REPORT FOR THE 2ND QUARTER

2016

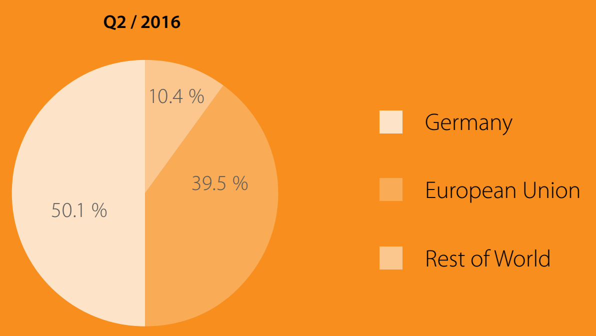
KEY FIGURES

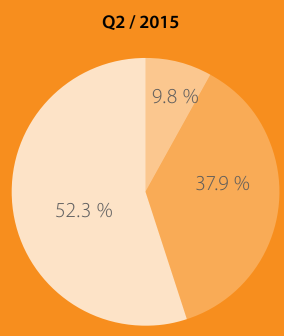
EUR million	01/01/- 06/30/2016	01/01/- 06/30/2015
Consolidated revenues	133.0	142.6
Earnings before interest, taxes, depreciation and amortization (EBITDA)	10.1	1.7
Earnings before interest and taxes (EBIT)	1.2	-8.5
Consolidated net loss for the fiscal year	-0.6	-9.0
Free cash flow	-13.1	-24.0
Earnings per share (diluted in EUR)	0.0	-0.07

EUR million	06/30/2016	31.12.2015
Total assets	212.9	221.1
Consolidated equity	4.0	17.9
Equity ratio (%)	1.9	8.1

Information on the Gigaset share	Q2 2016	Q2 2015
Closing rate in EUR (at the end of the period)	0.45	0.76
Peak price in EUR (in the period)	0.60	0.94
Lowest price in EUR (in the period)	0.45	0.76
Number of shares in circulation (at the end of the period)	132,455,896	122,979,019
Market capitalization in EUR million (at the end of the period)	59,6	93,5

Sales broken down by region





IMPORTANT EVENTS IN Q2 2016

Optimize proven fields of activity and bolster growth

The Executive Board of Gigaset AG continued to develop the Company's strategic focus in the second quarter. Now that a comprehensive strategy has been finalized, the course is set for the future. The strategy adopted by the Executive Board can be summarized with the words "optimize proven fields of activity and bolster growth." What this means specifically for the operating segments is that the following measures will be adopted and implemented to ensure the Company's future success. The core business of cordless voice products will continue to be the Company's most important area of activity. The goal is to win back market shares and eliminate competitors with the new IP-based and router-based products Gigaset GO and Gigaset HX. The Business Customers segment with the known Gigaset pro products has been identified as the most important growth field and will be substantially expanded through targeted product initiatives, quality measures, and sales campaigns. The Home Networks segment with the Gigaset elements security solution will be intensively marketed under a new approach with targeted, customer-focused measures to enlarge the user base. Under the working title "Future Communications," the Company is also working on pioneering ideas for future home communication solutions.

Product initiative for Gigaset Pro: Maxwell 3 and Maxwell Basic

Gigaset's business line Gigaset pro is known for its innovative unified communications solutions. Two new models were added to the known Maxwell line of desk phones in the second quarter: the Maxwell 3 and the Maxwell Basic. These are highly functional, premium IP desk phones featuring the characteristic Gigaset quality and perfect interfaces to the other systems used by small and medium-sized enterprises in their daily activities. Both phones were designed with particular attention to the wishes of professional users and are especially easy to use. The Maxwell 3 and Maxwell Basic phones complement the Maxwell product line because they are priced at a more affordable level than the Maxwell 10. Therefore, professional users can choose the right phone for every work place. The Maxwell 3 has already received the prestigious Plus X Award as the "Best Product 2016/2017," in recognition of its excellent design and intuitive menu guide. This is clear proof that Gigaset sets new standards of quality, innovation, and technology leadership also in the business customers market.

Restructuring measures are beginning to yield positive results

Given the need to lower costs, the decision made in December 2015 to initiate another restructuring program was unavoidable. The goal was to quickly free up sufficient funds to actively influence current activities and even more importantly, the future shape of the Company. Personnel expenses were reduced for the first time at the end of the second quarter as a result of the successfully negotiated collective bargaining agreement and social compensation plan. These measures are already having a positive effect on the Company's liquidity planning. Various other measures resolved in connection with the restructuring plan are currently being implemented and will further improve the Company's efficiency and financial situation.

INTERIM MANAGEMENT REPORT AS OF JUNE 30, 2015

1 Business model

Gigaset AG is a corporate group with telecommunications operations all around the world. The Company, with its headquarters in Munich and its main production site in Bocholt, is the leading brand in Western Europe with the cordless telephones it develops and manufactures based on the "Digital Enhanced Cordless Telecommunications" (DECT) standard. . As a premium vendor, Gigaset commands a predominantly extensive market presence in approximately 70 countries with around 1,000 people as of June 30. 2016.

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

The Gigaset Group divides its global operations into regional segments. Most of its sales revenue is generated in Europe, in particular in Germany and France. The majority of total sales are made in the Consumer Products segment and thus from the Cordless Voice Telecommunications business.

1.1 Consumer Products

Gigaset is the European market and technology leader in DECT telephony. DECT stands for Digital Enhanced Cordless Telecommunications and is the most successful telecommunications standard for cordless telephones in the world. Gigaset made a key contribution to shaping the DECT standard in the 1990s. Since then, the Company has maintained its position as a premium vendor in the European market. High market penetration is a key factor behind the Company's success. The Company's proprietary products are manufactured predominantly in the highly automated Bocholt plant, which has won several awards.

1.2 Business Customers

With the "Gigaset pro" product line (pro = professional), the Business Customers segment has created an attractive range of corded telephones, telephone systems (so called "Private Branch Exchanges" (PBX), professional DECT systems, and handsets for small and medium-sized enterprises. The constantly growing portfolio of Gigaset pro products is geared to the needs of the SME segment. The pro series provides the kind of versatility and reliability that commercial users need in their day-to-day operations. These devices are designed to be easy to install and manage. Due to the level of consultation required for commercial products, Gigaset only distributes the pro line through value-added resellers (VARs). Gigaset pro is currently only sold in European markets, whereby the most important markets are Germany, France, Italy, and the Netherlands. Gigaset pro is to become a second pillar of the Company in this growing SME market over the coming years and is already making a significant contribution to revenues.

1.3 Home Networks

Gigaset elements is a modular and sensor-based "Connected Living" system for private households that with the help of the cloud enables the user to maintain a permanent connection to the system and therefore with his home using a smartphone. The starter kit, comprising a base station, door sensor, and motion detector, represents the basis of the system and makes it possible for the user to react immediately to unforeseen events such as an attempted break-in. The portfolio of sensors is continually expanding. In the meantime, the starter kit can be supplemented by a siren, a window sensor, and a camera as well as a controllable electrical outlet and a corresponding wireless push-button switch that can take over functions from the app. The system is essentially ready for further applications regarding issues such as energy management or assistance for the elderly. Corresponding sensors or actuators can also be added to the system.

2 Market and industry environment

2.1 General economic environment[1]

The German economy continued to expand in the first and second quarters of 2016. According to the latest IfW economic forecast, gross domestic product is expected to grow by 1.9% in 2016 and by 2.1% in 2017. The expansion is being carried by domestic demand, as both private and government consumption continues to rise. Fixed investment is becoming the second pillar of the German economy.

The strong 0.7% percent rate of expansion in the first quarter was fueled by exceptional factors such as the mild weather; accordingly, the growth rate was slightly lower in the second quarter. However, the numbers for the second quarter, which started in April, already suggest that economic growth will be mostly positive in the second quarter. The strong economic momentum is also reflected in lending activity and in private and government consumption, which grew at similarly high rates, paralleling the trend in 2015. Despite heightened expenditures for employment, pensions, and investments, government budgets will probably end up with a surplus in 2016 in both years. Although the budget balance will be appreciably lower than it was in 2015, it will still present a remarkable surplus of EUR 7.1 billion (0.2% of gross domestic product), thanks to higher tax and payroll tax receipts resulting from economic growth. Consumer prices have recently been flat and can be expected to rise by only 0.5% this year. The inflation rate will probably accelerate to 1.6% in 2017.

German exports have recovered nicely since the spring and throughout the second quarter and will continue to rise over the forecast period. Nonetheless, the growth rate of exports will be less in 2016 than in 2015 (3.2% after 5.4% in 2015), while imports will continue to grow at a strong pace (4.8% after 5.8% in 2015), due to strong domestic demand.

According to forecasts, however, the Brexit vote will have an appreciable adverse effect on the economy in the United Kingdom and its partner countries, also considering that the concrete details of the country's departure from the EU will probably remain unclear for a longer period of time. If Brexit proves to be an augur of the further disintegration of the European Union, that would pose a serious downside risk for the economy of Germany and Europe.

The global economy has recovered somewhat since the spring, although the underlying momentum is still weak. While somewhat higher rates of expansion can be expected in the remainder of 2016 and in 2017, a powerful upswing is still not in sight. Calculated on the basis of purchasing power parities, global production will increase by only 3.1% in 2016, just as weak as in 2015; we expect a 3.5% increase in 2017. Thus, we have raised our March forecast only modestly. The rate of growth in advanced economies remains moderate. It is becoming increasingly evident that the obstacles to faster growth are of a structural nature and cannot be overcome either by a continuation of expansive monetary policy or by fiscal stimulus. The stimulus afforded by low oil prices is gradually subsiding, but the somewhat higher commodity prices are brightening the outlook for many emerging-market countries. However, structural problems in many of these countries will stand in the way of a quick recovery.[2]

1. https://www.ifw-kiel.de/medien/medieninformationen/2016/konjunktur-deutsche-wirtschaft-halt-kurs
2. Kiel Institute for the World Economy – Economic Outlook No. 19 (2016/Q2)

Germany

Based on unit sales, the German market for cordless telephones contracted by 3.0% in the first half of 2016 compared to the first half of last year. Based on revenues, the market contracted by 1.5% compared to the first half of 2015. In this market, Gigaset successfully defended its strong market share of over 40% based on unit sales and revenues, and maintained its edge over competitors.

France

Based on unit sales, the French market for cordless telephones contracted by 5.6% in the first half of 2016 compared to the first half of last year. Based on revenues, the market contracted by 3.1% compared to the first half of 2015. In this market, Gigaset extended its leading market position by 4.0 percentage points in terms of unit sales and by 3.4 percentage points in terms of revenues.

EU6

Based on unit sales, the market in the European countries tracked by Gigaset contracted by 8.2% in the first half of 2016 compared to the first half of last year. In terms of revenues, it contracted by 7.5% compared to the first half of 2015. Overall, Gigaset successfully defended its market share in terms of both unit sales and revenues.

2.2 Telecommunications market

2.2.1 Consumer Products market

All in all, Gigaset maintained its clear premium-brand positioning over its competitors. Nonetheless, the Consumer Products segment continues to suffer from the effects of the 8.2% market contraction and the continuing migration from fixed-line telephones to smartphones or other text-based forms of communication. Gigaset is countering this trend by introducing new IP-based and router-based product lines (Gigaset GO and Gigaset HX) and by systematically and purposefully marketing and positioning these products to customers and retail outlets. Gigaset anticipates substantial gains in these segments due to the conversion to IP technology initiated by Deutsche Telekom and the growing use of DECT-capable and CAT-iq-capable routers in private households.

2.2.2 Business Customers market

In the first half of 2016, the revenues of the Business Customers segment were 6.0% less than the figure for the first half of last year. This decline was mainly [caused] by upheavals in the business of the biggest German customer [and] the marked substitution of fixed-line telephones with mobile phones. This business was also adversely impacted by the growing trend towards cloud-based solutions.

The systematic efforts to expand the Maxwell product line culminated in the introduction of two product models in the second quarter of 2016, the Maxwell 3 and the Maxwell Basic. These new products extended the product family topped by the flagship model Gigaset Maxwell 10 to lower price levels, making it possible to address new customer groups.

2.2.3 Home Networks market

In the first half of 2016, the revenues of the Home Networks segment were 58.3% less than the figure for the first half of last year. However, this segment is still being affected by the reorganization and strategic reorientation. Under an intensive new marketing approach, Gigaset elements will be marketed as a smart security solution in the future. The new marketing and sales strategy will lead to rising revenues in the second half of 2016. Based on this strategy and signs of further growth in the smart home market, the Executive Board is sticking with Gigaset elements.

The market for Smart Home Systems & Services (SHSS) in Western Europe continues to be regarded as extremely promising. The market research institute Dr. Grieger & Cie. surveyed 1,017 Germans regarding the topic of smart homes in collaboration with SmartHome Initiative Deutschland e.V. as part of a representative survey. According to the results of the study, 30% of the surveyed households already use smart home applications.[3] Perspectively, the number of smart home households in Western Europe is expected to increase to around 50 million by the end of 2019. Since the DECT-ULE standard is being implemented in the Smart Home area by an increasing number of Western European vendors, the market research institute Strategy Analytics expects sales revenue to more than double in this segment by 2019 in Western Europe.[4] Added value that can be perceived by the user and which increases the quality of living is important for the acceptance of the devices and services for intelligent home living. Plug & Play capability, reliability, and simple operation play a key role. Since the share of newly constructed buildings compared to existing properties in Germany is negligible, the market in Germany can be conquered in particular with affordable, cable-free upgrade packages for existing buildings.

3 Business performance

3.1 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 11 EUR in the first quarter of 2016.[5]

As a result of the cooperation with the router manufacturer TP-LINK, the universal handsets (HX series) are now also available on the router shelf and Gigaset benefits from cross-marketing campaigns.

Three additional handsets, which have also been well-received, were introduced to the market with the universal handsets C430HX/C530HX, E630HX, and CL750HX. The C430HX will set a clear example for the competitors AVM and Telekom.

The lower price segment was rounded out with the rollout of the A150, A250, AL150A and AL250A in all remaining countries. The predecessor family will expire at the end of the year.

3.2 Business Customers

Sales revenue in the Business Customers segment decreased by approximately 6% in the second quarter of 2016 compared to the second quarter of 2015. This decrease was driven mainly by the OEM business. The business under the Gigaset pro brand grew by 17% in the reference period, driven in particular by the regions Switzerland, the Netherlands, Spain, Turkey, and Austria.

With respect to products, the focus of the Gigaset pro line – IP-based DECT solutions – was further expanded. The business with corded table telephones provided clear growth impulses, in particular as a result of the introduction of the Maxwell 10 and Maxwell 3 table telephones on the market. We will continue to press ahead with the revision of the product range, which will also lead to further significant function improvements in fiscal 2016.

The first successes were recorded in Turkey, where Gigaset entered the market in the third quarter of 2015. The Gigaset pro product line was well-received in the market and good results have already been achieved in the second quarter of 2016. Clear growth is expected in the business with Turkey for the current fiscal year. The regional expansion of the Business Customer segment will also be further advanced in fiscal 2016.

3. https://www.grieger-cie.de/smarthome
4. Strategy Analytics – Smart Home Systems and Services Forecast Western Europe, Q4 2014
5. The data was taken from the surveys by the Retail Panels for cordless telephones of GfK Retail and Technology GmbH in the countries of Germany, France, UnitedKingdom, Italy, the Netherlands, and Spain; collection period January - March 2016; price premium calculated from the average market price excluding Gigaset; Basis GfK Panel Market

3.3 Home Networks

Gigaset elements is distributed over the retail network and online shops. The sensors can now be purchased in Germany, France, Switzerland, Austria, the Netherlands, Sweden, Norway, Finland, and the Czech Republic.

A dedicated alarm kit that is offered at an MSRP of EUR 279.99 has also been available in selected channels since the beginning of the year. The kit comprises the base, door sensor, motion detector, two window detectors, and a siren and thus represents a complete alarm system solution for smaller properties.

At the end of fiscal 2016, a smoke detector is planned as a new sensor. Until then, the central software platform of the cloud will be equipped successively with new functionalities. A rule manager, which allows end customers to create their own rules in order to adapt the system's behavior based on their own preferences, was made available at the same time as the introduction of the wireless push button switch to the market. In order to address new tech-savvy customer groups, Gigaset is also focusing on machine learning and open interfaces for its cloud – so-called Application Programming Interfaces (API´s) that facilitate the connection of devices and services for partners.

Since February 2015, Gigaset has offered a bluetooth-based beacon with the "G-tag" that prevents objects to which it is attached from being forgotten or lost. The basis for this is bluetooth 4.0, which permanently maintains a connection with any number of G-tags. The built-in battery lasts up to one year thanks to the low energy consumption of this bluetooth generation, after which it can be easily exchanged – other than with many competitive products on the market. All functionalities of the G-tag are made possible through the Gigaset G-tag app, which can be used with all mobile consumer devices running Android 4.3/iOS 7 or newer. G-tag is meanwhile integrated into the Gigaset Cloud. Gigaset is currently working to enable G-tags to be used jointly in order to provide users with more added value.

4 The Gigaset Share

The Gigaset share had to accept a sharp drop at the beginning of 2016. Starting in mid-February, the share's price trend moved in line with the development of the reference index TecDAX, which primarily moved sideways in the second quarter. The publication of moderate figures for the first quarter on April 21, 2016, had a negative impact on the price trend. The participating certificate broke away from the TecDax and continued to lose value at the end of the month of April. The Gigaset share reached its highest level for the second quarter on April 19, 2016, with EUR 0.60. The lowest level for the period was reached on June 30 with EUR 0.45. The 52 week high of September 2, 2015 (EUR 1.04), was no longer reached. Compared to prior years, the number of shares traded continues to decline. This could be due to the fact that the number of shares in free float decreased sharply following the investment of the new strategic investor Goldin Fund Pte Ltd. together with Pan Sutong. As defined by Deutsche Börse AG, the free float currently amounts to around 26.5% and therefore increased by 3.5% since the last report.

5 Financial performance, cash flows and financial position

5.1 Financial performance

The Executive Board of Gigaset AG adjusted the structure of the income statement in Gigaset AG's consolidated financial statements compared to the previous year. The new presentation is intended to provide users of the financial statements with more relevant decision-making information. This is to be achieved by separately presenting profit and loss items that do not necessarily result from the core business and thereby providing additional information for the users of the annual financial statements. Thus, the change only relates to the presentation of the income statement, with no resulting impact on profit or loss or changes in other components of the financial statements.

The Gigaset Group generated **sales revenue** in the amount of EUR 133.0 million (prior year: EUR 142.6 million) in the first six months of fiscal year 2016 Sales revenue in the core business was subject to the usual seasonal fluctuations in the consumer business. The decrease of 6.7% in sales revenue compared to the first six months of 2015 can be explained primarily by the negative development in the Mobile Products segment. Whereas **sales revenue** in Germany and Europe compared to the first six months of the previous year was characterized in particular by the declining business in the Consumer Products and Mobile Products segments, sales revenue in the Rest of World segment fluctuated around the previous year's level.

Sales revenue by region developed as follows:

Sales revenue in € millions	Q2 2016	Q2 2015	Change
Germany	66.6	74.5	-10.6%
Europe	52.6	54.1	-2.8%
Rest of World	13.8	14.0	-1.4%
Gigaset Total	**133.0**	**142.6**	**-6.7%**

An overall decline was recorded in the individual segments in the first six months of 2016. Whereas sales in the Consumer Products business fell by EUR 1.8 million to EUR 110.7 million, sales revenue in the Business Customer business decreased by 11.4% to EUR 20.2 million. While the decrease in sales revenue in the Consumer Products segment is related to the general decline in the market, the decrease in sales revenue in the Business Customers segment can be attributed to the reorganization of the largest German customer's corporate group as well as by seasonal shifts in project orders that had a positive impact on the result in the first six months of the previous year.

Sales revenue from the Home Networks segment also decreased by EUR 1.4 million, whereby the first half of the year was dominated by the reorganization and consolidation of the business segment; the marketing strategy was revised, among other things. A decrease of EUR 3.8 million to EUR 1.1 million was recorded for Mobile Products; here, the sell-off of tablets in the first half of 2015 is compared to sales from the smartphone business, which is currently ramping up.

Sales revenue by segment developed as follows:

Sales revenue in € millions	Q2 2016	Q2 2015	Change
Consumer Products	110.7	112.5	-1.6%
Business Customers	20.2	22.8	-11.4%
Home Networks	1.0	2.4	-58.3%
Mobile Products	1.1	4.9	-77.6%
Gigaset Total	**133.0**	**142.6**	**-6.7%**

The **cost of materials** for raw materials, merchandise, finished goods and purchased services was EUR 65.3 million – a decrease of EUR 12.2 million compared to EUR 77.5 million in the previous year. The cost of materials rate fell from 53.6% to 48.4%, including changes in inventories. This can be primarily attributed to the sales revenue trend, changes in inventories of finished goods and work in progress, and the USD exchange rate trend.

Gross profits, comprising sales revenue less the cost of materials and including the 3.7% change in inventories of finished goods and work in progress increased to EUR 68.6 million in the reporting period.

Other own work capitalized in the amount of EUR 4.6 million (prior year: EUR 4.9 million) fluctuated at the previous year's level and mainly includes costs related to the development of innovative products.

Other income from the core business amounts to EUR 2.6 million and is thus EUR 1.5 million lower than in the first six months of the previous year. The decrease can be primarily attributed to the recharging of expenses to the Gigaset Mobile Group, which were down EUR 1.4 million year-over-year.

Personnel expenses before restructuring for wages, salaries, social security contributions and old age pensions amount to EUR 42.1 million, representing a year-over-year decrease of EUR 5.8 million. The decrease reflects in particular the lower number of employees.

Other expenses from the core business in the amount of EUR 23.4 million (prior year: EUR 32.2 million) were incurred in the reporting period. These include in particular marketing costs (EUR 7.5 million; prior year: EUR 11.0 million), general administrative expenses (EUR 4.5 million; prior year: EUR 8.0 million), transport costs (EUR 3.2 million; prior year: EUR 3.6 million), advisory fees (EUR 0.8 million; prior year: EUR 1.3 million), expenses for land and buildings (EUR 1.4 million; prior year: EUR 1.7 million), and expenses for the loaning of employees (EUR 2.1 million; prior year: 0.0 million). The cost-saving measures begun in the previous year are being consistently implemented.

Earnings from the core business before depreciation and amortization thus amount to EUR 10.3 million (prior year EUR -5.1 million). Taking into account depreciation and amortization in the amount of EUR 8.9 million (prior year: EUR 10.2 million), earnings after depreciation and amortization amount to EUR 1.4 million (prior year: EUR -15.3 million).

The **additional ordinary result** in the amount of EUR -0.2 million (prior year: EUR 6.8 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 **additional ordinary income** in the amount of EUR 1.8 million mainly includes income from the reversal of provisions and other liabilities. **Additional ordinary expenses** in the amount of EUR 2.2 million mainly include a valuation allowance on receivables from the recharging of expenses to a related party. Additional ordinary expenses in the previous year relate entirely to deconsolidation losses. The **exchange rate effects** decreased by EUR 5.1 million compared to the first half of the previous year. One reason for this was the introduction of hedge accounting in October 2015. On a net basis, exchange rate gains and exchange rate losses in the second quarter of 2016 nearly fully offset each other.

This led to an **operating result** of EUR 1.2 million (prior year: EUR -8.5 million). In conjunction with **net financial income** in the amount of EUR -0.6 million (prior year: EUR -0.8 million), the **result from ordinary activities** is EUR 0.6 million (prior year: EUR -9.3 million).

The consolidated net loss for the fiscal year as of June 30, 2016, amounts to EUR -0.6 million (prior year: EUR -9.0 million).

This results in earnings per share of EUR 0.00 (basic/diluted) (prior year: EUR -0.07 (basic/diluted)).

5.2 Cash flows

Cash flow

EUR million	Q2 2016	Q2 2015
Cash flows from operating activities	-8.0	-18.5
Cash flows from investing activities	-5.0	-5.4
Free cash flow	-13.1	-24.0
Cash flows from financing activities	-0.4	0.0

In the previous fiscal year, the Gigaset Group recorded a **cash outflow from continuing operations** of EUR 8.0 million (prior year: EUR 18.5 million). The cash outflow typical for the first half of the year is characterized by the seasonal business. Whereas the decrease in cash resources is greatest in the first quarter due to the repayment of liabilities to suppliers resulting from the Christmas shopping season, cash requirements are lower in the second quarter. Net cash inflows are traditionally generated in the second half of the year during the Christmas shopping season. The outflow of cash resources from continuing operations, which was considerably lower than in the previous year, can be explained in particular by the lower cash outflows for the repayment of trade payables. This was offset by a smaller increase in other statement of financial position items to be recorded.

Cash outflows from investing activities amount to EUR -5.0 million and thus fall clearly short of the previous year's level of EUR -5.4 million, whereby the clear majority of payments in the current and previous fiscal year comprise investments in property, plant and equipment.

Thus, free cash flow amounted to EUR -13.1 million compared to EUR -24.0 million in the first six months of 2015.

The **cash inflow from financing activities** amounts to EUR -0.4 million as of June 30, 2016 (prior year: EUR 0.0 million), whereby the cash outflow includes the EUR 0.4 million in interest incurred as part of the conversion of mandatory convertible bonds.

Please refer to the cash flow statement presented in the notes for a detailed presentation of changes in **cash and cash equivalents**.

The cash flow includes changes in exchange rates in the amount of EUR -0.1 million (prior year: EUR 0.5 million).

Cash and cash equivalents amounted to EUR 27.4 million as of June 30, 2016 (prior year: EUR 27.0 million).

5.3 Financial position

The Gigaset Group's total assets as of June 30, 2016, amounted to around EUR 212.9 million and thus decreased by approximately 3.7% compared to December 31, 2015.

Non-current assets increased by EUR 1.3 million to EUR 98.3 million compared to 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 1.3 million to EUR 34.0 million and property, plant and equipment by EUR 2.5 million to EUR 27.4 million. The increase in deferred tax assets results from the increase in pension obligations due to a lower interest rate for the measurement of obligations compared to December 31, 2015.

Current assets represent 53.8% of total assets. Compared to December 31, 2015, they decreased by EUR 9.5 million and amount to EUR 114.6 million. Inventories increased slightly by EUR 0.9 million to EUR 25.2 million. Gigaset's warehouses are normally at their lowest level at year-end after the Christmas shopping season and are consequently restocked over the course of the year. Trade receivables increased by EUR 1.6 million to EUR 32.0 million, which can be primarily attributed to a disproportionately strong sell-off at the end of the quarter. An increase of EUR 1.8 million was recorded for other assets. This results mainly from an increase of EUR 6.6 million in tax claims and an offsetting decrease of EUR 4.5 million for the remaining assets. Furthermore, the portfolio of cash and cash equivalents decreased year-on-year from EUR 41.0 million to now EUR 27.4 million. Please refer to the statement of cash flows in the notes for a breakdown of changes in cash and cash equivalents.

The Gigaset Group's **equity** amounted to around EUR 4.0 million as of June 30, 2016, and is EUR 13.8 million lower than at the beginning of the year. Correspondingly, the equity ratio amounts to 1.9% compared to 8.1% as of December 31, 2015.

Due to the 0.8% decrease in the discount rate to 1.5% for the recognized pension obligations, net actuarial losses in the amount of EUR 12.2 million were recognized in equity. Furthermore, changes in exchange rates were recognized directly in equity in the amount of EUR -0.1 million. The newly introduced cash flow hedging resulted in losses in the amount of EUR 0.8 million that were recognized directly in equity. In addition, equity was impacted by the consolidated net loss for the fiscal year of EUR 0.6 million.

Total liabilities amount to EUR 208.8 million (prior year: EUR 203.2 million), 47.4% of which are current. After the recent considerable decrease in liabilities in the preceding fiscal years, a clear increase in the Group's total debt is to be recorded now for the current fiscal year, mainly due to the increase in pension obligations as a result of the currently low interest rates. However, the increase in pension commitments is purely a calculated value and will not lead to a change in liquidity requirements in the foreseeable future. Gigaset expects a cash outflow of less than EUR 1 million in connection with these pension commitments in 2016. In 10 years, this cash outflow will amount to around EUR 3.2 million for currently recognized pension provisions.

Non-current liabilities mainly include pension obligations, provisions for restructuring, and deferred tax liabilities as well as non-current provisions for personnel expenses and provisions for guarantees. The EUR 18.9 million increase in non-current liabilities to EUR 109.8 million primarily resulted from the increase in pension provisions, which increased by EUR 17.7 million in particular due to a decrease in the discount rate of 2.3% as of December 31, 2015, to 1.5% on March 31, 2016.

At EUR 99.1 million, **current liabilities** are around 11.9% lower than reported in the annual financial statements as of December 31, 2015. The decrease in **current provisions** results primarily from the decrease in provisions for restructuring as well as the decrease in other miscellaneous provisions. **Trade payables** decreased seasonally from EUR 45.8 million to EUR 37.9 million. The increase of EUR 3.2 million in other liabilities to EUR 27.2 million results primarily from the increase of EUR 6.6 million in liabilities for import VAT and by the offsetting decrease of EUR 3.4 million for personnel-related liabilities.

6 Opportunities and risk report as of June 30, 2016

As a general rule, all entrepreneurial activities involve risks. These include the risk that corporate goals will not be achieved due to external or internal events as well as a result of actions and decisions; in extreme cases, a company's ability to continue as a going concern can be jeopardized. 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.

Risks are 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 operating environment	*
Customers	*
Business and litigation risks	*
Information technology	***
staff	**
Financial risks	
Liquidity	**
Taxes	***
Contingent liabilities	
Guaranties | Contingent liabilities	**
Legal disputes	*

6.1 Market-related risks

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

Industry risks are risks that affect a certain market or a certain manufacturing sector. 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 rate plans offered by network operators. The increased use of multifunctional smartphones is also leading to a change in consumer behavior. With Gigaset's entry into the business with mobile consumer devices, the Company is undertaking the marketing of new product groups. This market entry is fraught with risks, 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 risks, 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 and distributor customers due to the strong brand name, the 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 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 risks that are 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 either not capable of launching the product on the market or not capable of doing so as expected.

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 development of new 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.

6.2 Entrepreneurial opportunities

From the Company's point of view, there are entrepreneurial opportunities in the Business Customers segment and 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. It is expected that the average growth of approximately 15% realized in past years can be continued. Gigaset pro is developing into another pillar of the Gigaset Group.

With its new 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 comfort, independent aging, energy management, 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.

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

The mutual operations with Goldin Fund Pte. Ltd., Singapore, regarding the development and expansion of the smartphone business also represent an opportunity. 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. After the start of sales in the mobile online shop, additional Gigaset distribution channels in Retail and Distribution have been supplied with smartphone products since April 2016.

6.3 Company-specific risks

6.3.1 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.

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

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.

6.3.2 Other company-specific risks

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

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

Gigaset 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 tablets and smartphones, where important market participants are involved in major legal disputes.

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

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

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

There is a risk of default for existing receivables 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 technical employees. The development of the Gigaset Group could be negatively impacted if it cannot attract or hold onto sufficiently qualified managers and technical employees.

The global restructuring program that has begun with a reduction of personnel by up to 550 employees could have a negative impact on customers, suppliers, and the workforce. If the planned cuts cannot be implemented at reasonable costs or the restructuring cannot be carried out to the required extent, the resulting developments could jeopardize Gigaset as a going concern. The maintenance of the Group's solvency depends in particular on the achievement of the sales and liquidity goals in 2017, the cost-saving measures to ensure liquidity that have already been implemented, and a subsequent tax payment based on tax audit risks not due before April 2018. If these targets are not met, the Company could be jeopardized as a going concern. On the other hand, there are opportunities for a profitable future and a turnaround for Gigaset if the restructuring can be successfully executed.

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.

6.4 Financial risks

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

6.4.1 Liquidity of the Gigaset Group

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

For fiscal 2016, the Company is fully financed even without the sale of the brand and domain portfolio and not dependent on additional liquidity. The liquidity over the course of the first half of the year confirms this. As of June 30, 2016, the savings resolved have already considerably exceeded the costs incurred for the restructuring measures implemented in the first year. Since we can expect sales revenue to increase again in the second half of the year, the Company is sufficiently funded in the current fiscal year. Maintaining the solvency of the Group in 2017 depends in particular on the achievement of the sales and liquidity goals, the cost-saving measures to ensure liquidity that have already been implemented, and the payment of any taxes in arrears not required before April 2018. If these targets are not met, the Company could be jeopardized as a going concern in 2017.

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.

6.4.2 Debt and liquidity of Gigaset AG

Thanks to the capital increase and the issuance of the convertible bond in fiscal year 2014, Gigaset AG's liquidity position was considerably improved. Gigaset AG has been free of bank debt since repaying the syndicated loan in July 2014. The Company has sufficient cash and cash equivalents at its disposal for the 2016 fiscal year. Maintaining the solvency of the Group depends in particular on the achievement of the sales and liquidity goals in 2017, the cost-saving measures to ensure liquidity that have already been implemented, and the payment of any taxes in arrears not required before April 2018. If these targets are not met, the Company could be jeopardized as a going concern.

6.4.3 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.

6.5 Tax risks

6.5.1 Tax risks of Gigaset AG

Gigaset AG receives tax advise on an ongoing basis in order to identify any risks in advance. The tax audits for the years

2006 to 2008 were completed in the fiscal year 2015. Provisions were recognized and expensed on the income statement as of December 31, 2015, for the additional tax payments resulting from the tax audit and paid ot in the first quarter 2016.

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 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.

6.5.2 Other risks of the Gigaset Group

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

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

6.6 Risks arising from contingent liabilities and legal disputes

6.6.1 Guarantees on the part of the parent company

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

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

Gigaset AG provisionally paid an amount of EUR 6.65 million to the European Commission toward the fine in the years 2009 to 2010 (i.e. for the duration of the appeal) while simultaneously defending itself against the fine by filing a suit. In its decision handed down on January 23, 2014, the European court of first instance (European General Court) partially upheld the action brought by Gigaset AG (formerly: ARQUES Industries AG) against the fine imposed by the European Commission in the cartel case involving SKW and reduced Gigaset AG's administrative fine by EUR 1.0 million. 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 has filed an appeal against this judgment, which was rejected by the European Court of Justice in a decision handed down on June 16, 2016. Thus, the fine imposed on both SKW companies is 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 direct originator of the cartel and consequently should reimburse Gigaset AG for the administrative fine it has already paid in part. 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. The higher regional court now once again responsible then suspended Gigaset's legal dispute against SKW at the beginning of 2015 until the European Court of Justice's decision regarding the validity (or invalidity) of the fine imposed on SKW. The reimbursement by means of recourse to parties joint and severally liable desired by Gigaset depends on the logical preliminary question of whether (and to what extent) SKW and Gigaset are at all joint and severally liable, and consequently on whether the administrative fines imposed on Gigaset and SKW become finally enforceable. This preliminary question was decided in favor of Gigaset with the decision handed down by the European Court of Justice on June 16, 2016 (see above). The Company is now urging the higher regional court of Munich to once again take up the currently suspended dispute in a timely manner. The higher regional court's decision is expected late in the fall of 2016. Therefore, Gigaset expects the fine that has already been paid to be fully or partially reimbursed by SKW.

Evonik in the matter of Oxxynova:

In the legal dispute with Evonik Degussa GmbH over a contractual penalty in the amount of EUR 12.0 million, a court of arbitration had ordered Gigaset AG to pay EUR 3.5 million plus interest to Evonik in November 2013 while dismissing the rest of the suit. On March 4, 2015, Gigaset paid the principal amount of EUR 3.5 million plus interest to Evonik. 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 proceedings. In the meantime, the distribution of the insolvency assets has been largely completed; Gigaset expects – not least based on an agreement with the insolvency administrator regarding the matter – to receive up to EUR 3.5 million from the insolvency assets. EUR 2.0 million of which has already flowed to Gigaset in the second quarter of 2016 in the form of an interim distribution to the Company; the Company expects an additional EUR 1.5 million as part of the final distribution. In the final result, the Company will incur a net loss of EUR 1.3 million, primarily representing the interest paid to Evonik from the principal amount.

6.7 Opportunities and risk report with respect to discontinued operations

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

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

6.8 General statement to the opportunities and risk report

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

The liquidity risk was already reduced in 2014 thanks to the successfully executed capital measures. Nevertheless, the Company is forced to cut costs as a result of declining sales revenue. The self-imposed cost-savings program was successfully implemented as planned in the first half of the year and has already led to considerable cost-savings that clearly exceed the costs for the implementation of the restructuring measures. Therefore, the Company was not dependent on an inflow of cash resources from a reorganization of the brand and domain portfolio.

Sales revenue in the first half of the year may have declined compared to the first half of the previous year, but it is in line with the expectations for the savings program. Therefore, the declining revenue trend in the current core business represents a lower risk than was recently the case. The Company accordingly expects to be securely positioned for the future even in the case of decreasing sales. Potential additional sales revenue from the smartphone business could even open up unplanned opportunities to increase sales. 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 2016 and does not expect any negative unplanned impacts. In contrast, risks can arise from past and future tax issues.

7 Significant events after June 30, 2016

Hadwin He leaves Executive Board.

Mr. Hongbin (Hadwin) He, who was appointed to the Executive Board of Gigaset AG on September 1st, 2015, has resigned in writing from his position for personal reasons and with immediate effect on July 29., 2016.

8 Outlook

8.1 General economic development

The German Institute for Economic Research (Institut für Wirtschaftsforschung e.V.) (DIW Berlin) forecasts a growth rate of 3.3% for the global economy for 2016 and thus revises its previous forecast downward by 0.3 percentage points. This was due to the trend in emerging markets and the slower economic momentum in China. For 2017, DIW Berlin is assuming growth of 3.7% (downward revision of 0.2 percentage points). Overall, the risks have increased for the global economy. This is due to the uncertainties resulting from the flow of refugees, low oil prices, and the volatility of the financial markets. China is taking financial and monetary policy measures to counter the economic slowdown. Economic output will once again slightly decrease this year in Russia. The economic trend in the U.S.A. and the United Kingdom remains robust. Even in the euro zone the economy continues to trend moderately upwards, supported by consumer spending.[6]

The German federal government expects an average annual increase in real German gross domestic product of 1.7% for 2016. Together with noticeably rising incomes, the continuing increase in the number of jobs forms the foundation for the sustained momentum in Germany. For the time being, the high inflow of refugees is only having a minor impact on the labor market. However, the influx is presenting daunting new challenges.[7]

6. DIW Wochenbericht no. 11/2016
7. Federal Ministry for Economic Affairs and Energy: 2016 Annual Economic Report

8.2 Development of the industry

Market for cordless telephones

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

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

A lower price level is becoming apparent across all standards for the coming years, whereby the price decline with respect to the analog standard and other digital standards will be particularly significant.[8]

Market for business customers

The European telecommunications market for corporate customers is expected to transform itself in favor of IP telephones. The market, broken down into the "cloud" and "on-premise" will increase to approximately 2.6 million extensions in 2016 and generate an end customer value of more than EUR 720 million for the cloud business. The cloud business will grow to EUR 1,200 million by 2020. The market for IP-PBX will comprise approximately 8.2 million extensions next year, corresponding to an end customer value of EUR 809 million. The end customer value should grow to EUR 949 million by 2020. Demand for IP devices – corded and cordless – will also grow significantly over this period.[9]

The Company is focusing on the segment of small and medium-sized enterprises (SME) with the sub-brand Gigaset pro. This segment will constitute approximately 66% of the entire IP-based business by 2020. The market expansion will be driven by new products and product categories as well as replacement purchases.

Market for Home Networks

According to a market analysis by Deutsche Telekom, the number of households around the world with a Smart Home solution will have exceeded 100 million at the end of 2015. The number of these households is expected to more than triple within the next ten years. In 2025, more than 300 million households are expected to own a Smart Home system. Expenditures for Smart Home products and services worldwide are forecasted to be around EUR 90 billion by 2018. The number is expected to increase to around EUR 125 billion by 2020. However, at this point in time, not more than 25% of households with a broadband connection will have purchased a Smart Home product. Therefore, the study is based on the assumption of further growth possibilities.[10]

Market for Mobile Devices

According to a study by the IT research and consulting firm Gartner, 2.4 billion devices (PCs, tablets, ultramobiles, and cell phones) will be sold worldwide in fiscal year 2016. That corresponds to an increase of 1.9% compared to 2015.[11] According to a Bitkom forecast, the smartphone boom in Germany will also continue in 2016. For example, 28.2 million devices are expected to be sold in fiscal 2016. That is an increase of 7.5% compared to 2015. Sales revenue should amount to around EUR 10.4 billion over this same period.[12]

8. MZA World – Consumer Cordless Telephony market – 2013 Forecast Edition (published October 2013)
9. MZA, Forecast H2-2015
10 Market analysis by Deutsche Telekom: Growth opportunities for companies in the smart home market
11. Gartner Press Release Egham, UK, January 20, 2016:
12. Bitkom Press release dated February 16, 2016: Sales of smartphones top 10 billion euros

8.3 Expected development of sales revenue and earnings

The market as a whole for cordless telephones in Europe will continue to decline by just under 2.5% in 2016 based on sales revenue in the markets observed by Gigaset. This trend is also expected to continue in the coming years. The business segments Business Customers, Home Networks, and Mobile Products are not expected to be able to compensate for the loss of sales revenue in the core business.

The trend in fiscal year 2016 depends significantly on the looming and further forecasted decline of the classic telecommunications market, but also on the successful expansion of the Business Customers, Home Networks, and Mobile Products segments. The experts are assuming that the market for cordless telephony will continue to decline. Gigaset will not be able to avoid this trend . However, the goal is to stabilize the cordless telephone business in the next few years and to secure it as an important source of sales revenue.

The product variance in the core business, with product types varying based on customer groups and functionality, is an important factor for success. The Company should increase its market share in the future with the new Gigaset GO series and the likewise new Gigaset HX series, which offers a premium alternative in the growing market for mobile devices for routers.

At the same time, the plan is to further expand the Business Customers segment with the "Gigaset pro" brand, which has grown continuously in the past two years. Distribution and in particular distribution partnerships are to be further intensified. Expansion of the Maxwell product line and a broader range of telecommunications systems for enterprises are intended to further boost the Company's revenue, which has been growing recently at a double-digit rate.

Intensified and focused marketing strategies are planned in the Home Networks segment in order to generate further sales growth.

The reorganization of the business will be accelerated in the coming years with the initiated restructuring program. It is planned to cut around 550 employees by 2018. This will account for the declining sales revenue in the core business. The goal is to return to profitable growth.

Due to the invoicing primarily in U.S. dollars on the procurement markets, a strong U.S. dollar will have a sustained negative impact on the Group's profitability.

This forecast is based on the described general economic and industry-specific trends. The forecast is not based on inorganic growth through acquisitions. In addition, the forecast is based on a USD/EUR exchange rate of 1.10.

8.4 Expected development of cash flow, capital expenditures and liquidity

The Company currently finances itself primarily by way of the implemented factoring program. As of June 30, 2016, Gigaset is free from financial liabilities. The Company's current budgets also do not provide for the raising of any loans. The plan is for the payments under the restructuring program in 2016 to be financed by savings realized in personnel expenses. Maintaining the Group's solvency depends in particular on the achievement of revenue and liquidity goals in 2017 as well as the measures already implemented to safeguard liquidity and save costs. If these targets are not met, the Company could be jeopardized as a going concern. We will continue to focus on managing liquidity in the coming two fiscal years. 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.

8.5 Overall view of the Executive Board regarding the likely development of the Group

The strategic reorientation of the Company will be consistently continued. The Company expects the market decline in its core business to slow down this year. Since the downward trend in the cordless telephone business continues, Gigaset continues to invest in the establishment of new, promising segments and product groups. These investments will result in additional contributions to sales revenue that, however, will not be able to completely compensate the decline in the cordless telephone business this year. Due to the current development the Executive Board of Gigaset AG adjust the outlook for the full year 2016. The company now expects:

- a positive income from ordinary activities (income before taxes) for 2016
- an EBITDA of around EUR 20 million and
- a positive free cash flow from business operations, which will be slightly negative solely due to tax payments from past years.

Furthermore, Goldin Brand Ltd. has so far not exercised its rights under the contract regarding the acquisition of brands and domains entered into in 2015 and so far not paid the purchase price. The brand rights and domains remain the property of Gigaset until the purchase price is paid. Since the purchased objects have not yet been transferred to the buyer, Gigaset does not show any proceeds from the brand transaction also for the 2016 fiscal year. The proceeds will be accordingly recognized in the period in which both contracting parties have exercised their rights and fulfilled their obligations.

Munich, August 11, 2016

The Executive Board of Gigaset AG

Klaus Wessing   Hans-Henning Doerr   Guoyu Du

Consolidated Income Statement for the period from January 1 to June 30, 2016

EUR'000	01/01 – 06/30/2016	01/01 – 06/30/2015
Revenues	133,006	142,611
Change in inventories of finished and unfinished goods	893	1,060
Purchased goods and services	-65,302	-77,533
Operating Margin	**68,597**	**66,138**
Other internal production capitalized	4,638	4,857
Other income from core business	2,557	4,020
Personnel expenses before restructuring	-42,125	-47,880
Other expenses from core business	-23,411	-32,208
Result from core business before scheduled depreciation	**10,256**	**-5,073**
Scheduled depreciation	-8,888	-10,226
Result from core business after scheduled depreciation	**1,368**	**-15,299**
Additional other income	1,803	3,294
Additional other expenses	-2,186	-1,834
Restructuring costs for personnel	-10	0
Exchange rate gains	2,960	12,901
Exchange rate losses	-2,729	-7,554
Additional result	**-162**	**6,807**
Earnings before interest and taxes	**1,206**	**-8,492**
Other interest and similiar income	15	6
Interest and similiar expenses	-635	-843
Net financial result	**-620**	**-837**
Income from ordinary activities	**586**	**-9,329**
Income taxes	-1,234	316
Consolidated profit / loss for the year	**-648**	**-9,013**
Earnings per share		
- undiluted in EUR	0.00	-0.07
- diluted in EUR	0.00	-0.07

Consolidated Income Statement
for the period from April 1 to June 30, 2016

EUR'000	01.04. – 06/30/2016	01.04. – 06/30/2015
Revenues	71,065	72,522
Change in inventories of finished and unfinished goods	1,595	713
Purchased goods and services	-34,373	-39,596
Operating Margin	**38,287**	**33,639**
Other internal production capitalized	2,384	2,316
Other income from core business	1,469	311
Personnel expenses before restructuring	-20,957	-23,827
Other expenses from core business	-12,131	-14,754
Result from core business before scheduled depreciation	**9,052**	**-2,315**
Scheduled depreciation	-4,381	-5,089
Result from core business after scheduled depreciation	**4,671**	**-7,404**
Additional other income	641	443
Additional other expenses	-2,186	0
Restructuring costs for personnel	-9	0
Exchange rate gains	949	-2,551
Exchange rate losses	-1,000	-2,678
Additional result	**-1,605**	**-4,786**
Earnings before interest and taxes	**3,066**	**-12,190**
Other interest and similiar income	13	1
Interest and similiar expenses	-280	-282
Net financial result	**-267**	**-281**
Income from ordinary activities	**2,799**	**-12,471**
Income taxes	-875	2,638
Consolidated profit / loss for the year	**1,924**	**-9,833**
Earnings per share		
- undiluted in EUR	0.02	-0.07
- diluted in EUR	0.02	-0.07

Consolidated Statement of Financial Position at June 30, 2016

EUR'000	06/30/2016	12/31/2015
ASSETS		
Non-current assets		
Intangible assets	34,048	35,313
Property, plant and equipment	27,369	29,906
Financial assets	18,386	18,386
Evaluation At Equity	18,455	13,361
Deferred tax assets	**98,258**	**96,966**
Total non-current assets		
Current assets	25,215	24,299
Inventories	32,046	30,470
Trade receivables	29,355	27,591
Other assets	589	799
Current tax assets	27,392	40,963
Cash and cash equivalents	**114,597**	**124,122**
Total current assets	**212,855**	**221,088**

Consolidated Statement of Financial Position at June 30, 2016

EUR'000	06/30/2016	12/31/2015
EQUITY AND LIABILITIES		
Equity		
Subscribed capital	132,456	132,456
Additional paid-in capital	86,076	86,076
Retained earnings	68,979	68,979
Accumulated other comprehensive income	-283,465	-269,655
Total equity	**4,046**	**17,856**
Non-current liabilities		
Pension obligations	89,020	70,020
Provisions	20,008	20,189
Deferred tax liabilities	731	616
Total non-current liabilities	**109,759**	**90,825**
Current liabilities		
Convertible bonds	0	426
Provisions	21,073	28,248
Trade payables	37,885	45,783
Current tax liabilities	12,877	13,981
Other liabilities	27,215	23,969
Total current liabilities	**99,050**	**112,407**
Total equity and liabilities	**212,855**	**221,088**

Statement of Comprehensive Income from January 1 to June 30, 2016

EUR'000	01/01/ – 06/30/2016	01/01/ – 06/30/2015
Consolidated profit/loss for the year	**-648**	**-9,013**
Items that may be reclassified subsequently to net income/loss		
Currency translation differences	-115	-1,646
Other income from investments accounted for by the equity method	0	-2,183
Cashflow Hedges	-1,275	0
Recognized income taxes for this item	445	0
Items that will not be reclassified to net income/loss		
Revaluation effects, net debt from defined benefit plans	-17,706	7,176
Recognized income taxes for this item	5,489	-2,225
Total changes not recognized in the income statement	**-13,162**	**1,122**
Total comprehensive income and expenses	**-13,810**	**-7,891**

Statement of Comprehensive Income from April 1 to June 30, 2016

EUR'000	01/04 – 06/30/2016	01/04 – 06/30/2015
Consolidated profit/loss for the year	**1,924**	**-9,833**
Items that may be reclassified subsequently to net income/loss		
Currency translation differences	-8	-300
Other income from investments accounted for by the equity method	0	0
Cashflow Hedges	1,354	0
Recognized income taxes for this item	-420	0
Items that will not be reclassified to net income/loss		
Revaluation effects, net debt from defined benefit plans	-8,513	22,964
Recognized income taxes for this item	2,639	-7,119
Total changes not recognized in the income statement	**-4,948**	**15,545**
Total comprehensive income and expenses	**-3,024**	**5,712**

Consolidated Statement of Changes in Equity at June 30, 2016

	EUR'000	Subscribed capital	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Consolidated equity
	January 1, 2015	132,456	86,076	68,979	-246,352	41,159
1	Consolidated loss of the year 2015	0	0	0	-9,013	-9,013
2	Currency translation differences	0	0	0	-1,646	-1,646
3	Cashflow Hedges	0	0	0	0	0
4	Other income from investments accounted for by the equity method	0	0	0	-2,183	-2,183
5	Actuarial effects from pensions	0	0	0	4,951	4,951
6	Total changes not recognized in the income statement	0	0	0	1,122	1,122
7	**Total net income (1+6)**	**0**	**0**	**0**	**-7,891**	**-7,891**
	June 30, 2015	132,456	86,076	68,979	-254,243	33,268
	January 1, 2016	132,456	86,076	68,979	-269,655	17,856
1	Consolidated loss of the year 2016	0	0	0	-648	-648
2	Currency translation differences	0	0	0	-115	-115
3	Cashflow Hedges	0	0	0	0	0
4	Other income from investments accounted for by the equity method	0	0	0	-830	-830
5	Actuarial effects from pensions	0	0	0	-12,217	-12,217
6	Total changes not recognized in the income statement	0	0	0	-13,162	-13,162
7	**Total net income (1+6)**	**0**	**0**	**0**	**-13,810**	**-13,810**
	June 30, 2016	**132,456**	**86,076**	**68,979**	**-283,465**	**4,046**

Consolidated Cash Flow Statement for the Period from January 1 to June 30, 2016

EUR'000	01/01/ - 06/30/2016	01/01/ - 06/30/2015
Income from ordinary activities	586	-9,329
Depreciation and amortization of property, plant and equipment and intangible assets	8,888	10,226
Increase (+)/decrease (-) in pension provisions	1,294	1,599
Gain (-)/loss (+) on the sale of non-current assets	-45	-349
Gain (-)/loss (+) on deconsolidation	0	-828
Gain (-)/loss (+) on currency translation	-112	-2,309
Result out of At Equity evaluation	0	682
Net interest income	620	837
Interest received	13	5
Interest paid	-303	-459
Income taxes paid	-1,226	-727
Increase (-)/ decrease (+) in inventories	-916	-2,403
Increase (-)/ decrease (+) in trade receivables and other receivables	-4,615	12,255
Increase (+)/ decrease (-) in trade payables, other liabilities and other provisions	-12,336	-31,022
Increase (+)/ decrease (-) in other balance sheet items	132	3,268
Cash inflow (+)/ outflow (-) from operating activities (net cash flow)	**-8,020**	**-18,554**
Proceeds from the sale of shares in companies	0	25
Cash transferred with the sale of shares in companies	0	-107
Proceeds from the sale of non-current assets	45	349
Payments for investments in non-current assets	-5,086	-5,687
Cash inflow (+)/ outflow (-) from investing activities	**-5,041**	**-5,420**
Free cash flow	**-13,061**	**-23,974**

Consolidated Cash Flow Statement for the Period from January 1 to June 30, 2016

EUR'000	01/01/ - 06/30/2016	01/01/ - 06/30/2015
Cash flows from the borrowing of non-current financial liabilities	0	18
Convertible bonds	-428	-66
Cash inflow (+)/ outflow (-) from financing activities	**-428**	**-48**
Net funds at beginning of period	35,409	46,021
Changes due to exchange rate differences	-82	503
Net funds at beginning of period, measured at prior-year exchange rate	35,491	45,518
Increase (-)/ decrease (+) in restricted cash	-4	-406
Change in cash and cash equivalents	-13,489	-24,022
Net funds at end of period	**21,916**	**21,593**
Restricted cash	5,476	5,372
Cash and cash equivalents	**27,392**	**26,965**

NOTES TO THE INTERIM FINANCIAL STATEMENTS AS OF JUNE 30, 2016

1. General information regarding accounting policies

The consolidated financial statements of Gigaset AG at June 30, 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 EU. Accordingly, the present unaudited interim financial report at June 30, 2016, which was not subjected to any review, was prepared in accordance with IAS 34. All the standards in effect and applicable up to June 30, 2016, have been observed. They help to provide a true and fair view of the financial position, liquidity, and financial performance of the Gigaset Group.

The explanations in the Notes to the 2015 Consolidated Financial Statements apply accordingly, particularly with regard to the significant accounting policies. The consolidated financial statements are prepared on the assumption of a going concern.

In accordance with the provisions of IAS 8.28, the statements on adjusting values with regard to the structure of the income statement as described in the 2015 consolidated financial statements are not repeated in the financial statements of subsequent periods.

In accordance with the provisions of IAS 8.49, the statements on adjusting values with regard to the consolidated cash flow statement as described in the 2015 consolidated financial statements are not repeated in the financial statements of subsequent periods.

In addition, application of the following standards and interpretations revised and newly issued by the IASB was obligatory starting from fiscal 2016:

› Annual improvement cycle to 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 accounting for contingent purchase price payments in cases of company acquisitions)
  - IFRS 8 Operating Segments (clarification of statements in the notes regarding summarizing business segments and reconciliation of segment assets to consolidated assets)
  - IFRS 13 Fair Value Measurement (clarification on omission of discounting of short-term receivables and payables)
  - IAS 16 Property, Plant and Equipment / IAS 38 Intangible Assets (clarification of proportional adjustment of cumulative depreciation when using the revaluation method)

- IAS 24 Related Party Disclosures (clarification of the definition of "related parties" and their influence on the interpretation of the term "members of management in key positions")
- IAS 38 Intangible Assets (clarification of proportional adjustment of cumulative depreciation when using the revaluation method)

The new provisions apply for financial years beginning on or after January 1, 2016. The amendments had no effect on the consolidated financial statements.

› Annual improvement cycle to International Financial Reporting Standards (2012-2014 cycle)

The annual improvements (2012-2014 cycle) relate to clarifications within the following standards:

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (clarification regarding non-current assets (or disposal groups) held for distribution to owners)
- IFRS 7 Financial Instruments: Disclosures (clarifications or guidelines for reporting obligations for completely transferred assets that include a management contract for a fee, and statements in interim financial reports on balancing)
- IAS 19 Employee Benefits (clarification that determining the discount rate based on corporate and government bonds must be based on the underlying currencies and not on countries as a whole)
- IAS 34 Interim Financial Reporting (clarification that statements in the notes pursuant to IAS 34 can also be made in other parts of the report as long as they are referred to in the notes)

The new provisions apply for financial years beginning on or after January 1, 2016. The amendments had no effect on the consolidated financial statements.

› IAS 19 Employee Benefits

The adjustment of IAS 19 includes additional guidelines on using IAS 19 with regard to contributions from employees or third parties to the costs of pension plans. Among other things, it regulates when payments made can be deducted from the employer's costs. The new provisions apply for financial years beginning on or after January 1, 2016. The amendments had no effect on the consolidated financial statements.

› Adjustments to IFRS 11 Joint Arrangements

The adjustments to IFRS 11 Joint Arrangements include guidelines for presentation of the acquisition of joint operations that satisfy the definition of a business operation pursuant to IFRS 3 Business Combinations. Fundamentally, the presentation regulations for business combinations in IFRS 3 must be used for such transactions unless opposed by provisions of IFRS 11. The new provisions apply for financial years beginning on or after January 1, 2016. The amendments had no effect on the consolidated financial statements.

› Adjustments to IAS 16, Property, Plant and Equipment, and IAS 38, Intangible Assets

The adjustments to IAS 16 and IAS 38 clarify the prerequisites under which revenue-dependent depreciation of assets could be permitted. In the case of IAS 16, a depreciation method based on earned operating revenues is not permitted. For intangible assets, a refutable presumption exists that such amortization is not permitted. The conditions under which such amortization would be permitted were included in IAS 38. The new provisions apply for financial years beginning on or after January 1, 2016. The amendments had no effect on the consolidated financial statements.

› Adjustments to IAS 16, Property, Plant and Equipment, and IAS 41, Agriculture

The adjustments to IAS 41 and IAS 16 provide that so-called “bearer plants” no longer will fall within the scope of IAS 41 in the future, but rather within the scope of IAS 16 because their management is similar to that of the productive trades. The new provisions apply for financial years beginning on or after January 1, 2016. The amendments had no effect on the consolidated financial statements.

› Adjustments to IAS 27, Separate Financial Statements

The adjustments to IAS 27 now permit an investment (shares in subsidiaries, joint ventures, and associates) to be recognized in separate financial statements at amortized acquisition or production costs pursuant to the provisions of IFRS 9 Financial Instruments or alternatively (again) by using the equity method as described in IAS 28. In addition, the definition of separate financial statements was further specified. The new provisions apply for financial years beginning on or after January 1, 2016. The amendments had no effect on the consolidated financial statements.

› Adjustments to IAS 1 Presentation of Financial Statements

The amendments to IAS 1 (the “disclosure initiative”) primarily relate to the following points in the statements in the notes:

- Clarification that disclosures in the notes are only required when the information is not immaterial. This rule applies explicitly also when a Standard specifies a list of minimum disclosures.
- Explanations of aggregation and disaggregation of items in the statement of financial position and the statement of comprehensive income.
- Clarification as to how shares of the other comprehensive income of equity-accounted associates are to be presented in the statement of comprehensive income.
- Elimination of the model structure of the notes to the financial statements, so that entities can structure the notes in a way that is relevant to their specific circumstances.

The new provisions apply for financial years beginning on or after January 1, 2016. The amendments had no effect on the consolidated financial statements.

› Adjustments to IFRS 10 Consolidated Financial Statements, IAS 28 Investments in Associates and Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities

The adjustments to IFRS 10 and IAS 28 serve to clarify three issues with regard to applying the exception from the duty to consolidate under IFRS 10 if the parent company satisfies the definition of an investment company:

- Companies are also exempt from the duty of consolidation when the superior parent company recognizes its subsidiaries at fair value under IFRS 10.
- When a subsidiary itself satisfies the definition of an investment company and provides services that relate to the parent company’s investment activities, it must not be consolidated.
- If an investor who does not satisfy the definition of an investment company applies the equity method to an affiliated company or a joint venture, then this entity can retain the measurement at fair value that the investee company applies to its investments in subsidiaries.

In addition, a statement was included in the amended Standard that an investment company that measures all of its subsidiaries at fair value must make the statements regarding investment companies prescribed by IFRS 12. The new provisions apply for financial years beginning on or after January 1, 2016. The amendments had no effect on the consolidated financial statements.

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

Standards		**Application mandatory for Gigaset from**	**Adopted by EU Commission**
IAS 12	IAS 12, Income Taxes – recognition of deferred tax assets on unrealized losses	1/1/2017	No
IAS 7	IAS 7, Statement of Cash Flows – Levies Initiative	1/1/2017	No
IFRS 15	Revenue from Contracts with Customers	1/1/2018	No
IFRS 9	Financial instruments	1/1/2018	No
IFRS 2	IFRS 2 Share-based Payment - classification and measurement of share-based compensation	1/1/2018	No
IFRS 16	Leasing	1/1/2019	No
IFRS 10 / IAS 28	Sale of an investor's assets to or contribution to his affiliated company or joint venture company	unspecified	No
Interpretations			
-	-	-	-

In October 2015, the EFRAG (European Financial Reporting Advisory Group) announced that the European Commission will not recommend inclusion of IFRS 14, Regulatory Accrual Items, in EU law. The reason for non-inclusion is the very limited group of companies that would apply this interim standard. Complying with IFRS 14, effective 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 of an investor's assets to or contribution to his affiliated company or joint venture company was deferred by the standard setter for an undetermined period. Therefore, the endorsement is also deferred for an undetermined period.

The effects of the first-time application of the adjustments to IFRS 2, which are to be applied only starting with financial year 2018, cannot be reliably estimated at the present time.

Further information on Standards, interpretations, and amendments that have been published but not yet applied, as well as statements on recognition and measurement of items of the statement of financial position and on discretionary judgments and estimation uncertainties can be found on pp. 93ff. in the chapter "Accounting Principles" of the Notes to the Consolidated Financial Statements in the 2015 Annual Report.

2. Seasonal effects

Gigaset's core business is subject to pronounced seasonality due to regularly differing purchasing behavior of end customers within a calendar year. The highest revenues are earned in the Christmas business, which means that the fourth quarter is traditionally very strong. In contrast, the first quarter is used to refill warehouses after the Christmas business and experience has shown that earnings are about the same magnitude as in the third quarter. In the third quarter, sales to distributor and retailer warehouses for the Christmas business are already ongoing, but July and August are among the weak summer months with end customers having less inclination to buy. In this context, the third quarter generally runs weaker than the fourth quarter. In the second quarter, customers are already showing seasonal purchasing reluctance in the early summer months of May and June, while distributors and retailers are setting up their warehousing for the weak summer months. Therefore, the second quarter traditionally has the weakest revenues in the entire financial year.

Alongside the traditional general seasonal fluctuations, country-specific and region-specific seasonal fluctuations exist, such as sales campaigns connected to specific trade fairs (e.g., CEBIT, IFA), back-to-school activities, or Chinese New Year.

3. Restructuring

The restructuring approved in the fourth quarter of 2015 was begun as planned in the first half of 2016. These restructuring measures resulted in a cash outflow of EUR 3.2 million through the end of the second quarter of 2016, largely due to disbursement of severance pay for the first wave of employees who left the company as of June 30. The restructuring measures of the prior years resulted in a cash outflow of EUR 0.9 million through the end of the second quarter of 2016. Only EUR 0.1 million from the restructuring measures of the prior years are still included in the restructuring provisions at the reporting date. Overall, we expect a positive cash effect from restructuring by the end of 2016, primarily due to savings on personnel costs.

4. Financial assets and Liabilities

The fair values of financial assets and liabilities as of June 30, essentially correspond to the carrying amounts. Compared to December 31 of the prior year, there were changes in current financial assets and current liabilities due to repayment of financial liabilities from the convertible bond as well as termination of foreign currency hedging transactions and the conclusion of new foreign currency hedging transactions. However, there is no significant difference between the fair values and the carrying amounts for these items. There were no changes with respect to the measurement and fair value hierarchy of the financial assets and liabilities compared to the end of the year.

At the reporting date, the foreign currency derivatives were measured at a fair value of EUR 664 thousand (PY: EUR 2,189 thousand) and EUR -490 thousand (PY: EUR -844 thousand). They are carried under Other current assets in the amount of EUR 664 thousand (PY: EUR 2,189 thousand) or under Other current liabilities in the amount of EUR 490 thousand (PY: EUR 844 thousand).

As explained in the 2015 consolidated financial statements, Gigaset applies the regulations of hedge accounting to the hedging of future merchandise purchases. The assessment of effectiveness occurred 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 procedure ("hypothetical derivative"), likewise led to the result that the hedging relationships were to be considered effective.

In the current period, an amount of EUR -830 thousand was recognized in equity, taking deferred taxes into account. Since the hedge accounting regulations are only applied starting October 1, 2015, there were no amounts recognized directly in equity in the prior year. In the comparison period of the prior year, the measurement effects of the foreign currency derivatives were included in both the exchange rate gains of EUR 4,241 thousand and the exchange rate losses of EUR 1,193 thousand.

At the reporting date, the Group held 30 foreign currency derivatives to hedge the exchange rate of the U.S. dollar against the euro, for a total notional amount of USD 78.3 million. Of these derivatives, 16 were designed as "bonus-eventual" currency futures contracts, 2 derivatives as foreign currency swaps, and 12 derivatives as a "plain vanilla" forward foreign exchange contracts. At 12/31/2015, the Group held 29 foreign currency derivatives to hedge the exchange rate of the U.S. dollar against the euro, for a total notional amount of USD 89.6 million. Of these derivatives, 22 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.

The following tables present the determined fair values for the financial assets and liabilities according to hierarchy levels for the reporting date and for the comparison period:

06/30/2016		**Hierarchy level**		
EUR'000	**1**	**2**	**3**	**Total**
Financial assets				
Derivative financial instruments	0	664	0	664
Financial liabilities				
Financial liabilities	0	0	0	0
Derivative financial instruments	0	490	0	490

12/31/2015		**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

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

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

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

Since neither a fair value from a stock exchange or market price nor future cash flows that can be reliably determined by discounting can be derived for the equity of Gigaset Mobile Pte. Ltd., Singapore, this equity item is measured at cost of purchase at the closing date.

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

5. Pension obligations and deferred tax assets

The pension obligations were adjusted based on the currently relevant interest rate levels as of June 30, 2016, using an approximation procedure. Due to a decline in the relevant interest rate level from 2.30% at December 31, 2015, to 1.49% at June 30, 2016, an increase in pension obligations of EUR 17,706 thousand and an increase in deferred tax assets of EUR 5,489 thousand resulted from this effect.

6. Provisions

Current provisions declined compared to December 31, 2015, from EUR 28,248 thousand to EUR 21,073 thousand, which resulted primarily from the decline in restructuring provisions by about EUR 4.1 million, the decline in the provisions for sales bonuses by EUR 1.7 million, and the decline in provisions for license payments by EUR 0.6 million.

7. Other income from core business, additional regular income, and exchange rate gains

The other income from core business amounts to EUR 2,557 thousand (PY: EUR 4,020 thousand) and primarily includes on-debiting of EUR 593 thousand (PY: EUR 1,978 thousand), income from disposals of non-current assets of EUR 45 thousand (PY: EUR 345 thousand) and miscellaneous other income from the core business of EUR 1,919 thousand (PY: EUR 1,697 thousand).

The additional ordinary income of EUR 1,803 thousand primarily comprises income from the reversal of provisions and other liabilities. In the prior-year comparison period, the additional ordinary income amounted to EUR 3,294 thousand and primarily included income from the reversal of provisions and other liabilities of EUR 1,299 thousand and income from deconsolidation of EUR 1,980 thousand.

The exchange rate gains of EUR 2,960 thousand (PY: EUR 12,901 thousand) comprise income from realized as well as unrealized foreign currency gains. In the prior year, they also include derivative financial instruments (foreign currency hedging transactions and interest rate swaps) in the amount of EUR 4,310 thousand.

8. Personnel expenses before restructuring and personnel expenses from restructuring

The personnel expenses declined to EUR 42,125 thousand due to the ongoing restructuring programs in the first half of 2016 (EUR 47,880 thousand in the prior-year comparison period).

9. Other expenses from core business, additional regular expenses, and exchange rate losses

The other expenses from core business amounted to EUR 23,411 thousand compared with EUR 32,208 thousand in the prior year. The decline in expenses compared to the prior year results primarily from the decline in marketing and representation expenses by about EUR 3.5 million, the decline in management costs by about EUR 3.5 million, and the decline in consulting costs by about EUR 0.6 million.

The additional regular expenses of EUR 2,186 thousand comprise an impairment on receivables of EUR 2,000 thousand and expenses from sales tax for previous periods. In the prior year, the additional regular expenses related entirely to losses from deconsolidation.

The exchange rate losses of EUR 2,729 thousand (PY: EUR 7,554 thousand) comprise expenses from realized as well as unrealized foreign currency losses. In the prior year, they also include expenses from derivative financial instruments in the amount of EUR 1,193 thousand.

10. Segment report

As described and presented in the 2015 Annual Report, the segment report was adjusted compared to the prior year in accordance with the internal reporting. 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." Segments were aggregated into the reportable segment "EU". Due to the change in the structure of the income statement in the development phase of the 2015 consolidated financial statements in spring 2016, the segment report was also adjusted accordingly. The segment report for the comparison period was likewise adjusted accordingly.

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, Argentina, Russia, USA, Brazil, and China.

The transfer prices charged between the segments are the same as those that could be achieved with third parties. Administrative services are on-debited as cost-sharing.

The relevant segment result is the EBITDA.

Activities are attributed to the individual geographical regions on the basis of the country of domicile of the respective legal entity. Therefore, revenues and profit/loss contributions are attributed to geographical regions on the basis of legal entities, in accordance with the internal reporting system.

January 01 to June 30, 2016 in EUR'000	Germany	EU	Rest of world	Gigaset TOTAL	Holding company	Group
Revenues	66,669	52,622	13,715	133,006	0	133,006
Result of core business before scheduled depreciation	11,737	136	583	12,456	-2,200	10,256
Depreciation	-8,833	-43	-12	-8,888	0	-8,888
Result of core business after scheduled depreciation	**2,904**	**93**	**571**	**3,568**	**-2,200**	**1,368**
Additional ordinary income	-182	21	53	-108	-54	-162
Operating profit/loss	2,722	114	624	3,460	-2,254	1,206
EBITDA (including impairment losses)	**11,555**	**157**	**636**	**12,348**	**-2,254**	**10,094**
Other interest and similar income						15
Interest and similar expenses						-635
Net financial income/expenses						**-620**
Income/expenses from ordinary activities						**586**
Income taxes						-1,234
Consolidated net loss for the period						**-648**

January 01 to June 30, 2015 in EUR'000	Germany	EU	Rest of world	Gigaset TOTAL	Holding company	Group
Revenues	74,470	54,150	13,991	142,611	0	142,611
Result of core business before scheduled depreciation	-3,476	381	171	-2,924	-2,149	-5,073
Depreciation	-10,165	-55	-6	-10,226	0	-10,226
Result of core business after scheduled depreciation	**-13,641**	**326**	**165**	**-13,150**	**-2,149**	**-15,299**
Additional ordinary income	4,292	-25	439	4,706	2,101	6,807
Operating profit/loss	-9,349	301	604	-8,444	-48	-8,492
EBITDA (including impairment losses)	**816**	**356**	**610**	**1,782**	**-48**	**1,734**
Other interest and similar income						6
Interest and similar expenses						-843
Net financial income/expenses						**-837**
Income/expenses from ordinary activities						**-9,329**
Income taxes						316
Consolidated net loss for the period						**-9,013**

11. Related party disclosures

Pursuant to IAS 24, Related Party Disclosures, business relationships with Gigaset Mobile Pte. Ltd., Singapore, and its subsidiaries had to be shown as related party transactions starting in 2014. From the perspective of the Group, the transactions and/or net balances with the Gigaset Mobile Group comprised the following for the reporting period and/or at the reporting date:

EUR'000	Expenses 1/1 - 6/30/2016	Revenues/Income 1/1 - 6/30/2016	Receivables 06/30/2016	Liabilities 06/30/2016
Gigaset	1,340	1,553	5,574	2,777
Gigaset Mobile Group	1,553	1,340	2,777	5,574

EUR'000	Expenses 1/1 - 6/30/2015	Revenues/Income 1/1 - 6/30/2015	Receivables 06/30/2015	Liabilities 06/30/2015
Gigaset	4,169	1,963	177	2,314
Gigaset Mobile Group	1,963	4,169	2,314	177

Pursuant to IAS 24, Related Party Disclosures, business relationships with Guangzhou Cyber Digital Technology Company Limited, Guangzhou, China, had to be shown as related party transactions starting in 2014. 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 date break down as follows:

EUR'000	Expenses 1/1 - 6/30/2016	Revenues/Income 1/1 - 6/30/2016	Receivables 06/30/2016	Liabilities 06/30/2016
Gigaset	0	355	1,397	347
Guangzhou Cyber Digital Technology Company Limited	355	0	347	1,397

EUR'000	Expenses 1/1 - 6/30/2015	Revenues/Income 1/1 - 6/30/2015	Receivables 06/30/2015	Liabilities 06/30/2015
Gigaset	0	368	685	0
Guangzhou Cyber Digital Technology Company Limited	368	0	0	685

The receivables include income from fixed asset sales in the amount of EUR 0.6 million.

Impairments of EUR 2.0 million (PY: EUR 0.0 million) were recognized for existing receivables in the reporting timeframe. No collateralization exists for the individual receivables.

No further significant transactions were conducted between the Group and related parties except for the circumstances listed.

12. Significant events after the reporting period

Mr. Hongbin (Hadwin) He, who was appointed to the Executive Board of Gigaset AG on September 1st, 2015, has resigned in writing from his position for personal reasons and with immediate effect on July 29., 2016.

13. Responsibility statement

"To the best of our knowledge, and in accordance with the applicable reporting principles, the interim consolidated financial statements give a true and fair view of the financial position, financial performance and cash flows of the Group, and the group interim 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 as well as a description of the significant opportunities and risks associated with the expected development of the Group."

Munich, August 11, 2016

The Executive Board of Gigaset AG

Klaus Wessing Hans-Henning Doerr Guoyu Du

Gigaset

Report for the
2nd Quarter 2016

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