REPORT

FOR THE 2ND QUARTER 2017

Gigaset

Wherever you go.

OVERVIEW OF KEY FIGURES

€ millions	01/01-06/30/2017	01/01-06/30/2016
Consolidated sales revenue	128.3	133.0
Earnings before interest, taxes, depreciation and amortization (EBITDA)	5.7	10.3
Earnings before interest and taxes (EBIT)	0.5	1.2
Consolidated loss for the period	-1.3	-0.6
Free cash flow	-24.2	-13.1
Earnings per share (diluted in EUR)	0.0	0.0

€ millions	06/30/2017	12/31/2016
Total assets	204.8	221.8
Consolidated equity	16.8	17.9
Equity ratio (in %)	8.2	8.0

Information on the Gigaset share	Q2 2017	Q2 2016
Closing rate in EUR (at the end of the period) [6/30/2017]	0.79	0.45
Peak price in EUR (in the period) based on the closing rate	0.85	0.60
Lowest price in EUR (in the period) based on the closing rate	0.71	0.45
Number of shares in circulation (at the end of the period)	132,455,896	132,455,896
Market capitalization in EUR million (at the end of the period)	104.64	59.6

Sales broken down by region

INTERIM MANAGEMENT REPORT AS OF JUNE 30, 2017

1 Business model

Gigaset AG is a corporate group with telecommunications operations all around the world. The Company, with its headquarters in Munich and its main production site in Bocholt, is a leading brand in Western Europe with the cordless telephones developed and manufactured based on the "Digital Enhanced Cordless Telecommunications" (DECT) standard. As a premium vendor, Gigaset enjoys a largely high market presence in roughly 70 countries with around 941 employees as of July 30, 2017.

The Group covers a broad market base with activities in the four segments: Consumer Products, Business Customers, Home Networks, and Mobile Devices. The core business currently remains the Consumer Products business with cordless telephones. Gigaset is renowned for its high quality and forward looking telecommunications products, which is also expressed in the Company's new vision that was introduced in June 2017: "We create best in class communication solutions for your life!"

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

1.1 Consumer Products

Gigaset is the European market leader in DECT telephony. DECT is worldwide the most successful telecommunications standard for cordless telephones. Gigaset had made a key contribution to shaping this standard in the 1990s. Since then, the Company has continuously held on to 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 toward small and medium-sized enterprises – also known as SMEs. The pro series provides the kind of versatility and reliability that commercial users need in their day-to-day operations. These devices are designed to be easy to install and manage. Due to the level of consultation required for commercial products, Gigaset only distributes the pro line through value-added resellers (VARs). The Gigaset pro product line is currently only sold in European markets, whereby the most important markets are Germany, France, Italy, and the Netherlands. In this growth market characterized by SMEs, Gigaset pro is increasingly developing into the Company's second pillar and already today makes a significant contribution to sales.

1.3 Home Networks

Gigaset elements is a modular and sensor-based Smart Home Alarm 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 system enables the user to react immediately and while on the go to unforeseen events, for example an attempted break-in or danger as a result of fire. The portfolio of sensors for security events will be continually expanded. 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.

1.4 Mobile Devices

Gigaset has also been active in the segment for mobile devices since the end of 2016. The Company positioned itself in the entry-level segment and/or the price class below EUR 150 with the GS160 and its successor model GS170. The goal of the current product strategy is to enter the market successively from the entry-level segment and to win over the trust and interest of customers with feature-rich smartphones at attractive prices. The key component of this strategy is the promise of typically high brand quality also with smartphones as well as advantages with respect to warranties and service directly through the factory in Bocholt, Germany.

2 Market and industry environment

2.1 General economic environment[1]

The International Monetary Fund (IMF) stood by its growth forecast for the global economy of +3.5% for the year 2017 also in its current outlook from July 2017. There were slight shifts compared with its April estimate in particular with respect to expectations for some developed economies. For example, the risks for the U.S. economy increased considerably according to the experts. The IMF correspondingly reduced its prediction for the U.S. economy from previously +2.3% to now only +2.1%. The prospects for the UK also clouded over increasingly (+1.8% now after +2.1% before) in light of rising uncertainties with respect to the Brexit effects. In contrast, the IMF sees a slightly higher growth rate of +1.9%. Germany can hope for an increase of 1.8% and France an increase of 1.5%. For Italy (+1.3% instead of +0.8%) and Spain (+3.1% instead of +2.6%), the experts are clearly more confident than in the first quarter. Overall, the developed economies can expect growth of +2.0%. The IMF is assuming a sustained solid upward trend of +4.6% for emerging markets and developing countries, driven by the growth engine of Asia (+6.5%), whereby China's economy should again set the pace with an increase of +6.7%. The Russian economy can also expect an expansion again of +1.4% after several years of decline. This is reflected in an upgrade in the IMF forecast of previously +3.0% to now +3.5% for 2017 for the entire region of Central and Eastern Europe.

The IMF sees risk in particular due to the uncertainties with respect to the future economic and fiscal policy in the U.S.A. and due to the effects from the end of central banks' low interest rate policies, which cannot be precisely estimated.

Germany

The market for cordless telephones in Germany decreased with respect to unit volume by 6.9% in the first half of 2017 compared with the first half of 2016. Based on sales, the market decrease amounts to 6.8% year-on-year. Gigaset increased its very good share of this market to 44.3% in terms of units and 45.3% with respect to sales[2].

1. 2 IWF World Economic Outlook, July 24, 2017

France

The market for cordless telephones in France decreased with respect to sales by 10.4% in the first half of 2017 compared with the first half of 2016. However, Gigaset held on to its position in this difficult environment by increasing its market share in the first half of 2017 by 0.9% compared with the first half of 2016[3].

2.2 Telecommunications market

The markets observed by Gigaset in Europe in the first half of 2017 shrank by 8.3% with respect to units as well as sales compared with the first half of 2016. Overall, Gigaset defended its market share in terms of units and sales[4].

2.2.1 Consumer Products market

In total, Gigaset held its clear premium position over the competition. However, the Consumer division also continues to suffer under the decrease of 8.3% in the markets observed by Gigaset in Germany, France, Italy and the Netherlands[5] as well as the further observable trend of consumers doing without landline telephones in favor of smartphones or other text-based forms of communications. Gigaset is countering this trend with the introduction of the new IP and router-based product lines (Gigaset HX) as well as their consistent and targeted marketing and positioning vis-à-vis customers and retailers. Gigaset expects further growth in these segments as a result of the conversion to IP technology initiated by Deutsche Telekom and other European telecommunications providers as well as the increasing proliferation of DECT and CAT-iq-capable routers in private households.

2.2.2 Business Customers market

The telecommunications market for business customers continues to be characterized by a persistent trend in favor of IP telephony also in Europe.

The market segment for SIP devices, which is important for Gigaset's business customers portfolio, is growing. Given a manufacturer-based market value of around EUR 340 million in 2017, the expectation for 2017 in the European market is respectively EUR 458 million in 2021[6].

The European market for cordless consumer devices on a DECT basis – based on the typical multi-cell installations in the business customer segment – shows a slightly declining trend. According to forecasts, the market reached a volume of approximately 1.3 million consumer devices in 2017, whereas the market volume will decrease to around 1.1 million devices by 2021.

In contrast, the competitor technology VoWLAN (Voice over Wireless LAN) remains with a forecasted market volume of approximately 120 thousand VoWLAN-consumer devices in 2017 with a comparatively small market share and is expected to reach 160 thousand devices in 2021[7].

2.2.3 Home Networks market

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. According to the results of the representative study, 30% of the surveyed

3 POS Measurement GfK Consumer Choices, GfK Panel Market, Europe 4 includes the countries Germany, France, Italy, and the Netherlands..
4 IMF World Economic Outlook, July 24, 2017
5 POS Measurement GfK Consumer Choices, GfK Panel Market, Europe 4 includes the countries Germany, France, Italy, and the Netherlands.
6 Source: MZA Business Terminals Forecast 2016 - Europe – Excel (Table1/Chart 1, Table 4/Chart 4)
7 Source: MZA Onsite Business Voice Mobility Forecast 2016 - Gigaset – Excel (Table 5/Chart 5)

households already use smart home applications[8]. The number of smart home households should increase to around 50 million in Western Europe by the end of 2019. Since the DECT-ULE standard is being used by more and more providers in the Smart Home segment, the market research institute Strategy Analytics is expecting at least a doubling of sales in this segment for Western Europe by 2019.[9] 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 with existing properties in Germany is negligible, this market can be conquered in particular with affordable, cable-free upgrade packages for existing buildings.

A study commissioned by Gigaset with the consulting firm Deloitte at the end of 2016 shows that Gigaset has an excellent position in the area of smart security. Both the current portfolio as well as the positioning in terms of pricing are meeting the needs of the consumer market[10].

2.2.4 Mobile Devices market[11]

As forecasted, GfK's point-of-sales data revealed global sales totaling 1.41 billion smartphones for the full year 2016. For 2017, GfK expects moderate worldwide growth of 5% for the smartphone market as well as a total demand of up to 1.48 billion units.

Smartphones have been around for 10 years and since then the market has grown robustly year after year. For the first time, fewer devices were sold in Germany in 2016 than in the previous year. Sales revenue decreased despite higher prices. According to figures from the industry association gfu, with around 23.2 million devices approximately 2 million fewer smartphones were sold than in 2015. Smartphone sales decreased by 2.7% to EUR 9.6 billion, despite a slightly higher average price. For 2017, Gigaset expects the smartphone market to stabilize at a high level. The Bitkom association points to current forecasts by the European Information Technology Observatory (EITO), according to which 25.1 million devices were sold in Germany in 2016, i.e. 4.4% less than in the previous year. The current record was achieved in 2015 with 26.2 million. Sales fell by 6% to EUR 10 billion in 2016.

3 Business performance

3.1 Consumer Products

Gigaset held its clear premium position over the competition. The ambitious goal for the first half of 2017 was nearly reached in the core market of Europe. The markets of Switzerland, Spain, and Italy are particular noteworthy, because here sales from the first half of 2016 were reached or exceeded. The average sales price of the product portfolio in the first half of 2017 was on average EUR 9.00 higher than that of the competitors[12].

Based on the now nearly complete portfolio of universal handsets (Gigaset HX), Gigaset succeeded in generating slight growth in this market segment. The portfolio of telephones for seniors was also expanded by variations; this market segment is also growing[13].

8 Source: https://www.grieger-cie.de/smarthome
9 Source: Strategy Analytics – Smart Home Systems and Services Forecast Western Europe, Q4 2014
10 Deloitte – Smart Home Market Study
11 (Source: European Information Technology Observatory (EITO); gfu
12 Gigaset analysis "Sales by Region" over the first half of 2017
13 POS Measurement GfK Consumer Choices, GfK Panel Market, Europe 4 includes the countries Germany, France, Italy, and the Netherlands.

3.2 Business Customers

Sales in the Business Customers segment increased by around 25% in the first half of 2017 compared with the first half of the previous year. The considerably increased sales volume of customer-specific products for the largest German OEM customers contributed in particular to this result.

Despite the growing penetration of the business customer telephony market on the part of smartphones, the sales volume of DECT-based cordless devices for professional use increased further. For example, sales compared with the first half of 2016 posted an increase of around 26%. The rising sales of IP-based multi-cell systems also contributed to the positive revenue trend based on a product-related increase in sales revenue of approximately 6% compared with the first half of 2016.

The corded IP table telephones of the Maxwell series (Model 3 and Basic) newly introduced in 2016 are also more and more being well-received by the market.

The further development of the product portfolio in particular also in the segment for corded IP telephones (Maxwell product series) continues to be fostered and will lead to further product introductions and expanded features also in the current fiscal year.

The greatest contributions to sales in the first half of 2017 were made by the regions of Germany, France, Italy, and the Netherlands[14].

3.3 Home Networks

Sales revenue in the first half of 2017 increased by 30% compared with the first half of 2016, whereby the average margin generated fell from 39% in the first half of 2016 to 19% in the first half of 2017. This was mainly due to the sell-off of old camera components. The reorganization of the segment begun in 2016 and the strategic reorientation toward the topic of security is beginning to have a positive effect on sales.

Gigaset elements is distributed over the retail network and online shops. The system is currently available in Germany, France, Switzerland, Austria, the Netherlands, Sweden, Norway, Finland, and the Czech Republic.

Since the beginning of the year, three dedicated security solutions packages of varying scope have been available in selected channels that provide interested customers with a comfortable introduction to the system: Various living situations are covered by the security solutions S (MSRP of EUR 199.99), M (MSRP of EUR 279.99) and L (MSRP of EUR 349.99). Each of the security solutions can be expanded with all sensors and actors from the extensive and constantly growing elements portfolio.

3.4 Mobile Devices

Sales with Mobile Devices more than doubled to EUR 3.7 million in the first half of 2017 compared with the first half of the previous year. In Germany, the smartphone GS160 is available in nearly all distribution channels that are independent of network operators. GS160 was also introduced in the important core markets of Europe such as France, Italy, and Spain. With the introduction of the smartphone GS170 in July 2017 and additional models in the current year, Gigaset expects a clear increase in sales revenue in the second half of 2017 compared with the first half of the previous year.

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14 Gigaset Financial Report Q2 2017 for Gigaset Pro: 20170717_Business Customers_PMsent - Excel

4 The Gigaset Share

Gigaset AG's share started the second quarter of 2017 modestly: The price level decreased to EUR 0.70 temporarily in April. The share went on to recover in a friendly stock market environment and climbed to EUR 0.85 by mid-May. Thus, the share price reached its peak level for the reporting period and was quoted near the annual high of EUR 0.869. The publication of the results for the first quarter on May 19, 2017, led to profit-taking and the share price fell to EUR 0.73 by the beginning of June. Despite massive price setbacks in the international financial markets, the Gigaset share posted price gains again in June and rose to a closing price of EUR 0.79 by the end of the second quarter. The development of Xetra sales also exhibited a very satisfactory trend. Compared with the first half of the previous year, they more than doubled with a daily average of 28,956 traded shares. At 26.5%, there was no change with respect to free float according to the definition provided by Deutsche Börse AG.

5 Financial performance, cash flows and financial position

5.1 Financial performance

The Gigaset Group generated sales revenue in the amount of EUR 128.3 million (prior year: EUR 133.0 million) in the first six months of fiscal year 2017 in a continued difficult industry environment. This corresponds to a decrease in sales of 3.6% compared with the previous year, whereby sales revenue from the core business was subject to the usual seasonal fluctuations in the consumer business.

The decrease in sales revenue in the first half of 2017 can be attributed to a further decrease of 11.4% in the Consumer Products segment from EUR 12.6 million to EUR 98.1 million. In the Business Customers segment, sales of EUR 25.4 million were realized in the first half of 2017. This corresponds to a considerable increase of 25.7% in sales revenue compared with the previous year. Sales in the Home Networks segment increased year-on-year by 10.0% to EUR 1.1 million. At EUR 3.7 million, sales revenue in the Mobile Devices segment in the first half of the year clearly exceeded sales for the first half of the previous year (prior year: EUR 1.1 million). Sales revenue may have decreased by 3.6% across all business segments, but the margin quality was improved.

Sales revenue in € millions	Q2 2017	Q2 2016	Change
Consumer Products	98.1	110.7	-11.4 %
Business Customers	25.4	20.2	25.7 %
Home Networks	1.1	1.0	10.0 %
Mobile Devices	3.7	1.1	236.4 %
Gigaset Total	**128.3**	**133.0**	**-3.6 %**

The decrease in the Consumer Products segment followed the general market trend in Europe. However, Gigaset increased its market share by 2.1% in terms of units and by 1.0% based on sales in the market for cordless telephones in the EU4 area, whereby the market share was increased by 5.7% in terms of units and by 5.0% based on sales in the Netherlands. Gigaset also expanded its share of the market in Germany (by 3.9% in terms of units and by 1.1% based on sales). In Italy, the market share increased by 2.8% in terms of units and by 3.2% based on sales. Thus, Gigaset also continues to underscore its premium position in the EU4 area with a market share of 37.1% in terms of units and 41.4% based on sales.

The Business Customers segment recorded a positive trend, whereby in particular the increase in sales revenue in Germany had a significant influence with an increase of EUR 3.0 million. The focus currently lies on the optimization of the product portfolio and the continuous expansion of the distribution channels, mainly in the European area.

In the Home Networks segment, a positive trend was recorded compared with the previous year. This can be attributed to the newly launched market strategy and the optimized product positioning. Growth continues to be forecasted in the smart home market. As a result of the new positioning and expected market growth, the trend over the next few quarters is expected to remain positive.

The Mobile Devices segment remains in a process of reorientation. Thanks to the development of a new product portfolio and the optimization of the distribution strategy, the first positive developments compared with the previous year can already be observed. The focus currently lies on the positioning of the product portfolio and the market entry in various European countries. The Company continues to rely on the continuation of the positive trend also in this segment over the next few quarters.

Sales revenue by sales region developed as follows:

Sales revenue in € millions	Q2 2017	Q2 2016	Change
Germany	67.4	69.0	-2.3 %
Europe	49.8	52.7	-5.6 %
Rest of the World	11.1	11.3	-1.6 %
Gigaset Total	**128.3**	**133.0**	**-3.6 %**

The decrease in sales revenue in Germany can largely be attributed to the negative market growth in the Consumer Products segment. Nevertheless, the solid performance in the Business Customers segment attenuated the effects. The market decrease in the Consumer Products segment can also be felt in Europe. In order to increasingly compensate the decrease in this segment, the remaining areas have to be further expanded.

Sales revenue by region of origin developed as follows:

Sales revenue in € millions	Q2 2017	Q2 2016	Change
Germany	56.2	54.3	3.5 %
Europe	64.0	66.5	-3.8 %
Rest of the World	8.1	12.2	-33.6 %
Gigaset Total	**128.3**	**133.0**	**-3.6 %**

The **cost of materials** for raw materials, merchandise, finished goods, and purchased services in the first half of 2017 amounted to EUR 64.0 million in the first half of 2017 and decreased by 2.0% year-on-year from EUR 65.3 million. The cost of materials rate increased from 48.4% to 49.8%, including changes in inventories. This increase was mainly due to more costly purchasing conditions and the changed product mix.

Gross profit, comprising sales revenue less the cost of material and including the change in the portfolio of finished work and work in progress decreased compared with the previous year from EUR 68.6 million to EUR 64.4 million. The gross profit margin decreased in the first half of 2017 to 50.2% compared with 51.6% in the first half of the previous year.

At EUR 4.7 million, **other own work capitalized** remained roughly at the previous year's level and mainly includes the costs related to the development of new products.

Other income from the core business amounts to EUR 1.8 million (prior year: EUR 2.6 million).

At EUR 34.7 million, **personnel expenses before restructuring** for wages, salaries, social security contributions and old age pensions were down 17.8% compared with the first half of 2016 (EUR 42.1 million). The decrease can be attributed to the restructuring initiated at the end of 2015. The personnel cost rate decreased to 27.0% (prior year: 31.7%).

Other expenses from the core business increased to EUR 30.4 million in the first half of 2017 after amounting to EUR 23.4 million in the first half of 2016. The increase can be attributed to higher marketing and hospitality expenses in the amount of EUR 3.5 million, increased general administrative expenses of EUR 1.0 million, increased expenses from the loaning of employees in the amount of EUR 0.6 million, and higher consulting fees in the amount of EUR 0.6 million.

At EUR 5.7 million, **earnings from the core business before depreciation and amortization (EBITDA)** were considerably lower than in the first half of 2016 (EUR 10.3 million). Taking into account depreciation and amortization in the amount of EUR 7.4 million (prior year: EUR 8.9 million), earnings after depreciation and amortization amount to EUR -1.6 million (prior year: EUR 1.4 million).

The **additional ordinary result** amounts to EUR 2.1 million (prior year: EUR -0.2 million) and includes profit and loss items that do not necessarily result from the core business. In contrast with the first half of the previous year, exchange rate effects nearly balanced each other out. Exchange rate gains in the amount of EUR 2.8 million (prior year: EUR 3.0 million) were offset by exchange rate losses in the amount of EUR 2.8 million (EUR 2.7 million).

The **operating result** (earnings before interest and taxes, EBIT) amounted to EUR 0.5 million (prior year 1.2 million). In conjunction with the financial result in the amount of EUR -0.5 million (prior year: EUR -0.6 million), the result from ordinary activities amounted to EUR 0.0 million (prior year: EUR 0.6 million).

The **consolidated loss for the period** as of June 30, 2017, amounts to EUR -1.3 million (prior year: EUR -0.6 million).

This results in earnings per share of EUR -0.01 (basic/diluted) (prior year: EUR 0.00 (basic/diluted)).

5.2 Cash flows

Cash flow

in € millions	Q2 2017	Q2 2016
Cash flows from operating activities	-18.6	-8.0
Cash flows from investing activities	-5.5	-5.0
Free cash flow	-24.2	-13.1
Cash flows from financing activities	0.0	-0.4

In the first half of the year, the Gigaset Group had to record a **cash outflow from continuing operations** in the amount of EUR -18.6 million (prior year: EUR -8.0 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 considerably higher cash outflow from continuing operations compared with the first half of the previous year was characterized in particular by the start-up phase of the new Mobile Devices segment.

Cash outflow from investing activities amounts to EUR -5.5 million and thus exceeds the previous year's level of EUR -5.0 million. The clear majority of the payments in the current and past fiscal year constitute capital expenditures in noncurrent assets.

Thus, the **free cash flow** amounted to EUR -24.2 million compared with EUR -13.1 million in the first half of the previous year.

The **cash inflow from financing activities** amounts to EUR 0.0 million as of June 30, 2017 (prior year: EUR -0.4 million).

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 -0.1 million).

Cash and cash equivalents amounted to EUR 23.2 million as of June 30, 2017 (prior year: EUR 27.4 million).

5.3 Financial position

The Gigaset Group's **total assets** amounted to EUR 204.8 million as of June 30, 2017, and therefore decreased by 7.6% compared with December 31, 2016.

Noncurrent assets decreased by EUR 2.0 million to EUR 88.6 million compared with December 31, 2016. Depreciation and amortization and the disposals exceed capital expenditures in intangible assets and property, plant and equipment; consequently, intangible assets decreased slightly by EUR 0.3 million to EUR 33.4 million and property, plant and equipment decreased by EUR 1.4 million to EUR 23.8 million. Deferred tax assets amounted to EUR 13.0 million as of the reporting date June 30, 2017, after amounting to EUR 13.2 million on December 31, 2016.

Current assets represent 56.7% of total assets. Compared with December 31, 2016, they decreased by EUR 15.0 million and amount to EUR 116.2 million. Inventories increased by EUR 5.5 million to EUR 29.0 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 12.9 million to EUR 43.3 million, which can be primarily attributed to a disproportionately strong sell-off at the end of the quarter. Other assets decreased by EUR 9.0 million to EUR 20.0 million. The portfolio of cash and cash equivalents decreased from EUR 47.5 million to now EUR 23.2 million compared with December 31, 2016. 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 16.8 million as of June 30, 2017, and is thus EUR 1.1 million lower than at the beginning of the year. This corresponds to an equity ratio of 8.2%. Due to the 1.85% increase in the discount rate to now 2.07% for the recognized pension obligations, net actuarial gains of EUR 3,143 million were recognized in equity. Furthermore, changes in exchange rates were recognized directly in equity in the amount of EUR -0.2 million. The newly introduced cash flow hedging resulted in losses in the amount of EUR 2.8 million that were recognized directly in equity. In addition, equity was impacted by the consolidated loss of EUR 1.3 million for the period.

Total liabilities amount to EUR 188.0 million (prior year: EUR 203.9 million), 51.9% of which are current.

Noncurrent liabilities mainly include pension obligations, provisions for restructuring, and deferred tax liabilities as well as noncurrent provisions for personnel expenses and provisions for guarantees. Noncurrent liabilities decreased by EUR 4.2 million to EUR 90.4 million. The decrease in noncurrent liabilities can be attributed mainly to the measurement of pension obligations on the basis of the increased interest rate level. This discount effect amounts to EUR 4.6 million.

At EUR 97.6 million, **current liabilities** are around 10.7% lower than reported in the annual financial statements as of December 31, 2016. The decrease of EUR 6.4 million in **provisions** can be attributed primarily to the reduction in the current portion of the restructuring provisions in the amount of EUR 4.4 million and smaller provisions for volume discounts in the amount of EUR 1.8 million. **Trade payables** decreased seasonally from EUR 51.0 million to EUR 44.4 million.

6 Report on opportunities and risks as of June 30, 2017

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

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

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

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

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

6.1 Market-related risk

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

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

More and more landlines are being replaced by cell phone connections, depending on the 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 risk, as Gigaset is a new competitor on an existing market. With Gigaset's entry into the business with products for home networking, the Company is undertaking the marketing of new product groups. This entry is fraught with risk, because Gigaset is entering a new market whose future trend is still subject to significant uncertainty.

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

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

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

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

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

6.2 Entrepreneurial opportunities

From the Company's point of view, there are entrepreneurial opportunities in the Business Customers segment and with the Gigaset Pro product portfolio. In addition to the traditional Consumer segment, the Company is addressing an additional customer segment, "Small Offices and Home Offices" (in short: SOHO) as well as SME customers (small and medium-sized enterprises), with Gigaset Pro and is developing the corresponding sales potential.

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

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

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

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

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

6.3 Company-specific risk

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.

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 – which has already been achieved – where Gigaset as an importer of the devices may be obligated to pay copyright fees in the respective regional markets depending on local laws. Gigaset has recognized corresponding provisions for this risk at the level of its subsidiaries based on case-by-case legal assessments.

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

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

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

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

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

Defects in Gigaset's products can lead to warranty and product liability claims as well as the loss of sales revenue, which could impact Gigaset's results. Gigaset purchases commodities and materials predominantly from at least two suppliers. The Company tries to avoid dependency on specific suppliers with respect to prices, volumes, and innovations through a wide-ranging collaboration. With respect to products purchased from third parties, such as smartphones, there is a latent risk as a result of the concentration of purchasing from a single supplier for platform-related reasons. Regular control mechanisms have been implemented; for example, the observation of the markets, key financial figures, and the tracking of deliveries to avoid an interruption of supply.

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

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

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

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

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

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

6.4 Financial risk

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

6.4.1 Liquidity of the Gigaset Group

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

The Group is fully financed for fiscal year 2017 and the following fiscal year 2018 and not dependent on additional liquidity. One-time payments for the resolved restructuring measures as well as the amounts set aside for risks associated with tax liabilities from previous tax audits in 2017 can be settled as a result of the consistent cost savings.

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

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

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.

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 risk

6.5.1 Tax risk in Gigaset AG

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

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

6.5.2 Other risks in the Gigaset Group

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

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

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

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

Cartel cases involving SKW:

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

Gigaset AG provisionally paid an amount of EUR 6.65 million to the European Commission toward the fine in the years 2009 to 2010 (i.e. for the duration of the appeal) while simultaneously defending itself against the fine by filing a suit. In its decision handed down on January 23, 2014, the European court of first instance (European General Court) partially upheld the action brought by Gigaset AG (formerly: Arques Industries AG) against the fine imposed by the European Commission in the cartel case involving SKW and reduced Gigaset AG's administrative fine by EUR 1.0 million. 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 originator of the cartel and consequently should reimburse Gigaset AG for the administrative fine it has already paid. Gigaset continues to hold the view that, as a direct participant in the cartel, SKW alone should bear the cost of the fine internally. In the legal dispute between Gigaset and SKW regarding this, Gigaset considers itself confirmed insofar by the decision handed down by the Federal Court of Justice on November 18, 2014, which referred the matter back to the lower court for renewed negotiation and a decision. 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 existence (or non-existence) 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 higher regional court of Munich has already reopened the proceedings. A hearing in this matter took place in July 2017; the court is not expected to reach a decision before 2018. Gigaset continues to expect that the fine that has already been paid will 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 loss of EUR 1.3 million, primarily representing the interest paid to Evonik from the principal amount.

6.7 Overall statement regarding the report on opportunities and risks

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

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

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

7 Significant events after June 30, 2017

Hans-Henning Doerr is leaving the Executive board of Gigaset AG

Hans-Henning Doerr, the Chief Financial Officer of Gigaset AG, has decided for personal reasons not to extend his management contract, which expires on December 31, 2017. Mr. Doerr was released from work with immediate effect. Mr. Doerr worked as the Chief Financial Officer of Gigaset AG in the period from December 15, 2015, to July 24, 2017.

8 Outlook

8.1 General economic development[15,16]

In its current economic forecast, the Kiel Institute for the World Economy (IfW) expects gross domestic product in Germany to increase by 1.7% in 2017 and by 2% in 2018. On the whole, the recovery in Germany is gaining more and more in breadth. Consumer spending may be expanding considerably slower, since the purchasing power of disposable income is noticeably reduced due to the increase in inflation to just under 2% as a result of the price of oil. Public-sector consumption will also no longer expand quite as rapidly as before, as no additional expenditures are expected in this area in the wake of the refugee migration. However, the upswing in investment is gaining momentum.

The economic recovery in the euro zone will continue at growth rates of around 2% in this year and the next. Average annual inflation is expected to amount to 1.5% in 2017 and will therefore be somewhat higher than in the past two years. In the coming year it will fall slightly to 1.3%.

The global economy also gained momentum. The economic mood is good in particular in the advanced economies. The increase in global production, calculated on the basis of purchasing power parities, will likely rise from 3.1% in 2016 to 3.6% and 3.7% respectively in 2017 and 2018.

8.2 Development of the industry

Market for cordless telephones

According to the experts, nothing will change in the outlook for the global cordless telephone market – also in the future. The increasing competition as a result of mobile communication will continue to increase until 2018 and contribute to an annual reduction in the expected mid-single-digit to lower double-digit range in the market for cordless telephones. Within this market, the DECT standard – on which Gigaset also operates – 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[17].

15 https://www.ifw-kiel.de/medien/medieninformationen/2017/konjunkturprognose-deutsche-wirtschaft-mit-uberhohter-drehzahl
16 Kiel Institute for the World Economy – Economic Outlook No. 31 (2017/Q2)
17 Source: MZA World – Consumer Cordless Telephony market – 2013 Forecast Edition (published October 2013)

Market for corporate customers

The telecommunications market in the Business Customers segment shows a sustained trend in the direction of IP telephony, whereby the traditional TDM technology is being increasingly crowded out.

In Europe, the share of traditional (TDM-based) connections is expected to be only around 48% in 2017 based on the installed basis. By the year 2021, this share should fall further to 34% in favor of a corresponding increase in the share of IP connections[18].

In addition to the stationary IP systems, in particular also the cloud-based or hosted telecommunication solutions are recording clear growth in the installed basis. In this area alone, the pan-European installed basis in 2017 is expected to rise to 15.6 million IP connections. Other forecasts show a steady growth in these telecommunication solutions. In 2021, the installed basis will amount to an estimated 26.8 million IP connections[19].

Market for Home Networks

According to a market analysis by Strategy Analytics, global sales of smart home products will amount to EUR 11 billion in the current year. In Gigaset's core market of Germany, roughly one million households will be in possession of a smart home solution with an average component value of EUR 2,500 in 2020, whereby two core areas are becoming evident: According to Strategy Analytics, around half of worldwide sales revenue will be made with security solutions and the other half with solutions for household automation. Furthermore, it can be assumed that a significant portion will be distributed over installation companies and not the classic retail or online channels. A study of the market for security systems from 2016 shows that 83% of the installations are carried out by professional installers.

Market for Mobile Devices

The market has grown robustly year after year since smartphones were introduced 10 years ago. For the first time, fewer devices were sold in Germany in 2016 than in the previous year. Sales revenue decreased despite higher prices. According to figures from the industry association gfu, with around 23.2 million devices approximately 2 million fewer smartphones were sold than in 2015. Smartphone sales decreased by 2.7% to EUR 9.6 billion, despite a slightly higher average price. In the first half of 2017, smartphone sales amounted to EUR 8.7 million, which corresponds to a decrease of around 2% compared with the first half of the prior year. For 2017, Gigaset expects the smartphone market to stabilize at a high level.

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 8.3% in the first half of 2017 based on sales revenue in the markets observed by Gigaset. This trend is also expected to continue in the coming years. As expected, the Business Customers, Home Networks, and Mobile Devices segments will not be able to compensate the loss in sales in the core business, but will, however, contribute to expanding growth in new segments.

The trend in the first half of the year 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 Devices 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 business with cordless telephones and to secure it also over the next few years as an important source of sales revenue.

18 Source: MZA Hosted-Cloud Business Telephony - Total Europe 2016 – Powerpoint, Page 20
19 Source: MZA Hosted-Cloud Business Telephony 2016 - Europe – Excel (Table2/Chart 2)

The product variance in the core business, with product types varying based on customer groups and functionality, is an important factor for success. Market share should be gained with the new Gigaset HX series, which offers a premium alternative in the growing mobile market segment for routers and was expanded in the first half of 2017 to include additional models at various price points.

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 also in 2017. 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 being planned in the Home Networks segment that are to be implemented later in 2017 and will thus help to generate further sales growth.

The restructuring program initiated in 2016 that provides for the reduction of around 550 jobs by 2018 will consistently advance the reorganization of the business also in 2017. The declining sales revenue in the core business is taken into account with this action. The adaption of the workforce to the market conditions thus also contributes to profitable growth in the future.

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. This hedged exchange rate was slightly exceeded in the first half of the year due in part to the trend on the foreign exchange market.

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, 2017, Gigaset is free from financial liabilities. The budgets also take future borrowing into consideration. 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. 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

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

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

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

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

Munich, July 27, 2017

The Executive Board of Gigaset AG

Klaus Wessing Guoyu Du

Income Statement for the Period from January 1 - June 30, 2017

EUR'000	01/01/ - 06/30/2017	01/01/ - 06/30/2016
Revenue	128,263	133,006
Change in inventories of finished and unfinished goods	95	893
Purchased goods and services	-63,996	-65,302
Gross profit	**64,362**	**68,597**
Other internal production capitalized	4,704	4,638
Other income from core business	1,754	2,557
Personnel expenses before restructuring	-34,639	-42,125
Other expenses from core business	-30,438	-23,411
Result from core business before depreciation and amortization	**5,743**	**10,256**
Depreciation and amortization	-7,337	-8,888
Result from core business after depreciation and amortization	**-1,594**	**1,368**
Additional ordinary income	3,390	1,803
Additional ordinary expenses	-1,253	-2,186
Personnel expenses from restructuring	0	-10
Exchange rate gains	2,805	2,960
Exchange rate losses	-2,807	-2,729
Additional ordinary result	**2,135**	**-162**
Operating result	**541**	**1,206**
Other interest and similar income	31	15
Interest and similar expenses	-554	-635
Financial result	**-523**	**-620**
Result from ordinary activities	**18**	**586**
Income taxes	-1,271	-1,234
Consolidated loss for the period	**-1,253**	**-648**
Earnings per share		
- Undiluted in EUR	-0.01	0.00
- Diluted in EUR	-0.01	0.00

Income Statement for the Period from April 1 - June 30, 2017

EUR'000	04/01/ - 06/30/2017	04/01/ - 06/30/2016
Sales revenue	69,835	71,065
Change in inventories of finished and unfinished goods	1,040	1,595
Purchased goods and services	-36,898	-34,373
Gross profit	**33,977**	**38,287**
Other internal production capitalized	2,391	2,384
Other income from core business	736	1,469
Personnel expenses before restructuring	-16,383	-20,957
Other expenses from core business	-18,054	-12,131
Result from core business before depreciation and amortization	2,667	9,052
Depreciation and amortization	-3,357	-4,381
Result from core business after depreciation and amortization	-690	4,671
Additional ordinary income	3,194	641
Additional ordinary expenses	-1,253	-2,186
Personnel expenses from restructuring	0	-9
Exchange rate gains	-760	949
Exchange rate losses	463	-1,000
Additional ordinary result	1,644	-1,605
Operating result	**954**	**3,066**
Other interest and similar income	27	13
Interest and similar expenses	-296	-280
Financial result	**-269**	**-267**
Result from ordinary activities	**685**	**2,799**
Income taxes	-423	-875
Consolidated profit for the period	**262**	**1,924**
Earnings per share		
- Undiluted in EUR	0.00	0.02
- Diluted in EUR	0.00	0.02

Consolidated Statement of Comprehensive Income for the period from January 1 - June 30, 2017

EUR'000	01/01/ - 06/30/2017	01/01/ - 06/30/2016
Consolidated loss for the period	**-1,253**	**-648**
Items that may possibly be reclassified to profit or loss at a later time		
Currency changes	-195	-115
Cash flow hedges	-3,997	-1,275
Income taxes recognized on these items	1,239	445
Items that will not be reclassified to profit or loss at a later time		
Revaluation effect net liability of defined benefit pension plans	4,609	-17,706
Income taxes recognized on this item	-1,466	5,489
Total changes not recognized in profit or loss	**190**	**-13,162**
Total income and expenses recognized	**-1,063**	**-13,810**

Consolidated Statement of Comprehensive Income for the period from April 1 - June 30, 2017

EUR'000	04/01/ - 06/30/2017	04/01/ - 06/30/2016
Consolidated profit for the period	**262**	**1,924**
Items that may possibly be reclassified to profit or loss at a later time		
Currency changes	-173	-8
Cash flow hedges	-2,524	1,354
Income taxes recognized on these items	782	-420
Items that will not be reclassified to profit or loss at a later time		
Revaluation effect net liability of defined benefit pension plans	4,251	-8,513
Income taxes recognized on this item	-1,352	2,639
Total changes not recognized in profit or loss	**984**	**-4,948**
Total income and expenses recognized	**1,246**	**-3,024**

Consolidated Statement of Financial Position at June 30, 2017

EUR'000	06/30/2017	12/31/2016
ASSETS		
Noncurrent assets		
Intangible assets	33,408	33,757
Property, plant and equipment	23,846	25,267
Financial assets	18,386	18,386
Deferred tax assets	13,008	13,204
Total noncurrent assets	**88,648**	**90,614**
Current assets		
Inventories	29,041	23.529
Trade receivables	43,311	30,384
Other assets	20,041	29,032
Tax refund claims	598	696
Cash and cash equivalents	23,168	47,490
Total current assets	**116,159**	**131,131**
Total assets	**204,807**	**221,745**

Consolidated Statement of Financial Position at June 30, 2017

EUR'000	06/30/2017	12/31/2016
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	-270,732	-269,669
Total equity	**16,779**	**17,842**
Noncurrent liabilities		
Pension obligations	77,134	80,743
Provisions	10,305	11,068
Deferred tax liabilities	2,970	2,833
Total noncurrent liabilities	**90,409**	**94,644**
Current liabilities		
Provisions	22,160	28,571
Trade payables	44,441	51,026
Tax liabilities	14,447	15,093
Other liabilities	16,571	14,569
Total current liabilities	**97,619**	**109,259**
Total equity and liabilities	**204,807**	**221,745**

Consolidated Statement of Changes in Equity at June 30, 2017

	EUR'000	Subscribed capital	Additional paid-in capital	Retained earnings	Accumulated other comprehensive equity	Consolidated equity
	January 1, 2016	132,456	86,076	68,979	-269,655	17,856
1	Consolidated loss 2016	0	0	0	-648	-648
2	Currency translation differences	0	0	0	-115	-115
3	Cash flow hedges	0	0	0	-830	-830
4	Revaluation effects net liability from defined benefit plans	0	0	0	-12,217	-12,217
5	Total changes not recognized in profit or loss	0	0	0	-13,162	-13,162
6	**Total net income (1+5)**	**0**	**0**	**0**	**-13,810**	**-13,810**
	June 30, 2016	132,456	86,076	68,979	-283,465	4,046
	January 1, 2017	132,456	86,076	68,979	-269,669	17,842
1	Consolidated loss 2017	0	0	0	-1,253	-1,253
2	Currency translation differences	0	0	0	-195	-195
3	Cash flow hedges	0	0	0	-2,758	-2,758
4	Revaluation effects net liability from defined benefit plans	0	0	0	3,143	3,143
5	Total changes not recognized in profit or loss	0	0	0	190	190
6	**Total net income (1+5)**	**0**	**0**	**0**	**-1,063**	**-1,063**
	June 30, 2017	**132,456**	**86,076**	**68,979**	**-270,732**	**16,779**

Consolidated Statement of Cash Flows for the period from January 1 - June 30, 2017

EUR'000	01/01/ - 06/30/2017	01/01/ - 06/30/2016
Result from ordinary activities	18	586
Depreciation and amortization of property, plant and equipment and intangible assets	7,337	8,888
Increase (+)/ decrease (-) in pension provisions	1,000	1,294
Gain (-)/loss (+) on the sale of noncurrent assets	-29	-45
Gain (-)/loss (+) from currency translation	421	-112
Net interest income	523	620
Interest received	7	13
Interest paid	-181	-303
Income taxes paid	-2,057	-1,226
Increase (-)/ decrease (+) in inventories	-5,512	-916
Increase (-)/ decrease (+) in trade receivables and other assets	-7,933	-4,615
Increase (+)/ decrease (-) in trade payables, other liabilities and other provisions	-12,105	-12,336
Increase (+)/ decrease (-) in other items of the statement of financial position	-125	132
Cash inflow (+)/outflow (-) from operating activities (net cash flow)	**-18,636**	**-8,020**
Proceeds from the sale of noncurrent assets	29	45
Payments for investments in noncurrent assets	-5,567	-5,086
Cash inflow (+)/ outflow (-) from investing activities	**-5,538**	**-5,041**
Free cash flow	**-24,174**	**-13,061**
Mandatory convertible bond	0	-428
Cash inflow (+)/ outflow (-) from financing activities	**0**	**-428**
Cash and cash equivalents at beginning of period	39,993	35,409
Changes due to exchange rate differences	-148	-82
Cash and cash equivalents at beginning of period, measured at prior-year closing exchange rate	40,141	35,491
Increase (-)/ decrease (+) in restricted cash	2,497	-4
Change in cash and cash equivalents	-24,174	-13,489
Cash and cash equivalents at end of period	**18,316**	**21,916**
Restricted cash	4,852	5,476
Cash and cash equivalents per statement of financial position	**23,168**	**27,392**

NOTES TO THE INTERIM FINANCIAL REPORT AS OF JUNE 30, 2017

1. General information regarding accounting policies

The consolidated financial statements of Gigaset AG as of June 30, 2017, 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 as of June 30, 2017, which was not subjected to any review, was prepared in accordance with IAS 34. All the standards in effect and applicable to up to June 30, 2017, 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 2016 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 addition, application of the following standards and interpretations revised and newly issued by the IASB was obligatory starting from fiscal 2017:

- IAS 12, Income Taxes

  The adjustment of IAS 12 includes additional guidelines for recognition of deferred tax assets on deductible temporary differences resulting from unrealized losses from available-for-sale financial assets in the form of debt instruments if and when the company has the ability and intent to hold the securities until they recover their value (possibly until final maturity). It is further clarified that the decision on the utility of the deferred tax assets must be based on a positive taxable income before reversal of the deductible temporary differences unless sufficiently adequate deferred tax liabilities exist. It is also conceivable to realize a value greater than the IFRS carrying amount in order to estimate future taxable income insofar as there is sufficient supporting documentation showing that this is probable. The new provisions apply for financial years beginning on or after January 1, 2017. The amendments have not yet been endorsed, but this is expected by the end of 2017 according to EFRAG. The amendments would have or have no effect on the consolidated financial statements.

- IAS 7, Statement of Cash Flows

  The adjustment of IAS 7 includes amendments regarding additional particulars in case of change in indebtedness of the company. The particulars relate to those changes in financial liabilities whose inpayments and outpayments are shown in the statement of cash flows under Cash inflow (+)/ outflow (-) from financing activities. Related financial assets must likewise be included in the statements (e.g., assets from hedging transactions). The following must be stated:

- Changes affecting cash flows
- Changes from the acquisition or disposition of companies
- Changes due to exchange rates
- Changes in fair values
- Other changes

The new provisions apply for financial years beginning on or after January 1, 2017. The amendments have not yet been endorsed, but this is expected by the end of 2017 according to EFRAG. The amendments would have or have no effect on the consolidated financial statements.

- Annual improvement cycle to International Financial Reporting Standards (2014-2016 cycle) – IFRS 12, Disclosure of Interests in Other Entities

The clarification in IFRS 12 regulates the circumstance that all particulars for shares in companies (subsidiaries, joint ventures) that are classified and disclosed as available for sale must be made except for the particulars on the summarized financial information as specified in IFRS 12 B10 to IFRS 12 B16. The new provisions apply for financial years beginning on or after January 1, 2017. The amendments have not yet been endorsed, but this is expected by the end of 2017 according to EFRAG. The amendments would have or have 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 2017:

Standards		**Application mandatory for Gigaset from**	**Adopted by the EU Commission**
Various	Annual improvement cycle to International Financial Reporting Standards (2014-2016 cycle) (Amendments to IFRS 1, First-time Adoption of International Financial Reporting Standards, and IAS 28, Investments in Associates and Joint Ventures)	1/1/2018	No
IFRS 15	Revenue from Contracts with Customers	1/1/2018	Yes
IFRS 15	Clarifications on IFRS 15, Revenue from Contracts With Customers	1/1/2018	No
IFRS 9	Financial instruments	1/1/2018	Yes
IFRS 4	IFRS 4 Insurance Contracts – Application of IFRS 9 with IFRS 4	1/1/2018	No
IFRS 2	IFRS 2 Share-based Payment - classification and measurement of share-based compensation	1/1/2018	No
IAS 40	IAS 40 Investment Property – transfer of investment property	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			
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1/1/2018	No
IFRIC 23	Uncertainty over Income Tax Treatments	1/1/2019	No

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 other revised or newly issued standards and interpretations, which are to be applied only starting with financial year 2018 and 2019, 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. 105ff. in the chapter "Accounting Principles" of the Notes to the Consolidated Financial Statements in the 2016 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 revenue is 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 have 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 revenue 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 ongoing restructuring was continued as planned in the first half of 2017. Up to the end of the second quarter of 2017, there was a cash outflow of EUR 5.0 million (PY: EUR 3.2 million) as a result of these restructuring measures, primarily due to disbursement of severance pay. In the prior year, cash outflows were additionally recorded from the restructuring measures of the prior years amounting to EUR 0.9 million. Overall, we expect a positive cash effect from restructuring by the end of 2017, 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 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 disclosed at a fair value of EUR -1,730 thousand entirely under Other current liabilities. At 12/31/2016, the foreign currency derivatives were measured at EUR 3,984 thousand and disclosed entirely under Other current assets.

As explained in the 2016 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 -2,758 thousand (PY: EUR -830 thousand) was recognized in equity, taking deferred taxes into account.

At the reporting date, the Group held 37 (12/31/2016: 27) foreign currency derivatives. Of these, 25 (12/31/2016: 27) foreign currency derivatives were held to hedge the exchange rate of the U.S. dollar against the euro with a nominal amount of USD 69.5 million (12/31/2016: USD 78.0 million). 12 (12/31/2016: 0) foreign currency derivatives were held to hedge the exchange rate of the Turkish lira with a nominal amount of TRY 4.1 million (12/31/2016: TRY 0.0 million). The derivatives at the reporting date are all designed as "plain vanilla" forward exchange contracts.

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:

06/30/2017	**Hierarchy level**			
EUR'000	**1**	**2**	**3**	**Total**
Financial assets				
Derivative financial instruments	0	0	0	0
Financial liabilities				
Derivative financial instruments	0	1,730	0	1,730

12/31/2016	Hierarchy level			
EUR'000	1	2	3	Total
Financial assets				
Derivative financial instruments	0	3,984	0	3,984
Financial liabilities				
Derivative financial instruments	0	0	0	0

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 input parameters for these models. In accordance with IFRS 7, the calculation of these fair values is assigned to Level 2 of the measurement categories for the determination of fair values.

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

The non-current financial assets include the valuation base for the investment in Gigaset Mobile Pte. Ltd., Singapore, which was assigned to the category of available-for-sale financial assets. Since this company is not listed and sufficient other information was also not available, such as dependably computable future cash flows to measure the remaining share of equity, for instance, the fair value for 2015 was calculated using the share of equity as well as the claims to profits from fiscal 2014 to which it is entitled, taking the already reduced share of equity into account. The fair value approximated by applying this method was calculated to be EUR 18,386 thousand. This value represents the cost of purchase for the financial asset within the meaning of IAS 39. 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, this equity item is measured at cost of purchase at the closing date. No active market exists for these company shares, and selling the shares is also not to be considered probable from the current perspective.

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

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

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

5. Pension obligations and deferred tax assets

The pension obligations were adjusted based on the currently relevant interest rate levels as of June 30, 2017, using an approximation procedure. Due to an increase in the relevant interest rate level from 1.85% as of December 31, 2016, to 2.07% as of June 30, 2017, a decline in pension obligations of EUR 4,609 thousand and a decline in deferred tax assets of EUR 1,466 thousand resulted from this effect.

6. Provisions

Current provisions declined compared to December 31, 2016, from EUR 28,571 thousand to EUR 22,160 thousand, which resulted primarily from the decline in the current portion of the restructuring provisions by about EUR 4.4 million, the decline in the provisions for sales bonuses by EUR 1.8 million, the decline in provisions for partial early retirement obligations by EUR 0.7 million, as well as opposite effects from the increase in provisions for license payments by EUR 0.6 million and the increase in provisions for external audits by EUR 0.4 million.

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

The other income from core business amounts to EUR 1,754 thousand (PY: EUR 2,557 thousand) and primarily includes on-debiting of EUR 1,221 thousand (PY: EUR 593 thousand), income from disposals of non-current assets of EUR 30 thousand (PY: EUR 45 thousand) and miscellaneous other income from the core business of EUR 503 thousand (PY: EUR 1,919 thousand).

The additional ordinary income of EUR 3,390 thousand primarily comprises income from the reversal of provisions and other liabilities in the amount of EUR 2,433 thousand as well as income from the reversal of impairments on other receivables in the amount of EUR 830 thousand. In the prior-year comparison period, the additional ordinary income amounted to EUR 1,803 thousand and primarily included income from the reversal of provisions and other liabilities.

The exchange rate gains of EUR 2,805 thousand (PY: EUR 2,960 thousand) comprise income from realized as well as unrealized foreign currency gains.

8. Personnel expenses

The personnel expenses declined to EUR 34,639 thousand due to the ongoing restructuring programs in the first half of 2017 (EUR 42,125 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 30,438 thousand compared with EUR 23,411 thousand in the prior year. The increase in expenses compared to the prior year in the amount of EUR 7,027 thousand results primarily from the increase in marketing and representation expenses by EUR 3,545 thousand, an increase in management expenses by EUR 975 thousand, increased expenses from personnel leasing of EUR 594 thousand, as well as higher consulting expenses of EUR 576 thousand.

The additional regular expenses of EUR 1,253 thousand comprise expenses resulting from a settlement agreement in the amount of EUR 830 thousand as well as the addition to provisions for external audits of EUR 423 thousand. In the comparison period, the additional regular expenses amount to EUR 2,186 thousand and relate to an impairment on receivables of EUR 2,000 thousand and expenses from sales tax for previous periods.

The exchange rate losses of EUR 2,807 thousand (PY: EUR 2,729 thousand) comprise expenses from realized as well as unrealized foreign currency losses.

10. Segment report

The presentation of the segment report uses geographical segments in accordance with internal reporting. The holding company is presented separately from Gigaset's operating activities. Within operating activities, a distinction is made in the geographical regions between "Germany," "EU," and "Rest of World." The reportable segment "EU" contains multiple geographical regions including the "France" geographical region as a reportable segment that is aggregated to the "EU" segment. The individual segments in the "EU" segment were aggregated because the products and services sold, the customer profiles, the sales structures, as well as the regulatory frameworks are comparable. Regarding economic criteria, the aggregation was applied particularly due to comparable gross margins in the individual geographical regions.

Gigaset is principally active in the sector of communications technology. The geographical regions in which Gigaset operates are the following:

- "Germany"
  The "Germany" geographical region comprises the operating activities in Germany.

- "EU"
  The "EU" geographical region comprises the operating activities in Poland, Great Britain, Austria, France, Italy, the Netherlands, Spain, and Sweden.

- "Rest of World"
  The "Rest of World" geographical region comprises the operating activities in Switzerland, Turkey, Russia, and China.

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 result of core business before scheduled depreciation.

Operating revenue by country is reported within the framework of internal reporting by receiving units as well as according to the registered offices of the individual companies ("country of domicile").

Operating revenue by receiving units represents the operating revenue invoiced in the individual regions, regardless of the domicile of the invoicing unit. For instance, if a German company issues an invoice in the Netherlands, such revenue is allocated to the region "Europe - EU (excluding Germany)" in the presentation by receiving units. As described in the previous paragraph, the revenue generated in financial year 2016 and in the comparison period is shown in the table below broken down by region of the receiving entities within the meaning of IFRS 8.33 a):

EUR'000	01/01–06/30/2017	01/01–06/30/2016
Germany	56,182	54,258
Europe – EU (excluding Germany)	53,869	59,017
Europe – Other	10,157	7,511
Rest of World	8,055	12,220
Total	**128,263**	**133,006**

For the current segment report, activities are additionally attributed to the individual geographical regions on the basis of the country of domicile of the respective legal entity. For instance, if a German company issues an invoice in the Netherlands, such revenue is allocated to the region "Germany" in the presentation by the country of domicile. The following tables show revenue items based on the country of domicile. The relevant segment result (result of core business before scheduled depreciation) is determined based on the results of the individual legal entities (country of domicile).

January 01 to June 30, 2017 in EUR'000	Germany	EU	Rest of world	Gigaset TOTAL	Holding company	Group
Sales revenue	64,368	49,589	14,306	128,263	0	128,263
Result of core business before scheduled depreciation	8,235	-350	136	8,021	-2,278	5,743
Depreciation	-7,289	-37	-11	-7,337	0	-7,337
Result of core business after scheduled depreciation	946	-387	125	684	-2,278	-1,594
Additional ordinary income	790	1,011	224	2,025	110	2,135
Operating profit/loss	1,736	624	349	2,709	-2,168	541
Other interest and similar income						31
Interest and similar expenses						-554
Net financial income/expenses						-523
Earnings before taxes from ordinary activities						18
Taxes on income						-1,271
Consolidated net loss for the year						-1,253

January 01 to June 30, 2016 in EUR'000	Germany	EU	Rest of world	Gigaset TOTAL	Holding company	Group
Sales revenue	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**
Other interest and similar income						15
Interest and similar expenses						-635
Net financial income/expenses						**-620**
Earnings before taxes from ordinary activities						**586**
Taxes on income						-1,234
Consolidated net loss for the year						**-648**

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:

in EUR'000	Expenses 01/01-06/30/2017	Revenue/Income 01/01-06/30/2017	Receivables 06/30/2017	Liabilities 06/30/2017
Gigaset	283	0	2,459	1,144
Gigaset Mobile-Gruppe	0	283	1,144	2,459

in EUR'000	Expenses 01/01-06/30/2016	Revenue/Income 01/01-06/30/2016	Receivables 06/30/2016	Liabilities 06/30/2016
Gigaset	1,340	1,553	5,574	2,777
Gigaset Mobile-Gruppe	1,553	1,340	2,777	5,574

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 another related company pursuant to IAS 24.19 (g). From the Group perspective, no transactions were performed in the reporting timeframe:

in EUR'000	Expenses 01/01-06/30/2017	Revenue/Income 01/01-06/30/2017	Receivables 06/30/2017	Liabilities 06/30/2017
Gigaset	0	0	1,397	347
Guangzhou Cyber Digital Technology Company Limited	0	0	347	1,397

in EUR'000	Expenses 01/01-06/30/2016	Revenue/Income 01/01-06/30/2016	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

Impairments were created for the existing receivables. 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

Please see the discussion in the Group Management Report with regard to material events after the reporting date.

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 for the remaining months of the financial year."

Munich, July 27, 2017

The Executive Board of Gigaset AG

Klaus Wessing Guoyu Du

REPORT
for the nd Quarter 2017

Wherever you go.

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