2016
ANNUAL REPORT

Gigaset

Wherever you go.

KEY FIGURES

€ millions	2012[1]	2013	2014	2015	2015
Consolidated revenues	437.2	377.1	326.1	305.3	**281.9**
Earnings before interest, taxes, depreciation and amortization (EBITDA)	-3.6	7.5	17.5	4.3	**30.4**
Earnings before interest and taxes (EBIT)	-30.4	-16.7	-10.5	-16.3	**12.8**
Consolidated net income/net loss for the financial year	-28.6	-36.1	-16.6	-22.0	**4.3**
Free cash flow	-32.9	-42.3	-12.1	-9.7	**7.2**
Earnings per share (diluted) in EUR	-0.57	-0.61	-0.15	-0.17	**0.03**
Earnings per share in continuing operations	-0.52	-0.59	-0.15	-0.17	**0.03**
Total assets	303.5	267.1	251.2	221.1	**221.7**
Consolidated equity	24.3	38.7	41.2	17.9	**17.8**
Equity ratio (in%)	8.0	14.5	16.4	8.1	**8.0**
Employees	1,743	1,429	1,366	1,270	**1,061**

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"

GIGASET keeper

A small but great idea: The keeper protects all of those valuable items that sometimes go missing: your keys, your bag or your smartphone. The transmitter tells you where your favourite things are – anytime and easy as pie, with the free keeper app.

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The confidence of shareholders is both the main driving force and the chief goal of the company's management. You demonstrated this confidence in 2016 by approving the operational realignment we presented to you at the annual general meeting. At that time we defined our mission in clear terms: strengthen the company for a successful market position, assure a lean and efficient corporate structure and develop a long-term, forward-looking product and business strategy. Our common goal is to successfully develop Gigaset AG into the industry leader in telecommunications and telecommunications solutions.

LETTER TO THE SHAREHOLDERS

Dear shareholders,

2016 was a year of profound changes for our company. It began with a change of management on the Executive Board, uncertainties regarding the company's strategy and the announcement of an extensive new restructuring program. We had a difficult legacy to contend with. It was finally time to address the longstanding problems that were weighing heavily on our company. It was also time to concede that long-promised goals in the growth segments of Home Networks and Business Customers had not been attained, which we did in the newly introduced segment report. All this was reflected in a share price that began the year 2016 under strain and reached its low for the year of EUR 0.357 in the middle of the year. Gigaset's reputation was at stake.

Under these conditions, we assumed the reins with a clear mandate to get the company back on track, strengthen it and not only make it fit for the near future, but to lead it on a path of revenue growth and profitability by establishing a new strategic alignment. The first focus of the Executive Board in 2016 was to stabilize the company.

We introduced an initial three-point plan and numerous immediate measures at the start of the year. We moved forward with our restructuring plan, which entailed staff reductions but was primarily meant to boost efficiency and exploit synergies in production and sales. We continued to implement this plan with systematic resolve up to the annual general meeting in 2016 and strived to make the company fit again for the near future in this first phase of realignment. In response, you as the owners of our company expressed your confidence in the Executive Board and Supervisory Board by a great majority at the annual general meeting on August 17, 2016.

During the course of the year, we showed that we could expand our core business operationally and increase our profit margins in many countries. These successes are also reflected in the annual results of Gigaset AG. This growth will be secured by expanding into promising markets such as the smartphone market, which Gigaset entered independently for the first time in December 2016, and by means of other complementary initiatives that are currently being planned or implemented.

Through our actions and the above-mentioned measures related to the company's new strategy, we regained the confidence of investors – your confidence – and that of the capital market, as evidenced by the steady rise of the company's share price in the second half of last year. When it reached its high for the year of EUR 0.989 on Tuesday, November 15, 2016, the share price had risen by 177% from the low of EUR 0.357 reached on Monday, August 1, 2016.

We are on the right track! And we could not have made such excellent progress without our employees. Therefore, we wish to thank them in every way for their proven commitment, as well as all our collective bargaining partners and you, our shareholders, for the confidence placed in us to date. We look forward to your continued support.

Sincerely,

Klaus Weßing, CEO　　Hans-Henning Doerr, CFO


Klaus Weßing, CEO


Hans-Henning Doerr, CFO

New operational alignment

Gigaset operates in one of the world's most exciting markets, given that communication defines our world today and will continue to define our world in the future as well. Gigaset enjoys an excellent reputation and strong brand name and has manufactured products of the highest quality for decades. Based on the foundation of these values, Gigaset's new operational alignment aims to optimize proven areas of business and bolster growth. The company will continue to work on these objectives. This means the following with respect to the individual operating segments:

- Cordless voice is still the company's mainstay business. As before, the goal is to increase market shares.
- The Business Customers segment is the company's most important growth field. A substantial expansion is planned for this business.
- Home Networks with Gigaset elements has been successfully repositioned as a security solution in the smart home context. The goal now is to win market shares through intensive marketing activities and the continuous expansion of the system.
- All activities related to the smartphone portfolio are bundled within the Mobile Devices segment. Here too, the company sees considerable growth potential.

In addition, Future Communications refers to the company's innovative efforts to further develop the future of home communication, also beyond the heretofore known Gigaset portfolio.

Product milestones in 2016

CONSUMER PRODUCTS

The Consumer Products segment with its broad range of corded telephony products is the core business of Gigaset AG, certainly in 2016. This category remains attractive for the company, which is benefitting from the ongoing market consolidation. As of today, the leading manufacturers of DECT-based cordless telephones account for roughly two thirds of the total market volume, while B brands and brands positioned in low-price segments are increasingly losing ground.

The crucial advantage for Gigaset AG is its market-leading position, which enables the company to optimally deploy the strengths of its own highly flexible production facility in the heart of Germany to logistically serve the core markets in Europe. Gigaset is capable of delivering products even to remote European regions within three days. As a premium brand, moreover, Gigaset commands substantially higher average selling prices than its competitors. Backed by its strong brand in the core business and its clear brand profile, Gigaset constantly strives to gain further market shares.

Our promise

MADE IN GERMANY

German engineering is known throughout the world for its high technological standards, above-average quality and first-class manufacturing expertise. Our factory in Bocholt fully lives up to these expectations and has won the “Factory of the Year” award three times already.

FIRST-CLASS QUALITY

The highest quality and technology standards form the basis for all our activities. Every process, every production component and the work of all our employees are guided by one common goal, to produce best-in-class products. All products are continually tested in different stages of production in our own test lab. This is how we ensure consistently high quality.

EXCELLENT DESIGN

We are convinced that it is not enough to develop a technically first-class product. Cordless telephones that are meant to be a part of someone’s home must be design objects and status symbols that are optically appealing to their users every day anew. The design makes every one of our telephones, whether basic versions or premium versions, unique and underscores our focus on the customer.

SUSTAINABILITY

Gigaset strives to keep its CO_2 footprint as small as possible in all stages of the process chain, from production to packaging and logistics and even the waste materials. Innovations in this field lead to environmentally friendly and sustainable solutions, including (for example) the energy-saving mode “ECO DECT” and the radiation-free “ECO Mode Plus,” which reduces the transmission power by up to 100 %.

Questions in 2016

TECHNICAL CONVERSION FROM ANALOG TO VOIP:

Deutsche Telekom is constantly moving forward with the conversion of analog and ISDN-based connections to IP technology. All households served by the network operator Deutsche Telekom will be converted to VoiP by the year 2018. Other network operators are likewise working on similar solutions for transmitting voice and data over a single line in the future. As a result, cordless telephones will increasingly be offered also as handsets connected directly to routers that meet the DECT-iq or CAT-iq standard.

DEMOGRAPHIC CHANGE AND DEMAND FOR ERGONOMIC TELEPHONES:

Demographic change is occurring in both Germany and Europe. According to the German Federal Statistical Office, 21% of the German population was older than 65 in 2016. Thanks to better medical care and rising life expectancies, this trend will continue in the future. Living independently at home even as one becomes older is of great importance to many senior citizens. Therefore, technical innovations in telecommunications must address these needs.

Our answers in 2016

With its HX series, Gigaset introduced new universal handsets that can be used not only with Gigaset base stations, but also with routers that use the DECT protocol (AVM FRITZ!Box) or the CAT-iq standard (Telekom Speedport). The models of the new HX series represent an alternative to the system handsets of the router makers for those customers who prize attractive design, "made-in-Germany" quality and excellent features in their telephones. They also give customers entirely new options in matters of design, workmanship, sophisticated functions and ergonomics. A major advantage is the performance of Gigaset's software, which makes it possible to use the Gigaset HX models with all common DECT-iq and CAT-iq routers, unlike the handsets of other manufacturers, which are limited to their own systems. Accordingly, the accustomed convenience functions are still available in an HX handset connected directly to a router. Customers especially appreciate being able to access the router's internal directory, the lists of incoming, outgoing and missed calls and the use of the router's own answering machine. No less important to customers is the quality of voice transmission: The handsets of the HX line are certified as having HD (high definition) voice quality and transmit IP-based calls in crystal-clear broadband quality.

In 2016, Gigaset added five new devices to the HX portfolio to complement the premium models SL450HX and S850HX introduced in late 2015.

1

The Gigaset C430HX offers recognizable quality and functional clarity in a classic design. Perfectly balanced in terms of form and ergonomics, this product designed for discreet everyday use and featuring a clear arrangement of controls allows for extremely precise handling. The C430HX features a large, 1.8" TFT color display with 65,000 colors and an address book holding up to 200 entries of three numbers each, as well as integrated alarm, calendar and birthday reminder functions and a baby phone mode with intercom function.

2

The Gigaset E630HX offers the greatest ease of use, even under difficult conditions. It features a vibration and optical call signal, adjustable profiles for use in different environments, color display with graphical menu, direct volume control via side keys and a high-quality hands-free function in full duplex quality. The E630HX also features an extra-long standby time of up to 310 hours, so that it does not need to be charged in the base station for long periods of time and you can keep the handset with you while you perform your chores. Finally, it features a talk time of up to 14 hours, allowing for very long calls.

3

The designer phone Gigaset Sculpture (CL750HX) features a 1.8" TFT color display with 65,000 colors. The user immediately appreciates the precise pressure point of the user-friendly keypad. With other practical highlights such as the address book holding up to 200 entries of three numbers each, the integrated calendar and birthday reminder function and the baby phone with intercom function, Sculpture is an extensively equipped designer phone that fulfills every wish, also with respect to technical functionality.

4

Positioned in the mid-price comfort class, the Gigaset CL660HX combines powerful technology, excellent ergonomics and a modern design language in a perfect balance. Lean and compact in its outer dimensions, the device features a generously-sized and mechanically precise keypad. The 2.4" TFT color screen displays a masterfully designed and intuitively usable variety of functions. Besides the great HD-certified audio quality, which also proves its potential in hands-free mode, the CL660HX delivers the highest sound quality to users.

5

The large-keypad Gigaset E560HX is not only a new HX model, but also the first ergonomic cordless telephone designed for direct connection to routers. This is Gigaset's answer to the above-mentioned questions arising in 2016. The Gigaset E560HX features perfect ergonomic quality, advanced features and intuitive user interfaces and menus. Accurate, illuminated keys and the TFT color display with an extra-large numerical display ensure that even users with limited vision can use the device optimally. The excellent acoustics with certified HD sound quality, worry-free hearing aid compatibility (HAC) and the extra-loud key to double the handset volume assures great sound quality at all times. And thanks to the optical call signal based on LED flashes, the user will never miss another call. Finally, the product features an SOS function that can be activated with a single press of a key, sending a call for help to family members, neighbors or the family doctor, for example.


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3
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Gigaset
Maria
Smith
Reject
Silence
12:13
Menu

BUSINESS CUSTOMERS

The Business Customers segment is divided into two divisions. The division for customer-specific products comprises the OEM business with white-label products, which are marketed under third-party brand names. The other division comprises the business products marketed under the Gigaset Pro brand name. Gigaset has sold customer-specific products already since 2008, while the Gigaset Pro brand was introduced in 2011. The Gigaset Pro line of products is aimed at small and medium-sized enterprises with up to 100 employees. The IP telephone systems and system telephones are noteworthy for the wide range of functions, flexible scalability, ease of use and configuration, and timeless design. In this business, Gigaset applies its extensive experience in the private customers segment acquired over many years to benefit customers in the promising growth market for professional IP telephone systems. The key characteristics of the Gigaset, such as great quality, ease of use and attractive design, are just as important as this business as the company's experience with VoIP (Voice over Internet Protocol).

Our promise

EASE OF USE

Simple and intuitive use is also paramount in the Business Customers segment. As soon as the IP system telephones are connected to the enterprise network, the configuration is performed almost automatically. Simple, logically structured menus and easy-to-read displays facilitate everyday work.

ATTRACTIVE DESIGN – ALSO IN THE OFFICE

Besides ease of use, Gigaset places a high priority on excellent design. The product features and design elements of the new Maxwell desktop telephone series exemplify this claim. The titanium and black casing and the big 10" full-touch display of the flagship product Maxwell 10 make a distinctive impression on anyone's desk.

SCALABILITY

Based on the open, commonly used SIP standard (Session Initiation Protocol) the Gigaset Pro line offers a comprehensive solutions portfolio for professional users. Using this technology standard, Gigaset offers phone system solutions for self-employed persons and small offices (SOHOs, Small Offices Home Offices), small businesses with up to 15 employees, and companies with up to 100 employees. In one of its biggest research and development projects to date, Gigaset began in 2016 to raise the scalability level and will be able to serve companies with more than 100 employees in the future.

Questions in 2016

PERSONALIZATION AND A NEW WAY OF WORKING:

Greater flexibility, mobile work stations, fewer rigid job descriptions. The number of part-time workers is growing, as is the number of self-employed persons. Especially younger workers are looking for employment conditions based on mobile online applications that allow for an optimal work-life balance. Working offsite and teleworking are no longer uncommon. Therefore, vendors need to offer easy-to-use, flexible and broadly combinable products that facilitate everyday work, regardless of where it is performed.

VOIP TELEPHONY:

Like the private customers market, the business customers market is undergoing a major shift from ISDN solutions to IP-based solutions. Using the Internet for phone calls offers numerous advantages also for small and medium-sized enterprises. Thanks to the great progress achieved in internet transmission speeds, it is now possible to establish very good connections with IP technology. With the right terminal devices, VoIP can even offer HD-quality sound. Besides voice quality, economic considerations are particularly important in making the switch to a VoIP-based telephone system because such a system can lower the costs of phone calls substantially. In most cases, in fact, calls to other IP telephones are free. Enterprises can also save money on the equipment for their work stations because it is no longer necessary to install a network jack and phone jack for each desk; all that is needed is an Ethernet connection, and there is no need to operate two separate networks.

Our answers in 2016

As stated previously, our goal with Gigaset pro is to satisfy the unique needs of every single enterprise, whether it has ten or 250 employees. We strive to offer each enterprise the best possible telecommunications solution and to network it optimally with the enterprise's existing systems and IT infrastructure. Professional communication is critical to the success of any operation, whether offices with a reception desk, busy factory floors or teams that are always on the move. Considering the wide variety of possible scenarios, we bundled our connectivity portfolio, our unified communications solutions and telephone systems into categories based on enterprise size in 2016, so as to make it easier for customers to find the right solution for them.

Besides making numerous software improvements and introducing a new unified communications suite, which is a complete software suite for integrating communications technologies with leading business software applications that gives customers control over their business communications and makes it possible to integrate voice and messaging with leading software applications to create a powerful business communications platform, Gigaset also enhanced its Maxwell line of desktop phones.

True to its promise of redefining desktop phones for business users, Gigaset launched the Maxwell 10 as its new flagship product. Equipped with a 10" display, HD touch screen and sophisticated audio, video and Android-based interactive functions, the Maxwell 10 has redefined desktop telephony. Gigaset supplemented this line of products with the Maxwell 3 and Maxwell Basic at lower price points in 2016 and so created a comprehensive portfolio suitable for different business tasks and applications. A defining characteristic of all these devices is the streamlined, all-round design with high-resolution audio quality. Ease of use and powerful functions make the desktop phone systems of Gigaset pro the preferred choice for professional business communication.


Gigaset elements
Gigaset elements
Gigaset elements
Gigaset elements

HOME NETWORKS

The Gigaset elements portfolio in the Home Networks segment is a comprehensive security solution for residential houses and apartments. First introduced in 2012, this system has since been developed into a comprehensive and flexibly configurable security solution featuring a portfolio of now ten different sensors and actuators to meet all wishes. Thus, Gigaset elements represents an exception in the otherwise highly fractured smart home market. First, the system addresses the all-important issue of security, and second, the system is flexible enough, thanks to its technological structure and use of the cloud, to support other scenarios besides home surveillance. Gigaset is already working on such scenarios and will introduce new solutions within its Home Networks portfolio.

Gigaset elements also demonstrates the company's spirit of innovation. In designing the hardware, the DECT standard used for all cordless telephones was applied and the well-established and well-trusted positioning of the Gigaset brand in every second European household was leveraged by employing the same technology used in security to control communications between the sensors. This was the approach taken to successfully extend the Gigaset brand into the smart home market. And yet, the software innovations were far more comprehensive. Since the introduction of the system, the company has made major investments in the development of the Gigaset cloud, the improvement of the Gigaset elements smartphone app and the sensor software. And these investments have been successful, as evidenced by the multiple awards given to Gigaset elements as an especially secure solution when it comes to the protection of customers' data.

Our promise

TECHNOLOGICAL EDGE

Gigaset elements represents the culmination of decades of knowledge and experience, as well as our innovative, pioneering role in home telecommunications. Besides allowing for reliable transmission across large distances, the DECT transmission standard, in the development of which Gigaset played a major role, also offers the advantage of shorter latency times and therefore allows for real-time communication. Furthermore, power consumption is relatively low and the security standard is high, thanks to encryption and authentication.

PERFECT SECURITY AND DATA PROTECTION

By combining proven technologies with the possibilities of the Internet, Gigaset brings the cloud into the home, making it possible to access all the information and services available on the Internet from mobile terminal devices at all times. Gigaset protects customers' data by using its own cloud and storing system data separately from customers' data. For these reasons, Gigaset's data security is certified by and has received multiple awards from many independent consulting firms and system vendors.

PARTNER TO THE CUSTOMER

Gigaset has offered products for use at home for decades, unlike other vendors that are only just beginning to do so. Backed by the extensive expertise gathered over many years and the confidence instilled through consistent quality and reliability, Gigaset can serve the individual needs of its customers and so play an important role in shaping the fast-growing home networks market.

Questions in 2016

THE FUTURE DIRECTION IS UNCLEAR

Despite the predictions made in 2012, the big jump forward for smart home systems has not occurred to date. However, the predictions of futurists who believe that this market holds the potential for substantial growth remain positive. This assessment is supported by the increasingly crowded state of the smart home market. More and more vendors are entering the market with their own solutions or with solutions offered in cooperation with partners, and are seeking to establish a foothold in the most important sub-markets for building automation, home surveillance, energy management, entertainment and smart care. The solutions offered in this segment must provide added value for customers. The solution must be more than just a gadget.

Our answers in 2016

In 2016, Gigaset continued its efforts to better understand the needs of its customers and continuously improve the system software. Late in the year, it also introduced a new smoke detector called "smoke" and it set the strategic course for the further development of this system.

Thanks to an improved user interface (UI), Gigaset elements is now easier and quicker to use than ever before. The extensive portfolio of sensors and actuators makes the system individually configurable and multifunctional for the customer. With the new controls manager, Gigaset elements can be adapted to the personal needs of every customer. Every new module introduced makes the system better, more versatile and more useful. This cements the security use case for the customer and clearly differentiates Gigaset from many competitors in the smart home environment that still only offer isolated island solutions in 2016.

Late in 2016, Gigaset introduced "smoke," a new, smart smoke detector that reports any possible smoke development directly to the user's smartphone via the cloud, so that the user can take quick action even while away from home. To provide an even more effective alarm to family and neighbors, it can also be combined with the other installed alarm sirens of the "siren" model to set off an alarm in the entire apartment or house. This apparently small distinction is indicative of the special, innovative approach that Gigaset takes in the development of its products because the system actively responds to the risk that a single alarm located in one room would not be heard because it is too far away from the resident or because the resident is sleeping deeply in the middle of the night.

As described above, however, Gigaset's efforts are not limited to the continuous further development of its existing security portfolio. As part of its strategic realignment, the company launched a new project in 2016 to develop the Gigaset elements portfolio in the direction of smart care applications. New solutions in this area will be rolled out in 2017. Thus, the company is now strategically active in two of the most important growth areas and needs categories in the smart home environment and can therefore generate additional growth for the company.

MOBILE DEVICES

The smartphone has become the primary communications device throughout the world, including in Germany. Even though the impression of market saturation may arise due to the widespread use and large number of vendors, there is still a potential for up to 2.87 billion users worldwide by 2020, according to forecasts. For Gigaset, marketing mobile terminal devices is a logical extension of the Gigaset ecosystem because it involves the complete interlinking of home, work and mobile applications, and it also represents a valid opportunity to attract younger consumers. True to the claim "Wherever you go," expanding the product portfolio in the direction of mobile terminal devices is a consistent and logical step towards extending the trusted and accustomed Gigaset experience beyond the four walls of one's home or office.

Our promise

ACCUSTOMED GIGASET QUALITY

Although Gigaset smartphones are currently not being produced in Germany, the same high quality standards apply to them. Before any products are placed into circulation, they undergo extensive and intensive quality tests to ensure that customers will enjoy the accustomed quality of the Gigaset brand also in its smartphones.

"MADE IN GERMANY" SUPPORT

A special promise we make to users of our smartphones is direct, local support in Germany. Any necessary repairs or replacements do not necessitate long delivery routes, intermediate dealers or centralized warehouses, but can be handled quickly, simply and directly by our Customer Service in Bocholt.

ATTRACTIVE DESIGN

All Gigaset products are manufactured according to the same high standards. As the preeminent communications device in the life of modern human beings, the smartphone must not only be functionally flawless, but should also appeal to the customer's esthetic sense. In all our products, therefore, we strive for an inconspicuous, ergonomic design that enhances the user's experience.

Questions in 2016

True to the motto "higher, faster, farther," the permanent arms race among smartphone manufacturers has made it possible for customers willing to pay high prices to always be equipped with the latest technology. On the other hand, it has been evident at important industry exhibitions like the MWC in Barcelona that the air is becoming thinner in the higher price segments. Smartphones are increasingly interchangeable and all of them basically have the same technology. There has been a lack of true innovations that would truly inspire the market. Moreover, the market for smartphones is increasingly saturated, as evidenced by the fact that the number of units sold declined modestly in 2016, even as average prices rose somewhat.

Our answers in 2016

As its answer to an over-saturated market dominated by the high-priced devices of Samsung and Apple, Gigaset will target the entry-level segment. This approach offers numerous advantages for the company. Low-priced devices are replaced more often than high-priced devices. Furthermore, many new smartphone customers are choosing a less expensive model for their first device. Low-cost entry-level models are also favored as gifts for relatives or older people in the primary buyers group. And Gigaset has a special trump card to play in this game, its well-known and trusted brand name. Whereas many manufacturers in the entry-level segments are unknown to customers, Gigaset is known and trusted across Europe.

And yet the strategic timing of market entry and the company's well-known brand name are not the only success factors as it enters the smartphone market. The device itself, the Gigaset GS160, is not only competitively priced but comes with features that are not common in the entry-level category; this is how Gigaset will seek to convince new customers and establish the Gigaset brand name quickly and successfully in the smartphone environment.

Equipped with a 13-megapixel camera, fingerprint sensor and 4G LTE, and costing only EUR 149.00, the Gigaset GS160 is a purebred value-for-money product aimed primarily at consumers who also expect brand-name quality in the entry-level segment. Besides the camera and dual-SIM slot, this Android 6.0-based smartphone also features outstanding voice quality and innovative smart touch functions.

As one would expect, the response of the trade press has been positive. For example, Notebookcheck wrote: "The Gigaset GS160 is not perfect, but makes the best of its small budget. The fingerprint sensor is a rarely found highlight in this category. All in all, Gigaset [. . .] offers an all-round smartphone package that brings a whiff of premium quality to the entry-level class with its many small extras."

Androidpiloten magazine arrived at the following conclusion: "Gigaset GS160 is perfect for beginners! The Gigaset GS160 is ideally suited for beginners on a tight budget. And those users who only use common functions will be especially appreciative [. . .]."

AndroidTV was similarly upbeat in its assessment: "The GS160 is a very affordable Android smartphone from a German enterprise. And yet it offers a good many advantages, including an exchangeable battery, a fingerprint sensor and a decent 13-megapixel camera for this category. [. . .] Another rather uncommon feature is the fact that a MicroSD memory card can be used despite the use of two simultaneous SIM cards."


Gigaset
Gigaset GO
Gigaset
S850

THE GIGASET ECO-SYSTEM

With its new strategic alignment, Gigaset laid the groundwork in 2016 for transforming itself from a pure telecommunication hardware vendor to a comprehensive and integrated solutions provider.

Even in 2016, Gigaset stayed true to its roots in telecommunications at home, but also complemented this approach with an extensive security portfolio in the smart home segment and so conquered new terrain. The same can be said of the business environment: Those who rely on Gigaset at home can also enjoy the advantages of the company's solutions at work. Gigaset successfully entered another growth market for telecommunications and solidified its position in this market with Gigaset pro and the comprehensive solutions offered to SMEs. By deciding to enter the smartphone market with its own devices, Gigaset is now going beyond the spatially delimited boundaries of home and office and can now support customers wherever they happen to be.

By marketing its own smartphones, Gigaset is giving customers a control instrument so that they can directly operate the company's growing range of software products or apps for products like Gigaset elements, Gigaset G-tag and Gigaset keeper, from another Gigaset device.

Looking forward, Gigaset has created a complete portfolio of stationary and mobile terminal devices and taken the appropriate technological and software-based steps to pave the way to the other solutions that are currently bundled under the working title „Future Communications." Already in 2017, Gigaset will enrich its own eco-system with additional products and set new standards in communication at home and on the move, thus living up to the motto: "Gigaset. Wherever you go!"

future

proof

Future-orientation and sustainability are the values that distinguish Gigaset AG. Expertise and experience form a solid foundation on which Gigaset will expand its position in the coming years. Such values are essential for companies wanting to grow successfully and profitably. This foundation alone allows Gigaset the basis for a secured continued upward trend that the "Made in Germany" seal still bears today.

CAPITAL MARKET AND SHARE

Stock market turmoil in 2016

The stock markets were very turbulent on the whole and had some surprises in store in 2016. Concerns about the global economy, commodity prices, political risks and the monetary policy of central banks provoked considerable volatility. Three major political events occurred in 2016: The British vote for "Brexit," the victory of Donald Trump in the U.S. presidential election, and the defeat of Matteo Renzi in the Italian referendum on reforming the constitution. While the results of these important political decisions were surprising, they ultimately did not throw financial markets into major turmoil, but mainly only led to short-term price fluctuations. Besides being preoccupied with political developments, many investors were also caught off guard by the historically poor performance of stock markets at the start of the year. Rattled by worries regarding the Chinese economy, the German DAX index had its worst start to a year since 1988. Although it went on to recover from there, the DAX was still down one percent on the year at the end of November. The DAX rose again substantially in response to the ECB's decision in early December to continue its ultra-lax monetary policy in 2017. The positive trend of stock markets was also supported by hopes for a comprehensive economic program under U.S. President-elect Donald Trump. And so the long-desired year-end rally came through and the DAX closed the year 2016 with a gain of 6.87%. While the MDAX gained 6.81%, the TecDAX lost 1.04% in 2016. U.S. markets fared substantially better, especially the Dow Jones Industrial Index, which gained 13,42% on the year, followed by the S&P 500 Index with a gain of 9.54% and the Nasdaq Composite technology index with a gain of 9.6%.

Positive development of the Gigaset share price

The Gigaset AG share performed extremely well in 2016. Amid a turbulent stock market environment, the Gigaset share too was subject to considerable volatility and exhibited an uneven development at the start of the year. The share price fell as low as € 0.43 in early February, but then recovered over the course of that month to reach € 0.55 again, thanks to the publication of the company's preliminary results for 2015. After first consolidating at this level, the share rose again to as high as € 0.602 in April in response to the confirmation provided by the 2015 annual report. However, this did not mark a trend reversal and the share price was reduced by profit-taking again in the subsequent months, falling to its low for the year of € 0.31 in late July. Only two weeks later, the company surprised the market with positive results for the first six months, lending a considerable boost to the share price. Investors were given confidence by the fact that Gigaset's profitability had been restored and the share price soared to levels as high as € 0.80. After taking a small breather in the wake of this rally, the share price resumed its upward trend and posted substantial gains in October. The share price nearly doubled within a period of only two weeks, climbing to as high as € 1.044 on November 1. However, it did not reach its high for the year of € 1.05 until November 18. The share price trended below the € 1.00 mark towards the end of the year. Nonetheless, even at the year-end closing price of € 0.82 the share made an impressive annual gain of 41.38% in 2016.

Dividend

It was resolved at the end of the year not to pay a dividend for financial year 2016.

Major shareholders hold more than 80% of Gigaset's shares

According to the definition of Deutsche Börse AG, more than 80% of the Gigaset AG's shares were held by three major shareholders at the end of 2016. As before, the biggest shareholder is Goldin Fund Pte. Ltd., followed by Mantra Investissement SCA and Ludic GmbH. Thus, the company's shares are predominantly held by private investors from China, France and Germany.

In accordance with the German Securities Trading Act, the reportable transactions conducted by top executives of Gigaset AG are published on our company's website. Detailed information about the shares and stock options held by members of the Executive Board and Supervisory Board and the reportable securities trades conducted by them is presented in the Corporate Governance section of this annual report.

Gigaset AG intensifies its investor relations work

Close communication with institutional investors, private investors, financial analysts and journalists is important for Gigaset. Recently, however, the work of our Investor Relations department was hampered by a dramatic loss of confidence in the former Executive Board. Ever since Hans-Henning Doerr, CFO of Gigaset AG, took the reins in December 2015, we have understood our mission to be conducting a transparent and intensive dialog with the capital market. This plan commenced in 2016 and was implemented for the first time in the form of candid quarterly reporting.

As part of our investor relations work, we inform all our shareholders about the group's performance in quarterly, semiannual and annual reports. In addition, all financial reports, ad-hoc announcements and press releases, the financial calendar and documents for the annual general meeting are promptly made available to the public in the Investor Relations section of the company's website (www.gigaset.ag).

Contact data

The Investor Relations Department of Gigaset AG can be reached as follows:

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CORPORATE GOVERNANCE REPORT

Gigaset AG understands corporate governance as a process that is continuously developed and improved. With only a few exceptions, Gigaset AG complies with the recommendations set forth in the German Corporate Governance Code (the "Code") enacted in 2002 and most recently revised on May 5, 2015, which are explained below.

Management and control structure – Supervisory Board

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

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

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

Management and control structure – Executive Board

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

Securities transactions by the Executive Board and Supervisory Board requiring disclosure

The members of the Executive Board and Supervisory Board and persons closely related to them are obligated under Article 19 of the Market Abuse Regulation (EU) No. 596/2014 (MAR) to disclose any own-account trading in shares or debt instruments of Gigaset AG or related derivatives or other related financial instruments to Gigaset AG and to the German Federal Financial Supervisory Authority (BaFin) if the value of the transactions entered into equals or exceeds the sum of EUR 5,000.00 within one calendar year ("Directors' Dealings").

The Company did not receive any notifications regarding Directors Dealings under Article 19 of the Market Abuse Regulation (EU) No. 596/2014 before the balance sheet was prepared on April 11, 2017.

Declaration of conformity

The Executive Board and Supervisory Board of Gigaset AG submitted the declaration of conformity with the German Corporate Governance Code in March 2017 in the version dated May 5, 2015, as required under section 161 of the German Stock Corporation Act (Aktiengesetz, AktG) and made it permanently publicly available to the shareholders on the Company's website (http://www.gigaset.com/de_de/cms/gigaset-ag/investor-relations/unternehmen/corporate-governance.html). 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 recommendations of the "Commission for the German Corporate Governance Code" as of May 5, 2015, as published by the Federal Ministry of Justice and Consumer Protection in the official part of the Federal Gazette on June 12, 2015. A copy of the declaration of conformity itself and the statements on the exceptions are reproduced verbatim at the specified location.

Remuneration of the Executive Board

The duties and contribution of the respective Executive Board member are taken into account when determining their remuneration. The remuneration in fiscal year 2016 comprises a fixed annual salary as well as performance-related components (bonuses, variable remuneration). The separate components are:

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

There are thus variable remuneration agreements for the members of the Executive Board based on company-related and/or goal-based bonus agreements, and in some cases also agreements based on personally-defined goals and objectives with qualitative milestones. The goals were discussed by the Chairman of the Company's Supervisory Board and the Executive Board members at the beginning of the fiscal year or at the beginning of the Executive Board member's contract. The chairperson of the Supervisory Board decides on whether each goal was achieved based on the agreements made.

Remuneration of the Supervisory Board

By resolution of the extraordinary shareholders' meeting held on December 19, 2013, the following remuneration scheme applies effective retroactively as of August 15, 2013:

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

1. *Base remuneration. Every member of the Supervisory Board receives a fixed salary of EUR 3,000.00 ("base remuneration") for every month or partial month of their term of office ("accounting month"). The beginning and end of every accounting*

month are determined based on sections 187(1), 188(2) of the German Civil Code (Bürgerliches Gesetzbuch, BGB). Remuneration that the respective member of the Supervisory Board has already received for the same accounting month is to be offset against claims for base remuneration, regardless of the legal basis. The claim to base remuneration arises at the end of the accounting month.

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

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

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

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

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

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

8. *Duration. This remuneration scheme takes effect retroactively as of August 15, 2013, and remains in force until replaced by an annual shareholders' meeting. This remuneration scheme replaces the remuneration scheme resolved by the annual shareholders' meeting on August 14, 2013, which is at the same time retroactively annulled. If compensation has already been paid based on the annulled remuneration scheme, it is to 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 statements, the members of the Executive Board did not hold any shares of Gigaset AG at the balance sheet date or up to their departure date. According to their own admission, the current members of the Supervisory Board hold 8,264 shares of Gigaset AG as of the balance sheet date. This corresponds to a share of approximately 0.6 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 Board as follows:

Number of shares	**12/31/2016 or until departure date**	**when the balance sheet was prepared**
Executive Board		
Klaus Weßing (Chairman of the Executive Board, since 12/15/2015)	0	0
Hans-Henning Doerr (Executive Board, since 12/15/2015)	0	0
Guoyu Du (Executive Board, since 07/01/2015)	0	0
Hongbin He (Executive Board, from 09/01/2015, to 07/29/2016)	0	0
Supervisory Board		
Bernhard Riedel	3,264	3,264
Ulrich Burkhard	0	0
Paolo Vittorio Di Fraia	5,000	10,000
Hau Yan Helvin Wong	0	0
Prof. Xiaojian Huang	0	0
Flora Ka Yan Shiu	0	0

Other information regarding corporate governance at Gigaset AG

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

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

REPORT OF THE SUPERVISORY BOARD

The Supervisory Board closely followed the Company and its Executive Board in all significant transactions in 2016. This can also be seen in the frequent meetings, held every four to six weeks, which exceeds the minimum requirements set forth under section 110(3) of the German Stock Corporation Act (Aktiengesetz, AktG).

The past fiscal year was eventful for Gigaset AG. An extensive restructuring project was adopted at the end of 2015, which is expected to lead to cost savings in the entire organization, not least in personnel costs. Implementation of the restructuring project began in the previous fiscal year and considerable savings had already resulted as of December 31, 2016. Despite a lower number of staff, the Company simultaneously intensified its activities, particularly in sales. It was possible to achieve synergy effects and an increase in efficiency by bundling the core business areas. In addition, the groundwork was laid for forward-looking new projects in the context of the strategic reorientation of the Company. For instance, the Company was able to successfully introduce its first own smartphone line, the GS160, to the German market at the end of 2016.

Cooperation with the Executive Board

The Supervisory Board cooperated constructively with the members of the Executive Board over the entire course of the 2016 fiscal year. The Supervisory Board discharged all its duties as required by law and the corporate Articles of Association, and monitored and also advised the Executive Board in its work.

In particular, Management regularly provided the Supervisory Board with a comprehensive overview of the development of the business, in particular sales revenues and the position of the Company since the last report, in the form of reports on the course of business as stipulated under section 90(1) no. 3 AktG. The Supervisory Board required the Executive Board to provide precise and clear presentations detailing the Company's performance, the current situation and the reasons behind it, including an appropriate breakdown and the associated figures. The Supervisory Board also discussed and scrutinized the budgets in order to evaluate transactions, the financial situation, the Company's financial performance and liquidity, the market situation and specifics regarding business performance as well as significant risks of future development. To the extent necessary, the Executive Board reported on important occasions directly to the Chairman of the Supervisory Board outside of the regular meetings, whereby the Supervisory Board could draw on the excellent expertise of some of its members, in particular in the areas of telecommunications, M&A, and financing.

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

Activity of the Supervisory Board

The Supervisory Board discharged its duties as part of meetings that normally took place every four to six weeks. In these meetings, the Supervisory Board routinely dealt with the reports of the Executive Board on finance and investment and human resource planning, as well as the implementation of corporate strategies, including the resulting intermediate and long-term opportunities for growth. In addition, the Supervisory Board provided advice on the financing of the Company and its growth in 2016. Special emphasis was placed on the Company's liquidity situation as well as the nature and scope of contingent liabilities. In addition, the Supervisory Board also dealt intensively with the internal organization of the Company. For instance, the Supervisory Board adopted rules for conducting its own business in the past fiscal year; rules for conducting business for the Executive Board were discussed intensely in 2016 and adopted in January 2017. Furthermore, as in the previous years, the Supervisory Board continued to address the clarification and elimination of risks from the Company's past.

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

Supervisory Board meetings in 2016

The Supervisory Board convened for a total of eleven meetings in the 2016 fiscal year, namely on January 29, 2016, February 25, 2016, April 19, 2016, April 20, 2016, May 19, 2016, June 14, 2016, August 11, 2016, August 12, 2016, September 5, 2016, and October 27, 2016, as well as on December 14, 2016.

The auditor selected by the Annual General Meeting, PricewaterhouseCoopers AG, was also present at the meeting to adopt the financial statements for the 2015 fiscal year held on April 19, 2016.

The Supervisory Board formed an audit committee and a personnel committee.

Activity of the Audit Committee

The Audit Committee convened in preparation of the Supervisory Board's meeting to adopt the financial statements held on April 19 and 20, 2016, as well as on May 19, 2016, August 11, 2016, and October 27, 2016. It received reports from both the Executive Board and the auditor and critically reviewed the Company's interim and quarterly financial reports. In general, the Audit Committee dealt in particular with the monitoring of the accounting process, the effectiveness of the internal control system, the risk management system, and the internal auditing system, as well as the audit of the financial statements – in particular with the additional services rendered by the auditor. The activities of the Audit Committee in connection with the audit comprised in particular the interim audit of the annual financial statements (and the consolidated financial statements) as well as the management report (and the Group management report), including the validity and usefulness of the annual, half-yearly, and quarterly financial reports. Furthermore, the Audit Committee also addressed the accounting process per se, including the principles and methods of accounting and the relevant precautionary measures. With regard to the monitoring of the internal control system and the risk management system, the Audit Committee monitored these systems and inspected whether the Executive Board had installed corresponding systems, whether the nature and concept of the systems set up by the Executive Board were adequate, and whether these systems were in fact completed in such manner that they meet their intended requirements. Pursuant to Articles 16 and 17 of Regulation (EC) No. 537/2014 of the European Parliament and the Council dated April 16, 2014, the Audit Committee carried out a public competitive bidding procedure for the audit of the financial statements of Gigaset AG for fiscal year 2016 and submitted a recommendation for the auditor to be selected by the Annual Shareholders' Meeting in accordance with the conclusions reached in the selection procedure. Furthermore, the Audit Committee monitored the auditor with respect to his independence and also discussed the areas of audit emphasis and major audit topics. In this context, the Audit Committee worked toward the submission of the auditor's statement of independence and reviewed the accuracy of these statements in the run-up to the proposal to the Annual General Meeting.

Activity of the Personnel Committee

The Personnel Committee met on January 28, 2016, June 24, 2016, and on November 17, 2016.

The Personnel Committee's responsibilities included the preparation of personnel decisions, insofar as they are reserved for plenary meetings due to the prohibition on the delegation of duties, in particular the submission of recommendations regarding the appointment and dismissal of members of the Executive Board and regarding the remuneration components of the employment contracts to be concluded with the Executive Board members. In addition, the Personnel Committee prepared the proposals on the respective appointments.

Corporate Governance

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

On March 23, 2017, the Executive Board and Supervisory Board of Gigaset AG submitted the annual declaration of conformity with the German Corporate Governance Code in the version dated May 5, 2015, as required under section 161 of the German Stock Corporation Act and made it permanently available to the shareholders on the Company's website (www.gigaset.ag).

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

Corresponding to the recommendations of the Code, the Supervisory Board received a declaration of independence from the auditor on June 14, 2016, 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 2016, in particular with the risk management system. The Executive Board reported extensively on the risk situation and key individual risks. The structure and function of Gigaset AG's risk management system were reviewed and confirmed by the auditor within the framework of Section 318 (4) of the German Civil Code (HGB) and the result was discussed with the Supervisory Board.

Personnel matters of the Executive Board

In its meeting held on December 15, 2015, the Supervisory Board appointed Klaus Wessing (as CEO) and Hans-Henning Doerr (as CFO) as new members of the Executive Board effective immediately. Mr. Guoyou ("David") Du had already been appointed to the Executive Board at the meeting of the Supervisory Board on May 28, 2015, effective June 1, 2015, and Mr. Hongbin ("Hadwin") He had been appointed by resolution dated August 11, 2015, effective September 1, 2015.

Mr. He resigned his office for personal reasons by letter dated July 29, 2016.

As a consequence of these changes, the Executive Board comprised Hans-Henning Doerr, David Du, and Klaus Wessing as of December 31, 2016. All sitting members of the Executive Board represent the Company in accordance with the Articles of Association.

In a decision dated April 19, 2016, the Supervisory Board appointed Mr. Weßing as Chairman of the Executive Board in accordance with section 84(2) AktG.

Personnel matters of the Supervisory Board

The members of the Supervisory Board in the reporting period were: Ulrich Burkhardt, Paolo Vittorio Di Fraia, Helvin (Hau Yan) Wong (Vice Chairman), Professor Xiaojian Huang, Bernhard Riedel (CEO) and Flora (Ka Yan) Shiu. All aforementioned Supervisory Board members joined the Supervisory Board in the years 2013 or 2014 and were active members of the Supervisory Board until the Annual General Meeting and their appointments were confirmed by the Company's Annual General Meeting on August 11, 2015. As a consequence, the Supervisory Board at the time of this report continues to comprise Ulrich Burkhardt, Paolo Vittorio Di Fraia, Helvin (Hau Yan) Wong (Vice Chairman), Professor Xiaojian Huang, Bernhard Riedel (CEO) and Flora (Ka Yan) Shiu.

Comments on the management report

With respect to the comments regarding the management report in accordance with section 171 AktG, please refer to the disclosures in the management report regarding sections 289(4), 315(4) 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 to issue or redeem shares can be found in the combined management report of the Company.

Audit of the annual and consolidated financial statements

On April 7, 2017, the Executive Board presented the Supervisory Board with the prepared annual financial statements, 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 2016 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, 2016, as well as the consolidated financial statements as of December 31, 2016, including the respective management reports and issued an unqualified auditors' report in each case.

The Audit Committee and the Supervisory Board both reviewed the annual financial statements at length and provided advice in their respective meetings to adopt the financial statements held on [April 20, 2017].

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 April 20, 2017, that there are no circumstances that would arouse concerns of a lack of impartiality on his part. In this context, he also presented information regarding services rendered in addition to the audit services. The Audit Committee reported to the Supervisory Board in its meeting held on April 20, 2017, on its monitoring of the auditor's independence in consideration of the non-audit-related services rendered and its assessment that the auditor continues to possess the requisite independence.

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

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

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

In its meeting held on April 20, 2017, the Audit Committee heard detailed comments by the Executive Board regarding the annual financial statements, the consolidated financial statements, and the combined management report and group management report as well as its proposal on the utilization of the net profit for the year. Furthermore, the Audit Committee members' questions were answered. In addition, the auditor, who also participated in the meeting, reported on his audit, in particular the areas of audit emphasis defined in consultation with the Audit Committee and the Supervisory Board and the primary results of the audit and commented on his long-form audit report. No material weaknesses of the internal control system, the risk management system, or the accounting process were identified by the auditor. The members of the Audit Committee acknowledged the long-form audit report and the auditors' report, critically reviewed them, and also discussed them with the auditor just as the audit itself, 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 net profit for the year.

The Supervisory Board's final review of the annual financial statements, consolidated financial statements, and the combined management report and group management report as well as the Executive Board's proposal on the utilization of the net profit for the year was conducted during the Supervisory Board meeting held on April 20, 2017, under consideration of the Audit Committee's report and recommendations as well as the auditor's long-form audit report. The Executive Board participated in this meeting, commented on the documents it presented and answered the Supervisory Board members' questions. The auditor also participated in this meeting and reported on his audit as well as the significant results of the audit and answered the Supervisory Board members's questions, in particular regarding the nature and scope of the audit and the audit results. Through this and on the basis of the report issued by the Audit Committee, the Supervisory Board satisfied itself of the propriety of the audit and the long-form audit report. Following the recommendation of the Audit Committee, the Supervisory Board approved the results of the auditor's audit.

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

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

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

As a result of the review of the Executive Board's proposal on the utilization of the net profit for the year conducted in the Audit Committee meeting and in the Supervisory Board meeting held on April 20, 2017, which included a discussion with the auditor in both meetings, the Supervisory Board – following the recommendation of the Audit Committee – approved and endorsed the Executive Board's proposal on the utilization of the net profit for the year. The recommendation includes:

"The retained losses of the fiscal year 2016 in the amount of EUR -4.198.764,48 add to losses of EUR -96.843.407,92 carried forward from the preceding financial years. The resulting accumulated losses of EUR -101.042.172,40 shall be carried forward to new account."

Report of the Executive Board on relationships with affiliated companies.

The Executive Board presented the report it prepared on relationships with affiliated companies in fiscal year 2016 (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,

3. no circumstances speak in favor of a significantly different assessment to the assessment given by the Management Board concerning the measures mentioned in the report."

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

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

In preparation for the review and decision on the part of the Supervisory Board, the Audit Committee first studied the aforementioned documents in detail. In its meeting held on April 20, 2017, the Audit Committee heard comments from the Executive Board on its dependent company report. Furthermore, the Audit Committee members' questions were answered. In addition, the auditor, who also participated in the meeting, reported on his audit, in particular the areas of audit emphasis and the significant results of the audit and commented on his long-form audit report. The members of the Audit Committee acknowledged the long-form audit report and the auditors' report, critically reviewed them, and also discussed them with the auditor as with the audit, which included questions regarding the nature and scope of the audit as well as the results of the audit, whereby the Audit Committee satisfied itself of the propriety of the audit and the long-form audit report. It was satisfied in particular that the audit report – as also the audit performed by the auditor – complied with the legal requirements. The Audit Committee recommended that the Supervisory Board approve the results of the auditor's audit and – since in his opinion there are no objections to be raised against the Executive Board's explanation of the dependent company report – adopt a resolution on a corresponding opinion.

The Supervisory Board's final review was conducted during the Supervisory Board meeting held on April 20, 2017, in consideration of the resolution and the Audit Committee's recommendation as well as the auditor's long-form audit report. The Executive Board also participated in this meeting, commented on dependent company report and answered the Supervisory Board members' questions. The auditor also participated in this meeting, reported his audit of the dependent company report and the significant results of the audit, commented on his audit report, and answered questions placed by the Supervisory Board members, in particular regarding the nature and scope of the audit of the dependent company report and the audit results. Through this and on the basis of the report issued by the Audit Committee, the Supervisory Board satisfied itself of the propriety of the audit of the dependent company report and the long-form audit report. It was satisfied in particular that the audit report – as also the audit performed by the auditor – complied with the legal requirements. The Supervisory Board reviewed the dependent company report in particular with respect to its completeness and accuracy, whereby it satisfied itself that the group of affiliated companies had been determined with the requisite diligence and that the precautions necessary for the identification of reportable transactions and measures had been taken. No indications suggesting a reason to object to the dependent company report became apparent in this audit. Following the recommendation of the Audit Committee, the Supervisory Board approved the results of the auditor's audit of the dependent company report. Based on the final result of the review conducted by the Supervisory Board of the report on relationships to affiliated companies (dependent company report), there are no objections to be raised against the Executive Board's explanation at the end of the report on relationships to affiliated companies (dependent company report).

The Supervisory Board would like to express its thanks to the Executive Board and to all the employees for their outstanding commitment in fiscal year 2016.

Munich, in April 2017

Bernhard Riedel
Chairman of the Supervisory Board

straight

talk forms the basis for a trustful relationship between the company and its shareholders. One thing is clear: We considered the decisive aspects of the past and incorporated them into a long-term, forward-looking strategy that yielded early successes within a short time. Besides expanding the strong market position of Gigaset AG, we are pursuing the goal of tapping new growth fields and customer groups. The only way we can strengthen the company and optimize the value chain in the market of the future is by consistently striving for profitability and long-term value enhancement. The course is set for success in 2017 and Gigaset AG is off to a strong start.

COMBINED MANAGEMENT REPORT OF GIGASET AG FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2016

1 Basic principles of the Group

1.1 Business model

Gigaset AG is a corporate group that operates internationally in the area of telecommunications. The Company's currently largest line of business is the development and production of cordless telephones based on the "Digital Enhanced Cordless Telecommunications" standard ("DECT") in Germany. The Company, with its headquarters in Munich and its main production site in Bocholt, is one of the leading brands in Europe. As a premium vendor, the Company commands a predominantly extensive market presence in just under 70 countries with around 1,061 employees at the end of financial year 2016.

The Company's operating business can be broken down into the following areas: Consumer Products, Business Customers, Home Networks, and Mobile Devices. Across all business segments, the Gigaset brand stands for high quality and forward-looking products in the area of telecommunications.

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

1.1.1 Consumer Products

Gigaset is the one of the European market and technology leaders in DECT telephony. Since the 1990s, the Company has maintained its position as a premium vendor in the European market and as the technology leader in DECT telephony, which is regularly substantiated by numerous prizes and awards. The Company's success is characterized by a particularly high level of market penetration and intensive contact with retailers. The Company's products are manufactured in the highly automated Bocholt plant, which has won several awards. Thus, Gigaset can rightly label its products as "Made in Germany".

1.1.2 Business Customers

With the Gigaset pro product line, the Company created an attractive and extensive product range of corded desk telephones, telephone systems, professional DECT systems, and cell phones for small and medium-sized business customers (SME). The consultation intensity of the commercial product line requires that Gigaset distribute the pro line exclusively over systems vendors (value added resellers, VAR), with a current focus on European markets, whereby Germany, France, Italy, and the Netherlands represent the most important sales areas. In this growth market, which is characterized by small and medium-sized enterprises, the Gigaset pro product line has developed into the Company's second-largest pillar and delivers a significant contribution to sales.

1.1.3 Home Networks

In the Home Networks segment, the Company markets a smart security solution for condominiums and houses with Gigaset elements. Conceived as a modular system, sensors on windows and doors, motion detectors, or a camera show break-in attempts as well as movements and processes in condominiums and houses. The sensors are installed without any major work. Set-up and operation via smartphone. If anything should happen, the end customers receive a message over their smartphone.

1.1.4 Mobile Devices

In addition to the established pillars Consumer Products, Business Customers, and Home Networks, Mobile Devices has now been established as a dedicated independent segment. In contrast to the former cooperation with Gigaset Mobile GmbH, Gigaset manages and is entirely responsible for this new segment, over which smartphones have been distributed since December 2016. Establishing and offering a dedicated line of smartphones is a consistent and logical step toward expanding the trusted and well-known Gigaset experience beyond the four walls of one's home or office. With its own first smartphone, Gigaset is focusing on the Gigaset GS160, which was introduced to the market in December 2016. A prize-worthy smartphone in the entry-level segment, with an extensive range of functions as well as a fingerprint sensor, which is unique in this price segment.

1.2 Goals and strategy

The consumer goods industry in the information and communication environment (ICE) in Europe continues to present a highly dynamic environment. This also applies to the market for cordless telephones. In the core region of Europe, this market also continues to be characterized by market erosion, even though it weakened in the past year compared with prior years. The market as a whole for cordless telephones in Europe declined by just under 9% in 2016 based on sales revenue in the markets observed by Gigaset.[1] In this difficult market environment, Gigaset secured its strong position on the cordless telephone market in Europe and expanded it in some regions without giving up its premium positioning.

1.2.1 Implementation of the change in strategy in 2016

The change in strategy necessary for the Company's recovery was implemented fully and consistently. The process, which was advanced in 2016 and will continue in 2017, is essentially based on a strategic three-point plan:

1. Strengthening the core business

   Gigaset specifically strengthened the business segments Consumer Products, Business Customers, and Home Networks and thereby further developed its core business.

2. Adjusting production and administrative capacities

   Gigaset simplified the administration of the Company and dismantled outdated administrative structures, restructured the research expenses and adapted its production capacities to meet the needs of the market.

3. Improving transparency

   Gigaset presented the Company's perspectives clearly and transparently to shareholders, analysts, journalists, and employees.

The consistent implementation of the three-point plan paired with the wide-ranging restructuring of the Group formed the basis for bringing the Company back on course for the market and competitive challenges in a changing market. The efforts paid off already in the middle of 2016, when Gigaset announced that it was once again operating in the black.

1. GfK POS measurement data for the five European countries France, Germany, Italy, the Netherlands, and Spain for the period of January - December 2016

Since then, the Company has stepped up its efforts to diversify Gigaset's product portfolio and give it a broader basis. One example of this is the newly established Mobile Devices segment. The Company underscored the significance of its intention to be independently active in the smartphone segment with the decision it made on December 14, 2016, which emphasized that the Company should also work with partners outside of the Goldin Group in the future in order to produce smartphones that are to be marketed under the "Gigaset" brand. In order to retain the unlimited availability of the "Gigaset" brand required for this, the Asset Purchase Agreement relating to the "Gigaset" trademark portfolio ("Brand Transaction Agreement") entered into between Goldin Brand Pte. Ltd. and Gigaset Communications GmbH but not yet executed was terminated. Therefore, Gigaset Communications GmbH remains the unlimited owner of the "Gigaset" brand.

1.3 Control systems

The development of the Group was analyzed and managed by the management on a monthly basis in 2016 using various key indicators. The Gigaset Group is oriented worldwide based on regional segments. The observation of sales revenue and the result from the core business before depreciation and amortization by region as well as free cash flow at the Group level played an important role in monitoring the operating business. Operating costs were 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 were 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. Gigaset AG was managed as a separate company in 2016 based on the result under German generally accepted accounting principles.

In the structure of the income statement, which was revised in the prior year, the key indicator EBITDA, which was one of the relevant management parameters in 2015, is no longer shown separately. The reconciliation to the key indicator EBITDA is presented below:

  Result from the core business before depreciation and amortization
\+ Additional ordinary income
\+ Additional ordinary expenses
\+ Personnel expenses from restructuring
\+ Exchange rate gains
\+ Exchange rate losses
\+ Result from entities accounted for using the equity method
\+ Impairment losses
= EBITDA

The primary non-financial performance indicators for Gigaset remain

- Research and development
- Environment
- Employees

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

1.4 Research and development

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

In financial year 2016, Gigaset incurred expenses for research and development in the amount of EUR 11.1 million and capitalized a total of EUR 9.9 million in development costs, EUR 8.8 million of which under other intangible assets and EUR 1.1 million under property, plant and equipment. The resulting capitalization rate amounts to 89.2%. Amortization of capitalized development costs amounted to EUR 9.2 million in the financial year.

2 Significant events in financial year 2016

2.1 Gigaset and employee representatives agree on a reduction in the size of the workforce, social compensation plan, and salary reductions

In connection with the restructuring of the Company and the overriding goal of reducing costs on the one hand and to successfully adapt the Company to changed market conditions on the other hand, the Executive Board and employee representatives agreed to a reduction in the size of the workforce, which will be accompanied by a social compensation plan for the affected individuals, as well as the adoption of a new separate collective bargaining agreement, which took effect on March 1, 2016, and salary reductions as well as an increase in the weekly hours of work to 38 hours. With respect to the reduction in the size of the workforce, 325 jobs will be eliminated at the Bocholt, Düsseldorf, and Munich sites. The reduction will be completed in multiple waves by the end of 2017, whereby a significant reduction already took place in 2016. An additional 35 jobs will be transformed into partial retirement positions. The operations at the Düsseldorf site were shifted to the Munich and Bocholt sites.

2.2 Hongbin (Hadwin) He leaves the Executive Board

Hongbin (Hadwin) He, who was appointed to Gigaset AG's Executive Board on September 1, 2015, retired from the board for personal reasons effective immediately with a letter dated July 29, 2016.

2.3 Gigaset Communications GmbH expands its smartphone business and terminates the Brand Transaction Agreement with Goldin

On December 14, 2016, the Company decided to expand the Mobile Devices segment – in particular smartphones. Furthermore, the Company also intends to work together in the future with partners outside of the Goldin Group in the production of smartphones that are to be marketed under the "Gigaset" brand. In order to retain the unlimited availability of the "Gigaset" brand required for this, the Asset Purchase Agreement relating to the "Gigaset" trademark portfolio ("Brand Transaction Agreement") entered into on June 25, 2015, between Goldin Brand Pte. Ltd. and Gigaset Communications GmbH but not yet executed was terminated. Therefore, Gigaset Communications GmbH remains the unlimited owner of the "Gigaset" brand and can also freely work together with cooperation partners outside of the Goldin Group to expand the smartphone business, whereby new growth segments will be opened.

3 Economic report

3.1 General economic and industry-specific operating environment

3.1.1 General economic environment

For the past three years, the German economy has been going through an extended phase of recovery that is likely to continue over the next two years. This development continues to be characterized by robust domestic economic momentum. The increase in prices in the domestic economy remained moderate overall in 2016. Economic momentum increased once again after the dog days of summer.

Private consumption contributed significantly to the strong expansion of total domestic expenditure in 2015 and 2016 with increases of around 2 percent respectively. However, a slower pace of 1.5% respectively is on the horizon for 2017 and 2018. This will be driven by the fact that the disposable income forecasted in the fall will not expand as rapidly, because gross wages and salaries as well as monetary social security benefits will increase at a slower pace.

The German economy may have operated at roughly normal output in the past year, which would appear ideal regarded in isolation from the perspective of stabilization policy. However, the circumstances in which this trend unfolded were neither normal, nor ideal. In particular, the formation of interest rates on the capital markets remained under the influence of the unusually expansive monetary policy in the euro zone. With the increasing duration of these interventions, output prices are orienting themselves more and more on this artificial interest rate signal. As a result, more resources were diverted to production areas that will prove to be unsustainable when monetary policy once again normalizes. This monetary policy also resulted in new distortions in the financial sector, because the extensive securities purchases on the part of central banks and the associated erosion of yields led to an insufficient pricing of risk. This not only impeded structural change but also artificially reduced loan defaults. These serious side effects of a monetary policy that continue to expand unusually over a long period of time were not reflected in the data of an economic forecast – on the contrary. The extremely favorable financing requirements had a stimulating effect on the economy. Hence, the high growth rates of domestic economic output in the past year are to be regarded as evidence of an overall harmless general economic trend.[2]

In Europe, the economic situation developed differently in the individual countries. Compared with 2015, the growth rate of 2% in the euro zone calculated by the IMF in 2015 decreased to 1.7% in 2016. For Germany, the growth rate in 2016 was 1.7% after only 1.5% in 2015. France remained at the prior year's level with growth of 1.3%. Spain also maintained the prior year's level with growth of 3.2%. Italy increased its growth by 0.2% to 0.9% in 2016.[3]

3.1.2 Telecommunications market

3.1.2.1 Consumer Products market

The European market for cordless telephones also continued to decline in the past year both with respect to sales revenue as well as units sold. The practice of replacing landline telephones with smartphones continues unabated. This applies in particular to the saturated European markets. The market for cordless telephones in Europe observed by Gigaset declined by just under 9% in 2016 measured on sales. The decline was between -7% and -15 %[4] depending on the country.

2 Ifw Kiel (2016) – Kiel Institute Economic Outlook: German Economy Winter 2016
3 International Monetary Fund: World Economic Outlook, January 2017
4 GfK POS measurement data for the five European countries France, Germany, Italy, the Netherlands, and Spain for the period of January - December 2016

3.1.2.2 Business Customer market

The market as a whole for newly sold telephone extensions continues to decline in West-Europe and has recorded a decrease of 6% in the years 2013 - 2015 corresponding to approximately 11.2 million extensions sold. In contrast, the market segment for IP-based telephone extensions remained stable in Western Europe and meanwhile represented a share of approximately 61% with respect to the market as a whole. In the same period, the market as a whole in Eastern Europe declined by 25% with approximately 2.1 million extensions sold, whereby the market segment for IP-based telephone extensions in this region also declined by 18%.

Thus, Gigaset's key market segment for IP-based telephone extensions in Western Europe proved to be stable, while a steady growth trend manifested itself in the market at a nearly constant price level in particular with respect to the non-proprietary IP-based telephone extensions, which are important for Gigaset. Similar to the private customer market, a trend was observed in which fixed-line telephony was replaced with cellular radio and the share of cloud-based solutions grew.[5]

3.1.2.3 Home Networks

The market for Smart Home Systems and Services in Western Europe continues to be regarded as extremely promising. According to a study by Statista from October 2016, absolute sales for Smart Home solutions are expected to increase from EUR 15 billion in 2016 to EUR 171 billion in 2021 in the countries observed by Statista for the Digital Market Outlook[6]. The market can be broken down into the Home Automatic, Home Entertainment, Ambient Assisted Living, Energy Management, and Building Security segments. The Company assumes that security will become increasingly important, i.e. the topic of building security, as the primary motivator to invest in a Smart Home system.

3.1.2.4 Mobile Devices

Smartphones have become the primary communications devices around the world as well as in Germany. According to Statista, 6.31 million Germans used a smartphone in January 2009; in April 2016 it was already 49 million[7]. Even if the impression of saturation can arise due to widespread use and numerous providers on the market, Statista sees a potential of up to 2.87 billion users worldwide by 2020[8]. "With respect to younger people, practically all of them have a smartphone, but we still see strong growth in the group of people over 65 years of age, of which only 39 percent uses such a device," says Hannes Ametsreiter, a member of Bitkom's Executive Committee and head of Vodafone during the presentation of the current Bitkom Smartphone Study[9].

For Gigaset, the step toward marketing mobile consumer devices is a logical expansion of the Gigaset ecosystem, which envisages the complete networking of home, work, and on-the-go; at the same time, it is a valid opportunity to lower the average age of the customer group.

3.2 Basic principles of the Group

3.2.1 Consumer Products

Gigaset was able to defend its clear premium position over the competition and realized an average sales price with its portfolio that exceeded that of its competitors by 18%[10] in the markets observed in 2016. The market share based on sales is 39%[11] in the aggregate of the five European countries France, Germany, Italy, the Netherlands and Spain.

5 MZA Call Control (PBX-IP PBX) Calendar Year Analysis 2016 Edition - Eastern Europe & Western Europe
6 Statista October 2016 – Smart Home Forecast
7 https://de.statista.com/statistik/daten/studie/198959/umfrage/anzahl-der-smartphonenutzer-in-deutschland-seit-2010/
8 https://de.statista.com/statistik/daten/studie/309656/umfrage/prognose-zur-anzahl-der-smartphone-nutzer-weltweit/
9 Bitkom Smartphone Study 2016
10 GfK 2017 – Price trend based on manufacturer within the EU5
11 GfK POS measurement data for the five European countries France, Germany, Italy, the Netherlands, and Spain for the period of January - December 2016

3.2.2 Business Customers

In the area of Business Customers products, sales increased by roughly 7.0% year-on-year in 2016 in the generic Gigaset pro product series, whereby declining sales were recorded with respect to customer-specific Business Customer products. Therefore, sales declined by around 6.2% at Gigaset in the overall view compared with 2015. The regions of Germany, France, and the Netherlands delivered the largest contributions to sales. The regions of Switzerland and Spain exhibited the strongest growth on a percentage basis, followed by Austria and the Netherlands.

IP-based multi cell and single cell DECT solutions continue to represent a focal point in the Gigaset pro product range and recorded an increase in the contribution to sales also in 2016. The Sales volume of the N720 DECT IP Multi Cell system increased by 49%, while the N510 IP PRO DECT IP Single Cell even increased by 65%.

3.2.3 Home Networks

Gigaset distributes the Home Networks products over the online shops and the retail network. Gigaset elements is currently distributed over-the-counter in Germany, France, Switzerland, Austria, the Netherlands, Sweden, Norway, and Finland.

Interested persons are looking for information and offers regarding the topic of Smart Home in particular in online environments. They are frequently seeking a security solution for their home.

Accordingly, Gigaset sharpened its positioning in 2016 with a focus on security and therefore also reoriented its product portfolio, communications, and the scale of the distribution channels accordingly.

In December 2016, a sensor-based smoke detector was introduced to the market as the latest product. Other sensors and services that support the positioning as an alarm system are planned for 2017. In addition to physical products, market-relevant topics such as voice control and integration into Smart Home platforms will be developed. Users can connect multiple systems from different manufacturers logically with one another over Smart Home platforms in order to cover individual user scenarios.

The distribution channels were also reoriented as part of the repositioning, whereby special emphasis is being placed on external channels such as Amazon and conrad.de with the goal of stabilizing prices on those platforms and ensuring an adequately informative and appealing presence. An effort is being made to stabilize Gigaset's own online shop as an online platform and to optimize the conversion rates. Over-the-counter sales over the DIY chain Bauhaus were stabilized. A next step is to expand the "Bauhaus concept" to other do-it-yourself partners.

3.2.4 Mobile Devices

The Gigaset smartphone GS160, which was introduced to the public in December 2016, characterizes the new approach that the Company is pursuing in the marketing of its own mobile products. Whereas the first smartphone generation was established in the highly competitive premium area dominated by high marketing expenses on the part of Apple and Samsung, with the Gigaset GS160 the Company is focusing on a smartphone with extensive features in the low-end area.

The Gigaset GS160 represents the new starting point for future smartphone generations that will be intended to serve other price points up to the mid-price segment. However, the current strategy envisions appealing to the largest possible customer group with the Gigaset GS160, thereby also establishing the Gigaset brand name, which is already established and popular in the fixed-line telephony segment, in the market for mobile devices. The brand values of quality, design, and customer orientation also apply to the Gigaset GS160 and will be an elementary component of future products.

3.2.5 Environment

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

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

3.2.6 Employees

The number of people employed by Gigaset further decreased in 2016 compared with the previous year not least due to the restructuring measures. Gigaset had to lay off 112 employees as part of the restructuring. 22 employees also left the Company as a result of early retirements, termination agreements, termination of employment due to occupational disability payments, and the expiration of limited duration contracts. In addition, 19 employees retired in connection with an individual retirement agreement. 29 employees left the Company of their own volition and one employee died. Thus, a total of 183 employees left Gigaset over the course of 2016. The number of employees in the subsidiaries was reduced from 265 to 241 at the reporting date December 31, 2016. Gigaset had a total of 1,061 employees at the end of financial year 2016.

Gigaset is positioning itself on the market as an international communications company with clear strengths in the area of technology and products. The international orientation of all its locations puts Gigaset in a very good position in the competition for the best employees. As a result of the restructuring initiated in 2015, for which a reconciliation of interests was agreed in the spring of 2016 in the form of a legally valid resolution, the turnover rate in the German Group companies increased to 20.3% in 2016. Observing only the departures that did not result from the restructuring program, the turnover rate for 2016 was 5.4%.

As a result of the higher turnover rate (excluding restructuring) compared with the previous year, but also due to the expansion of business activities in the Gigaset pro and Gigaset elements segments, there are various needs for employees. These needs can only be covered in individual cases by the Company's own employees (key talents, apprentices/trainees, persons excluded from restructuring). Therefore, additional personnel must be attracted by means of punctual external recruitment (in particular through job exchanges and recruitment agencies). The Company also relied on temporary workers primarily for semi-skilled activities to provide the Company with the necessary operational flexibility in a highly seasonal sales market.

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

3.3.1 Financial performance

In the 2016 financial year just ended, the Gigaset Group generated **sales revenue** in the total amount of EUR 281.9 million (prior year: EUR 305.3 million) in a difficult economic environment. Sales revenue from the core business was subject to the usual seasonal fluctuations in the consumer business. The decrease in sales revenue of 7.7% or EUR 23.4 million compared with the previous year can be explained in particular by the declining market in the Consumer Products segment in the amount of EUR 16.6 million, around 71% of the decrease in sales. Sales revenue decreased in all regions.

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

Sales revenue based on receiving units represents the sales revenue invoiced in the respective regions – independent of the registered office of the invoicing unit. For example, if a German company issues an invoice in the Netherlands, this revenue is allocated to the region of "Europe - EU (excluding Germany)" in the presentation based on receiving units. Sales revenue based on receiving units can be broken down as follows for the individual regions:

Sales revenue in € millions	2016	2015	Change
Germany	117.3	127.6	-8.1%
Europe - EU (excluding Germany)	124.0	134.2	-7.6%
Europe - Other	19.4	19.2	1.0%
Rest of the World	21.2	24.3	-12.8%
Gigaset Total	**281.9**	**305.3**	**-7.7%**

Germany recorded a decrease of EUR 10.3 million (around -8.1%) and the region of Europa - EU (excluding Germany) recorded a decrease of EUR 10.2 million (around -7.6%). The region of Europe - Other increased by EUR 0.2 million and thus realized an increase of around 1% year-on-year. In the "Rest of the World" there was a decrease of EUR 3.1 million or around -12.8% in 2016.

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

Sales revenue in € millions	2016	2015	Change
Germany	145.7	160.3	-9.1%
Europe	105.8	113.4	-6.7%
Rest of the World	30.4	31.6	-3.8%
Gigaset Total	**281.9**	**305.3**	**-7.7%**

The sharpest decrease impacted Germany in the amount of EUR 14.6 million (around -9.1%), followed by Europe in the amount of EUR 7.6 million (around -6.7%), and the remaining countries in the amount of EUR 1.2 million (around 3.8%).

Sales revenue decreased in all segments in financial year 2016. Sales revenue declined by EUR 16.6 million to EUR 233.1 million in the Consumer Products business and from EUR 46.6 million to EUR 43.7 million in the Business Customer business. With respect to Mobile Devices, sales fell by EUR 1.8 million to EUR 3.2 million. The crucial factor here was in particular the reorientation of Gigaset in this segment in conjunction with the launch of the new cell phones in the fourth quarter of 2016. Sales revenue from the Home Networks segment decreased significantly by EUR 1.8 million or around 48.6%.

Sales revenue in € millions	2016	2015	Change
Consumer Products	233.1	249.7	-6.6 %
Business Customers	43.7	46.6	-6.2 %
Mobile Devices	3.2	5.3	-39.6 %
Home Networks	1.9	3.7	-48.6 %
Gigaset Total	**281.9**	**305.3**	**-7.7 %**

The **cost of purchased goods and services** for raw materials, merchandise, finished goods and purchased services was EUR 136.7 million – a decrease of EUR 20.1 million from EUR 156.8 million in the previous year. The purchased goods and services ratio fell from 51.7% to 48.7%, including changes in inventories. This can be attributed primarily to the product mix, better purchase prices, and lower sales revenue with smartphones, as they exhibited a higher ratio of purchased goods and services compared with other products in particular in 2015.

The **gross profit**, comprising sales revenue less the cost of purchased goods and services and including the 2.1% change in inventories of finished goods and work in progress decreased to EUR 144.5 million in the reporting period.

Other internal production capitalized in the amount of EUR 9.9 million (prior year: EUR 11.9 million) mainly includes costs related to the development of new products. In financial year 2016, the Company invested in particular in the further development of the Gigaset pro telephone system, Gigaset Maxwell, as well as in the further development of the HX series. In the Gigaset elements segment, in particular costs for the key finder "keeper" and the smoke detector "smoke" were capitalized. The capital expenditures were at a relatively high level, even though they decreased year-on-year.

Other income from the core business amounts to EUR 4.0 million and is therefore down EUR 5.3 million year-on-year. The main item includes income from costs recharged to third parties in the amount of EUR 2.1 million (prior year: EUR 1.1 million). With respect to the costs recharged to the Gigaset Mobile Group, there was a considerable decrease from EUR 6.3 million in the previous year to only EUR 0.2 million in financial year 2016.

Personnel expenses before restructuring for wages, salaries, social security contributions and old age pensions amount to EUR 76.3 million, representing a year-over-year decrease of EUR 18.1 million. The decrease reflects in particular the lower number of employees due to the restructuring program. Compared with the previous year, the number of employees decreased by 209 persons.

Other expenses from the core business were incurred in the reporting period in the amount of EUR 57.1 million (prior year: EUR 63.8 million). These include in particular marketing costs (EUR 17.9 million; prior year: EUR 21.8 million), general administrative expenses (EUR 9.9 million; prior year: EUR 12.2 million), transport costs (EUR 6.7 million; prior year: EUR 7.3 million), value adjustments on receivables (EUR 3.2 million; prior year: EUR 0.3 million), advisory fees (EUR 2.4 million; prior year: EUR 3.2 million), expenses for land and buildings (EUR 2.9 million; prior year: EUR 3.3 million), and expenses for the loaning of employees (EUR 5.5 million; prior year: EUR 3.8 million). The cost-saving measures begun in the previous years continue to be consistently implemented.

The result from the core business before depreciation and amortization (EBITDA) thus amounts to EUR 25.0 million (prior year: EUR 10.6 million). Taking into account depreciation and amortization in the amount of EUR -17.5 million (prior year: EUR -20.6 million), the result after depreciation and amortization amounts to EUR 7.5 million (prior year: EUR -10.0 million).

The **additional ordinary result** in the amount of EUR 5.4 million (prior year: EUR -6.2 million) includes the profit and loss items that do not necessarily result from the core business. The development of the additional ordinary result is characterized by additional ordinary income and additional ordinary expenses as well as restructuring expenses and the exchange rate trend.

The decrease of EUR 6.9 million in **additional ordinary income** to EUR 5.8 million can be mainly attributed to the income from recourse claims against the former investee Oxi Holding GmbH recognized in the previous year in the amount of EUR 3.5 million, deconsolidation gains in the amount of EUR 2.7 million, and income from the reversal of impairment losses in the amount of EUR 0.4 million.

Additional ordinary expenses decreased by EUR 3.0 million to EUR 0.2 million. In the previous year, primarily losses for deconsolidations in the amount of EUR 1.8 million and costs related to the restructuring in the amount of EUR 1.1 million were presented.

Personnel expenses from restructuring include the restructuring costs incurred in this year. In the previous year, this item included the costs of the ongoing restructuring program.

Compared with the previous year, **exchange rate effects** decreased by EUR 3.8 million. On a net basis, the exchange rate gains and exchange rate losses for financial year 2016 result in a negative contribution to earnings of EUR -0.1 million (prior year: positive contribution to earnings of EUR 3.7 million). The decrease in exchange rate effects arose due to the introduction of hedging in the fall of 2015.

Taking an additional ordinary result of EUR 5.4 million into account (prior year: EUR -6.2 million) leads to an **operating result** of EUR 12.8 million (prior year: EUR -16.3 million). Taking into account the **financial result** of EUR -1.1 million (prior year: EUR -3.3 million) leads to a **result from ordinary activities** of EUR 11.8 million (prior year: EUR -19.5 million).

Consolidated net profit for the financial year amounts to EUR 4.3 million for financial year 2016 (prior year: consolidated net loss for the financial year of EUR -22.0 million).

This results in **earnings per share** of EUR 0.03 (basic/diluted) (prior year: EUR -0.17 (basic/diluted)).

3.3.2 Cash flows

Cash flow can be broken down as follows:

€ millions	2016	2015
Cash flows from operating activities	18.5	4.7
Cash flows from investing activities	-11.3	-14.4
Free cash flow	7.2	-9.7
Cash flows from financing activities	-0.4	-0.1

In financial year 2016, the Gigaset Group recorded a **cash inflow from continuing operations** in the amount of EUR 18.5 million (prior year: EUR 4.7 million). Cash flows from operating activities, which increased compared with the previous year, can be primarily attributed to the considerable improvement in earnings for the financial year and the cost savings realized as part of the restructuring program.

The **cash outflow from investing activities** amounts to EUR -11.3 million after EUR 14.4 million in the previous financial year. At EUR 9.9 million (prior year: EUR 11.9 million), the majority of capital expenditures relate to the decrease in cash resources resulting from the internal production capitalized for the development of innovative products and solutions.

Free cash flow in the amount of EUR 7.2 million improved considerably compared with the negative free cash flow of the previous year in the amount of EUR -9.7 million and thus reflects the positive effects from the ongoing restructuring efforts.

The **cash outflow from financing activities** amounts to EUR -0.4 million (prior year: EUR -0.1 million). As in the previous year, this includes the interest paid from the converted mandatory convertible bonds.

Cash and cash equivalents amounted to EUR 47.5 million at December 31, 2016 (prior year: EUR 41.0 million).

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

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

3.3.3 Financial position

The **total assets** of the Gigaset Group amount to around EUR 221.7 million at December 31, 2016, and fluctuate roughly at the previous year's level of EUR 221.1 million.

Noncurrent assets decreased slightly by EUR 6.4 million to EUR 90.6 million compared with December 31, 2015. Depreciation and amortization and the disposals exceed capital expenditures in intangible assets and property, plant and equipment; consequently, intangible assets decreased by EUR 1.6 million to EUR 33.8 million and property, plant and equipment by EUR 4.6 million to EUR 25.3 million.

Current assets represent 59.1% of total assets. These assets increased by EUR 7.0 million compared with the previous year and amount to EUR 131.1 million. At EUR 23.5 million (prior year: EUR 24.3 million), inventories were lower after the Christmas shopping season than in the previous year. Whereas the portfolio of finished goods and merchandise has hardly changed compared with the previous year, raw materials, consumables and supplies as well as services in progress decreased by EUR 2.3 million and advance payments increased by EUR 1.4 million. Trade receivables are fluctuating at around the previous year's level and have decreased by EUR 0.1 million to EUR 30.4 million. Furthermore, the portfolio of cash and cash equivalents increased year-on-year from EUR 41.0 million to EUR 47.5 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 203.9 million (prior year: EUR 203.2 million), 53.6% of which are current. Following a considerable decrease in liabilities in the preceding financial years, total debt hardly changed in 2016 compared with the previous year; however, there were clear shifts within individual items with respect to noncurrent and current liabilities.

The Gigaset Group's **equity** amounted to around EUR 17.8 million at December 31, 2016, and is EUR 0.1 million less than at the beginning of the year. Correspondingly, the equity ratio is 8.0% compared with 8.1% at December 31, 2015. Due to the 0.45% decrease in the discount rate to 1.85% for the recognized pension obligations, actuarial losses in the amount of EUR -4.9 million were recognized in equity, taking into account deferred taxes. Furthermore, changes in exchange rates were recognized directly in equity in the amount of EUR -0.5 million. Taking into account deferred taxes, cash flow hedging led to a positive effect of EUR 1.0 million recognized directly in equity. Consolidated net profit for the financial year amounts to EUR 4.3 million and led to a corresponding positive effect in consolidated equity.

Noncurrent liabilities mainly include pension obligations, provisions for restructuring, and deferred tax liabilities as well as noncurrent provisions for personnel expenses and provisions for warranties. The increase in noncurrent liabilities amounts to EUR 3.8 million year-on-year; as a result, these liabilities now amount to EUR 94.6 million at the reporting date. The increase results from an increase in pension obligations in the amount of EUR 10.7 million as a consequence of the decrease in the discount rate, an increase in deferred tax liabilities in the amount of EUR 2.2 million, and a decrease in noncurrent provisions in the amount of EUR 9.1 million, which was primarily the result of the decrease in noncurrent restructuring provisions.

At EUR 109.3 million, **current liabilities** are around 2.8% lower than reported at the prior-year reporting date. **Current provisions** increased by around EUR 0.3 million year-on-year, whereby the increase is mainly characterized by the increase of EUR 5.0 million in current restructuring provisions as well as a decrease of EUR 2.1 million in the current portion of provisions for partial retirement and the decrease of EUR 1.8 million in the current portion of provisions for warranties.

Trade payables increased year-on-year by EUR 5.2 million. The increase in tax liabilities in the amount of EUR 1.1 million to EUR 15.1 million relates exclusively to income tax liabilities and mainly results from Gigaset Communications GmbH and its subsidiaries. The decrease of EUR 9.4 million in other financial liabilities to EUR 14.6 million can mainly be attributed to a decrease of EUR 6.9 million in personnel-related liabilities as well as the decrease of EUR 1.4 million in outstanding invoices.

3.3.4 General assessment of the Group's economic situation

As in the previous year, financial year 2016 was characterized by a declining telecommunications market. Gigaset is countering this trend with a restructuring program that was resolved in 2016. Thanks to the restructuring program, personnel costs were reduced considerably. The cost-savings measures begun in previous years were also continued consistently. The Group's liquidity position remains secure and the Company is free of bank debt as in the previous year.

Gigaset would like to counter the declining sales, which fluctuated within the range forecasted in the 2015 annual report, in particular by gaining market share in the Consumer Products segment and expanding sales in the Business Customer segment as well as improving the market position in the Home Networks segment. There was a change in strategy in the Mobile Devices segment at the end of 2016. In the future, the business with smartphones is to be expanded and as a result the Company will also work together with partners outside of the Goldin Group – the current supplier – in the production of smartphones under the Gigaset brand. Gigaset hopes to achieve a significant increase in sales for this segment in the coming years.

As a result of the restructuring program and the cost reduction program, the result from the core business before depreciation and amortization increased by EUR 14 million to EUR 25 million in 2016 at the end of the year after amounting to EUR 11 million in the previous year. The forecast issued in the 2015 annual report for the management parameter EBITDA was withdrawn and replaced by the new management parameter result from the core business after depreciation and amortization. In addition, an initial forecast of EUR 20 million was issued in an ad-hoc report from mid-August 2016 and increased to EUR 28 million at the beginning of March 2017. The increase was justified primarily as a result of the better than expected business position. The fact that the result fell short of the forecasted amount can be attributed to a better than expected business position.

The free cash flow of EUR 7.2 million considerably exceeds the negative free cash flow of EUR -9.7 million for the previous year and clearly exceeds the amount forecasted in the 2015 annual report. The fact that free cash flow exceeded the forecast can be mainly attributed to shifts in the timing of potential payments of tax liabilities for previous years, which could have a correspondingly negative impact in financial year 2017. Please refer to our comments in Section 8: Forecast report and outlook, for more information on the development of the business in 2017.

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

	2016	2015
Equity ratio	8.0	8.1
Ratio of noncurrent assets to total assets	34.9	37.8
Debt capital structure[12]	53.6	55.3
Return on sales	1.5	negative
Return on equity	24.2	negative
Return on investment	2.5	negative

12 Debt capital structure = current liabilities/total liabilities

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

Key figures of Gigaset AG	2016	2015
Noncurrent assets	EUR 189.2 million	EUR 192.5 million
Current assets	EUR 18.2 million	EUR 18.1 million
Equity	EUR 189.2 million	EUR 183.9 million
Noncurrent liabilities	EUR 1.1 million	EUR 0.9 million
Current liabilities	EUR 17.1 million	EUR 25.7 million
Equity ratio	91.2 %	87.3 %
Return on equity	negativ	negativ
Return on investment	negativ	negativ

3.4.1 Financial performance

Sales revenues in the amount of EUR 3.3 million (prior year: EUR 5.4 million) comprise almost exclusively advisory services rendered for associated companies in Germany.

Other operating income decreased from EUR 6.2 million to EUR 2.5 million. This item mainly includes reversals of provisions in the amount of EUR 2.3 million. This item mostly includes partial reversals of provisions for unpaid bonuses in the amount of EUR 1.3 million. The reduction results primarily from the recourse claim against a former investee recognized in the previous year in the amount of EUR 3.5 million.

Personnel expenses decreased year-on-year from EUR 6.1 million to EUR 3.0 million. This can be attributed to the restructuring measures initiated and implemented at the end of financial year 2015 with the associated reduction in personnel.

Other operating expenses were incurred in financial year 2016 in the amount of EUR 3.2 million (prior year: EUR 5.7 million; EUR 6.0 million in accordance with the German Accounting Directive Implementation Act (BilRUG)). This can be essentially attributed to cost allocations from Gigaset Communications GmbH in the amount of EUR 1.0 million (previous year: EUR 1.2 million) as well as legal and advisory costs in the amount of EUR 0.8 million (prior year: EUR 0.8 million). Furthermore, expenses for compensation paid to the Supervisory Board in the amount of EUR 0.5 million (prior year: EUR 0.5 million) and expenses for insurance policies in the amount of EUR 0.2 million (prior year: EUR 0.4 million; EUR 0.3 million in accordance with the BilRUG). Expenses for corporate consulting in the amount of EUR 0.2 million (prior year: EUR 1.5 million) were also incurred. Furthermore, other operating expenses include costs for marketing in the amount of EUR 0.1 million (prior year: EUR 0.1 million; EUR 5 thousand in accordance with the BilRUG) as well as expenses for costs associated with securities trading in the amount of EUR 0.1 million (prior year: EUR 0.1 million).

The line item **interest and similar income** mainly includes interest income from interest charged on loans to associates in the amount of EUR 0.6 million (prior year: EUR 0.4 million).

Impairment losses on noncurrent financial assets and on current securities mainly relate to an impairment loss on the interest in Gigaset Industries GmbH, Vienna, Austria, in the amount of EUR 2.5 million, as well as an impairment loss on the interest in GIG Holding GmbH, Munich, in the amount of EUR 0.5 million. In addition, this line item includes impairment losses on the interest in GOH Holding GmbH, Munich, in the amount of EUR 0.1 million, and an impairment loss on the interest in CFR Holding, Munich, in the amount of EUR 0.01 million.

Interest and similar expenses amounted to EUR 0.4 million and mainly includes interest effects from internal clearing transactions in the amount of EUR 0.2 million, additions from interest in connection with the allocation to provisions in the amount of EUR 0.1 million and other interest expenses in the amount of EUR 0.02 million.

As a consequence of the deletion of the line item for **extraordinary expenses**, the amount reported in the previous year under this item of EUR 0.9 million was reclassified to other operating expenses and relates exclusively to allocations to a restructuring provision.

Income taxes in the amount of EUR 0.03 million (prior year: EUR 0.8 million) mainly include corporate income and trade tax payments for the tax audit for the assessment period 2006-2008.

Based on the hierarchical structure of the income statement in the version of the BilRUG, the intermediate result "Net profit after tax" for the previous year amounted to EUR -4.1 million (prior year: EUR -40.7 million in accordance with the BilRUG).

Other taxes include additional value added tax payments for the tax assessment period 2013-2016 in the amount of EUR 0.1 million.

In financial year 2016, a **net loss** for the financial year was incurred in the amount of EUR 4.2 million (prior year: EUR 40.7 million).

3.4.2 Cash flows

Cash flow can be broken down as follows:

€ millions	2016	2015
Cash flows from operating activities	-4.7	-11.8
Cash flows from investing activities	5.1	6.7
Free cash flow	0.4	-5.1
Cash flows from financing activities	-0.4	-0.1

In financial year 2016, Gigaset AG recorded a **cash outflow from continuing operations** in the amount of EUR -4.7 million (prior year: EUR -11.8 million). This can be explained primarily by Gigaset AG's current expenses from personnel expenses and the compensation of Supervisory Board members, legal and advisory fees, and cost allocations for services rendered by Group companies. In addition to the current effects, there was a significant cash inflow of EUR 2.0 million from existing receivables from Oxxynova, which are now valued at EUR 1.5 million (prior year: EUR 3.5 million). On the other hand, there were significant cash outflows for additional tax payments in the amount of EUR 1.0 million as well as from costs for restructuring in the amount of EUR 0.4 million.

Cash flows from investing activities amount to EUR 5.1 million after EUR 6.7 million in the previous year. As in the previous year, investing activities in the current financial year mainly include financing extended to subsidiaries and/or the repayment of financing and/or the provision of funds as part of the short-term financial management of subsidiaries.

Thus, **free cash flow** amounted to EUR 0.4 million compared with EUR -5.1 million in the previous year.

The **cash outflow from financing activities** amounts to EUR 0.4 million (prior year: EUR 0.1 million) and can be attributed to payments in connection with the conversion of mandatory convertible bonds.

Cash and cash equivalents amount to EUR 0.4 million (prior year: EUR 0.4 million) at December 31, 2016.

3.4.3 Financial position

Gigaset AG's **total assets** amount to EUR 207.4 million at December 31, 2016 (prior year: EUR 210.5 million), and thus decreased by 1.5% year-on-year. This can be mainly attributed to an impairment loss on the interest in GIG Holding GmbH, Munich, and the reduction in receivables from associated companies. This was offset by an increase in other assets.

Noncurrent assets decreased by EUR 3.2 million to EUR 189.2 million (prior year: EUR 192.5 million). The main reason for the decrease in noncurrent assets is the repayment of the noncurrent loan to Gigaset Communications GmbH, Bocholt, including interest in the amount of EUR 15.5 million, which was still valued at EUR 15.0 million at December 31 of the previous year. This is offset by the capital increases at GIG Holding GmbH, Munich, in the amount of EUR 13.0 million as well as at Gigaset Industries GmbH, Austria, in the amount of EUR 2.0 million. In addition, impairment losses were recognized on the interest in associated companies in the amount of EUR 3.1 million. Noncurrent assets include interests in associated companies in the amount of EUR 189.2 million (prior year: EUR 177.4 million) and a long-term loan to Gigaset Communications GmbH, Bocholt, including interest in the amount of EUR 15.0 million.

Current assets amount to EUR 18.2 million (prior year: EUR 18.1 million) and comprise 8.3% of total assets. They mainly include receivables from associated companies, other assets, cash held at banks, and trade receivables. Receivables from associated companies increased year-on-year by EUR 1.8 million to EUR 15.5 million. The increase can be mainly attributed to the assumption of pension obligations from Gigaset Communications GmbH, Bocholt, in the amount of EUR 0.8 million, from the increase in internal clearing transactions vis-à-vis Gigaset Communications GmbH, Bocholt, in the amount of EUR 0.4 million, and from the increase in internal clearing transactions vis-à-vis Gigaset elements GmbH, Bocholt, in the amount of EUR 0.4 million. This is offset by the reduction in other assets in the amount of EUR 1.7 million, which can be mainly attributed to a partial payment from a recourse claim in the amount of EUR 2.0 million.

On the liabilities side of the balance sheet, the decrease in **total equity and liabilities** can be seen mainly in the decrease in current liabilities. This is offset by the increase in equity and the increase in noncurrent liabilities.

Gigaset AG's **equity** increased by EUR 5.3 million. This can be attributed in particular to the mandatory convertible bonds converted in the amount of EUR 9.5 million, which were reclassified to equity due to their maturity at January 23, 2016. This is offset by net income for the period in the amount of EUR -4.2 million. The equity ratio increased from 87.3% to 91.2% due to the increase in equity.

Gigaset AG's **noncurrent liabilities** increased from EUR 0.9 million to EUR 1.1 million in the financial year just ended and mainly include pension provisions in the amount of EUR 1.0 million (prior year: EUR 0.4 million), and the noncurrent portion of restructuring provisions in the amount of EUR 0.1 million (prior year: EUR 0.5 million).

Current liabilities decreased by EUR 17.0 million (prior year: EUR 25.7 million). The contributions made in the amount of EUR 9.5 million and reported under current liabilities in the previous year for the acquisition of mandatory convertible bonds were reclassified to equity due to their maturity on January 23, 2016. Current liabilities include liabilities to associated companies in the amount of EUR 11.2 million (prior year: EUR 5.6 million). Current provisions include other provisions in the amount of EUR 5.0 million (prior year: EUR 7.6 million). Other provisions were set aside in particular for subsequent value added tax payments and bonus payments as well as legal disputes and settlements related to restructuring measures. Furthermore, other liabilities were recognized in the amount of EUR 0.6 million (prior year: EUR 0.7 million) and trade payables in the amount of EUR 0.2 million (prior year: EUR 0.6 million). Deferred income was also presented in the amount of EUR 0.1 million (prior year: EUR 0.0 million) and tax provisions in the amount of EUR 0.05 million (prior year: EUR 1.1 million).

4 Opportunities and risk report at December 31, 2016

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

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

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

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

Category/Sub-category	Risk measurement
Market risk	
Economy | Industry | Competition	*
Products | Patents | Certificates	*
Legal environment	*
Customers	*
Business and litigation risks	
Information technology	***
Personnel	**
Financial risk	
Liquidity	**
Taxes	***
Foreign exchange rate	*
Contingent liabilities	
Guaranties | Contingent liabilities	**
Legal disputes	*

4.1 Market-related risk

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

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

More and more landlines are being replaced by cell phone connections, depending on the rates offered by network operators. The increased use of multifunctional smartphones is also leading to a change in consumer behavior. With Gigaset's entry into the business with mobile consumer devices, the Company is undertaking the marketing of new product groups. This market entry is fraught with risk, as Gigaset is a new competitor on an existing market. With Gigaset's entry into the business with products for home networking, the Company is undertaking the marketing of new product groups. This entry is fraught with risk, because Gigaset is entering a new market whose future trend is still subject to significant uncertainty.

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

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

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

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

Due to potential import restrictions as well as inflation and exchange rate risks, Gigaset is reviewing its market development strategies in overseas countries as well as in Russia and the bordering Commonwealth of Independent States and is undertaking corresponding preparations. From the Company's perspective, political developments such as in Turkey lead to the destabilization of established markets.

4.2 Entrepreneurial opportunities

From the Company's point of view, there are entrepreneurial opportunities in the Business Customers segment and with the Gigaset Pro product portfolio. In addition to the traditional Consumer segment, the Company is addressing an additional customer segment, "Small Offices and Home Offices" (in short: SOHO) as well as SME customers (small and medium-sized enterprises), with Gigaset Pro and is developing the corresponding sales potential. In the area of Business Customers products, sales increased by roughly 7.0% year-on-year in 2016 in the generic Gigaset pro product series, whereby declining sales were recorded with respect to customer-specific Business Customer products. Therefore, sales declined by around 6.2% at Gigaset in the overall view compared with 2015.

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

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

Parallel to the universal mobile components, there are the universal base stations of the "GO Family". These base stations can be operated as completely normal analog base stations on the analog telephone network, but also on IP as modern VoIP bases after being switched by the customer – in which case they make it possible to conduct up to two conversations simultaneously with a total of up to six possible telephone numbers. In addition, services are still offered such as the local weather report as a screen saver, up to three answering machines, public telephone books, notification of missed calls on the smartphone, synchronization of the telephone book with the smartphone's telephone book, and much more. Thus, the "GO Family" offers a clear functional expansion compared with currently expiring ISDN products.

The establishment and expansion of the smartphone business also present an opportunity. In the new smartphone for the entry level, no activities are planned with the Gigaset Mobile Group – Gigaset AG's original cooperation partner. Gigaset retains all planning, production, and distribution rights with respect to the new products. This follows a low-risk approach and is attempting to establish a foothold in this segment and slowly build on the business from the ground up. The high brand awareness and trust in the brand name as well as distribution access to the most important target markets are a good foundation. Following the commencement of sales in December 2016 with selected distribution partners and in the Gigaset online shop, other Gigaset distribution channels will be provided with smartphone products in retail and distribution. The marketing start begins with a product in the entry segment and will be successively expanded with additional models.

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

4.3 Entrepreneurial risk

4.3.1 Information systems and reporting structure

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

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

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

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

4.3.2 Other entrepreneurial risks

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

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

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

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

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

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

Defects in Gigaset's products can lead to warranty and product liability claims as well as the loss of 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 a wide-ranging collaboration. With respect to products purchased from third parties, such as smartphones, there is a latent risk as a result of the concentration of purchasing from a single supplier for platform-related reasons. Regular control mechanisms have been implemented; for example, the observation of the markets, key financial figures, and the tracking of deliveries to avoid an interruption of supply.

Outside of the spectrum of third-party products, there is a latent risk as a result of the concentration of production at a single production site in Bocholt. A loss of production at that site could have a significant negative impact on the Company's operations. The normally 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 impairment losses on inventories.

Obligations as a result of environmental regulations or the causation or discovery of any soil or land contamination could lead to significant costs.

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

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

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

The implementation of the restructuring program in effect since the beginning of 2016 has so far been carried out as planned; as a result, a negative impact on customers, suppliers, and the workforce is no longer expected.

The 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 risk

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

4.4.1 Liquidity of the Gigaset Group

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

The Group is fully financed for financial year 2017 and the following financial year 2018 and not dependent on additional liquidity. Due to the consistent cost-savings, in 2016 the Group was generating positive cash flows from operating activities. Payments for the resolved restructuring measures as well as the amounts set aside for risks associated with tax liabilities from previous tax audits in 2017 can be settled using these funds.

The factoring of trade receivables that began on October 1, 2008, continues to serve as a short-term financing instrument and has been extended for the long term.

4.4.2 Debt and liquidity of Gigaset AG

Gigaset AG has been free of bank debt since repaying the syndicated loan in July 2014. For financial year 2017 as well as for financial year 2018, the Company has sufficient liquid funds at its disposal based on its internal budgeting.

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 by using derivative financial instruments to hedge foreign currency exposures.

The sustained strength of the U.S. dollar increases the costs for a large part of the components used in production. The Company has undertaken corresponding precautionary measures and is basing its calculations on consistently high gross profit margins.

Changes in capital market rates can result in changes in plan assets to cover pension obligations.

In individual cases, Gigaset enters into typical banking transactions to hedge interest rate risk.

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

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

4.5 Tax risk

4.5.1 Tax risk in Gigaset AG

Gigaset AG receives tax advice on an ongoing basis in order to identify any risks in advance. The Company received an audit order in the 2016 financial year just ended for the area of sales revenue and income taxes for the financial years 2010 to 2013 and the tax audit officially started on December 13, 2016. But the actual audit did not begin until the first quarter of 2017 and therefore no new risks can be inferred or identified at this time.

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

4.5.2 Other risks in the Gigaset Group

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

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

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

4.6 Risks from contingent liabilities and legal disputes

4.6.1 Guarantees on the part of the parent company

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

4.6.2 Legal disputes involving Gigaset AG

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

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 a "corporate unit" with SKW.

In response to the fine assessment, Gigaset AG made a preliminary payment of EUR 6.7 million to the EU Commission in the years 2009 to 2010 (i.e. for the duration of the appeal). However, Gigaset also filed an appeal against the assessment of the Commission. In its decision handed down on January 23, 2014, the European court of first instance (European General Court) partially upheld the action brought by Gigaset AG (formerly: ARQUES Industries AG) against the fine imposed by the European Commission in the cartel case involving SKW and reduced Gigaset AG's administrative fine by EUR 1.0 million. In all other respects, the action against the fine was rejected. The judgment against Gigaset AG is final. 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. The action brought by SKW was refused, i.e. the administrative fine imposed on it was not reduced. SKW filed an appeal against this judgment, which was dismissed by the European Court of Justice by judgment of June 16, 2016. Therefore, the fine notices against the two SKW companies are final.

Parallel to the legal dispute that has been decided, Gigaset AG filed a suit against SKW in a civil court for reimbursement of the antitrust fine paid by Gigaset on the grounds that SKW alone should bear the administrative fine as the originator of the cartel and consequently should reimburse Gigaset AG for the administrative fine it has already 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. In early 2015, the Higher Regional Court that is now hearing the case again suspended Gigaset's action against SKW until the European Court of Justice issues its judgment on the validity (or non-validity) of the fines imposed on SKW. As justification, it stated that the reimbursement by way of recourse to joint and several debtors pursued by Gigaset depends on the logical prior question of whether (and to what extent) SKW and Gigaset are even joint and several debtors, and therefore on the prior question of whether the fine decisions issued against Gigaset and the SKW companies are legally valid. This prior question was decided in Gigaset's favor by the judgment of the European Court of Justice of June 16, 2016 (see above). The Munich Higher Regional Court has already resumed the proceeding. The next hearing in this matter is scheduled for July 2017; a judgment of the Higher Regional Court can be expected in the second half of 2017. Gigaset continues to expect that it will receive full or partial reimbursement of the paid fine from SKW.

Evonik in the matter of Oxxynova:

In the legal dispute with Evonik Degussa GmbH over a contractual penalty in the amount of EUR 12.0 million, a court of arbitration had ordered Gigaset AG to pay EUR 3.5 million plus interest to Evonik in November 2013 while dismissing the rest of the suit. On March 4, 2015, Gigaset paid the principal amount of EUR 3.5 million plus interest to Evonik. Since adequate provisions had been recognized for this expense in previous years, the outflow of cash resources did not impact earnings for 2015. Due to the amounts paid under the guarantee, Gigaset now has taken recourse against the principal debtor, OXY Holding GmbH and the additional indemnification debtor, StS Equity Holding UG. After failing to reach an agreement out of court, Gigaset filed a lawsuit against the principal debtor OXY Holding GmbH as well as StS Equity Holding UG as the indemnifying party for reimbursement of this amount in a request for arbitration and payment order dated June 29, 2015. Insolvency proceedings were subsequently opened against the assets of both OXY Holding GmbH as well as StS Equity Holding UG. Gigaset is the principal creditor in both these proceedings. In the meantime, the liquidation of the insolvency estate has been largely completed; Gigaset assumes that it will receive up to EUR 3.5 million from the insolvency estate, due in no small part to an agreement reached on this subject with the insolvency administrator. Of this amount, EUR 2.0 million was already paid to the Company as an advance distribution in the second quarter of 2016, and the Company expects another EUR 1.5 million as part of the final distribution. In effect, therefore, the Company will still sustain a net loss of EUR 1.3 million from the transaction; this amount mainly consists of the interest paid to Evonik on the principal amount.

4.7 Overall statement regarding the report on opportunities and risks

Gigaset's significant opportunities lie in the further development of the Business Customer and Gigaset elements segments. In addition, the Company has decided to expand the Mobile Devices segment and also to collaborate with partners outside of the Goldin Group in the production of smartphones that are to be marketed under the Gigaset brand. The Company is confident that this will lead to corresponding sales growth.

The cost-savings program was already successfully implemented in 2016 in order to react to declining sales in the core business. This has already led to considerable cost-savings. In 2017, the next steps in the restructuring program will be implemented. A positive free cash flow was already generated in the operating business in 2016. This is also generally planned for 2017, but the free cash flow will presumably be negative due to expected payments for the resolved restructuring measures as well as tax liabilities from previous tax audits. If the Company's total sales in the core business excluding the restructured smartphone business should continue to decline, it would nevertheless be sufficiently prepared for a decrease in sales revenue in the lower double-digit millions thanks to the consistent cost-savings.

The planned sales from the restructured smartphone business will even open up an opportunity to increase sales revenue. With respect to the persistent strength of the U.S. dollar, which has the effect of increasing the cost of a majority of the components purchased in production, the Company is sufficiently covered for 2017 and does not expect any negative unplanned impacts.

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

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

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

As the group parent, it is particularly important for Gigaset 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 Company's other governing bodies such as the Supervisory Board are likewise included in the Gigaset Group's control environment with their prescribed activities based on their function. In particular the audit of consolidated financial statements by the group auditors 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 into Gigaset's internal monitoring system with process-independent audit activities.

5.2 Structural information

The accounting is carried out in the Gigaset Group both locally in the subsidiaries as well as centrally in the Financial Shared Service Center in Bocholt. The separate financial statements are prepared in accordance with local accounting regulations and adjusted to the specifications of International Financial Reporting Standards (IFRS) as they are applied in the EU as well as to the supplementary commercial law provisions under section 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 controlling information

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

- Central and local duties and responsibilities are defined.
- Accounting control mechanisms, such as the principle of review by a "second set of eyes", validation by the systems, manual inspections, and documentation of changes are implemented.
- Deadline and process plans for separate and consolidated financial statements are prepared and distributed or are made generally accessible.

- Analysis and – if necessary – adjustment of the reporting packages presented by the Group companies.
- Plausibility check of the systems at the Group level.
- Single-step consolidation process with a professional consolidation system.
- Use of standardized and complete sets of forms.
- Use of experienced, trained employees.
- The auditor performs a check function as a process-independent instrument within the scope of their statutory audit engagement.

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

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

5.4 Group-wide, systematic risk management

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

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

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

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

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

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

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

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

- Market risk (economy/industry/competition, products/patents/certificates, legal environment, customers)

- Company/process risks (research/development, procurement, production, sales/marketing, delivery/after sales, accounting/finance/controlling, organization/auditing/IT, personnel, insurance, unanticipated events, acquisition/operations/exit)

- Financial risks (result, liquidity, debt/financing, equity, taxes, other financial risks)

- Contingent liabilities (guarantees/contingent liabilities, other financial obligations, legal disputes, D&O liability)

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

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

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

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

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

Monthly target/actual comparisons are conducted 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.

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

5.5 Disclaimer

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

6 Report pursuant to sections 289(4), 315(4) of the German Commercial Code (HGB)

Sections 289(4) no. 1 HGB, 315(4) no. 1 HGB: The subscribed capital of Gigaset AG at December 31, 2016, amounts to EUR 132,455,896 and is divided into 132,455,896 no-par value bearer shares with a notional value of EUR 1.00 per share. Each share grants the same rights and one vote.

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

Sections 289(4) no. 3, 315(4) no. 3 HGB: At the date of this report, the Company has received the following notifications regarding shareholdings in excess of ten percent of the voting rights:

On January 15, 2016, Goldin Fund Pte. Ltd., Singapore, notified the Company on behalf of Mr. Pan Sutong, Hong Kong, in a notification of existing voting rights pursuant to Section 41 (4f) WpHG that the voting rights share of Mr. Sutong represented 79.16% of the total quantity of 122,979,286 voting rights on November 26, 2015. Of these voting rights, 71.57% (88,019,854 voting rights) originated from shares (DE0005156004). Another 7.59% (9,337,935 voting rights) resulted from instruments within the meaning of Section 25 (1) No. 2 German Securities Trading Act (WpHG) (mandatory convertible bond, maturing on January 23, 2016). To aid in understanding this information, the Company points out that the instruments which when exercised will create new voting rights are not yet included in the total quantity of voting rights. When the instruments are exercised, new voting rights will be created, thereby increasing the total quantity of voting rights and necessitating a recalculation of voting rights shares.

On January 23, 2016, the final maturity of the aforementioned mandatory convertible bond increased the total quantity of voting rights to 132,455,896, of which Mr. Sutong now held 73.50% (97,357,789 voting rights). The conversion of instruments (Section 25 (1) WpHG) into voting rights (Sections 21, 22 WpHG) caused a shift within the shareholder's reportable voting rights according to Section 25a WpHG, accompanied by a concurrent increase in the total quantity of voting rights, which caused the holdings of one shareholder to fall below a threshold without action on his part. On this subject, the Company received a notification pursuant to Section 26 WpHG on January 27, 2016 and a corrected notification pursuant to Section 26 WpHG on January 28, 2016.

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

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

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

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

- Contingent Capital 2011 (Art. 4.3 of the Articles of Incorporation)

  The authorization in Art. 4.3 of the Articles of Incorporation regarding Contingent Capital 2011 has not been utilized. It became irrelevant on December 31, 2014, through the passage of time.

  Therefore, on August 12, 2016, the annual shareholders' meeting of Gigaset AG, Munich, resolved to cancel Contingent Capital 2011 in accordance with Art. 4.3 of the Articles of Incorporation and the delete Art. 4.3 of the Articles of Incorporation.

- Contingent Capital 2012 (Art. 4.4 of the Articles of Incorporation)

  In financial year 2015, Convertible Bond 2013 finally matured. An additional 1,480,927 new shares with a computed nominal value of EUR 1,480,927 were issued for the redemption of the convertible bond; consequently, the Executive Board was still authorized to issue option bonds and/or convertible bonds under Contingent Capital 2012 (Art. 4.4 of the Articles of Incorporation) at December 31, 2015, in the nominal amount of EUR 159,711. It was no longer economically sensible to utilize this remainder.

  Therefore, the annual shareholders' meeting of Gigaset AG, Munich, resolved on August 12, 2016, to cancel Contingent Capital 2012 in accordance with Art. 4.4 of the Articles of Incorporation as well as the authorization from June 12, 2012, to issue option bonds and/or convertible bonds and to delete Art. 4.4 of Articles of Incorporation.

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

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

  In detail, the annual shareholders' meeting specified the following in this regard:

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

  The shareholders are generally entitled to a subscription right.

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

The Executive Board is authorized, with the consent of the Supervisory Board, to decide the content of the share rights and the terms and conditions of the share issue, and to specify the details for the execution of the capital increase.

Furthermore, the Executive Board is authorized, with the consent of the Supervisory Board, to disapply the pre-emption rights of the shareholders in the following cases:

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

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

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

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

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

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

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

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

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

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

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

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

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

This authorization has so far not been utilized.

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

The Authorized Capital 2013 originally contained in Art. 4(6) (old version) of the Articles of Incorporation was largely depleted in 2013 as a result of the exercise of the authorization and only remained in the amount of EUR 98,509.00. The original Authorized Capital 2013 was then utilized in the amount of an additional EUR 51,279.00 in connection with the subscription rights issue carried out by the Company in the early summer of 2014. This left a remaining calculated amount of EUR 47,230.00 not yet utilized under Art. 4 para. 6 (old version) of the Articles of Incorporation. Art. 4 para. 6 (old version) of the Articles of Incorporation related to the Authorized Capital 2013 was canceled in its entirety during the annual shareholders' meeting held on August 12, 2014.

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

This authorization has so far not been utilized.

- Contingent Capital 2013/II (Art. 4 para. 7 of the Articles of Incorporation)

Of the convertible bond from 2014, 9,476,610 units were still outstanding for conversion at December 31, 2015, so that the total amount of Contingent Capital 2013 was EUR 9,499,733.00 at the closing key date.

At the final maturity of Convertible Bond 2014 on January 23, 2016, 9,476,610 shares were issued in the nominal value of EUR 9,476,610.00. Thus, Convertible Bond 2014 is repaid in full through the issue of shares. The imputed freely available balance of Contingent Capital 2013 still amounted to EUR 23,123. It was no longer economically sensible to utilize this remainder. Therefore, the annual shareholders' meeting of Gigaset AG, Munich, resolved on August 12, 2016, to cancel Contingent Capital 2013 in accordance with Art. 4.7 of the Articles of Incorporation as well as the authorization from December 19, 2013, to issue option bonds and/or convertible bonds and to delete Art. 4.7 of the Articles of Incorporation.

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

Because the authorization of the Executive Board set out in Art. 4.4 of the Articles of Incorporation to issue option bonds and/or convertible bonds, and Contingent Capital 2012 created for that purpose, as well as the authorization of the Executive Board set out in Art. 4.7 of the Articles of Incorporation to issue option bonds and/or convertible bonds, and 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 option bonds and/or convertible bonds, and a new Contingent Capital 2014 for this purpose, and amended the Articles of Incorporation 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 for dividends from the beginning of the financial year in which they were issued. The contingent capital increase serves the purpose of issuing shares to the holders or creditors of option bonds and/or convertible bonds that were issued by the Company or a subordinate Group company in exchange for cash performance in the time until August 11, 2019, by virtue of the authorization of the annual shareholders' meeting of August 12, 2014. New shares are issued respectively at the option or conversion price specified under the aforementioned authorization. The contingent increase in capital may only be carried out to the extent that option rights and/or conversion rights arising from the debt securities are exercised and/or conversion requirements from the debt securities are met and to the extent that cash compensation is not paid or treasury shares are not offered for subscription. The Executive Board is authorized with the approval of the Supervisory Board to establish the other details regarding the execution of the contingent increase in capital (Contingent Capital 2014).

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

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

or conversion price specified under the aforementioned authorization. The contingent increase in capital may only be carried out to the extent that option rights and/or conversion rights arising from the debt securities are exercised and/or conversion requirements from the debt securities are met and to the extent that cash compensation is not paid or treasury shares are not offered for subscription. The Executive Board is authorized with the consent of the Supervisory Board to establish the further details applicable to the conduct of the contingent capital increase (Contingent Capital 2014)."

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

a) Authorization period, nominal amount, number of shares

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

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

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

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

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

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

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

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

b) Pre-emptive subscription right

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

c) Option or conversion price, protection from dilution

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

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

Sections 9(1) and 199 AktG remain unaffected.

d) Further structuring alternatives

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

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

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

Since the authorization of the Executive Board to issue option bonds and/or convertible bonds from June 12, 2012, and from December 19, 2013, are largely depleted and the existing authorization of the Executive Board to issue option bonds and/or convertible bonds from August 12, 2014, with Contingent Capital 2014 in the amount of EUR 35,000,000.00 in accordance with Art. 4.8 of the Articles of Incorporation only takes advantage of some of the legal possibilities for contingent capital, the annual shareholders' meeting on August 12, 2016, resolved a new additional authorization to issue option bonds and/or convertible bonds as well as a new Contingent Capital 2016 and amended the Articles of Incorporation accordingly. The Executive Board was also authorized, with the consent of the Supervisory Board, to disapply the pre-emption rights of the shareholders to the option and/or convertible bonds.

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

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

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

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

a) Authorization period, nominal amount, number of shares

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

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

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

- to grant option rights and/or conversion rights to the holders or creditors of bonds for a total of up to 29,700,000 no-par value bearer shares of the Company with a proportional share in the share capital of up to EUR 29,700,000.00 after further specification of the individual terms and conditions of the bonds.

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

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

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

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

b) Subscription rights, disapplication of pre-emption rights

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

- when bonds are issued in exchange for cash payment, insofar as the issue price is not significantly lower than the theoretical market value of the bonds as determined by generally accepted mathematical methods; this shall apply, however, only insofar as the proportional amount of the share capital of the shares to be issued to satisfy the option and/or conversion rights or conversion requirements thus established upon issue of the bonds does not exceed a total of 10% of the share capital, either at August 12, 2016, or at the effective date, or at the date of exercise of this authorization,

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

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

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

c) Option or conversion price, protection from dilution

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

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

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

d) Further structuring alternatives

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

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

Sections 289(4) no. 8, 315(4) no. 8 HGB: There are no material agreements with the parent company at December 31, 2016, subject to the condition of a change in control as a consequence of a takeover offer.

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

7 German Corporate Governance Code

7.1 Statement on corporate governance at Gigaset AG & the Group

7.1.1 Declaration of conformity

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

With only a few exceptions, Gigaset AG complies with the German Corporate Governance Code (the "Code"), which was issued in 2002 and most recently revised on May 5, 2015.

The Executive Board and Supervisory Board of Gigaset AG submitted the declaration of conformity with the German Corporate Governance Code on March 23, 2017, in the version dated May 5, 2015, as required under section 161 of the German Stock Corporation Act (Aktiengesetz, AktG) and made it permanently and publicly available to the shareholders on the Company's website (http://www.gigaset.com/de_de/cms/gigaset-ag/investor-relations/unternehmen/corporate-governance.html). The Executive Board and Supervisory Board of Gigaset AG thereby declare that, with few exceptions, they have complied and will comply in the future with the Code Commission's recommendations regarding the management and supervision of the enterprise published in the electronic Federal Gazette in the current version.

7.1.2 Report on corporate governance

7.1.2.1 Functioning of the Executive Board

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

The Executive Board defines the goals and strategies for the 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 the overall management of the Company. Irrespective of the overall responsibility of all members of the Executive Board, the individual members each have personal responsibility for managing the areas assigned to them under the relevant Executive Board resolutions. The Executive Board in its entirety decides upon all matters of fundamental and essential significance and upon all cases specified by law or other means. Executive Board meetings are held at regular intervals and are convened by the Chairman of the Executive Board. In addition, any member may call for a meeting to be convened. Where the law does not require unanimity, the Executive Board adopts resolutions upon a simple majority of the votes cast. The Executive Board represents the Company and corporate group vis-a-vis third parties and the workforce in matters that affect more than just parts of the Company or the corporate group. In addition, it has special responsibility for certain Corporate Center units and their areas of activity.

7.1.2.2 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 separate financial statements of Gigaset AG and the consolidated financial statements of the Gigaset Group, together with the combined management report, taking into account the reports submitted by the independent auditors. As in the prior year, the Supervisory Board also reviewed the dependent company report, which the Executive Board – together with the report by the auditors – will present to the Supervisory Board together with the auditors' report on the dependent company report after it is signed. As in the prior year, the Supervisory Board reviewed the dependent company report insofar independently and comprehensively just as it reviewed the completeness of the statements made therein.

7.1.2.3 Supervisory Board committees

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

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

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

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

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

7.1.2.4 Disclosures regarding the share of women

On March 31, 2017, the Supervisory Board established new targets for the share of women – namely 16.66% by June 30, 2017, on the Supervisory Board and 0% by June 30, 2017, on the Executive Board. In addition, the Executive Board established new targets for the share of women in the two management levels below the Executive Board – namely, 10% for the first management level and 30% for the second management level by June 30, 2017.

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

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

The Company did not receive any notifications in accordance with Art. 19 of the Market Abuse Regulation (EU) No. 596/2014 (MAR) in financial year 2016.

7.1.2.6 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.

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

7.1.2.7 Extensive Reporting

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

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

7.2.1 Compensation paid to members of the Executive Board

The duties and contribution of the respective Executive Board member are taken into account when determining their compensation. The compensation granted in financial year 2016 comprised both fixed annual salary and variable compensation agreements. There are variable compensation agreements for the members of the Executive Board based on company and/or performance-based bonus agreements and in some cases also based on personal goals with qualitative milestones. The goals were discussed with the Chairman of the Company's Supervisory Board and with the Executive Board members at the beginning of the financial year or at the beginning of work as an Executive Board member. The Chairman of the Supervisory Board decides on the achievement of the respective goals based on the individual agreements.

Based on a resolution of the annual shareholders' meeting held on August 11, 2015, in accordance with sections 286(5) and 314(2) sentence 2 HGB, the disclosures required in the Notes under section 285 no. 9a sentences 5 to 8 and section 314(1) no 6a sentences 5 to 8 HGB will not be provided when preparing the separate financial statements of Gigaset AG and the consolidated financial statements. This resolution applies to the preparation of the separate financial statements of Gigaset AG and the consolidated financial statements for the financial years commencing January 1, 2015, and the next four financial years, but ends no later than August 10, 2020. Therefore, the disclosures regarding the compensation paid to members of the Executive Board in the paragraphs below are each provided in aggregate without any names.

The possible granted total compensation of the members of the Executive Board for financial year 2016 breaks down as follows analogous to the requirements of the German Corporate Governance Code (version dated May 2015), Sample Table 1 for Number 4.2.5 Paragraph 3:

Compensation granted to Executive Board members, in EUR		**Fixed compensation**	**Fringe benefits**	**Total fixed compensation components**	**Single year variable compensation**	**Multi-year variable compensation**	**Total fixed and variable compensation**	**Service cost**	**Total compensation**
All Executive Board members	2015 (100 %)	1,028,751	29,150	1,057,901	950,000	0	2,007,901	584	2,008,485
	2016 (100 %)	703,113	26,068	729,181	150,000	0	879,181	20,995	900,136
	2016 (Min)				0	0	729,181	20,995	750,136
	2016 (Max)				150,000	0	879,181	20,995	900,136

The income accruing to the members of the Executive Board for financial year 2016 breaks down as follows in accordance with the requirements of the German Corporate Governance Code (version dated May 2015), Sample Table 2 for Number 4.2.5 Paragraph 3:

Allocation to Executive Board members collectively, in EUR	2016	2015
Fixed compensation	679,779	1,028,751
Fringe benefits	23,268	21,434
Total fixed compensation components	703,047	1,050,185
Single-year variable compensation	0	609,600
Multi-year variable compensation	0	0
Total fixed and variable compensation	703,047	1,659,785
Service cost	20,955	584
Total compensation	724,002	1,660,369

No further compensation was granted to the Executive Board members for their work in subsidiaries or associated companies. The allocations from the total compensation of the Executive Board amounted to EUR 724 thousand in the financial year (prior year: EUR 1,660 thousand).

7.2.2 Compensation of the Supervisory Board

Based on the resolution of the Extraordinary General Meeting held on December 19, 2013, the compensation scheme below is applied retroactively at August 15, 2013:

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

1. *Base compensation. Every member of the Supervisory Board receives a fixed salary of EUR 3,000.00 ("base compensation") for every month or partial month of their term of office ("accounting month"). The beginning and end of every accounting month are determined based on sections 187(1), 188(2) of the German Civil Code (Bürgerliches Gesetzbuch, BGB). Compensation that the respective member of the Supervisory Board has already received for the same accounting month is to be offset against claims for base compensation, regardless of the legal basis. The claim to base compensation arises at the end of the accounting month.*

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

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

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

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

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

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

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

These resolutions are being implemented by the Company.

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

8 Forecast report and outlook

8.1 General economic development

The International Monetary Fund (IMF) expects an increase in growth to 3.4% in 2017 and 3.6% in 2018 after the global economy grew by 3.1% in 2016. The euro zone will grow moderately by 1.6% in the next two years, whereby Germany will fall slightly short of this with 1.5%. In contrast, strong growth of 6.5% is forecasted for China in 2017. With respect to the U.S.A., the IMF corrected its growth forecast for 2017 by 0.1% to 2.3% and for 2018 by 0.4% to 2.5%.[13]

In the past year, the German economy posted a price-adjusted increase in gross domestic product of 1.9%. This year, a 1.4% increase in gross domestic product adjusted for prices is expected, which can be largely attributed to the lower number of working days. The reduction in the number of jobs will continue this year, whereby the unemployment rate is likely to stabilize at 6%. It continues to be expected that the volume of refugee immigration will gradually have an effect in the form of higher employment as well as unemployment.[14]

The European Union is also facing major challenges, i.e. the referendum in the United Kingdom for an exit from the European Union, the continuing restrained economic trend in parts of the euro zone, and the refugee migration will be dominant topics in 2017. Europe must bolster its image as an attractive place for investment, simplify access to the labor market for young people, and strengthen the trust of entrepreneurs as well as consumers in the economy by means of structural reforms. The European banking union is focused on securing long-term stability in the European banking sector.[15]

13 IMF: World economic outlook (WEO) update, January 2017
14 German Federal Ministry for Economic Affairs and Energy (Bundesministerium für Wirtschaft und Energie), January 2017 Annual Economic Report
15 German Federal Ministry for Economic Affairs and Energy (Bundesministerium für Wirtschaft und Energie), January 2017 Annual Economic Report

8.2 Development of the industry

Consumer Products

Experts forecast that the global market for fixed-line telephony will continue to decline in the next few years due to increased competition as a result of rising mobile communication. A decreasing price level is expected for the fixed-line telephony market.

Business Customers

The trend of the increasing significance of IP telephony in the European telecommunications market was also forecasted in the Business Customers segment. The cloud business is also expected to exhibit a sales volume of EUR 1,200 million in 2020. Growth to EUR 949 million by 2020 was also predicted for the market for IP PBX in 2015.[16]

The Company's Gigaset pro product segment specializes in the area of small and medium-sized enterprises (SME). This market segment has potential for growth and is expected to cover a share of 66% of IP-based business by 2020. The market growth is characterized by product innovation, product differentiation, and replacement purchases.

Home Networks

After the trend in the Smart Home segment until 2015 was more restrained than forecasted, the market has exhibited robust growth since 2015. Deloitte's market analysis found that the penetration rate for the Smart Home segment in the Western European market will increase by 25 percentage points to 29 percent by 2021, whereby the Ambient Assistant Living, Entertainment, and Security segments show the greatest potential. In addition to Western Europe, Eastern Europe, the Middle East, Africa, and Asia can post future growth potential.[17]

Mobile Devices

According to a study by the IT research and consulting firm Gartner, expenditures for devices such as PCs, tablets, ultra mobiles and cell phones have settled down at approximately EUR 589 million since 2016 and are also forecasted to be roughly the same magnitude for 2018.[18] In contrast, the number of smartphone users will increase from 2.1 million users in 2016 to a forecasted 2.3 million users in 2017 according to information provided by Statista. With respect to price bands, the share of the low price segment (< USD 150) may decline by 2019, but the share of the mid-price segment (USD 150 to USD 550) will increase.[19]

8.3 Development of the Gigaset Group

8.3.1 Financial performance

In the previous year 2015, the market only declined by just under 2%. In financial year 2016, the market as a whole for cordless telephones in Europe declined by around 9% based on sales in the markets observed by Gigaset.[20] This trend is also expected to continue in the market in 2017. The Business Customer and Home Networks segments will not be able to offset the loss in sales. However, Gigaset is currently establishing a new Mobile Devices segment. The Executive Board plans that sales for the Group as a whole will increase slightly year-on-year as a result of the sales realized in this segment.

16 MZA, Forecast H2, 2015
17 Statista: Deloitte Analysis, 2016
18 Gartner: Press Release, January 2017
19 Statista: eMarketer, June 2016
20 GfK POS measurement data for the five European countries France, Germany, Italy, the Netherlands, and Spain for the period of January - December 2016

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

Gigaset will also consistently continue the cost-savings program in 2017. This will lead to a further decrease in personnel costs, even if Gigaset continues to promote and hire new talent. On the other hand, Gigaset will expand the costs for development and marketing in order to expedite a series of products; as a result, Gigaset expects an overall slight increase in personnel expenses and other expenses from the core business.

Gigaset hedged a large part of the U.S. dollar risk for 2017. In addition, the forecast is based on a USD/EUR exchange rate of 1.10. This forecast is based on the described general economic and industry-specific trends.

8.3.2 Cash flows

The Company currently finances itself essentially from its operating business. At December 31, 2016, Gigaset is free from liabilities to banks. The plan is for the payments under the restructuring program in 2017 to be financed by the savings in personnel expenses. We will continue to focus on managing liquidity in the coming two financial years. The Company's strategy with respect to securing financial stability remains conservative in order to preserve the Group's operational and strategic flexibility. As of the end of 2016, Gigaset has a portfolio of cash funds in the amount of EUR 47.5 million at its disposal. In addition to the operational requirements, this cash portfolio is to cover payment obligations from prior years, mainly for severance payments under the social compensation plan as well as tax payments resulting from tax audits in prior years in the expected amount of EUR 20 million. According to its planning, Gigaset expects that a sizable, positive portfolio of cash and cash equivalents will be available, even taking into account all outstanding payment obligations.

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

8.4 Development of Gigaset AG

8.4.1 Financial performance

As the holding company of the Gigaset Group, Gigaset AG generates revenue from advisory services provided to associated companies. Gigaset AG's earnings are also determined primarily based on personnel costs and other expenses for the management, the Legal and Tax department, Audit, Corporate Communications, Group Brand Communications, Business Development, and Investor Relations. Since the sales revenue from the group allocations is not expected to cover all expenses, Gigaset AG is expected to generate an operating loss in the mid-to-high single-digit millions. As expected, the net loss for the financial year forecasted for Gigaset AG in the previous year was reached in the amount of EUR 4.1 million.

As a holding company, Gigaset AG's performance is heavily influenced by the development of its subsidiaries, particularly the operating Gigaset Communications Group. For financial year 2017, no dividend income is planned in Gigaset AG.

8.4.2 Cash flows

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

8.5 General assessment of the Group's expected performance

Gigaset will continue to consistently carry out the Company's reorientation. This means gaining market share in the Consumer business, expanding sales in the Business Customers segment, improving the market position in the Home Networks segment, and establishing the Company's own smartphone business in the Mobile Devices segment since December 2016. Gigaset will continue to focus intensely on establishing new products and business segments in 2017 and increase the expenditures for this purpose, in particular marketing expenses and capital expenditures. Gigaset therefore expects the following for the current financial year:

- An increase in sales compared with 2016 in the lower double-digit millions as a result of the restructured smartphone business.

- The Company expects a result from the core business before depreciation and amortization of between EUR 15 million and EUR 25 million. The operating performance is influenced by further declining gross profits in the Consumer segment, rising gross profits in the Business Customer and Home Networks segments, as well as an expansion of expenses for development and marketing.

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

9. Dependent company report

Goldin Fund Pte. Ltd., Singapore, holds a majority interest. In accordance with section 312 AktG, we prepared a report on March 31, 2017, regarding our relationships with associates that closes with the following statement: "We declare that the Company received appropriate consideration for every transaction and action in financial year 2016 listed in the report on relationships with related parties based on the circumstances that were known to us at the time in which the transactions were executed or the actions were taken or omitted and that we were not disadvantaged by the actions that were taken or omitted."

Munich, March 31, 2017

The Executive Board of Gigaset AG

Klaus Wessing Hans-Henning Doerr Guoyu Du

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sight through transparent communication: This is how Gigaset AG presents itself. We have secured our status as a premium brand through sound business planning and faithful adherence to the central principles of a successful sustainability strategy. Consumers perceive the products and services of Gigaset AG through the prism of its fair prices and good quality, strong reputation, ease of use and strong market presence. The future of our company is secured by fast innovation cycles, targeted product development, focus on the core business, the creation of synergies in the telecommunications market and strategic expansion into new growth fields.

Income Statement for the Period from January 1 - December 31, 2016

EUR'000	Note	01/01/ - 12/31/2016	01/01/ - 12/31/2015
Revenues	1	281,932	305,347
Change in inventories of finished and unfinished goods		-739	-986
Purchased goods and services	2	-136,695	-156,789
Gross profit		**144,498**	**147,572**
Other internal production capitalized	3	9,858	11,901
Other income from core business	4	4,031	9,333
Personnel expenses before restructuring	5	-76,320	-94,413
Other expenses from core business[2]	6	-57,056	-63,813
Result from core business before depreciation and amortization[1]	8	25,011	10,580
Depreciation and amortization[2]	7	-17,531	-20,601
Result from core business after depreciation and amortization[1]	8	7,480	-10,021
Additional ordinary income[2]	4	5,781	12,723
Additional ordinary expenses[2]	6	-186	-3,211
Personnel expenses from restructuring[2]	5	-154	-19,540
Exchange rate gains[2]	4	5,851	16,240
Exchange rate losses[2]	6	-5,940	-12,451
Additional ordinary result	8	5,352	-6,239
Operating result		**12,832**	**-16,260**
Other interest and similar income	9	163	207
Interest and similar expenses	10	-1,244	-3,488
Financial result		**-1,081**	**-3,281**
Income/expenses from ordinary activities		**11,751**	**-19,541**
Income taxes	11	-7,434	-2,468
Consolidated profit/loss for the year		**4,317**	**-22,009**
Earnings per share	**12**		
- Undiluted in EUR		0.03	-0.17
- Diluted in EUR		0.03	-0.17

1 The income statement includes key figures that are not defined under IFRS.
2 The line items of Personnel expenses, Other operating income/expenses and Depreciation, amortization and impairments are explained with their full amounts in the notes to the consolidated financial statements.

Consolidated Statement of Comprehensive Income for the period from January 1 - December 31, 2016

EUR'000	01/01/ - 12/31/2016	01/01/ - 12/31/2015
Consolidated profit/loss for the year	**4,317**	**-22,009**
Items that may possibly be reclassified to profit or loss at a later time		
Currency changes	-477	-2,652
Changes of companies consolidated by the equity method, not recognized in profit or loss	0	-2,183
Cash flow hedges	1,384	1,215
Income taxes recognized on these items	-379	-427
Items that will not be reclassified to profit or loss at a later time		
Revaluation effect net liability of defined benefit pension plans	-7,744	4,338
Income taxes recognized on this item	2,885	-1,585
Total changes not recognized in profit or loss	**-4,331**	**-1,294**
Total income and expenses recognized	**-14**	**-23,303**

Consolidated Statement of Financial Position at December 31, 2016

EUR'000	Note	12/31/2016	12/31/2015
ASSETS			
Noncurrent assets			
Intangible assets	14	33,757	35,313
Property, plant and equipment	15	25,267	29,906
Financial assets	17	18,386	18,386
Deferred tax assets	27	13,204	13,361
Total noncurrent assets		**90,614**	**96,966**
Current assets			
Inventories	18	23,529	24,299
Trade receivables	19	30,384	30,470
Other assets	20	29,032	27,591
Tax refund claims	21	696	799
Cash and cash equivalents	22	47,490	40,963
Total current assets		**131,131**	**124,122**
Total assets		**221,745**	**221,088**

Consolidated Statement of Financial Position at December 31, 2016

EUR'000	Note	12/31/2016	12/31/2015
EQUITY AND LIABILITIES			
Equity	23		
Subscribed capital		132,456	132,456
Additional paid-in capital		86,076	86,076
Retained earnings		68,979	68,979
Accumulated other comprehensive income		-269,669	-269,655
Total equity		**17,842**	**17,856**
Noncurrent liabilities			
Pension obligations	25	80,743	70,020
Provisions	26	11,068	20,189
Deferred tax liabilities	27	2,833	616
Total noncurrent liabilities		**94,644**	**90,825**
Current liabilities			
Convertible bond	24	0	426
Provisions	26	28,571	28,248
Trade payables	28	51,026	45,783
Tax liabilities	29	15,093	13,981
Other liabilities	30	14,569	23,969
Total current liabilities		**109,259**	**112,407**
Total equity and liabilities		**221,745**	**221,088**

Consolidated Statement of Changes in Equity at December 31, 2016

	EUR'000	Subscribed capital	Additional paid-in capital	Retained earnings
	January 1, 2015	132,456	86,076	68,979
1	Consolidated loss 2015	0	0	0
2	Currency translation differences	0	0	0
3	Changes of companies consolidated at equity, not recognized in profit or loss	0	0	0
4	Cash flow hedges	0	0	0
5	Revaluation effects from defined benefit pension plans	0	0	0
6	Total changes not recognized in profit or loss	0	0	0
7	**Total net income (1+6)**	**0**	**0**	**0**
	December 31, 2015	132,456	86,076	68,979
1	Consolidated profit 2016	0	0	0
2	Currency translation differences	0	0	0
3	Changes of companies consolidated at equity, not recognized in profit or loss	0	0	0
4	Cash flow hedges	0	0	0
5	Revaluation effects from defined benefit pension plans	0	0	0
6	Total changes not recognized in profit or loss	0	0	0
7	**Total net income (1+6)**	**0**	**0**	**0**
	December 31, 2016	**132,456**	**86,076**	**68,979**

Consolidated Statement of Changes in Equity at December 31, 2016

Accumulated other comprehensive equity	Consolidated equity		
-246,352	**41,159**	**January 1, 2015**	
-22,009	-22,009	Consolidated loss 2015	1
-2,652	-2,652	Currency translation differences	2
-2,183	-2,183	Changes of companies consolidated at equity, not recognized in profit or loss	3
788	788	Cash flow hedges	4
2,753	2,753	Revaluation effects from defined benefit pension plans	5
-1,294	-1,294	Total changes not recognized in profit or loss	6
-23,303	**-23,303**	**Total net income (1+6)**	**7**
-269,655	**17,856**	**December 31, 2015**	
4,317	4,317	Consolidated profit 2016	1
-477	-477	Currency translation differences	2
0	0	Changes of companies consolidated at equity, not recognized in profit or loss	3
1,005	1,005	Cash flow hedges	4
-4,859	-4,859	Revaluation effects from defined benefit pension plans	5
-4,331	-4,331	Total changes not recognized in profit or loss	6
-14	**-14**	**Total net income (1+6)**	**7**
-269,669	**17,842**	**December 31, 2016**	

Consolidated Statement of Cash Flows for the period from January 1 - December 31, 2016

EUR'000	01/01/ - 12/31/2016	01/01/ - 12/31/2015
Result from ordinary activities	11,751	-19,541
Depreciation and amortization of property, plant and equipment and intangible assets	17,531	20,601
Increase (+)/ decrease (-) in pension provisions	2,979	3,346
Gain (-)/loss (+) on the sale of noncurrent assets	-45	-383
Gain (-)/loss (+) on deconsolidation	0	-1,549
Gain (-)/loss (+) from currency translation	-472	-3,298
Earnings effects from companies accounted for by the equity method	0	682
Net interest income	1,081	3,281
Interest received	31	34
Interest paid	-553	-826
Income taxes paid	-1,927	-2,316
Increase (-)/ decrease (+) in inventories	770	3,859
Increase (-)/ decrease (+) in trade receivables and other assets	29	6,884
Increase (+)/ decrease (-) in trade payables, other liabilities and other provisions	-13,513	-12,521
Increase (+)/ decrease (-) in other items of the statement of financial position	802	6,436
Cash inflow (+)/outflow (-) from operating activities (net cash flow)	**18,464**	**4,689**
Proceeds from the sale of interests in companies	0	25
Cash transferred on the sale of interests and negative purchase prices	0	-107
Proceeds from the sale of noncurrent assets	45	384
Payments of investments in noncurrent assets	-11,336	-14,650
Cash inflow (+)/outflow (-) from investing activities	**-11,291**	**-14,348**
Free cash flow	**7,173**	**-9,659**

Consolidated Statement of Cash Flows
for the period from January 1 - December 31, 2016

EUR'000	01/01/ - 12/31/2016	01/01/ - 12/31/2015
Mandatory convertible bond	-428	-66
Cash inflow (+)/outflow (-) from financing activities	**-428**	**-66**
Cash and cash equivalents at beginning of period	35,273	45,722
Changes due to exchange rate differences	-218	204
Cash and cash equivalents at beginning of period, measured at prior-year closing exchange rate	35,491	45,518
Increase (-)/ decrease (+) in restricted cash	-1,877	-506
Change in cash and cash equivalents	6,745	-9,725
Cash and cash equivalents at end of period	**40,141**	**35,491**
Restricted cash	7,349	5,472
Cash and cash equivalents per statement of financial position	**47,490**	**40,963**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2016

A. GENERAL INFORMATION AND PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

Business activity

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

Gigaset AG is a corporate group active worldwide in the area of telecommunications. With the cordless telephones that it develops and manufactures based on the "Digital Enhanced Cordless Telecommunications" ("DECT") standard, the Company is a leading brand in western Europe. Its headquarters are located in Munich and its primary production site is in Bocholt. A premium supplier, Gigaset has a generally strong market presence in about 70 countries and had 1,061 employees at the end of 2016.

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

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

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

Presentation of the consolidated financial statements

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

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

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

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

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

Accounting principles

The consolidated financial statements of Gigaset for financial year 2016 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) have been observed. All the Standards in effect and applicable in financial year 2016 have been observed.

Application of the following amended and newly issued Standards and Interpretations of the IASB was mandatory starting with financial year 2016:

- Annual Improvements Cycle for International Financial Reporting Standards (2010-2012 cycle)

  The annual improvements (2010-2012 cycle) relate to clarifications within the following Standards:
  - IFRS 2 Share-based Payment (clarification of the definition of "vesting conditions").
  - IFRS 3 Business Combinations (clarification of the accounting treatment of contingent consideration in a business combination).
  - IFRS 8 Operating Segments (clarification of the disclosures to be made with regard to the aggregation of operating segments and the reconciliation of segment assets to the entity's assets).
  - IAS 16 Property, Plant and Equipment / IAS 38 Intangible Assets (clarification of the proportionate restatement of accumulated depreciation and amortization when applying the revaluation method).
  - IAS 24 Related Party Disclosures (clarification of the definition of "related entities" and the corresponding effect on the interpretation of the term "key management personnel").
  - IAS 38 Intangible Assets (clarification of the proportionate restatement of accumulated amortization when applying the revaluation method).

  The new provisions are applicable in financial years beginning on or after January 1, 2016. With the exception of the additional disclosures required for the aggregation of operating segments according to IFRS 8, the amendments had no effects on the consolidated financial statements.

- Annual Improvements Cycle for International Financial Reporting Standards (2012-2014 cycle)

  The annual improvements (2012-2014 cycle) entail clarifications of the following Standards:
  - IFRS 5 Noncurrent Assets Held for Sale and Discontinued Operations (clarification concerning noncurrent assets (or disposal groups) that are held for distribution to owners).
  - IFRS 7 Financial Instruments: Disclosures (clarifications and guidelines for disclosure obligations related to completely transferred assets that include a servicing contract against payment of a fee, and offsetting disclosures in interim reports).
  - IAS 19 Employee Benefits (clarification that the underlying currencies must be considered instead of countries in determining the discount rate on the basis of corporate and government bonds).
  - IAS 34 Interim Financial Reporting (clarification that the disclosures prescribed by IAS 34 can also be made in another part of the report, provided that reference is made in the notes to the other part).

  The new provisions are applicable in financial years beginning on or after January 1, 2016. The amendments had no effects on the consolidated financial statements.

- IAS 19 Employee Benefits

  The amended version of IAS 19 includes additional guidelines for the application of IAS 19 in the case of employee or third-party contributions to the cost of pension plans. Among other things, the amended Standard specifies when payments can be deducted from the employer's cost. The new provisions are applicable in financial years beginning on or after January 1, 2016. These amendments had no effect on the consolidated financial statements.

- Amendments to IFRS 11 Joint Arrangements

  The amended version of IFRS 11 Joint Arrangements includes guidelines for the accounting treatment of acquisitions of an interest in a joint operation when the operation meets the definition of a business according to IFRS 3 Business Combinations. As a general rule, the accounting rules applicable to business combinations according to IFRS 3 also apply to such transactions, barring provisions to the contrary in IFRS 11. The new provisions are applicable in financial years beginning on or after January 1, 2016. The amendments had no effects on the consolidated financial statements.

- Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

  The amendments to IAS 16 and IAS 38 clarify the conditions under which a revenue-based depreciation method may be appropriate. In the case of IAS 16, a revenue-based depreciation method is not appropriate. With regard to intangible assets, there is a rebuttable presumption that a revenue-based amortization method is not appropriate. The conditions under which such an amortization method would be appropriate were added to IAS 38. The new provisions are applicable in financial years that begin on or after January 1, 2016. The amendments had no effects on the consolidated financial statements.

- Amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture

  The amendments to IAS 41 and IAS 16 specify that "bearer plants" will no longer fall within the scope of IAS 41, but within the scope of IAS 16 because the operation of such assets is akin to manufacturing. The new provisions are applicable in financial years beginning on or after January 1, 2016. The amendments had no effects on the consolidated financial statements.

- Amendments to IAS 27 Separate Financial Statements

The amendments to IAS 27 now permit an entity either to measure an investment (interests in subsidiaries, joint ventures and associated companies) at amortized cost in the separate financial statements in accordance with IFRS 9 Financial Instruments or to account for them using the equity method as described in IAS 28. In addition, the definition of separate financial statements was further concretized. The new provisions are applicable in financial years beginning on or after January 1, 2016. The amendment had no effects on the consolidated financial statements.

- Amendments to IAS 1 Presentation of Financial Statements

The amendments to IAS 1 ("Disclosure Initiative") pertain mainly to the following points concerning disclosures in the notes:

- Clarification that disclosures are required in the notes only when their content is not immaterial. This principle applies explicitly even when IFRS prescribes a list of minimum disclosures.
- Clarifications regarding the aggregation and disaggregation of line items in the statement of financial position and in the statement of comprehensive income.
- Clarification of the manner of presentation of the entity's share of other comprehensive income of equity-accounted associates and joint ventures in the statement of comprehensive income.
- Elimination of the model structure of the notes; instead, the notes should be ordered on the basis of relevance for the reporting entity.

The new provisions are applicable in financial years beginning on or after January 1, 2016. The amendments had no effects on the consolidated financial statements.

- Amendments to IFRS 10 Consolidated Financial Statements, IAS 28 Investments in Associates and Joint Ventures, and IFRS 12 Disclosure of Interests in Other Entities

The amendments to IFRS 10 and IAS 28 serve to clarify three questions concerning the application of the consolidation exception according to IFRS 10 when the parent company meets the definition of an "investment entity":

- Entities are also exempted from preparing consolidated financial statements when the parent company measures its subsidiaries at fair value according to IFRS 10.
- A subsidiary that itself meets the definition of an investment entity and provides services related to the parent company's investment activities should not be consolidated.
- If an investor that does not meet the definition of an investment entity applies the equity method to an associate or joint venture, it can retain the fair value measurement applied by the associate or joint venture to its interests in subsidiaries.

In addition, the amended Standard specifies that an investment entity measuring all of its subsidiaries at fair value must make the disclosures relating to investment entities required by IFRS 12. The new provisions are applicable in financial years beginning on or after January 1, 2016. The amendments had no effects on the consolidated financial statements. An investment entity measuring all of its subsidiaries at fair value makes the disclosures related to investment entities required by IFRS 12.

Application of the following revised and newly issued standards and interpretations already adopted by the IASB was not yet mandatory in financial year 2016:

Standards		Application mandatory for Gigaset from	Adopted by the EU Commission
IAS 12	IAS 12 Income Taxes – Recognition of Deferred Tax Assets on Unrealized Losses	01/01/2017	No
IAS 7	IAS 7 Statement of Cash Flows – Disclosure Initiative	01/01/2017	No
Various	Annual Improvements Cycle for International Financial Reporting Standards (2014-2016 cycle)	01/01/2017 and01/01/2018	No
IFRS 15	Revenue from Contracts with Customers	01/01/2018	Yes
IFRS 15	Clarifications to IFRS 15 Revenue from Contracts with Customers	01/01/2018	No
IFRS 9	Financial Instruments	01/01/2018	Yes
IFRS 4	IFRS 4 Insurance Contracts – Application of IFRS 9 with IFRS 4	01/01/2018	No
IFRS 2	IFRS 2 Share-Based Payment – Classification and Measurement of Share-Based Payment Transactions	01/01/2018	No
IAS 40	IAS 40 Investment Property – Transfers of Investment Property	01/01/2018	No
IFRS 16	Leases	01/01/2019	No
IFRS 10 / IAS 28	Sale or contribution of an investor's assets to his associated company or joint venture	unspecified	No
Interpretations			
IFRIC 22	Foreign Currency Transactions and Advance Consideration	01/01/2018	No

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

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

The EU adopted IFRS 9 Financial Instruments into European law in November 2016. IFRS 9 includes extensive new rules on the recognition, presentation and measurement of financial instruments and the corresponding disclosures. It replaces the currently applicable IAS 39. IFRS 9 introduces amendments pertaining to the classification of financial assets and financial liabilities. With respect to impairments, moreover, the incurred loss model will be changed to the expected loss model and new hedge accounting rules are introduced. The Company is currently studying the effects on the consolidated financial statements. Because the new Standard was not adopted by the EU until very late, the analysis of accounting effects was not yet completed at the reporting date.

IFRS 15, Revenue from Contracts with Customers, was adopted in May 2014. This Standard completely redefines the rules for revenue recognition and combines the previously applicable Standards and Interpretations that included rules applicable to revenue recognition. IFRS 15 supersedes the Standards IAS 11 and IAS 18 and the Interpretations IFRIC 13, 15 and 18, and SIC-31. Under the new Standard, revenue recognition is to be assessed with reference to a five-step model:

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

IFRS 15 also sets out explicit rules on the recognition of revenue from multi-component contracts. In the future, revenue recognition will depend more on the transfer of control of the products or services to be delivered; the transfer of risks and rewards is now only viewed as an indicator. There are new guidelines for recognizing revenue over time or at a point in time. In addition, IFRS 15 entails a considerable increase in disclosures concerning revenues. The Company is currently studying the effects of the new Standard, which must be applied starting 1/1/2018, in the form of an extensive analysis of contracts. Important questions in the first step are whether any additional performance obligations can be identified in the individual contracts and whether the revenue collected under individual contracts can be recognized over time. The analysis had not yet been concluded at the publication date, but should be completed by the end of the third quarter of 2017 at the latest.

IFRS 16 will replace the previous Standard IAS 17. Under the new Standard, assets must be recognized in the statement of financial position of the lessee for the usage rights obtained under all leases and liabilities must be recognized for the payment obligations assumed. Until now, future payment obligations under operating leases have only been disclosed in Note 33 Other Financial Commitments. These commitments mainly relate to rental, lease and service agreements. Simplification options are available for short-term leases and low-value contracts. Therefore, it cannot yet be estimated at the present time whether and to what extent assets or liabilities will result from other financial commitments and the extent to which this will produce effects on the income statement and statement of cash flows.

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

The effects of the first-time application of the other revised or newly issued Standards and Interpretations that are to be applied only starting with financial year 2018 and 2019 cannot be reliably estimated at the present time.

As for the amendments resulting from IAS 12 Income Taxes (Recognition of Deferred Tax Assets on Unrealized Losses), IAS 7 Statement of Cash Flows (Disclosure Initiative) and the amendments resulting from the annual improvements of International Financial Reporting Standards (2014-2016 cycle) to be applied in 2017 and beyond, the Company assumes that they will not have any material effects.

Scope and method of consolidation

The present consolidated financial statements at December 31, 2016 include the separate financial statements of the parent company Gigaset and its subsidiaries, including special purpose entities where appropriate.

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

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

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

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

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

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

Besides the parent company, 21 subsidiaries – consisting of 8 domestic and 13 foreign companies – were included in the consolidated financial statements of Gigaset at December 31, 2016.

As in the prior year, there were no subsidiaries with an immaterial effect on the Company's financial position, financial performance and cash flows at December 31, 2016 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 statements at the end of the notes.

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

Currency translation

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

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

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

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

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

		Closing Exchange Rate *)		**Average Exchange Rate *)**	
		12/31/2016	**12/31/2015**	**2016**	**2015**
Argentina	ARS	16.4234	14.2039	16.3148	10.2290
Switzerland	CHF	1.0749	1.0820	1.0902	1.0677
China	CNY	7.3608	7.1548	7.3642	6.9817
Denmark	DKK	7.4344	7.4621	7.4453	7.4585
United Kingdom	GBP	0.8584	0.7350	0. 8190	0.7260
Hong Kong	HKD	8.1888	8.4427	8.5913	8.6035
Japan	JPY	123.4939	131.1294	120.3083	134.3009
Norway	NOK	9.0855	9.6026	9.2956	8.9442
Poland	PLN	4.4165	4.2640	4.3642	4.1835
Russia	RUB	64.6720	80.4248	74.2341	67.9972
Sweden	SEK	9.5667	9.1820	9.4670	9.3536
Singapore	SGD	1.5258	1.5397	1.5279	1.5253
Turkey	TRL	3.7269	3.1816	3.3434	3.0219
USA	USD	1.0560	1.0892	1.1068	1.1098

*) Equivalent for EUR 1.

B. PRINCIPAL ACCOUNTING AND VALUATION METHODS

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

Recognition of income and expenses

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

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

Research and development expenditures

Expenditures for research, which is defined as original and planned investigation undertaken with the goal of gaining new scientific or technical knowledge and understanding, are recognized in full as expenses. 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 are used to make the asset available for use, and borrowing costs to be capitalized pursuant to IAS 23 unless they are immaterial. The capitalized costs are recognized under internally generated intangible assets. Other development expenditures are recognized immediately in profit or loss when they arise. Capitalized development expenditures are measured at production cost, less accumulated amortization and impairments.

Government grants

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

Financial result

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

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

Income taxes

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

A uniform rate of 15.0% for corporate income tax plus a solidarity surcharge of 5.5% is applied to distributed and retained profits for calculating current taxes in Germany. Local trade tax is levied on profits generated in Germany, as is corporate income tax. The local trade tax rate ranges from 16.0% (PY: 15.9%) to 17.2% (PY: 17.2%).

The profits generated by international Group subsidiaries are determined on the basis of local tax law and are taxed at the applicable rate in the country of domicile. The applicable country-specific income tax rates vary between 18.3% (PY: 19.0%) and 33.3% (PY: 33.3%).

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

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

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

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

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

Impairment losses are recognized for deferred tax assets that are no longer expected to be recovered 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 presented in equity. Deferred tax assets and liabilities are offset if there is an enforceable claim to offset the current tax refund claims against current tax liabilities. In addition, the deferred tax assets and liabilities must be based on income taxes that refer to the same taxable entity and are payable to the same tax authority.

Earnings per share

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

Purchased intangible assets

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

The following estimated useful lives are applied:

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

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

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

- Licensed software: 3 years

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

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

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

Internally generated intangible assets

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

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

Property, plant and equipment

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

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

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

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

Borrowing costs

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

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

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

Noncurrent assets held for sale

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

Impairments 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 a 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 less 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 cost that would have resulted if no impairment loss had been recognized in the asset (or cash-generating unit) in prior years. Reversals of impairment losses are recognized immediately in profit or loss for the period.

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

Leases

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

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

Inventories

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

Trade receivables

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

Factoring

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

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

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

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

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

Cash and cash equivalents

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

Financial assets

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

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

Financial assets at fair value through profit or loss

This category has two subcategories: financial assets designated as held for trading from the outset and financial assets designated as at fair value through profit or loss from the outset. A financial asset is assigned to this category if it was purchased with the intention of selling it immediately or in the near term or if it was so designated by Management. Derivatives also belong to this category if they are not part of a cash flow hedge. Assets in this category are presented as current assets if they are either held for trading or are expected to be recovered within 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 noncurrent assets if their due date is more than 12 months after the reporting date. Loans and receivables are presented in the statement of financial position under trade receivables and other receivables. Loans and receivables are measured at amortized cost calculated in accordance with the effective interest method.

Held-to-maturity financial assets

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

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially measured at fair value and subsequently at amortized cost calculated in accordance with the effective interest method, less any impairments. If loans are due in more than 12 months, they are presented as noncurrent 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 noncurrent assets if Management does not intend to sell them within 12 months of the reporting date.

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

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

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

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

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

Derivative financial instruments

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

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

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

Equity

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

If a Group company purchases company shares (treasury shares), the value of the consideration paid, including the directly allocable additional costs (including any taxes) are deducted from equity until such time as the shares are retired, re-issued or resold. When such shares are subsequently re-issued or sold, the consideration received is recognized in equity 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 historical values and an appraisal of the probability of occurrence in the future. In accordance with IAS 37, and in conjunction with IFRS 3 in the case of newly acquired companies, restructuring provisions are only recognized if a detailed restructuring plan exists.

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

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

Employee benefits

Pension obligations

There are various pension plans in effect within 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 the Gigaset Group, depending on the subsidiary concerned. These benefits essentially comprise the following:

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

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

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

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

Share-based payments

In the annual shareholders' meeting of June 10, 2011, the Supervisory Board, or the Executive Board with the consent of the Supervisory Board were authorized to grant options to purchase shares of Gigaset AG to members of the Company's Executive Board, selected employees of the Company and members of the management and selected employees of affiliated companies within the scope of the Gigaset AG Stock Option Plan 2011 in the time until December 31, 2014. The Executive Board and Supervisory Board did not make use of this authorization. The authorization period was expired and the Contingent Capital 2011 pursuant to Article 4 Para. 3 of the Articles of Incorporation was annulled by resolution of the annual shareholders' meeting of August 12, 2016.

Former members of Gigaset's Executive Board received the capital appreciation of a "virtual share portfolio" as a variable component of their compensation. The basis for calculating the variable compensation based on the "virtual share portfolio" was 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 was calculated in every case from the possible capital 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") yielded the amount of variable compensation. As a general policy, the capital appreciation amount (converted at the share price at the valuation date) was settled in cash. The obligations existing due to this agreement were measured and recognized at fair value at each reporting date by means of a Monte Carlo simulation, since they were "cash-settled" options pursuant to IFRS. Changes in the fair value of such financial instruments were 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. Benefits that fall due more than 12 months after the reporting date are discounted to present value. Termination benefits payable are presented within 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) and benefits upon termination of an employment relationship. This includes the obligations arising from partial early retirement agreements, for instance. The Group recognizes provisions when it is demonstrably and unavoidably obligated to provide these benefits. Benefits that fall due more than 12 months after the reporting date are discounted to present value. Termination benefits payable are presented with the personnel provisions.

Profit-sharing and bonus plans

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

Liabilities

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

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

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

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

Segment report

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

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

The reportable segments of the Gigaset Group are the following:

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

Legal disputes and claims for damages

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

Assumptions and estimates made for accounting and valuation purposes

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

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

Estimates made in connection with impairment tests

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

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

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

Income taxes

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

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

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

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

Provisions

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

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

Contingent liabilities

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

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

C. NOTES ON FINANCIAL INSTRUMENTS

Significance

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

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

Financial risk factors

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

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

Credit risk/default risk

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

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

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

Of the portfolio of loans and receivables carried in the Group at year-end 2016 in the amount of EUR 45,608 thousand (PY: EUR 46,421 thousand), EUR 17,330 thousand or 38.0% (PY: EUR 15,729 thousand or 33.9%) 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 45,608 thousand, PY: EUR 46,421 thousand) is reduced by trade credit insurance, letters of credit, and other credit improvements to a maximum default risk of EUR 28,278 thousand (PY: EUR 30,692 thousand).

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

2015 in EUR'000	Carrying amount	Maximum default risk	Secured portion	2015* %
Total	**46,421**	**30,692**	**15,729**	**33.9**
Trade receivables	30,470	14,741	15,729	33.9
Other receivables	15,951	15,951	0	0.0

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

	12/31/2016		12/31/2015	
	EUR'000	%	EUR'000	%
Total	**45,608**	**100,0**	**46,421**	**100,0**
Germany	17,346	38,0	19,222	41,4
Europe – EU	18,607	40,8	20,183	43,5
Europe – Other	5,962	13,1	3,197	6,9
Rest of World	3,693	8,1	3,819	8,2

As a rule, value adjustments are charged in adequate amounts to account for discernible default risks in the receivables portfolio. The changes in value adjustments on trade receivables are presented in tabular format in Note 19 Trade receivables.

* Based on the total carrying amount

Liquidity risk

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

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

Due to the dynamic nature of the business environment, the operating business is for the most part financed by way of an optimized working capital approach under which financing is procured from factoring. The factoring financing lines are adequately configured and backed by the long-term commitment of banks and factoring companies.

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

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

2015 in EUR'000	Carrying amount	Total outflow	< 1 year	1 - 5 years	> 5 years
Non-derivative financial liabilities	46,513	46,515	46,515	0	0
Trade payables	45,783	45,783	45,783	0	0
Other financial liabilities	426	428	428	0	0
Other liabilities	304	304	304	0	0
Derivative financial liabilities	844	844	844	0	0
Total	**47,357**	**47,359**	**47,359**	**0**	**0**

The other financial liabilities in 2015 consisted of liabilities under the mandatory convertible bond that was converted in 2016.

A more detailed presentation of trade payables in the maturity range "< 1 year" is provided in Note 28 "Trade payables".

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

Of the portfolio of financial liabilities carried in the Group at year-end 2016 in the amount of EUR 51287 thousand (PY EUR 47,357 thousand), EUR 0 thousand or 0% (PY: EUR 1,751 thousand or 3.7%) is hedged. The prior-year security items are broken down in the table below:

EUR'000	Intangible assets	Land and buildings	Other property, plant and equipment	Inventories	Trade receivables	Other security	2015 in %
Trade payables	0	0	0	1,751	0	0	3,7

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

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

	12/31/2016		12/31/2015	
	EUR'000	%	EUR'000	%
Total	**51,287**	**100,0**	**47,357**	**100,0**
Germany	13,487	26,4	11,065	23,3
Europe – EU (excluding Germany)	12,585	24,5	11,936	25,2
Europe – Other	1,205	2,3	604	1,3
Rest of World	24,010	46,8	23,752	50,2

Market price risk

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

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

The loans presented under financial liabilities 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 26,713 thousand (PY: EUR 24,356 thousand) consisted of financial assets denominated in foreign currencies and an amount of EUR 25,470 thousand (PY: EUR 24,302 thousand) consisted of financial liabilities denominated in foreign currencies. The risk concentrations based on foreign currencies are presented in the table below:

Financial assets in	12/31/2016 EUR'000	12/31/2016 %	12/31/2015 EUR'000	12/31/2015 %
USD (US dollar)	11.926	44.6	6.840	28.0
GBP (British pound)	3.176	11.9	2.709	11.0
RUB (Russian ruble)	3.005	11.2	2.399	9.8
TRL (Turkish lira)	2.979	11.2	3.790	15.4
CHF (Swiss franc)	2.589	9.8	4.546	18.6
CNY (Chinese renminbi yuan)	1.454	5.4	770	3.1
PLN (Polish zloty)	906	3.4	1.211	4.9
NOK (Norwegian krone)	327	1.2	423	1.7
SEK (Swedish krone)	191	0.7	1.085	4.4
DKK (Danish krone)	150	0.6	347	1.4
JPY (Japanese yen)	9	0.0	415	1.7
Other	1	0.0	1	0.0
Total	**26.713**	**100.0**	**24.536**	**100.0**

Financial liabilities in	12/31/2016 EUR'000	12/31/2016 %	12/31/2015 EUR'000	12/31/2015 %
USD (US dollar)	21.811	85.6	20.579	84.7
CNY (Chinese renminbi yuan)	1.849	7.3	2.096	8.6
GBP (British pound)	601	2.4	489	2.0
TRL (Turkish lira)	517	2.0	346	1.4
CHF (Swiss franc)	249	1.0	265	1.1
PLN (Polish zloty)	99	0.4	105	0.4
JPY (Japanese yen)	95	0.4	257	1.1
SEK (Swedish krone)	87	0.3	134	0.6
Other	162	0.6	31	0.1
Total	**25.470**	**100.0**	**24.302**	**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, 2016, the equity presented in the functional currency would have been EUR -112 thousand lower or EUR 138 thousand higher, respectively (PY: EUR -20 thousand lower or EUR 27 thousand higher).

The hypothetical effect on profit or loss (after taxes) of EUR -112 thousand (PY: EUR -20 thousand) or EUR 138 thousand (PY: EUR 27 thousand), respectively, is broken down in the table below on the basis of the corresponding currency sensitivities:

	2016		2015	
Financial liabilities in	**+ 10%**	**- 10%**	**+ 10%**	**- 10%**
EUR/USD	899	-1.098	1.249	-1.527
EUR/CNY	36	-44	121	-147
EUR/JPY	8	-10	-14	17
EUR/SEK	-9	11	-86	106
EUR/DKK	-10	12	-31	38
EUR/NOK	-30	37	-38	47
EUR/PLN	-73	90	-101	123
EUR/CHF	-213	260	-389	476
EUR/TRL	-224	274	-313	383
EUR/GBP	-234	286	-202	247
EUR/RUB	-262	320	-216	264
Total	**-112**	**138**	**-20**	**27**

To hedge risks arising from expected future transactions in foreign currencies, the Company regularly enters into foreign currency derivatives in the context of its risk management strategy. Short-term and medium-term company planning and the Group's liquidity planning constitute the basis for concluding hedging transactions. In principle, the incoming and outgoing payments determined per foreign currency are netted individually, taking the maturity structure into account, and hedged in one sum as a net item. Generally, up to 80% of the expected net item is hedged. Therefore, the planned procurement transactions are classified as highly probable. Fee-based hedge transactions and hedge with a hedge ratio above 80% are only concluded with the prior coordination and approval of the Management. In financial year 2016 and in the prior year, foreign currency derivatives were concluded exclusively to hedge purchases in U.S. dollars (EUR/USD).

In financial year 2015, the Executive Board resolved that hedge accounting regulations will be used for foreign currency hedging in the Group starting October 1, 2015. Until September 30, 2015, the derivatives and the transactions to be hedged were recognized separately. Representing foreign currency hedges based on hedge accounting regulations is intended to achieve more adequate presentation within the income statement. In the future, therefore, essentially no income or expenses from the measurement of derivatives will be presented within exchange rate gains or losses; instead, the hedge transactions will be included in the purchased goods.

Since future goods purchases in U.S. dollars will be hedged in the context of the hedge relationship based on existing plans, this is a cash flow hedge. To the extent that the relevant hedging activity will achieved with a high degree of probability, the changes in the value of the derivatives will be recognized in equity until the expected transaction is performed. Once the transaction has been performed, the effects arising from the hedge transactions will be included in the materials to be procured.

Until hedge accounting was implemented, the income and expenses of the foreign currency derivatives were recognized in the income statement in 2015. In the prior year, income from derivatives was recognized in exchange rate gains in the amount of EUR 2,556 thousand, and expenses from derivatives in exchange rate losses in the amount of EUR 1,546 thousand in the time until September 30, 2015. The hedge accounting regulations have been applied since October 1. At the reporting date, an accumulated amount of EUR 1,793 thousand (PY: EUR 788 thousand) was recognized in equity, taking deferred taxes into account.

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

At the reporting date, the Group held 27 (PY: 29) foreign currency derivatives to hedge the exchange rate of the U.S. dollar against the euro, for a total notional amount of USD 78,0 Mio. (PY: USD 89,6 Mio.). At the reporting date, all derivatives were designed as "plain vanilla" forward foreign exchange contracts. In the prior year, 22 of these derivatives were designed as "bonus-eventual" currency futures contracts, 6 derivatives as foreign currency options, and 1 derivative as a "plain vanilla" forward foreign exchange contract.

At the reporting date, the terms of the forward foreign exchange contracts run from January to November 2017 (PY: January to November 2016). The following hedging transactions were concluded for the listed U.S. dollar amounts for the individual months:

Period until month – USD hedges in USD millions	**2017**	**2016**
January	7.0	10.4
February	6.0	9.5
March	10.5	12.4
April	8.5	7.2
May	7.0	8.0
June	6.5	7.5
July	6.0	7.5
August	4.5	6.0
September	8.0	7.1
October	9.0	7.0
November	5.0	7.0
	78.0	**89.6**

These derivatives were measured at their fair value of EUR +3,984 thousand (PY: EUR +2,189 thousand and EUR -844 thousand) at the reporting date, and are presented within other current assets (PY: other current assets and other current liabilities).

The currency sensitivity analysis for the derivatives existing at the reporting date yielded the result that if the U.S. dollar exchange rate had been 10% higher, the fair value would have been lower by EUR 7,246 thousand (PY: EUR 2,316 thousand), and if the U.S. dollar exchange rate had been 10% lower, the fair value would have been higher by EUR 7,432 thousand (PY: EUR 4,696 thousand). Thus, equity (disregarding deferred taxes) would have been reduced by EUR 7,246 thousand (PY: EUR 2,316 thousand) if the U.S. dollar exchange rate had been 10% higher, and increased by EUR 7,432 thousand (PY: EUR 4,696 thousand) if the U.S. dollar exchange rate had been 10% lower.

Interest rate risks

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

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

Both fixed interest rates and variable interest rates have been stipulated for current financial assets and liabilities, insofar as they bear interest. 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 rates have an effect on the cash flows of these financial instruments.

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

Other price risks

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

Classification

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

Carrying amounts, measurement methods and fair values by measurement category in EUR'000	Note	Measurement method per IAS 39		
		Measurement category per IAS 39	Carrying amount 2016	Fair value 2016
Assets				
Noncurrent assets				
Financial assets	17	AfS	18,386	n/a
Current assets				
Trade receivables	19	LaR	30,384	30,384
Other assets	20	LaR, Hedging	19,208	19,208
Cash and cash equivalents	22	LaR	47,490	47,490
Equity and liabilities				
Current liabilities				
Current financial liabilities	24	FL-AC	0	0
Trade payables	28	FL-AC	51,026	51,026
Other liabilities	30	FL-AC, FL-HfT, Hedging	261	261
Thereof aggregated by measurement category according to IAS 39				
Financial assets				
Loans and receivables (LaR)			93,098	93,098
Available-for-sale financial assets (AfS)			18,386	n/a
Derivatives (hedging)			3,984	3,984
Financial liabilities				
Measured at amortized cost (FL-AC)			51,287	51,287
Derivatives (hedging)			0	0

Measurement method per IAS 39			Hedge accounting	
(Amortized) cost	Fair value recog-nized in equity	Fair value through profit or loss		EUR'000
				Assets
				Noncurrent assets
18,386	0	0	0	Financial assets
				Current assets
30,384	0	0	0	Trade receivables
15,224	0	0	3,984	Other assets
47,490	0	0	0	Cash and cash equivalents
				Equity and liabilities
				Current liabilities
0	0	0	0	Current financial liabilities
51,026	0	0	0	Trade payables
261	0	0	0	Other liabilities
				Thereof aggregated by measurement category according to IAS 39
				Financial assets
				Loans and receivables (LaR)
				Available-for-sale financial assets (AfS)
				Derivatives (hedging)
				Financial liabilities
				Measured at amortized cost (FL-AC)
				Derivatives (hedging)

Carrying amounts, measurement methods and fair values by measurement category in EUR'000	Note	Measurement method per IAS 39		
		Measurement category per IAS 39	Carrying amount 2016	Fair value 2016
Assets				
Noncurrent assets				
Financial assets	17	AfS	18,386	n/a
Current assets				
Trade receivables	19	LaR	30,470	30,470
Other assets	20	LaR, Hedging	18,140	18,140
Cash and cash equivalents	22	LaR	40,963	40,963
Equity and liabilities				
Current liabilities				
Current financial liabilities	24	FL-AC	426	426
Trade payables	28	FL-AC	45,783	45,783
Other liabilities	30	FL-AC, FL-HfT, Hedging	1,148	1,148
Thereof aggregated by measurement category according to IAS 39				
Financial assets				
Loans and receivables (LaR)			87,384	87,384
Available-for-sale financial assets (AfS)			18,386	n/a
Derivatives (hedging)			2,189	2,189
Financial liabilities				
Measured at amortized cost (FL-AC)			46,513	46,513
Derivatives (hedging)			844	844

An indication of fair value is not required for current financial assets and liabilities pursuant to IFRS 7.29 as long as the carrying amount is a reasonable approximate value. Gigaset indicates the fair values in the preceding summaries for the sake of 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

Measurement method per IAS 39			Hedge accounting	
(Amortized) cost	Fair value recog-nized in equity	Fair value through profit or loss		EUR'000
				Assets
				Noncurrent assets
18,386	0	0	0	Financial assets
				Current assets
30,470	0	0	0	Trade receivables
15,951	0	0	2,189	Other assets
40,963	0	0	0	Cash and cash equivalents
				Equity and liabilities
				Current liabilities
426	0	0	0	Current financial liabilities
45,783	0	0	0	Trade payables
304	0	0	844	Other liabilities
				Thereof aggregated by measurement category according to IAS 39
				Financial assets
				Loans and receivables (LaR)
				Available-for-sale financial assets (AfS)
				Derivatives (hedging)
				Financial liabilities
				Measured at amortized cost (FL-AC)
				Derivatives (hedging)

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 the hierarchy levels for financial year 2016 as supplemental information:

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

2015	Hierarchy level			
EUR'000	1	2	3	Total
Financial assets				
Derivative financial instruments	0	2,189	0	2,189
Financial liabilities				
Financial liabilities	0	426	0	426
Derivative financial instruments	0	844	0	844

In financial year 2016, the category of other assets included current derivative financial assets in the amount of EUR 3,984 thousand (PY: EUR 2,189 thousand). The other liabilities included no current derivative liabilities (PY: EUR 844 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 prior year, however, there were no liabilities under finance leases at the reporting date. Therefore, there is also no separate presentation of these items.

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

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

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

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

Net gains or losses under financial instruments

EUR'000	From interest	From subsequent measurement			From disposal	
2016		At fair value	Currency translation	Value adjustment		Net gain or loss
Financial assets						
Loans and receivables	-523	0	668	-3,165	0	-3,020
Financial liabilities						
Measured at amortized cost	-143	0	-743	0	2,014	1,128
Derivative financial instruments						
Held for trading	0	0	0	0	1,379	1,379
2015						
Financial assets						
Loans and receivables	-729	0	5,061	32	0	4,364
Financial liabilities						
Measured at amortized cost	-32	0	-2,578	0	1,117	-1,493
Derivative financial instruments						
Held for trading	0	1,010	0	0	1,493	2,503

Interest from financial instruments is presented within other interest and similar income and interest and similar expenses (see Notes 9 and 10). In particular, this item includes interest income on loans extended, interest expenses for receivables from factoring and interest expenses for liabilities to banks and other financial liabilities. No interest income was generated in in 2016 or the prior year on financial assets in which impairment losses had been recognized ("unwinding").

By reason of the hedge accounting introduced in 2015, the recognized gains on disposal of derivative financial instruments were recognized in purchased goods and services in the amount of EUR 1,379 thousand (PY: EUR 1,493 thousand). The effects of measurement of derivatives in 2015 before the introduction of hedge accounting were presented within exchange rate gains or exchange rate losses in the income statement. In the prior year, the net gains and losses on financial instruments held for trading included income and expenses from changes in market value in the amount of EUR 1,010 thousand, which had accrued prior to the introduction of hedge accounting.

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

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

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

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

Capital management

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

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

Change in the gearing ratio

EUR'000	2016	2015
Noncurrent liabilities	94,644	90,825
Current liabilities	109,259	112,407
Liabilities	**203,903**	**203,232**
Equity	**17,842**	**17,856**
Gearing ratio	11.4	11.4

The existing covenants were fulfilled.

D. NOTES TO THE INCOME STATEMENT

1. Revenues

The revenues of the Group in the amount of EUR 281,932 thousand (PY: 305.347) resulted primarily from sales of goods.

The total revenues break down as follows:

EUR'000	2016	2015
Trade revenues	4,229	5,094
Production revenues	277,703	300,253
Total	**281,932**	**305,347**

Trade revenues in 2016 resulted mainly from sales of smart phones. In the prior year, trade revenues resulted mainly from sales of tablets and smartphones.

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

2. Purchased goods and services

EUR'000	2016	2015
Raw materials and supplies	-113,244	-124,823
Purchased goods	-20,318	-27,442
Other	-3,133	-4,524
Total	**-136,695**	**-156,789**

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

The other purchased goods and services consisted mainly of value adjustments of inventories and energy supply costs. Raw materials and supplies included the positive effects of hedges of materials purchases in foreign currencies in the amount of EUR 1,379 thousand (PY: 1,493). Please refer to Section C. Notes on financial instruments for details on this subject.

3. Other internal production capitalized

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

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

EUR'000	2016	2015
Other income from core business	4,031	9,333
Additional ordinary income	5,781	12,723
Exchange rate gains	5,851	16,240
Total	**15,663**	**38,296**

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

EUR'000	2016	2015
Cost allocations	181	6,258
Disposals of noncurrent assets	45	380
Miscellaneous other income from core business	3,805	2,695
Total	**4,031**	**9,333**

The miscellaneous other income from the core business consisted mainly of rental income, employee cafeteria income, income from mold building and plant construction, and income from factory sales in the amount of EUR 2,684 thousand. In the prior year, this item consisted mainly of cost allocations to the Gigaset Mobile Group in the amount of EUR 5,953 thousand.

The **additional ordinary income** breaks down as follows:

EUR'000	2016	2015
Reversal of provisions	3,753	5,028
Derecognition of liabilities	2,014	1,117
Income from the reversal of value adjustments	14	377
Income from recourse claims	0	3,500
Income from deconsolidations	0	2,701
Total	**5,781**	**12,723**

The reversals of provisions mainly included the collection of salary liabilities in the amount of EUR 1,134 thousand related to the collective wage increase for 2015 from employees who waived salary components tied to investments in the "Gigaset Elements" segment in accordance with the special restructuring agreement.

The exchange rate gains of EUR 5,851 thousand (PY: EUR 16,240 thousand) included income from realized and unrealized foreign currency gains in the amount of EUR 5,851 thousand (PY: EUR 13,684 thousand) and income from derivative financial instruments in the amount of EUR 0.00 thousand (PY: EUR 2,556 thousand).

5. Personnel expenses before restructuring and personnel expenses from restructuring

EUR'000	2016	2015
Personnel expenses before restructuring	-76,320	-94,413
Personnel expenses from restructuring	-154	-19,540
Total (personnel expenses)	**-76,474**	**-113,953**

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

EUR'000	2016	2015
Wages and salaries	-60,863	-89,150
Social security, pension expenses and other benefit expenses	-15,611	-24,803
Total	**-76,474**	**-113,953**

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

EUR'000	2016	2015
Gigaset Group	-73,041	-107,007
Holding company	-3,433	-6,996
Total	**-76,474**	**-113,953**

The personnel expenses resulting from restructuring programs are included in the item of personnel expenses from restructuring. As a result of declining market trends, the Gigaset Group will completely reorganize the Consumer Products segment in the coming three years. The negotiations with the employee representatives on the subject of the restructuring program were successfully concluded in March 2016. Therefore, restructuring provisions were recognized in the total amount of EUR 19,540 thousand already in the prior year for an employment and retraining company and for severance awards. In 2016, the personnel expenses from restructuring resulted mainly from the Gigaset Italy national subsidiary, which recognized a provision for restructuring expenses in the amount of EUR 135 thousand (PY. EUR 0 thousand).

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

EUR'000	2016	2015
Other expenses from core business	-57.056	-63.813
Additional ordinary expenses	-186	-3.211
Exchange rate losses	-5.940	-12.451
Total	**-63.182**	**-79.475**

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

EUR'000	2016	2015
Marketing and entertainment expenses	-17,895	-21,777
Administrative expenses	-9,912	-12,212
Outgoing freight / transport costs	-6,688	-7,303
Employee leasing	-5,484	-3,760
Expenses for land / buildings (including rent)	-2,925	-3,315
Consulting expenses	-2,382	-3,672
Patent and licensing fees	-1,938	-991
Maintenance of technical equipment, machinery, operational and office equipment	-1,759	-1,446
Addition to warranty provisions	-1,433	-1,033
Other taxes	-705	-484
Addition to provisions for onerous contracts	-81	-33
Value adjustments of receivables and losses on receivables	-3,179	-344
Miscellaneous other expenses from core business	-2,675	-7,443
Total	**-57,056**	**-63,813**

The **additional ordinary expenses** break down as follows:

EUR'000	2016	2015
Sales tax provision	-186	0
Losses on deconsolidation	0	-1,834
Consulting expenses related to restructuring	0	-1,143
Legal expenses	0	-234
Total	**-186**	**-3,211**

The expenses for the sales tax provision resulted from ongoing external audits of Gigaset AG and Gigaset Communications GmbH.

The exchange rate losses of EUR -5,940 thousand (PY: -12.451) included realized and unrealized foreign currency losses in the amount of EUR -5,940 thousand (PY: EUR -10,905 thousand) and expenses from derivative financial instruments in the amount of EUR 0 thousand (PY: EUR -1,546 thousand).

7. Depreciation, amortization and impairments

EUR'000	2016	2015
Depreciation and amortization	-17,531	-20,601
Total	**-17,531**	**-20,601**

As in the prior year, no impairments were recognized in financial year 2016.

8. Additional ordinary result

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

9. Other interest and similar income

Other interest and similar income in the amount of EUR 163 thousand (PY: EUR 207 thousand) consisted mainly of interest on loans extended, current account balances and term deposits, which are assigned to the category of loans and receivables.

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

10. Interest and similar expenses

Interest and similar expenses amounting to EUR -1.244 in 2016 (PY: -3.488) primarily consisted of interest expenses for back sales taxes, local trade tax and corporate income tax resulting from tax audits in the amount of EUR -502 thousand (PY: EUR -2,641 thousand) and interest expenses for factoring in the amount of EUR -518 thousand (PY: EUR -681 thousand). Interest expenses for factoring reduce the net result of the loans and receivables category.

Interest expenses for the compounding of provisions amounted to EUR -35 thousand (PY: EUR -38 thousand).

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

11. Income taxes

The income tax expenses of EUR -7,434 thousand (PY: EUR -2,468 thousand) break down as follows:

EUR'000	2016	2015
Current tax expenses	-2,545	-7,499
Deferred tax expenses (-) / income (+)	-4,889	5,031
Total income tax expenses	**-7,434**	**-2,468**

The following reconciliation statement shows the differences between actual income tax expenses and expected income tax expenses. The expected income tax expenses are calculated as the product of the result before taxes multiplied by the expected income tax rate. The total expected income tax rate, which is composed of the German corporate income tax, the solidarity surtax and local trade tax, came to 33.0% (PY: 33.0%).

EUR'000	2016	2015
Result before income taxes	11,751	-19,541
Applicable income tax rate	33.0%	33.0%
Expected income tax expenses (-) / income (+)	-3,878	6,428
Tax rate changes	-278	-246
Tax rate differences	219	-158
Tax-exempt income	-170	-333
Non-deductible tax expenses	-2,012	-411
Change in value adjustment on deferred tax assets and non-recognized deferred tax assets for tax loss carry-forwards	2,263	-1,288
Non-period current taxes	-195	-6,617
Other effects	-3,383	157
Stated income tax expenses	**-7,434**	**-2,468**
Effective tax rate	63.3%	-12.6%

12. Earnings per common share

The basic and diluted earnings per share amounted to EUR 0.03 in financial year (PY: EUR -0.17), as per the following calculation:

EUR'000	2016	2015
PROFIT/LOSS		
Basis for basic earnings per share (share of period profit/loss attributable to shareholders of the parent company)	4,317	-22,009
Effect of potentially diluting common shares: stock options	0	0
Basis for diluted earnings per share	4,317	-22,009
NUMBER OF SHARES		
Weighted average common shares outstanding, for calculating basic earnings per share	132,455,896	132,455,896
Effect of potentially diluting common shares: stock options	0	0
Weighted average common shares outstanding, for calculating diluted earnings per share	132,455,896	132,455,896
Basic earnings per share (in EUR)	0.03	-0.17
Diluted earnings per share (in EUR)	0.03	-0.17

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

13. Dividend proposal

No dividend was paid to shareholders in 2016 for financial year 2015.

The net loss calculated in accordance with the German Commercial Code (GCC) for financial year 2016 amounted to EUR -4,199 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 to the remaining accumulated deficit from financial year 2015 of EUR -96,843 thousand and carry forward to new account the remaining accumulated deficit of EUR -101,042 thousand.

E. NOTES TO THE STATEMENT OF FINANCIAL POSITION

14. Intangible assets

EUR'000	Franchises, intellectual property rights and similar rights and licenses	Other intangible assets	Advance payments	Total
Acquisition costs 01/01/2016	25,561	101,965	3,035	130,561
Currency translation	-2	0	0	-2
Acquisitions	62	8,720	0	8,782
Disposals	0	0	0	0
Transfer	0	0	0	0
Balance at 12/31/2016	**25,621**	**110,685**	**3,035**	**139,341**
Amortization 01/01/2016	-14,074	-78,139	-3,035	-95,248
Acquisitions	-1,193	-9,143	0	-10,336
Disposals	0	0	0	0
Transfer	0	0	0	0
Balance at 12/31/2016	**-15,267**	**-87,282**	**-3,035**	**-105,584**
Net carrying amount 12/31/2016	**10,354**	**23,403**	**0**	**33,757**
Net carrying amount 12/31/2015	**11,487**	**23,826**	**0**	**35,313**
Acquisition cost 01/01/2015	25,537	91,788	3,035	120,360
Currency translation	1	0	0	1
Acquisitions	36	10,177	0	10,213
Disposals	-13	0	0	-13
Transfer	0	0	0	0
Balance at 12/31/2015	**25,561**	**101,965**	**3,035**	**130,561**
Amortization 01/01/2015	-12,654	-67,186	-3,035	-82,875
Acquisitions	-1,432	-10,953	0	-12,385
Disposals	13	0	0	13
Transfer	-1	0	0	-1
Balance at 12/31/2015	**-14,074**	**-78,139**	**-3,035**	**-95,248**
Net carrying amount 12/31/2015	11,487	23,826	0	35,313
Net carrying amount 12/31/2014	12,883	24,602	0	37,485

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

EUR'000	12/31/2016	12/31/2015
Brand names	8,399	8,399
Patents	1,873	2,943
Franchises	82	145
	10,354	**11,487**

The brand names acquired in connection with business combinations were capitalized, provided that a future benefit for the Company was ascribed to the brand. In making the determination of useful life, an indefinite useful life was assumed for these brands on the basis of past experience data and the estimations of the Management regarding the future development of these brands. The factors considered in making this determination included the anticipated usage of the brand, typical product life cycles, possible commercial obsolescence, competition, the industry environment, the level of brand maintenance expenditures, legal or similar usage restrictions and the influence of the Company's other assets on the useful life of the brand in question.

At the reporting date, the brand name Gigaset was presented in the amount of EUR 8,399 thousand (PY: EUR 8,399 thousand). The brand name "Gigaset" is assigned to the operating Gigaset Group, as the smallest cash-generating unit. The brand name was subjected to an impairment test at December 31, 2016 on the basis of 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 planning period, EBIT margins from operations were calculated as being between5.6% p.a. and 6.8% p.a. (PY: 1.2% und 8.9%). Appropriate growth rates were applied for the period beyond the detailed planning period. The applied discount factor after taxes was 6.9% p.a. (PY: 8.2% p.a.). The discount rate was calculated based on current market data using a risk surcharge based on Gigaset's peer group. Based on the detailed business plan, the growth discount was set at 1.0% (PY: 0.5%). Based on this calculation, there was no need to recognize an impairment. The calculations showed that realistically assumable changes in the underlying assumptions would not lead to any impairment losses.

The patents presented in the statement of financial position protect certain production processes of the Gigaset Group. They are amortized on a straight-line basis over an average useful life of about 10 years.

The franchises in the amount of EUR 82 thousand (PY: EUR 145 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 23,403 thousand (PY: EUR 23,826 thousand). They were allocated exclusively to Gigaset Communications GmbH. The development activities of the Gigaset Group represent capitalized product developments. Research and development expenses of EUR 1,195 thousand (PY: EUR 3,682 thousand) were recognized as expenses in financial year 2016.

No capitalized goodwill existed at the reporting date.

In addition, borrowing costs of EUR 127 thousand (PY: EUR 128 thousand) were capitalized in the reporting year. The underlying interest rate is 3.06% (PY: 3.06%).

15. 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 assets under construction	Total
Acquisition costs 01/01/2016	4,025	20,427	4,555	59,434	691	89,132
Companies removed from consolidation group	0	0	0	0	0	0
Currency translation	0	0	-2	1	0	-1
Acquisitions	0	0	17	2,469	72	2,558
Disposals	0	0	-656	-8,105	0	-8,761
Transfers	0	0	0	690	-690	0
Balance at 12/31/2016	**4,025**	**20,427**	**3,914**	**54,489**	**73**	**82,928**
Depreciation 01/01/2016	0	-9,093	-2,628	-47,505	0	-59,226
Companies removed from consolidation group	0	0	0	0	0	0
Currency translation	0	0	-1	0	0	-1
Acquisitions	0	-1,134	-457	-5,604	0	-7,195
Disposals	0	0	656	8,105	0	8,761
Transfer	0	0	0	0	0	0
Balance at 12/31/2016	**0**	**-10,227**	**-2,430**	**-45,004**	**0**	**-57,661**
Net carrying amount 12/31/2016	**4,025**	**10,200**	**1,484**	**9,485**	**73**	**25,267**
Net carrying amount 12/31/2015	**4,025**	**11,334**	**1,927**	**11,929**	**691**	**29,906**
Acquisition costs 01/01/2015	4,025	20,592	4,986	67,599	414	97,616
Companies removed from consolidation group	0	0	0	-4	0	-4
Currency translation	0	14	0	6	0	20
Acquisitions	0	0	157	3,672	612	4,441
Disposals	0	-179	-588	-12,174	0	-12,941
Transfers	0	0	0	335	-335	0
Balance at 12/31/2015	**4,025**	**20,427**	**4,555**	**59,434**	**691**	**89,132**
Depreciation 01/01/2015	0	-8,105	-2,673	-53,153	0	-63,931
Companies removed from consolidation group	0	0	0	4	0	4
Currency translation	0	-13	0	-4	0	-17
Acquisitions	0	-1,153	-539	-6,524	0	-8,216
Disposals	0	179	584	12,171	0	12,934
Transfer	0	-1	0	1	0	0
Balance at 12/31/2015	**0**	**-9,093**	**-2,628**	**-47,505**	**0**	**-59,226**
Net carrying amount 12/31/2015	**4,025**	**11,334**	**1,927**	**11,929**	**691**	**29,906**
Net carrying amount 12/31/2014	**4,025**	**12,487**	**2,313**	**14,446**	**414**	**33,685**

At the reporting date, as in the previous year, property, plant and equipment did not include leased assets for which the Group was considered to be the beneficial owner by virtue of the underlying lease agreements.

As in the prior year, no impairments were recognized in property, plant and equipment in 2016. For additional information on impairments, please refer to our comments in the section entitled "Impairment".

In 2016 and in the prior year, no borrowing costs were capitalized as property, plant and equipment.

16. Companies accounted for by the equity method

The company Gigaset Mobile Pte. Ltd., Singapore, was no longer accounted by the equity method in financial year 2015 because the shares were diluted to 14.98%. Since this time, therefore, the Company is accounted for as a long-term financial asset assigned to the category "available-for-sale financial assets" (AfS) in accordance with IAS 39 Financial Instruments: Recognition and Measurement.

As a result of the discontinuation of the equity method, which made it necessary to reclassify the effects of fair value measurement and the items previously recognized in equity until this time to profit or loss, an overall profit/loss effect of EUR -682 thousand was generated in financial year 2015 and is presented as deconsolidation losses within the item of Additional ordinary expenses. In connection with the discontinuation of the equity method, an amount of EUR 2,183 thousand that had been recognized within the Other result until this time was also derecognized.

17. Financial assets

Financial assets include the stated amount for the 14.98% interest in Gigaset Mobile Pte. Ltd., Singapore, which has been assigned to the category of available-for-sale financial assets (AfS). Because this Company is not listed and sufficient other information such as reliably determinable future cash flows to measure the remaining share of equity (for instance) was not available, the fair value for 2015 was calculated using the share of equity and the claims to profit from financial year 2014, taking the already reduced share of equity into account. The fair value approximated by applying this method was calculated to be EUR 18,386 thousand. This value represents the cost of the financial asset within the meaning of IAS 39. Because no fair value can be derived from a stock exchange or market price or from the discounting of reliably determinable future cash flows, this equity item is measured at cost at the reporting date. There is no active market for these shares and a sale of these shares is not to be considered probable at the present time.

18. Inventories

Inventories break down as follows:

EUR'000	12/31/2016	12/31/2015
Finished goods, trading stock and finished services	13,953	13,831
Semi-finished goods, semi-finished services	1,083	2,183
Raw materials and supplies	6,963	8,172
Advance payments	1,530	113
Total	**23,529**	**24,299**

Inventories are measured at the lower of acquisition or production cost and the net realizable value less costs to sell at the reporting date. The value adjustments comprised within purchased goods and services amounted to EUR 996 thousand at the reporting date (PY: EUR 4,966 thousand). The value adjustments were mainly charged to account for slow-moving inventories and insufficient salability.

The amounts presented under inventories derived exclusively from Gigaset Communications GmbH and its subsidiaries.

Inventories in the amount of EUR 0 thousand (PY: EUR 1,751 thousand) have 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."

19. Trade receivables

EUR'000	12/31/2016	12/31/2015
Receivables before value adjustments	34,322	31,223
Value adjustments	-3,938	-753
Carrying amount of receivables	**30,384**	**30,470**

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

EUR'000	2016	2015
01/01	753	517
Addition	3,179	344
Consumption	7	92
Reversal	-1	-187
Changes in the consolidation group	0	-13
12/31	**3,938**	**753**

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

Some companies of the Gigaset Group assigned a portion of their trade receivables to a financing company. The maximum volume of factoring agreements concluded at the reporting date was EUR 42,046 thousand (PY: EUR 42,447 thousand). Receivables in the amount of EUR 42,046 thousand (PY: EUR 42,447 thousand) were sold. The trade receivables are derecognized upon being sold. Based on the contractual formulation of some factoring agreements, it can neither be assumed that the corresponding receivables were completely transferred, nor that the risks and rewards of the receivables remained completely with the Company. In accordance with IAS 39, therefore, the companies recognized a so-called "continuing involvement" of EUR 217 thousand (PY: EUR 197 thousand), which was composed of the remaining interest rate risk in the amount of EUR 217 thousand (PY: EUR 197 thousand) The expenses in connection with factoring amounted to EUR 780 thousand (PY: EUR 1,031 thousand), which includes the factoring fees and 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 factoring companies from clearing accounts in the amount of EUR 6,049 thousand (PY: EUR 6,564 thousand).

The age structure of trade receivables at December 31, 2016 is presented in the table below:

EUR'000	2016	2015
Carrying amount	30,384	30,470
Thereof: neither value-adjusted nor past due at the reporting date	13,087	19,354
Therefore: value-adjusted at the reporting date	3,938	612
Thereof: not value-adjusted, but past due by the following time intervals at the reporting date	13,359	10,504
Past due up to 90 days	6,025	8,819
Past due 90 days to 180 days	1,205	387
Past due 180 days to 1 year	2,110	714
Past due by more than one year	4,019	584

As in the prior year, no trade receivables were assigned as security for financial liabilities in the reporting period. 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 value-adjusted 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 17,330 thousand (PY: EUR 15,729 thousand) as security for trade receivables and outstanding invoices in financial year 2016.

The constituent items within trade receivables were allocated primarily 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, 2016:

	12/31/2016		12/31/2015	
Fremdwährung	**EUR'000**	**%**	**EUR'000**	**%**
TRL (Turkish lira)	2,389	29.0	2,421	33.9
RUB (Russian ruble)	2,535	30.7	2,201	30.8
GBP (British pound)	2,001	24.3	945	13.3
USD (US dollar)	632	7.7	389	5.5
CNY (Chinese renminbi yuan)	55	0.7	341	4.8
SEK (Swedish krone)	57	0.7	338	4.7
PLN (Polish zloty)	527	6.4	326	4.6
Other	44	0.5	168	2.4
Total	**8,240**	**100.0**	**7,129**	**100.0**

20. Other assets

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

EUR'000	12/31/2016	12/31/2015
Receivables from factoring	10,836	10,149
Tax receivables	6,501	4,413
Derivatives	3,984	2,189
Receivables from pension liability insurance	1,833	0
Recourse receivable	1,544	3,500
Debit balances in vendor accounts	244	916
Security deposits	767	784
Accrual	464	446
Other personnel receivables	186	0
Other receivables due from related companies	0	1,357
Miscellaneous assets	2,673	3,837
Total	**29,032**	**27,591**

The receivables from factoring in 2016 consisted mainly of the outstanding portion of the purchase price receivables still owed to the Gigaset Group, in the amount of EUR 10,836 thousand (PY: EUR 10,149 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 6,191 thousand (PY: EUR 4,302 thousand).

The recourse receivable relates to a former investment by the Group Oxy Holding GmbH in the amount of EUR 1,544 thousand (PY: EUR 3,500 thousand).

21. Tax refund claims

This item in the amount of EUR 696 thousand (PY: EUR 799 thousand) was composed exclusively of income tax refund claims, including an amount of EUR 633 thousand (PY: EUR 614 thousand) attributable to the Gigaset Group.

22. 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 7,349 thousand (PY: EUR 5,472 thousand) has been pledged as security for credit facilities and for currency hedging transactions (restricted cash).

EUR'000	12/31/2016	12/31/2015
Cash on hand, cash in banks and checks	40,141	35,491
Restricted cash	7,349	5,472
Total	**47,490**	**40,963**

23. Equity

Subscribed capital

The Company's share capital totals EUR 132.455.896,00 (PY: EUR 122.979.286,00) and is divided into 132.455.896 (PY: 122.979.286) no par value shares. It has thus increased by EUR 9.476.610,00 compared to the prior year. The increase resulted entirely from the conversion of the still outstanding mandatory convertible bonds from the convertible bond issued in 2014 into 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.

Already at the prior-year reporting date, the subscribed capital in accordance with IFRS regulations was EUR 132,455,896.00 and was therefore EUR 9,476,610.00 higher than the share capital presented in accordance with the regulations of German commercial law, which only included the bonds that were already converted at the reporting date. Due to IFRS regulations, the number of shares (9,476,877) to be issued in conjunction with the 2014 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 additional paid-in capital, and a portion of the convertible bond had to be recognized as a financial liability pursuant to IFRS regulations. The 2014 mandatory convertible bonds converted in the reporting period were serviced from the Contingent Capital 2013.

No treasury shares were held at the reporting date of December 31, 2016 and none were held at December 31, 2015. 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

Additional paid-in capital at December 31, 2016 amounted to EUR 86,076 thousand and has therefore not changed compared to the additional paid-in capital presented in the prior year.

Retained earnings

Retained earnings were unchanged from the prior year at EUR 68,979 thousand.

Authorized Capital / Contingent Capital

Authorized Capital 2014

The annual shareholders' meeting of August 12, 2014 resolved to create an authorized capital account (Authorized Capital 2014). Pursuant to Article 4 (6) of the Articles of Incorporation, the Executive Board is thus authorized to increase the Company's capital stock by issuing new shares in the period through August 11, 2019, with the consent of the Supervisory Board, by a total of up to EUR 22,000,000.00, all at once or in partial amounts, through the issuance of new bearer shares that qualify for dividends starting at the beginning of the year of issue, against cash or in-kind capital contributions (Authorized Capital 2014). The existing shareholders are fundamentally entitled to a subscription right, but it can be excluded under certain circumstances. The new shares may also be accepted by one or more financial institutions with the obligation to offer them to the existing shareholders for purchase (indirect subscription right). The Executive Board was authorized to decide upon the content of the stock rights and the terms of the stock issue with the consent of the Supervisory Board and to specify the details of implementation of the capital increase. The Supervisory Board was further authorized to amend the wording of the Articles of Incorporation in accordance with the specific scope of the capital increase from the Authorized Capital 2014. At December 31, 2016, the Authorized Capital 2014 remained unchanged at EUR 22,000,000.00.

Authorized Capital 2016

The annual shareholders' meeting of August 12, 2016 resolved to create a new authorized capital account (Authorized Capital 2016) because no such authorized capital account was available after the capital measures taken in the prior years. Pursuant to the reworded Article 4 (5) of the Articles of Incorporation, the Executive Board is thus authorized to increase the Company's capital stock by issuing new shares in the period through August 11, 2021, with the consent of the Supervisory Board, by a total of up to EUR 44,200,000.00, all at once or in partial amounts, through the issuance of new bearer shares that qualify for dividends starting at the beginning of the year of issue, against cash or in-kind capital contributions (Authorized Capital 2016). The existing shareholders are fundamentally entitled to a subscription right, but it can be excluded under certain circumstances. The new shares may also be accepted by one or more financial institutions with the obligation to offer them to the existing shareholders for purchase (indirect subscription right). The Executive Board was authorized to decide upon the content of the stock rights and the terms of the stock issue with the consent of the Supervisory Board and to specify the details of implementation of the capital increase. The Supervisory Board was further authorized to amend the wording of the Articles of Incorporation in accordance with the specific scope of the capital increase from the Authorized Capital 2016. At December 31, 2016, the Authorized Capital 2016 remained unchanged at EUR 44,200,000.00.

Contingent Capital 2011

The annual shareholders' meeting of June 10, 2011, resolved to annul the Contingent Capital 2008/I and create a new contingent capital account (Contingent Capital 2011), by means of which the Company's share capital can be increased by up to EUR 1,300,000.00. However, the Contingent Capital serves the exclusive purpose of granting subscription rights ("stock options") to members of the Company's Executive Board and selected employees of the Company or its affiliated companies. The Executive Board is authorized, with the consent of the Supervisory Board, to grant stock options to beneficiaries in connection with the stock option plan in the time until December 31, 2014. The authority of the Articles of Incorporation relating to the Contingent Capital 2011 was not utilized to date. It became ineffective on 12/31/2014 by passage of time. Therefore, the authorization period expired and the Contingent Capital 2011 was annulled by resolution of the annual shareholders' meeting of August 12, 2016, in accordance with Article 4 (3) of the Articles of Incorporation.

Contingent Capital 2012

Due to the conversion of 1,480,927 units in 2015, there remained no convertible bonds from the 2013 convertible bond issue at December 31, 2015 and therefore the total amount of Contingent Capital 2012 was EUR 159,711.00 at the reporting date of December 31, 2015. Due to the restricted availability, therefore, the regular annual shareholders' meeting of Gigaset AG, Munich, resolved on August 12, 2016 to annul the Contingent Capital 2012 in accordance with Article 4.4 of the Articles of Incorporation and the authorization to issue option and/or convertible bonds through June 12, 2012, and to delete Article 4.4 of the Articles of Association.

Contingent Capital 2013

A total of 9,476,610 shares with a nominal value of EUR 9,476,610.00 were issued in the time until the final maturity of the 2014 convertible bond on January 23, 2016. Thus, the 2014 convertible bond was completely redeemed through the issuance of shares. The technically freely available remainder of Contingent Capital 2013 amounted still to EUR 23,123. It was not economically advisable to utilize this remaining amount.

Therefore, the regular annual shareholders' meeting of Gigaset AG, Munich, resolved on August 12, 2016 to annul the "Contingent Capital 2013" in accordance with Article 4.7 of the Articles of Incorporation and the authorization to issue option bonds and/or convertible bonds of December 19, 2013, and to delete Article 4.7 of the Articles of Incorporation.

Of the convertible bond from 2014, 9,476,610 units were still outstanding for conversion at December 31, 2015, so that the total amount of the Contingent Capital 2013 amounted to EUR 9,499,733.00 at December 31, 2015.

A total of 9,476,610 shares with a nominal value of EUR 9,476,610.00 were issued in the time until the final maturity of the 2014 convertible bond on January 23, 2016. Thus, the 2014 convertible bond was completely redeemed through the issuance of shares. The technically freely available remainder of Contingent Capital 2013 amounted still to EUR 23.123. It was not economically advisable to utilize this remaining amount. Therefore, the regular annual shareholders' meeting of Gigaset AG, Munich, resolved on August 12, 2016 to annul the "Contingent Capital 2013" in accordance with Article 4.7 of the Articles of Incorporation and the authorization to issue option bonds and/or convertible bonds of December 19, 2013, and to delete Article 4.7 of the Articles of Incorporation.

Contingent Capital 2014

The annual shareholders' meeting resolved on August 12, 2014 that the Company is authorized, with the consent of the Supervisory Board, to issue option bonds and/or convertible bonds once or multiple times until August 11, 2019, with or without limitation of maturities, for a total nominal amount of up to EUR 150,000,000.00 ("bonds") or to grant the bond holders or creditors option and/or conversion rights to a total of up to 35,000,000 bearer no-par-value shares of the Company with a proportional share of the capital stock of up to EUR 35,000,000.00 after further specification of the terms and conditions of the individual bonds. The shareholders are fundamentally entitled to a subscription right. However, it can be excluded under certain circumstances. The new shares may also be accepted by one or more financial institutions with the obligation to offer them to the existing shareholders for purchase (indirect subscription right). The Executive Board was authorized to decide upon the content of the stock rights and the terms of the stock issue with the consent of the

Supervisory Board and to specify the details of implementation of the capital increase. The annual shareholders' meeting of August 12, 2014 likewise resolved to create a new contingent capital account (Contingent Capital 2014), by means of which the Company's share capital can be increased by up to EUR 35,000,000.00. This Contingent Capital is intended to be used to grant shares to the holders or creditors of option bonds and/or convertible bonds that are issued by the Company. The Management Board is authorized, with the consent of the Supervisory Board, to determine the other details for carrying out the contingent capital increase. At December 31, 2016, the Contingent Capital 2014 remained unchanged at EUR 22,000,000.00.

Contingent Capital 2016

The annual shareholders' meeting resolved on August 12, 2016 that the Company is authorized, with the consent of the Supervisory Board, to issue option bonds and/or convertible bonds once or multiple times until August 11, 2021 with or without limitation of maturities, for a total nominal amount of up to EUR 150,000,000.00 ("bonds") or to grant the bond holders or creditors option and/or conversion rights to a total of up to 29,700,000 bearer no-par-value shares of the Company with a proportional share of the capital stock of up to EUR 29,700,000.00 after further specification of the terms and conditions of the individual bonds. The shareholders are fundamentally entitled to a subscription right. However, it can be excluded under certain circumstances. The new shares may also be accepted by one or more financial institutions with the obligation to offer them to the existing shareholders for purchase (indirect subscription right). The Executive Board was authorized to decide upon the content of the stock rights and the terms of the stock issue with the consent of the Supervisory Board and to specify the details of implementation of the capital increase. The annual shareholders' meeting of August 12, 2016 likewise resolved to create a new contingent capital account (Contingent Capital 2016), by means of which the Company's share capital can be increased by up to EUR 29,700,000.00. This Contingent Capital is intended to be used to grant shares to the holders or creditors of option bonds and/or convertible bonds that are issued by the Company. The Management Board is authorized, with the consent of the Supervisory Board, to determine the other details for carrying out the contingent capital increase. At December 31, 2016, the Contingent Capital 2016 remained unchanged at EUR 29,700,000.00.

Stock options

The annual shareholders' meeting of June 10, 2011 authorized the Supervisory Board or the Executive Board with the consent of the Supervisory Board to grant subscription rights to shares of Gigaset AG to members of the Company's Executive Board, selected employees of the Company, and members of the Management and selected employees of affiliated companies in the time until December 31, 2014 within the scope of the Gigaset AG Stock Option Plan 2011. The Executive Board and Supervisory Board had not yet utilized this authorization. The authorization period was therefore expired and the Contingent Capital 2011 was annulled by resolution of the annual shareholders' meeting of August 12, 2016, in accordance with Article 4 (3) of the Articles of Incorporation.

No further options were outstanding at the reporting date of 12/31/2016, as at 12/31/2015. No options were exercised in financial year 2016 and also none in the prior year. In the prior year, there were 110,000 expired or forfeited options with an average exercise price of EUR 0.97.

As in the prior year, the Group recognized no expenses related to share-based payments to be settled with equity instruments in 2016. Moreover, the Group recognized no expenses related to cash-settled 2016 and also none in the prior year.

24. Convertible bond

Based on the authorization of the annual shareholders' meeting to issue option bonds and/or convertible bonds, a convertible bond was issued in 2014 and is described in detail in the 2014 Annual Report.

IFRS regulations required the mandatory convertible bond to be divided into an equity component and a debt component, since it represented a compound financial instrument. The liability recognized in the statement of financial position from the mandatory convertible bond represents the debt component, which is measured using the effective interest method in accordance with IFRS regulations.

The convertible bond 2014 was completely converted at the end of the term on January 23, 2016. In financial year 2016, EUR 428 thousand in interest was paid in the context of the conversion. At December 31, 2015, 9,476,610 mandatory convertible bonds were still outstanding. In the prior year, Therefore, the related debt component was recognized under current liabilities from mandatory convertible bonds, due to its maturity.

25. Pension obligations

25.1 Description of pension commitments

25.1.1 Geographical distribution of pension commitments

The pension obligations of Gigaset AG and its subsidiaries are distributed over four countries: Germany, Switzerland, Italy, and Austria. In addition, plan assets still exist in Germany and Switzerland. The amount of the obligations and the plan assets are broken down by country in the following table:

Pension obligations and plan assets at 12/31/2016 (in EUR'000):

Country	Pension obligation	Plan assets	Net obligation
Germany	119,327	40,495	78,832
Switzerland	3,307	2,084	1,223
Italy	608	0	608
Austria	80	0	80
Total	**123,322**	**42,579**	**80,743**

Pension obligations and plan assets at 12/31/2015 (in EUR'000):

Country	Pension obligation	Plan assets	Net obligation
Germany	108,195	39,838	68,357
Switzerland	2,926	1,902	1,024
Italy	576	0	576
Austria	63	0	63
Total	**111,760**	**41,740**	**70,020**

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

25.1.2 Description of pension commitments in Germany

Because their legal predecessors originally belonged to the Siemens Group, the vast majority of the pension obligations held by Gigaset AG and its German subsidiaries (the Gigaset Group) were created based on Siemens promises. Siemens AG converted its guaranteed pension payments from pension benefits to a capital-based system in 2003. All employees who were already employed at a legal predecessor of the Gigaset Group received vested rights in the form of a benefit obligation in the course of this conversion. In addition, all employees can receive contributions to the new capital account plan, if funds are allocated to it by the Company. The Company can make a new decision on an allocation annually. For 2016, 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 1.25% (PY: 1.25%).

New pension obligations are thus only generated by inclusion in the capital account plan as well as by vested rights in a death benefit. All other plans are closed to new hires and are no longer being serviced with contribution payments.

25.1.3 Significant risk factors

The primary risk consists of the pension obligations from vested rights, since they constitute about 82% (PY: about 80%) 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 4% (PY: about 4%) of the pension obligations), however, no calculation was made of the sensitivities to projected salary increases. For all other risks, significant actuarial assumptions and the sensitivity analysis are shown in Chapter 25.2.

25.1.3.1 Longevity risk factor

Pension plans such as vested rights system react sensitively to any change in life expectancy. An increase in life expectancy thus represents a significant risk to the pension obligation. Since the obligation is distributed over a group of more than 1,000 people, as in the prior year, there are no concentration risks. For all other plans, the longevity risks are negligible or do not exist.

25.1.3.2 Inflation risk factor

Pension plans are likewise susceptible to inflation risk through the pension adjustment. A review to determine whether a pension adjustment is necessary is conducted every three years and is based on the consumer price index. All other plans are not subject to inflation risk.

25.1.3.3 Discount rate risk factor

Pension obligations depend very strongly on the discount rate. Since the discount rate is calculated at a reporting date and is based on the capital market, it has been subject to strong fluctuations since the financial crisis occurred. This means that it is very likely that the obligation will change by more than 10% from one year to the next. According to the current IAS 19 as revised in 2011, the actuarial gains and losses occurring (due inter alia to changes in parameters) must be recognized as losses against the Company's equity. While large actuarial losses do not affect cash flow, they can have a negative effect on equity.

25.2 Significant actuarial assumptions and sensitivity analysis

The sensitivity analysis is intended to show the effects of changes in measurement assumptions that could reasonably occur until the next reporting date (IAS 19.145 and IFRS 7).

A Defined Benefit Obligation (DBO) in Germany at 12/31/2016: EUR 119,327 thsd

B Weighted average duration of the obligation (Macaulay duration based on best-estimate assumptions): 19.9 years

C Significant actuarial assumptions at 12/31/2016

Parameter	Initial value	Sensitivity analysis	DBO in EUR'000
Discount rate	1.85%	+0.50%	108,740
Discount rate	1.85%	-0.50%	131,623
Inflation (pension trend)	2.00%	+0.25%	123,220
Inflation (pension trend)	2.00%	-0.25%	115,632
Longevity	Heubeck 2005 G	+1 year	123,360
Longevity	Heubeck 2005 G	-1 year	115,290

A Defined Benefit Obligation (DBO) Germany at 12/31/2015: EUR 108,195 thsd

B Weighted average duration of the obligation (Macaulay duration based on best-estimate assumptions): 19.5 years

C Significant actuarial assumptions at 12/31/2015

Parameter	Initial value	Sensitivity analysis	DBO in EUR'000
Discount rate	2.30%	+0.5%	98,806
Discount rate	2.30%	-0.5%	119,055
Inflation (pension trend)	2.00%	+0.25%	111,538
Inflation (pension trend)	2.00%	-0.25%	105,021
Longevity	Heubeck 2005 G	+1 year	111,521
Longevity	Heubeck 2005 G	-1 year	104,837

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).

25.3 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	12/31/2016	12/31/2015
Gigaset Group	79,075	69,292
Holding company	1,668	728
Total	**80,743**	**70,020**

The increase in the pension provision compared to the prior year resulted mainly from the changed discount rate, which was reduced from an average of 2.26% in the prior year to an average of 1.81% 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 presented separately in the Statement of Changes in Equity.

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

EUR'000	2016	2015
Balance at 01/01	111,760	112,708
Current service cost	1,880	2,077
Employee contributions	115	110
Interest expenses	2,510	2,327
Pension benefits paid	-1,521	-1,120
Actuarial gains/losses from demographic assumptions	0	0
Actuarial gains/losses from financial assumptions	9,741	-4,203
Actuarial gains/losses from experience values	-1,189	-391
Foreign currency effects	26	252
Balance at 12/31	123,322	111,760

The pension expenses recognized in financial year 2016 were composed of the following elements:

EUR'000	2016	2015
Current service cost	1,880	2,077
Net interest on net liability	1,587	1,469
Total pension expenses	**3,467**	**3,546**

Pension expenses are presented as personnel expenses before restructuring in the item of social security, pension and other benefit expenses. The current income from plan assets was EUR 1,731 thousand (PY: EUR 603 thousand).

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

EUR'000	2016	2015
Revaluation effects, net liability from defined benefit plans in equity		
Balance at 01/01	**-49,651**	**-53,989**
Revaluation effects in the current year	-7,744	4,338
Balance at 12/31	**-57,395**	**-49,651**

The plan assets showed the following development:

EUR'000	2016	2015
Fair value of plan assets at 01/01	41,740	41,696
Expected net interest income	923	858
Difference between net interest income and actual net interest income	808	-255
Employer contributions	74	72
Employee contributions	116	110
Benefits paid	-1,097	-908
Foreign currency effects	15	167
Fair value of plan assets at 12/31	**42,579**	**41,740**

The plan assets for financial year 2016 break down as follows:

EUR'000	2016	2015
Special funds	40,301	39,723
Fixed-income securities	911	821
Equities	687	629
Real estate and real estate funds	426	381
Other	254	186
Total	**42,579**	**41,740**

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 in the coming year total EUR 262 thousand (PY: EUR 181 thousand). The expected benefit payments in the following year are expected to total EUR 1,640 thousand (PY: EUR 1,279 thousand).

The current employer's contributions to the statutory pension insurance system are recognized as operating expenses in the respective year. In financial year 2016, they amounted to EUR 5,251 thousand (PY: EUR 6,326 thousand).

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

The calculation was based on the following weighted actuarial assumptions:

IN %	2016	2015
Discount rate	1.81	2.26
Salary trend	2.24	2.24
Pension trend	1.97	1.93
Mortality tables:		
Germany	Heubeck 2005 G	Heubeck 2005 G
Switzerland	BVG 2005	BVG 2005
Italy	SIM2014, SIF2014	SIM2013, SIF2013
Austria	Pagler 2008 Generation Table, Salaried Employees	Pagler Generation Table 2008, Salaried Employees

The provision for pension obligations was measured as follows:

EUR'000	2016	2015
Project unit credit value of pension obligations	123,322	111,760
- internally financed	5,215	5,550
- externally financed	118,107	106,210
Fair value of plan assets	-42,579	-41,740
Total pension provisions	**80.743**	**70.020**

The provision showed the following development over time:

EUR'000	2016	2015
Pension provision at 01/01	70,020	71,012
Current service cost	1,880	2,077
Net interest expenses/ income	1,587	1,469
Actuarial gains/losses from demographic assumptions	0	0
Actuarial gains/losses from financial assumptions	9,741	-4,203
Actuarial gains/losses from experience values	-1,189	-391
Difference between expected net interest income and actual net interest income from plan assets	-808	255
Pension benefits paid	-424	-212
Employer contributions	-74	-72
Employee contributions	-1	0
Foreign currency effects	11	85
Pension provision at 12/31	**80,743**	**70,020**

26. Provisions

EUR'000	Balance at 01/01/2016	Utilization	Reversal	Addition	Reclassification	Currency / interest effects	Balance at 12/31/2016
Restructuring	20,667	-6,127	-81	45	0	17	14,521
Personnel	7,656	-2,084	-14	1,061	0	0	6,619
Warranties	5,696	-5,829	0	4,689	0	-1	4,555
Onerous contracts	621	-86	-31	5	0	0	509
Environment provision	160	-7	-3	0	0	9	159
Other	13,637	-9,130	-2,414	11,092	36	55	13,276
Total	**48,437**	**-23,263**	**-2,543**	**16,892**	**36**	**80**	**39,639**

The r**estructuring provision** comprises severance pay and residual costs in the amount of EUR 14,521 thousand (PY: EUR 20,667 thousand). The provisions for residual costs are expected to be utilized in several steps until the end of 2018.

Miscellaneous other provisions particularly include provisions for tax audits, legal disputes, customer bonuses and Supervisory Board compensation.

The **warranty provisions** of EUR 4,555 thousand (PY: EUR 5,696 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	12/31/2016	12/31/2015
Partial early retirement (Altersteilzeit)	5,515	6,443
Service anniversary bonuses	1,104	1,213
Total	**6,619**	**7,656**

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

EUR'000	12/31/2016	12/31/2015
Gigaset Group	5	100
Holding company	504	521
Total	**509**	**621**

The provision for **environmental risks** in the amount of EUR 159 thousand (PY: EUR 160 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	12/31/2016	12/31/2015
Noncurrent provisions	11,068	20,189
Current provisions	28,571	28,248
Total	**39,639**	**48,437**

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

EUR'000	12/31/2016	12/31/2015
Restructuring	3,311	14,447
Personnel	5,760	4,716
Warranty	730	88
Onerous contracts	503	521
Environmental risks	149	150
Other	615	267
Total	**11,068**	**20,189**

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	12/31/2016	12/31/2015
Deferred tax assets	EUR'000	EUR'000
Intangible assets	106	25
Property, plant and equipment	7	147
Inventories	102	177
Receivables and other current assets	43	51
Provisions	22,731	17,074
Liabilities	6,449	9,442
Tax loss carry-forwards	2,847	7,000
Total deferred tax assets	**32,285**	**33,916**
thereof current	6,784	9,746
thereof noncurrent	25,501	24,170
Deferred tax liabilities		
Intangible assets	9,134	8,695
Property, plant and equipment	3,038	3,080
Inventories	42	133
Receivables and other current assets	3,545	1,653
Provisions	6,119	7,606
Liabilities	36	4
Total deferred tax liabilities	**21,914**	**21,171**
thereof current	9,742	9,298
thereof noncurrent	12,172	11,873
Net balance of deferred tax assets and liabilities	19,081	20,555
Stated amount of deferred tax assets	13,204	13,361
Stated amount of deferred tax liabilities	**2,833**	**616**

No deferred tax assets were recognized in respect of corporate income tax loss carry-forwards totaling EUR 44,286 thousand (PY: EUR 40,304 thousand) and trade tax loss carry-forwards totaling EUR 36,207 thousand (PY: EUR 32,541 thousand). Of the non-recognized corporate income tax loss carry-forwards, an amount of EUR 15,758 thousand related to foreign companies (PY: EUR 15,761 thousand), of which, in turn, EUR 0 thousand (PY: EUR 0 thousand) will expire within 5 to 20 years. With regard to German companies, it should be noted that share transfers of 25% to 50% fundamentally result in a proportional reduction of existing tax loss carry-forwards, while share transfers of more than 50% fundamentally lead to the complete loss of existing tax loss carry-forwards. The deferred tax assets for tax loss carry-forwards were recognized for Gigaset Communications GmbH, which generated a tax loss in the prior year, but mainly due to restructuring measures. A taxable profit was generated in the current year and therefore it seemed appropriate to capitalize these tax loss carry-forwards in the expectation of being able to apply them in the near term.

Gigaset did not recognize deferred tax assets on temporary differences in the amount of EUR 1,760 thousand (PY: EUR 522 thousand).

No deferred tax liabilities were recognized in respect of temporary differences related to interests in subsidiaries in the amount of EUR 104.5 million (PY: EUR 103.8 million).

For more information on this subject, please refer to the presentation of accounting and valuation methods and the explanations provided in Section 11.

28. 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	12/31/2016	12/31/2015
Carrying amount	51,026	45,783
thereof due in the following time periods:		
< 30 days	32,599	21,845
30 - 90 days	17,856	23,193
90 - 180 days	491	522
180 days - 1 year	80	223

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

EUR'000	12/31/2016	12/31/2015
Gigaset Group	50,729	44,929
Holding company	297	854
Total	**51,026**	**45,783**

By reason of the international activity of the Gigaset Group, the trade payables at December 31, 2016 included the following amounts denominated in foreign currencies, which have been translated to the euro, as the Group currency:

	12/31/2016		12/31/2015	
Foreign currency	**EUR'000**	**%**	**EUR'000**	**%**
USD (US dollar)	21,811	85.6	20,579	84.7
CNY (Chinese renminbi yuan)	1,849	7.3	2,096	8.6
GBP (British pound)	601	2.4	489	2.0
TRL (Turkish lira)	517	2.0	346	1.4
CHF (Swiss franc)	249	1.0	265	1.1
JPY (Japanese yen)	95	0.4	257	1.1
SEK (Swedish krone)	87	0.3	134	0.6
PLN (Polish zloty)	99	0.4	105	0.4
Other	162	0.6	31	0.1
Total	**25,470**	**100.0**	**24,302**	**100.0**

Of the trade payables presented in the statement of financial position, an amount of EUR 0 thousand (PY: EUR 5,028 thousand) is secured by trade receivables and an amount of EUR 0 thousand (PY: EUR 2,874 thousand) by inventories.

29. Tax liabilities

This item in the amount of EUR 15,093 thousand (PY: EUR 13,981 thousand) was composed exclusively of current income tax liabilities, including an amount of EUR 14,996 thousand (PY: EUR 12,782 thousand) attributable to Gigaset Communications GmbH and its subsidiaries.

30. Current other liabilities

EUR'000	12/31/2016	12/31/2015
Other personnel-related liabilities	6,865	13,780
Other taxes	3,144	2,857
Customs liabilities	2,603	2,603
Social security contributions	793	952
Advance payments received	433	501
Wages and salaries	261	304
Derivatives	0	844
Miscellaneous other liabilities	470	2,128
Total	**14,569**	**23,969**

The other current liabilities did not bear interest in the reporting year. Due to the fact that they are due in less than one year, it can be assumed that the carrying amounts of the liabilities essentially correspond to their fair values. Therefore, the repayment amounts presented in the statement of financial position are equivalent to the market values of the liabilities.

The other personnel-related liabilities were mainly composed of the following items:

EUR'000	12/31/2016	12/31/2015
Profit-based bonuses and other bonuses	2,357	5,902
Vacation leave not taken	1,871	2,149
Work time accounts	1,258	2,269
Miscellaneous personnel-related liabilities	1,379	3,460
Total	**6,865**	**13,780**

F. OTHER INFORMATION

31. Segment report

The segment report is based on geographical segments, in accordance with the Group's internal reporting system. As before, the holding company is presented separately from Gigaset's operating activities. Within operating activities, a distinction is made in the geographical regions between "Germany," "EU" and "Rest of World." The reportable segment "EU" encompasses several geographical regions, including the geographical region of "France" as an operating segment, which have been aggregated to form this segment. The individual segments were aggregated into the "EU" segment because the products and services sold, the customer structures, sales structures and regulatory conditions are comparable. With respect to economic criteria, the individual geographical segments have been aggregated particularly by reason of comparable gross margins.

Gigaset is principally active in the sector of communications technology. The geographical regions in which Gigaset operates are the following:

- "Germany"

  The "Germany" geographical region comprises the operating activities in Germany.

- "EU"

  The "EU" geographical region comprises the operating activities in Poland, Great Britain, Austria, France, Italy, the Netherlands, Spain, and Sweden.

- "Rest of world"

  The "Rest of World" geographical region comprises the operating activities in Switzerland, Turkey, Russia and China; in the prior year, it also comprised Argentina and the United States.

The transfer prices charged between the segments are the same as those that could be achieved with third parties. Administrative services are charged to the Group companies as cost allocations.

As of 2016, the relevant segment result is the result from the core business before depreciation and amortization. Until the end of 2015, the relevant segment result was EBITDA.

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

Revenues by receiving entities represent the revenues invoiced in the respective regions, regardless of the domicile of the invoicing entity. If, for example, a German company issues an invoice to a company in the Netherlands, these revenues are assigned to the region of "Europe – EU (excluding Germany)" in the presentation by receiving entities. In the table below, revenues are presented according to the regions of the receiving entities within the meaning of IFRS 8.33 a), as described in the preceding paragraph, for financial year 2016 and the comparison period:

EUR'000	2016	2015
Germany	117,251	127,649
Europe - EU (excluding Germany)	124,009	134,223
Europe – Other	19,460	19,138
Rest of World	21,212	24,337
Total	**281,932**	**305,347**

For purposes of current segment reporting within the Group, the attribution to individual geographical regions is additionally done according to the country of domicile of the respective legal entity. If, for example, a German company issues an invoice to a company in the Netherlands, these revenues are assigned to the "Germany" region for purposes of the presentation by country of domicile. Revenues classified by country of domicile are presented in the following tables. The relevant segment result (result from the core business before depreciation and amortization) is determined on the basis of the results of the respective legal entities (country of origin).

January 1 - December 31, 2016 in EUR'000	Germany	EU	Rest of World	Gigaset TOTAL	Holding Company	Group
Revenues	145,733	105,752	30,447	281,932	0	281,932
Result from core business before depreciation and amortization	**27,546**	**1,602**	**-551**	**28,597**	**-3,586**	**25,011**
Depreciation and amortization	-17,417	-90	-24	-17,531	0	-17,531
Result from core business after depreciation and amortization	10,129	1,512	-575	11,066	-3,586	7,480
Additional ordinary result	3,117	-108	43	3,052	2,300	5,352
Operating result	**13,246**	**1,404**	**-532**	**14,118**	**-1,286**	**12,832**
Other interest and similar income						163
Interest and similar expenses						-1,244
Financial result						**-1,081**
Result from ordinary activities						**11,751**
Income taxes						-7,434
Consolidated net loss						**4,317**
EBITDA (including impairments)	**30,663**	**1,494**	**-508**	**31,649**	**-1,286**	**30,363**

January 1 - December 31, 2015 in EUR'000	Germany	EU	Rest of World	Gigaset TOTAL	Holding Company	Group
Revenues	160,305	113,437	31,605	305,347	0	305,347
Result from core business before depreciation and amortization	**14,792**	**1,970**	**50**	**16,812**	**-6,232**	**10,580**
Depreciation and amortization	-20,463	-118	-20	-20,601	0	-20,601
Result from core business after depreciation and amortization	-5,671	1,852	30	-3,789	-6,232	-10,021
Additional ordinary result	-14,701	210	1,956	-12,535	6,296	-6,239
Operating result	**-20,372**	**2,062**	**1,986**	**-16,324**	**64**	**-16,260**
Other interest and similar income						207
Interest and similar expenses						-3,488
Financial result						**-3,281**
Result from ordinary activities						**-19,541**
Income taxes						-2,468
Consolidated net loss						**-22,009**
EBITDA (including impairments)	**91**	**2,180**	**2,006**	**4,277**	**64**	**4,341**

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

In 2016, the operating revenues break down essentially into operating revenues from the Consumer Products segment in the amount of EUR 233,139 thousand (PY: EUR 249,715 thousand) and the Business Customers segment in the amount of EUR 43,709 thousand (PY: EUR 46,613 thousand), as well as the new segments Home Networks and Mobile Products in the amount of EUR 5,084 thousand (PY: EUR 9,019 thousand).

In accordance with IFRS 8.33 b), noncurrent assets were divided among the following regions in financial year 2016 and the comparison period:

EUR'000	12/31/2016	12/31/2015
Noncurrent assets		
Germany	58,863	64,999
Europe – EU (excluding Germany)	129	170
Europe – Other	5	2
Rest of World	27	48
Total	**59,024**	**65,219**

32. 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	2016	2015
Cash flow statement		
Cash inflow (+)/outflow (-) from operating activities	18,464	4,689
Cash outflow for investing activities	-11,291	-14,348
Free cash flow	7,173	-9,659
Cash inflow from financing activities	-428	-66
Change in cash and cash equivalents	**6,745**	**-9,725**

The cash flow statement has been prepared in accordance with the indirect method. The changes in items of the statement of financial position considered for this purpose have been adjusted for the effects of changes in the consolidation group and transactions recognized in equity. For these reasons, the changes in items of the statement of financial position presented in the cash flow statement cannot necessarily be reconciled with the statement of financial position.

No investments in companies were acquired in financial year 2016, as in the previous year. A cash outflow of EUR 82 thousand from payments received and from cash transferred upon sale occurred in the context of selling investments in companies in financial year 2016.

The cash outflow from investment activities amounted to EUR 11,291 thousand in 2016, after EUR 14,348 thousand in the previous year. The cash outflows for investments in noncurrent assets in the amount of EUR 11,336 thousand (PY: EUR 14,650 thousand) break down as follows:

EUR'000	2016	2015
Cash outflows for investments in noncurrent assets		
Cash outflows for intangible assets	8,791	10,210
Cash outflows for property, plant and equipment	2,545	4,440
Total	**11,336**	**14,650**

In financial year 2016, cash outflows from financing activities occurred in the amount of EUR 428 thousand (PY: EUR 66 thousand). As in the prior year, these cash outflows resulted from the mandatory convertible bond.

Cash and cash equivalents at December 31, 2016 amounted to EUR 40,141 thousand (PY: EUR 35,491 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 7,349 thousand at December 31, 2016 (PY: EUR 5,472 thousand). Thus, the total amount of cash and cash equivalents amounted to EUR 47,490 thousand (PY: EUR 40,963 thousand).

33. Other financial commitments

The other financial obligations at the reporting date of December 31, 2016 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:

2016 in EUR'000	Up to 1 year	1-5 years	Longer than 5 years	Total
Rental and lease commitments	1,964	2,395	0	4,359
Other commitments	523	8	0	531
Total	**2.487**	**2.403**	**0**	**4.890**

2015 in EUR'000	Up to 1 year	1-5 years	Longer than 5 years	Total
Rental and lease commitments	2,464	4,504	0	6,968
Other commitments	1,811	239	0	2,050
Total	**4,275**	**4,743**	**0**	**9,018**

The total rental and lease commitments amounted to EUR 5,830 thousand (PY: EUR 6,968 thousand). Of this amount, rental and lease agreements for land and buildings accounted for EUR 4,863 thousand (PY: EUR 5,589 thousand) and rental and lease agreements for other equipment, operational and office equipment accounted for EUR 967 thousand (PY: EUR 1,106 thousand).

The other financial commitments in the amount of EUR 819 thousand (PY: EUR 2,050 thousand) resulted from maintenance and service agreements for machinery and equipment, software and other operational and office equipment.

The Group was not subject to any significant commitments for capital expenditures at the reporting date, December 31, 2016, as in the previous year.

34. Contingent liabilities

The contingent liabilities at the reporting date of December 31, 2016 were related to the following companies and matters.

In connection with the sale of the Jahnel-Kestermann Group, a seller liability (guarantee for corporate relationships) was assumed in the amount of EUR 18.5 million, limited in time until April 11, 2018. The probability of occurrence is considered to be low.

In connection with the sale of the subsidiary Fritz Berger, the customary seller guarantees were issued, also for corporate relationships, among other matters. This liability was limited in time until April 21, 2015 and was limited to an amount of EUR 650 thousand. No utilization of this guarantee occurred. A liability for tax matters was agreed for up to 90% of any supplementary tax liabilities. The external audit carried out at the Fritz Berger Group led to an additional tax liability owed to the taxing authorities in a considerable amount. As a result, the purchaser of the Fritz Berger Group demanded that Gigaset AG pay a total amount of EUR 837.9 thousand. The Company rejected the claim in this amount. In April 2016, the parties reached an out-of-court agreement under which Gigaset undertook to pay an amount of EUR 585 thousand. The provisions recognized for this purpose by the Company in the amount EUR 285 thousand and the escrow account of EUR 300 thousand, which had been established specifically to secure tax claims in connection with the sale of Fritz Berger, were reversed and the settlement amount was paid to the buyer of the Fritz Berger Group. Therefore, the contingent liabilities resulting from the sale of Fritz Berger have been completely settled.

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

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

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

In connection with the sales of other subsidiaries in the years 2009 to 2013, the Company issued guarantees for the corporate relationships of these subsidiaries. The probability of occurrence of these guarantees is considered to be very low.

35. Executive Board and Supervisory Board of Gigaset AG

The following persons served on the Executive Board in financial year 2016:

- **Klaus Weßing**, engineer, Borken (Chairman and member in charge of Product Development, New Business Fields, Supply Chain, Quality, Service Assurance, Sales, Marketing, Strategy & Innovation, Communication & Digital)
- **Hans-Henning Doerr,** businessman, Heidelberg (board member in charge of Finance, IT, Legal, Human Resources and Investor Relations)
- **Guoyu Du**, engineer, London, United Kingdom (member in charge of Cooperation Ventures)
- **Hongbin He**, engineer, Shenzhen, People's Republic of China (member in charge of Operations), from September 1, 2015 to July 29, 2016. Mr. Hongbin He resigned from his Executive Board seat for personal reasons, effective July 29, 2016.

The other executive activities of the Executive Board members Weßing, Doerr, Du and He mainly consist or consisted of serving on the supervisory boards and executive boards and chief executive positions of affiliated companies and subsidiaries of Gigaset AG. The aforesaid Executive Board members did not hold positions on supervisory committees during their terms of office in 2016.

In the reporting period, the following persons served on the Supervisory Board that was elected by the annual shareholders' meeting of August 11, 2015:

- Ulrich Burkhardt as of 12/03/2014
- Paolo Vittorio Di Fraia as of 08/14/2013
- Helvin (Hau Yan) Wong (Vice Chairman.) as of 12/19/2013
- Prof. Xiaojian Huang as of 12/19/2013
- Bernhard Riedel (Chairman) as of 12/19/2013
- Flora (Ka Yan) Shiu as of 12/19/2013

Consequently, the Supervisory Board at the time this report was prepared consisted of Mr. Bernhard Riedel (Chair), Mr. Hau Yan Helvin Wong (Vice Chairman), Mr. Paolo Vittorio Di Fraia, Mr. Ulrich Burkhardt, Prof. Xiaojian Huang, and Ms. Flora Shiu. The Supervisory Board members were elected by the annual shareholders' meeting for the time until the close of the annual shareholders' meeting that will resolve to ratify their actions in the first financial year after the beginning of their terms of office. The financial year during which the term of office began is not counted for this purpose.

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, member since December 19, 2013, Chairman of the Supervisory Board, attorney, Munich

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

Ulrich Burkhardt, member since December 3, 2014, 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

- 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, Peoples 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, Executive Director at Goldin Financial Holding Ltd., Hong Kong, People's Republic of China

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

36. Compensation of Executive Board and Supervisory Board members

The Compensation Report (pursuant to Section 4.2.5. of the German Corporate Governance Code) explains the principles applied in setting the compensation of Executive Board members and indicates the amount and structure of Executive Board compensation. It also describes the principles applied in setting the compensation of the Supervisory Board members and the amount of that compensation, and discloses the shareholdings of Executive Board and Supervisory Board members (see the following section).

Compensation of Executive Board members

The responsibilities and contributions of each Executive Board member are taken into account for purposes of setting the compensation. Their compensation in financial year 2016 comprises a fixed annual salary as well as success-related components (bonuses, variable compensation). The individual components are as follows:

- The fixed compensation is paid in the form of a monthly salary in 12 equal parts.
- The variable compensation of Executive Board members is based on company and/or target bonus agreements.
- Personal targets are also agreed with Executive Board members based on qualitative milestones.

Thus, variable compensation agreements exist for the Executive Board members based on company and/or target bonus agreements, and partially also based on personal targets with qualitative milestones. The goals were discussed with the Chairman of the Company's Supervisory Board and with the Executive Board members at the beginning of the financial year or at the beginning of work as an Executive Board member. The Chairman of the Supervisory Board decides the respective target attainment on the basis of the agreements made with Executive Board members.

In addition to the compensation components described above, a pension claim was also granted to one Executive Board member under the existing pension plan for the overall company. Please refer to our comments in Note 25 Pension obligations for details on this subject. The pension claim was granted several years before the person in question was appointed to the Executive Board and was not separately granted for exercising the position of Executive Board member, but must also be disclosed in the presentation of total compensation according to applicable regulations. The expenses incurred in each financial year are presented within the item of "Pension expenses."

Based on a resolution of the annual shareholders' meeting of August 11, 2015, the disclosures to be made in the notes according to Section 285 No.9a Sentences 5 to 8 and Section 314 (1) No.6a Sentences 5 to 8 of the German Commercial Code (Handelsgesetzbuch) were omitted in the preparation of the separate financial statements of Gigaset AG and the consolidated financial statements of the Group. The disclosures were omitted on the basis of a resolution of the annual shareholders' meeting adopted by a majority of at least three quarters of the capital stock represented in the vote, pursuant to Section 286 (5) HGB and Section 314 (3) HGB. This resolution applies to the preparation of the separate financial statements of Gigaset AG and the consolidated financial statements for the financial years commencing January 1, 2015, and the next four financial years, but no longer than until August 10, 2020. Therefore, the information relating to compensation of the Executive Board will only be provided in each case with a single sum, without specifying the individual Executive Board members by name.

Following the requirements of the German Corporate Governance Code (effective May 2015), Sample Table 1 for Number 4.2.5 Paragraph 3, the potential total compensation granted to the members of the Executive Board for financial year 2016 is presented in the table below:

Compensation granted to Executive Board members, in EUR		Fixed compensation	Fringe benefits	Total fixed compensation components	Single year variable compensation	Multi-year variable compensation	Total fixed and variable compensation	Pension expenses	Total compensation
All Executive Board members	2015 (100 %)	1,028,751	29,150	1,057,901	950,000	0	2,007,901	584	2,008,485
	2016 (100 %)	703,113	26,068	729,181	150,000	0	879,181	20,995	900,136
	2016 (Min)				0	0	729,181	20,995	750,136
	2016 (Max)				150,000	0	879,181	20,995	900,136

The recognized expenses for members of the Executive Board for financial year 2016 break down as follows in accordance with the requirements of German Financial Accounting Standard (DRS) 17 (Reporting on the Remuneration of Members of Governing Bodies 2010) and IAS 24, Related Party Disclosures:

EUR	Compensation		In-kind benefit		Success bonus		Pension expenses		Total	
Financial year	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
All Executive Board members	703,113	1,028,751	26,068	22,519	150,000	1,100,000	20,995	584	900,136	2,151,854

The pension expenses stated in the table above include the service cost for the respective period. The projected unit credit value of the pension commitments to Executive Board members according to the provisions of IAS 19 Employee Benefits amounted to EUR 777 thousand at the reporting date (PY: EUR 598 thousand).

In addition to the payments for activity on the governing bodies in the total amount of EUR 906 thousand, provisions for members of the Company's Executive Board were reversed and recognized in profit or loss in the amount of EUR 50 thousand in financial year 2016. In addition, EUR 1,099 thousand was paid to former members of the Executive Board of Gigaset AG in 2016. The provisions recognized for former Executive Board members totaled EUR 3,332 thousand at the end of financial year 2015. By reason of the agreements made with the former Executive Board members and the resulting lower utilization amounts in 2016, an amount of EUR 2,229 thousand was reversed and recognized in profit or loss, so that only EUR 4 thousand remained in provisions for costs still to be incurred in connection with settlements for former Executive Board members at the reporting date.

The reversals of provisions for former Executive Board members generated a positive effect of EUR 1,378 thousand on Executive Board compensation, as compared to an expense of EUR 3,192 thousand in the prior year.

Following the requirements of the German Corporate Governance Code (effective May 2015), Sample Table 2 for Number 4.2.5 Paragraph 3, the inflows to the members of the Executive Board in financial year 2016 are presented in the following table.

Total inflow to Executive Board members, in EUR	2016	2015
Fixed compensation	679,779	1,028,751
Fringe benefits	23,268	21,434
Total fixed compensation components	703,047	1,050,185
Single-year variable compensation	0	609,600
Multi-year variable compensation	0	0
Total fixed and variable compensation	703,047	1,659,785
Pension expenses	20,955	584
Total compensation	**724,002**	**1,660,369**

No further compensation was granted to the Executive Board members for their work on the governing bodies of subsidiaries or affiliated companies.

The inflows from the total compensation of the Executive Board amounted to EUR 724 thousand in the reporting year (PY: EUR 1,660 thousand).

Compensation of the Supervisory Board

By resolution of December 19, 2013, with retroactive effect to August 15,2013, the compensation of the Supervisory Board was resolved as follows:

1. **Base Compensation.** Each member of the Supervisory Board shall receive fixed compensation of EUR 3,000.00 ("Base Compensation") for each started month in office ("Settlement Month"). The beginning and end of each Settlement Month are determined in accordance with Sections 187 (1) and 188 (2) of the German Civil Code (BGB). Any compensation that an individual member of the Supervisory Board has already received for the same Settlement Month, for any legal reason whatsoever, shall be applied to the claim to Base Compensation. The claim to Base Compensation shall arise at the end of the Settlement Month.

2. **Compensation for meeting attendance.** Each member of the Supervisory Board shall receive compensation of EUR 1,000.00 (the "Meeting Fee") for participating in a meeting of the Supervisory Board or a committee thereof (a "Meeting") called in accordance with the Articles of Incorporation. Participation in the meeting by telephone as well as voting in writing pursuant to Article 9 (3) Sentence 2 of the Articles of Incorporation shall be equivalent to participating in the meeting. Multiple meetings of the same body on a single day shall be compensated as a single meeting. The claim to a Meeting Fee shall arise when the Chairman or the committee chairman signs the minutes. The prerequisites to making a claim can only be proven by the minutes of the meeting according to Section 107 (2) of the German Stock Corporation Act (AktG).

3. **Compensation for adoption of resolutions outside of meetings.** Each member of the Supervisory Board shall receive compensation of EUR 1,000.00 ("Resolution Fee") for casting his vote in the context of adopting a resolution outside of a meeting according to Article 9 (4) of the Articles of Incorporation ("Adoption of Resolutions Outside of a Meeting") ordered on a case-by-case basis by the Chairman and carried out in writing, by telegraph, telephone, fax, or using other means of telecommunications or data transfer. If multiple resolutions are adopted on the same day outside of meetings, then the claim to the Resolution Fee shall only be established once. The claim to a Resolution Fee shall arise when the Chairman or the committee chairman signs the minutes on the adoption of resolutions. The prerequisites to making a claim can only be proven by the minutes of the adoption of resolutions.

4. **Compensation of the Chairman.** The Chairman of the Supervisory Board shall receive a bonus of 100% and the Deputy Chairman of the Supervisory Board shall receive a bonus of 50% on all compensation specified in Nos. 1 to 3.

5. **Expense reimbursement.** The Company shall reimburse the Supervisory Board members for the expenses incurred in performing their duties, as well as any sales tax accruing on the compensation and the expense reimbursement. The claim to reimbursement of expenses shall arise as soon as the Supervisory Board member has paid the expenses himself.

6. **Creation and due date of claims.** All payment claims shall be due 21 days after receipt of an invoice by the Company that satisfies the requirements for orderly invoicing. When expense reimbursement is claimed, the invoice must include copies of receipts for the expenses. The Company is entitled to pay advances before the claims are due.

7. **Insurance.** The Company shall conclude public liability insurance for the benefit of the Supervisory Board members that covers statutory liability arising from their activities as Supervisory Board members.

8. **Applicability Period.** This compensation regulation shall enter into force with retroactive effect as of 8/15/2013, and shall remain in force until an Annual Shareholders' Meeting adopts a new regulation. This compensation regulation replaces the compensation regulation adopted by the Annual Shareholders' Meeting on 8/14/2013, which is simultaneously rescinded with retroactive effect. Insofar as compensation was already paid based on the rescinded compensation regulation, such compensation shall be applied to compensation claims under the new regulation."

The compensation granted to members of the Supervisory Board of Gigaset AG in financial year 2016 pursuant to Section 314 No.6a HGB is presented in the table below:

EUR	Paid	Provisions	Total expenses
Bernhard Riedel	100,000.00	16,000.00	116,000.00
Paolo Vittorio Di Fraia	53,000.00	5,000.00	58,000.00
Wong Hau Yan Helvin	78,000.00	0.00	78,000.00
Flora Shiu Ka Yan	52,000.00	5,000.00	57,000.00
Huang Xiaojian	44,000.00	5,000.00	49,000.00
Ulrich Burkhardt	55,000.00	0.00	55,000.00
Total	**382,000.00**	**31,000.00**	**413,000.00**

Accordingly, the total compensation granted to the Supervisory Board amounted to EUR 413,000.00 (PY: EUR 364,500.00).

No further commitments have been made in the event of termination of Supervisory Board mandates. No loans or advances were extended to members of the Executive Boards or Supervisory Boards of Gigaset AG. No contingent liabilities have been assumed in favor of these persons.

In the reporting period, the Company had commissioned Dr. Rudolf Meindl, attorney, of Munich to represent it in a lawsuit. According to statements made, the chairman of the Supervisory Board and the commissioned attorney operate their law practices in a joint office. With respect to the Fresenius case law of the Federal Court of Justice, the Supervisory Board nevertheless consented to the commissioning of Dr. Meindl as a precaution pursuant to Section 114 of the German Stock Corporation Act (AktG).

37. Shareholdings of Executive Board and Supervisory Board members

According to their statements to the Company, the Executive Board members Weßing, Doerr and Du did not hold any shares of Gigaset AG at the reporting date. The Executive Board member He held no shares of Gigaset AG until his resignation in 2016.

According to their statements to the Company, the members of the Supervisory Board together held 8,264 shares of Gigaset AG at the reporting date, representing less than 0.1% of the total shares outstanding.

The shareholdings of Executive Board and Supervisory Board members were divided among the individual members as follows:

	Number of shares at 12/31/2016 or at the resignation date	**Number of shares at the date of preparation of the financial statements**	**Number of options at 12/31/2016 or at the resignation date**	**Number of options at the date of preparation of the financial statements**
Executive Board				
Klaus Weßing	0	0	0	0
Hans-Henning Doerr	0	0	0	0
Guoyu Du	0	0	0	0
Hongbin He	0	0	0	0
Supervisory Board				
Bernhard Riedel	3,264	3,264	0	0
Ulrich Burkhardt	0	0	0	0
Paolo Vittorio Di Fraia	5,000	10,000	0	0
Hau Yan Helvin Wong	0	0	0	0
Flora Ka Yan Shiu	0	0	0	0
Xiaojian Huang	0	0	0	0

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.

38. Disclosures of dealings with related persons and entities

Disclosures concerning the parent company pursuant to IAS 24.13:

On January 15, 2016, Goldin Fund Pte. Ltd., Singapore, notified the Company on behalf of Mr. Pan Sutong, Hong Kong, in a notification of existing voting rights pursuant to Section 41 (4f) WpHG that the voting rights share of Mr. Sutong represented 79.16% of the total quantity of 122,979,286 voting rights on November 26, 2015. Of these voting rights, 71.57% (88,019,854 voting rights) originated from shares (DE0005156004). Another 7.59% (9,337,935 voting rights) resulted from instruments within the meaning of Section 25 (1) No. 2 German Securities Trading Act (WpHG) (mandatory convertible bond, maturing on January 23, 2016). To aid in understanding this information, the Company points out that the instruments which when exercised will create new voting rights are not yet included in the total quantity of voting rights. When the instruments are exercised, new voting rights will be created, thereby increasing the total quantity of voting rights and necessitating a recalculation of voting rights shares.

On January 23, 2016, the final maturity of the aforementioned mandatory convertible bond increased the total quantity of voting rights to 132,455,896, of which Mr. Sutong now held 73.50% (97,357,789 voting rights). The conversion of instruments (Section 25 (1) WpHG) into voting rights (Sections 21, 22 WpHG) caused a shift within the shareholder's reportable voting rights according to Section 25a WpHG, accompanied by a concurrent increase in the total quantity of voting rights, which caused the holdings of one shareholder to fall below a threshold without action on his part. On this subject, the Company received a notification pursuant to Section 26 WpHG on January 27, 2016 and a corrected notification pursuant to Section 26 WpHG on January 28, 2016.

To the knowledge of the Executive Board, the ultimate economic beneficiary or highest-ranking person of Goldin Investment (Singapore) Limited. is Mr. Pan Sutong.

Disclosures of business dealings pursuant to IAS 24.18:

In accordance with IAS 24 Related Party Disclosures, the business dealings with Goldin Brand Ltd., Singapore, are to be disclosed as business dealings with related parties in 2016. By an agreement dated June 25, 2015 ("trademark transaction"), the sale of the word mark and word-image mark "Gigaset" and the Internet domain gigaset.com of Gigaset Communications GmbH to Goldin Brand Ltd., Singapore, a subsidiary of Goldin Fund Pte. Ltd., Singapore, was agreed. The total agreed purchase price for the marks and domains was EUR 35 Mio. and was payable in cash to the seller concurrently with the transfer. Gigaset resolved on December 14, 2016 to expand the Mobile Devices segment, particularly including smartphones. Furthermore, the Company also wants to work together with partners outside the Goldin Group to manufacture smartphones to be marketed under the "Gigaset" brand name.

In order to secure the necessary unrestricted availability of the "Gigaset" brand name, the Asset Purchase Agreement relating to the "Gigaset" trademark portfolio ("trademark transaction agreement"), which had been concluded by Goldin Brand Pte. Ltd. and Gigaset Communications GmbH on June 25, 2015, but not yet carried out, was terminated. Therefore, Gigaset Communications GmbH remains the unrestricted owner of the "Gigaset" trademark.

In accordance with IAS 24 Related Party Disclosures, the business dealings with Gigaset Mobile Pte. Ltd. Singapore, must be disclosed as business dealings with related parties in 2016. In this context, Gigaset Mobile Pte, Ltd, Singapore, acts as a supplier to Gigaset. Gigaset in turn charges contractually agreed services and fees to Gigaset Mobile Pte. Ltd. From a Group perspective, the transactions and balances for the reporting periods and at the reporting dates break down as follows.

in EUR'000	Expenses 01/01/-12/31/2016	Revenues/Income 01/01/-12/31/2016	Receivables 12/31/2016	Liabilities 12/31/2016
Gigaset	0	223	1,527	1,160
Gigaset Mobile Pte. Ltd.	223	0	1,160	1,527

in EUR'000	Expenses 01/01/-12/31/2015	Revenues/Income 01/01/-12/31/2015	Receivables 12/31/2015	Liabilities 12/31/2015
Gigaset	4,293	4,111	2,985	1,170
Gigaset Mobile Pte. Ltd.	4,111	4,293	1,170	2,985

Pursuant to IAS 24 Related Party Disclosures, the business dealings with Gigaset Mobile Europe GmbH, Düsseldorf, must be disclosed as business dealings with related parties since financial year 2016. This company is an other related entity according to IAS 24.19 (g). In this context, Gigaset Mobile Europe GmbH, Düsseldorf, acts as a supplier to Gigaset. Gigaset in turn charges contractually agreed services and fees to Gigaset Mobile Europe GmbH, Düsseldorf. From a Group perspective, the transactions and balances for the reporting periods and at the reporting dates break down as follows.

in EUR'000	Expenses 01/01/-12/31/2016	Revenues/Income 01/01/-12/31/2016	Receivables 12/31/2016	Liabilities 12/31/2016
Gigaset	2,920	0	2,490	3,124
Gigaset Mobile Europe GmbH	0	2,920	3,124	2,490

in EUR'000	Expenses 01/01/-12/31/2015	Revenues/Income 01/01/-12/31/2015	Receivables 12/31/2015	Liabilities 12/31/2015
Gigaset	0	2,372	2,882	0
Gigaset Mobile Europe GmbH	2,372	0	0	2,882

The business dealings mainly consist of purchases and sales of goods according to IAS 24.21 b and services according to IAS 24.21 c.

Pursuant to IAS 24 Related Party Disclosures, business dealings with Guangzhou Cyber Digital Technology Company Limited, Guangzhou, China, must be disclosed as related party transactions since 2016. This company represents an other related entity pursuant to IAS 24.19 (g). From a Group perspective, the transactions and balances for the reporting period and at the reporting dates break down as follows:

in EUR'000	Expenses 01/01/-12/31/2016	Revenues/Income 01/01/-12/31/2016	Receivables 12/31/2016	Liabilities 12/31/2016
Gigaset	0	149	347	347
Guangzhou Cyber Digital Technology Company Limited	149	0	347	347

in EUR'000	Expenses 01/01/-12/31/2015	Revenues/Income 01/01/-12/31/2015	Receivables 12/31/2015	Liabilities 12/31/2015
Gigaset	347	1.042	1.042	347
Guangzhou Cyber Digital Technology Company Limited	1.042	347	347	1.042

The business dealings mainly consist of purchases of plant and equipment according to IAS 24.21 b. The receivables include income from plant and equipment sales in the amount of EUR 0.4 million.

Pursuant to IAS 24, Related Party Disclosures, business dealings with Gigaset Digital Technology , Shenzhen, China, must be disclosed as related party dealings since 2016. This company represents an other related company pursuant to IAS 24.19 (g). From a Group perspective, the transactions and balances for the reporting period and at the reporting dates break down as follows:

in EUR'000	Expenses 01/01/-12/31/2016	Revenues/Income 01/01/-12/31/2016	Receivables 12/31/2016	Liabilities 12/31/2016
Gigaset	0	0	345	0
Gigaset Digital Technology	0	0	0	345

in EUR'000	Expenses 01/01/-12/31/2015	Revenues/Income 01/01/-12/31/2015	Receivables 12/31/2015	Liabilities 12/31/2015
Gigaset	0	345	345	0
Gigaset Digital Technology	345	0	0	345

The business dealings mainly consist of services provided according to 24.21 (c).

Value adjustments of EUR 3,179 thousand (PY: EUR 0 thousand) were recognized for existing receivables in the reporting period. No expenses were recognized for uncollectible or doubtful receivables in the reporting period. No security has been provided for these receivables.

No significant dealings were conducted between the Group and related parties beyond those listed above.

39. Professional fees for the independent auditor

Professional fees in the total amount of EUR 436 thousand (PY: EUR 277 thousand) were incurred for the services of the independent auditor in financial year 2016:

EUR'000	2016	2015
Financial statement audit services	354	277
Other certification services	9	0
Other services	0	0
Total	**363**	**277**

40. Employees

The Gigaset Group had an average of 1,150 employees in financial year 2016 (PY: 1,312 employees). The total number of employees at the reporting date of December 31, 2016 was 1,061 (PY: 1,270 employees).

	Closing Date		Average	
EUR'000	**12/31/2016**	**12/31/2015**	**2016**	**2015**
Salaried employees	1,051	1,245	1,138	1,283
Apprentice-trainees	10	25	12	29
Total	**1,061**	**1,270**	**1,150**	**1,312**

41. Declaration of Conformity with the Corporate Governance Code

On March 23, 2017, the Executive Board and Supervisory Board of Gigaset AG issued the Declaration of Conformity with the German Corporate Governance Code in its version of May 5, 2015, as required by Section 161 of the Stock Corporations Act (AktG), and made it permanently available to shareholders at the Company's website (http://www.gigaset.com/de_de/cms/gigaset-ag/investor-relations/unternehmen/corporate-governance.html). In this declaration, the Executive Board and Supervisory Board of Gigaset AG state that the Company was in compliance with the behavioral recommendations of the Code Commission on corporate management and monitoring published in the Federal Gazette, with a few exceptions, and will comply with them in the future. The Declaration of Conformity itself and the statements on the exceptions are reproduced verbatim at the specified location.

42. Shareholder structure

No notifications pursuant to Section 21 or Section 25 of the German Securities Trading Act (WpHG) were received by the Company in 2016.

The Group parent company Goldin Investment (Singapore) Limited, Tortola/British Virgin Islands, registered in the Registry of Corporate Affairs of the British Virgin Islands under the number 1713467, prepares consolidated financial statements for the largest group of companies, in which the separate financial statements of Gigaset AG will presumably be included. These consolidated financial statements will presumably not be published. The consolidated financial statements of Gigaset AG, Munich (smallest consolidation group) will be published in the German Federal Gazette (Bundesanzeiger).

43. 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.

In July 2009, the European Commission imposed a total fine of EUR 61.1 million on various European companies in the calcium carbide sector in the context of an anti-trust law investigation. In this context, a fine totaling EUR 13.3 million was imposed jointly and severally on SKW Stahl-Metallurgie Holding AG as well as its subsidiary SKW Stahl-Metallurgie GmbH as direct cartel participants (hereinafter jointly referred to as "SKW"). 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. In response to the fine assessment, Gigaset AG made a preliminary payment of EUR 6.7 million to the EU Commission in the years 2009 to 2010 (i.e. for the duration of the appeal).At the same time, Gigaset 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 against the fine notice was dismissed. The judgment is final and enforceable against Gigaset AG. SKW's complaint was decided in the negative, i.e., the fine imposed on it was not reduced. SKW filed an appeal against this judgment, which was dismissed by the European Court of Justice by judgment of June 16, 2016. Therefore, the fine notices against the two SKW companies are legally definitive. In parallel to the decided lawsuit, Gigaset filed suit against SKW with the civil courts for reimbursement of the cartel fine paid by Gigaset 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. In early 2015, the Higher Regional Court that is now hearing the case again suspended Gigaset's action against SKW until the European Court of Justice issues its judgment on the validity (or non-validity) of the fines imposed on SKW. As justification, it stated that the reimbursement by way of recourse to joint and several debtors pursued by Gigaset depends on the logical prior question of whether (and to what extent) SKW and Gigaset are even joint and several debtors, and therefore on the prior question of whether the fine decisions issued against Gigaset and the SKW companies are legally valid. This prior question was decided in Gigaset's favor by the judgment of the European Court of Justice of June 16, 2016 (see above). The Munich Higher Regional Court has already resumed the proceeding. The next hearing in this matter is scheduled for July 2017; a judgment of the Higher Regional Court can be expected in the second half of 2017. Gigaset continues to expect that it will receive full or partial reimbursement of the paid fine from SKW.

In the litigation with Evonik Degussa GmbH regarding a penalty for breach of contract in the amount of EUR 12.0 million, in November 2013 an arbitration tribunal rejected the suit and otherwise sentenced Gigaset AG to pay an amount of EUR 3.5 million plus interest to Evonik. On March 4, 2015, Gigaset paid the amount in the principal matter of EUR 3.5 million plus interest to Evonik. Since adequate provisions were already created in prior years for this case, the payment outflow that occurred did not affect the 2015 net income. Due to the amounts paid under the guarantee, Gigaset now has taken recourse against the principal debtor, OXY Holding GmbH and the additional indemnification debtor, StS Equity Holding UG. Since an out-of-court settlement was not achieved, Gigaset filed a claim in an arbitration complaint or payment order dated June 29, 2015 against the principal debtor OXY Holding GmbH and the indemnification debtor StS Holding UG for reimbursement of this amount through the proceedings. In the further course of affairs, insolvency proceedings were commenced on the assets of both OXY Holding GmbH and StS Equity Holding UG. Gigaset is the principal creditor in both these proceedings. In the meantime, the liquidation of the insolvency estate has been largely completed; Gigaset assumes that it will receive up to EUR 3.5 million from the insolvency estate, due in no small part to an agreement reached on this subject with the insolvency administrator. Of this amount, EUR 2.0 million was already paid to the Company as an advance distribution in the second quarter of 2016, and the Company expects another EUR 1.5 million as part of the final distribution. In effect, therefore, the Company will still sustain a net loss of EUR 1.3 million from the transaction; this amount mainly consists of the interest paid to Evonik on the principal amount.

44. Significant events after the reporting date

No events of particular importance that would need to be reported separately in accordance with IAS 10 Events After the Reporting Period occurred after the reporting date.

45. Release of the consolidated financial statements

The present consolidated financial statements of Gigaset AG were released for publication by the Executive Board on March 31, 2017. The Company's shareholders will have the right and option of amending the consolidated financial statements at the annual shareholders' meeting.

Munich, March 31, 2017

The Executive Board of Gigaset AG

Klaus Wessing   Hans-Henning Doerr   Guoyu Du

Gigaset SL350

Compact perfection. Small, slim and elegant, the Gigaset SL350 fulfills the highest demands in high-end functionality, design and usability. The metal frame gives this phone a touch of luxury with a clear user interface on the high-quality color display.

reaching

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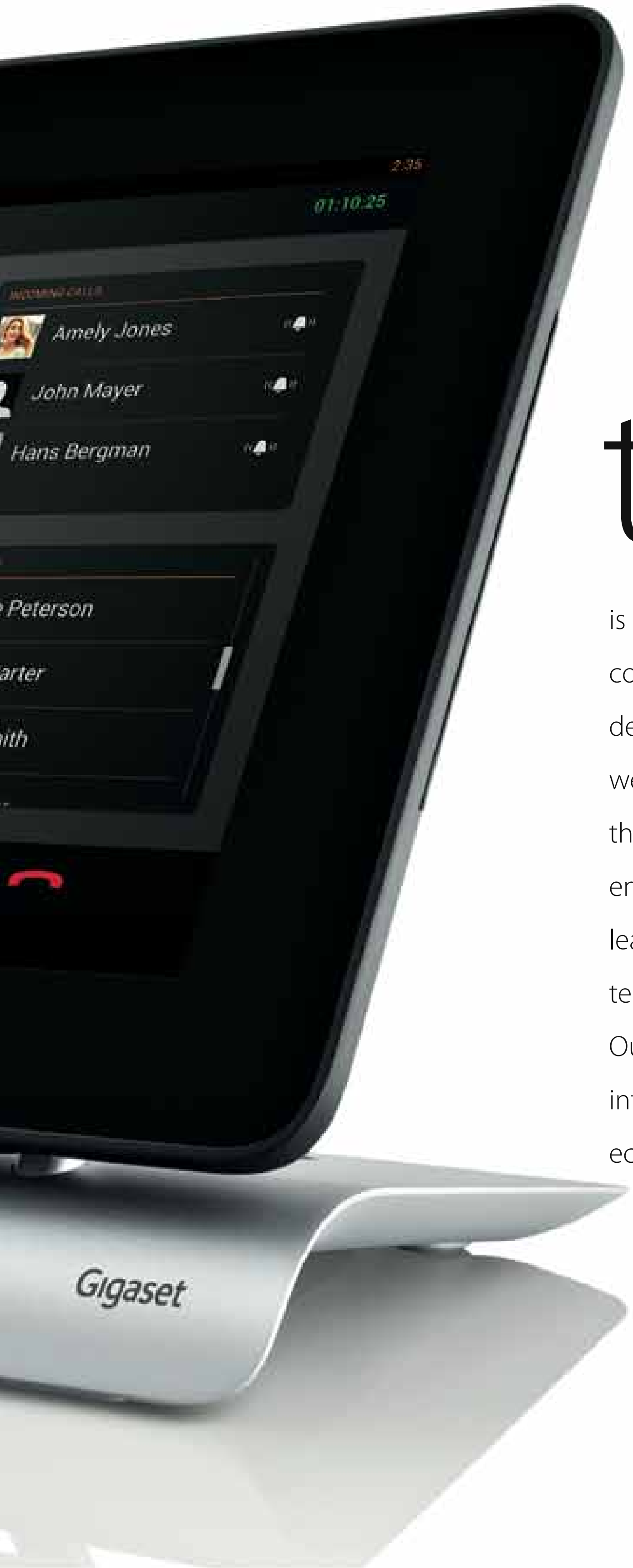

target

The confidence of our shareholders is both the main driving force and the chief goal of the company's management. You demonstrated this confidence in 2016 by approving the operational realignment we presented to you at the annual general meeting. At that time we defined our mission in clear terms: strengthen the company for a successful market position, assure a lean and efficient corporate structure and develop a long-term, forward-looking product and business strategy. Our common goal is to successfully develop Gigaset AG into the industry leader in telecommunications and telecommunications solutions.

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%	
GIG Holding GmbH	Munich	Germany	89.9%	10.1%
Gigaset Online GmbH	Düsseldorf	Germany		100%
Gigaset Communications GmbH	Düsseldorf	Germany		100%
Gigaset International Sales & Services GmbH (Gewinnabführungsvertrag)	Munich	Germany		100%
Gigaset Communications Schweiz GmbH	Solothurn	Switzerland		100%
Gigaset Communications Polska Sp. z o.o.	Warsaw	Poland		100%
Gigaset Communications UK Limited	Chester	Great Britain		100%
Gigaset İletişim Cihazlari A.Ş.	Istanbul	Turkey		100%
OOO Gigaset Communications	Moskow	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 elements GmbH	Düsseldorf	Germany		100%
Hortensienweg Management GmbH	Munich	Germany	100%	

*2015 final figures
**incl. trainees

Currency '000	local equity 2015*	local profit/ loss 2015*	Average no. of employes 2015**	
EUR	189,186	-4,199	27	Gigaset AG
EUR	0 *	-1 *	0	CFR Holding GmbH
EUR	309 *	-2 *	0	GOH Holding GmbH
EUR	8,910 *	179 *	0	Gigaset Industries GmbH
EUR	54,004 *	-56 *	0	GIG Holding GmbH
EUR	24 *	-1 *	0	Gigaset Online GmbH
EUR	5,749 *	-24,217 *	834	Gigaset Communications GmbH
EUR	322 *	0 *	34	Gigaset International Sales & Services GmbH (Gewinnabführungsvertrag)
CHF	1,559 *	162 *	6	Gigaset Communications Schweiz GmbH
PLN	2,751 *	1,868 *	119	Gigaset Communications Polska Sp. z o.o.
GBP	713 *	15 *	6	Gigaset Communications UK Limited
TRL	10,725 *	1,573 *	2	Gigaset İletişim Cihazlari A.Ş.
RUR	69,875 *	62,766 *	6	OOO Gigaset Communications
EUR	-201 *	73 *	10	Gigaset Communications Austria GmbH
CNY	3,323 *	-17,884 *	25	Gigaset Communications (Shanghai) Limited
EUR	6,028 *	363 *	22	Gigaset Communications France SAS
EUR	544 *	131 *	14	Gigaset Communications Italia S.R.L.
EUR	393 *	145 *	13	Gigaset Communications Nederland B.V.
EUR	507 *	109 *	12	Gigaset Communications Iberia S.L.
SEK	1,993 *	-158 *	6	Gigaset Communications Sweden AB
EUR	-16,822 *	-6,480 *	5	Gigaset elements GmbH
EUR	614 *	-22 *	0	Hortensienweg Management GmbH

* 2015 final figures
**incl. trainees

AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by the Gigaset AG, München, comprising the balance sheet, the income statement, the statement of income and expense recognized in equity, the statement of changes in equity, the 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, München, for the business year from January 1 to December 31, 2016. 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) 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 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 complies with the legal requirements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Düsseldorf, March 31, 2017

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Antje Schlotter	ppa. Arkadius Jaroszek
Wirtschaftsprüferin	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

REPORT OF THE EXECUTIVE BOARD

The Executive Board of Gigaset AG is responsible for the preparation of the consolidated financial statements and the information contained in the combined management report. This information has been reported in accordance with the accounting regulations set by the International Accounting Standards Committee. The combined management report has been prepared in accordance with the provisions of the German Commercial Code.

By implementing Group-wide reporting in accordance with uniform guidelines, using reliable software, selecting and training qualified personnel and continually optimizing processes in the consolidated companies, we are able to present a true and fair view of the Company's business performance, its current situation and the opportunities and risks of the Group. To the extent necessary, appropriate and objective estimates have been applied.

In accordance with a resolution adopted at the Annual Shareholders' Meeting, the Supervisory Board has engaged PricewaterhouseCoopers GmbH, Wirtschaftsprüfungsgesellschaft, Düsseldorf, to audit the consolidated financial statements of the Group in the capacity of independent auditors. The Supervisory Board discussed the consolidated financial statements and the 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, 2017

The Executive Board of Gigaset AG

FINANCIAL CALENDAR

May 19, 2017

› Report for the 1st Quarter of 2017

August 15, 2017

› Report for the 2nd Quarter of 2017

August 17, 2017

› Annual Shareholders' Meeting in Munich, Germany

November 17, 2017

› Report for the 3rd Quarter of 2017

subject to change

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2016
ANNUAL REPORT

Gigaset

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