THE EXECUTIVE BOARD

The Executive Board of Gigaset AG is responsible for the preparation of the consolidated financial statements and the information contained in the combined management report. This information has been reported in accordance with the accounting regulations set by the International Accounting Standards Committee. The combined management report has been prepared in accordance with the provisions of the German Commercial Code.

By implementing Group-wide reporting in accordance with uniform guidelines, using reliable software, selecting and training qualified personnel and continually optimizing processes in the consolidated companies, we are able to present a true and fair view of the Company's business performance, its current situation and the opportunities and risks of the Group. To the extent necessary, appropriate and objective estimates have been applied.

In accordance with a resolution adopted at the Annual Shareholders' Meeting, the Supervisory Board has engaged PricewaterhouseCoopers AG, Wirtschaftsprüfungsgesellschaft, Munich, to audit the consolidated financial statements of the Group in the capacity of independent auditors. The Supervisory Board discussed the consolidated financial statements and the combined management report with the independent auditors during its meeting devoted to the financial statements. 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 situation, along with a fair description of the principal opportunities and risks of the Group's future development."

Munich, March 31, 2015

The Executive Board of Gigaset AG

FINANCIAL CALENDAR

March 31, 2015

- Publication of audited 2014 Annual Financial Statements

May 12, 2015

- Report for the 1st Quarter of 2015

August 6, 2015

- Report for the 2nd Quarter of 2015

August 11, 2015

- Annual Shareholders' Meeting in Munich, Germany

November 10, 2015

- Report for the 3rd Quarter of 2015

IMPRINT

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Gigaset

Annual Report
2014

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