INTERIM REPORT Q2 2020

from January 1, to
June 30, 2020

Gigaset

KEY FIGURES

EUR millions	1/1 - 6/30/2020	1/1 - 6/30/2019
Consolidated revenues	75.8	107.1
Earnings before interest, taxes, depreciation and amortization (EBITDA)	-8.0	6.7
Earnings before interest and taxes (EBIT)	-15.7	-0.3
Consolidated net income/ loss for the year	-11.3	0.5
Free cashflow	-7.4	-6.8
Earnings per share (diluted in EUR)	-0.09	0.00
	6/30/2020	**12/31/2019**
Total assests	188.2	222.6
Consolidated equity	5.1	18.5
Equity ratio (in %)	2.7	8.3
Number of employees	888	895

The Gigaset Share	Q2 2020	Q2 2019
Closing price in EUR (at the end of the period)	0.26	0.40
Highest price in EUR (in the period)	0.34	0.53
Lowest price in EUR (in the period)	0.26	0.27
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)	34.4	53.0

KEY FACTS

"All operating segments of Gigaset were affected by the adverse economic effects of the coronavirus pandemic in the first half of 2020. Particularly in other countries of Europe besides Germany, the restrictions on public life such as business closures and lockdowns lasted well into June in some cases. In the second half, however, we expect a normalization of business activity and additional pent-up demand effects from Q1 and Q2. We particularly anticipate a strong fourth quarter of 2020. The Christmas business is traditionally the biggest sales driver of the year."

Thomas Schuchardt, CFO of Gigaset AG

- Consolidated revenues and earnings indicators in all segments were adversely impacted by the government measures to combat the coronavirus pandemic
- Numerous liquidity measures were taken to keep cash and cash equivalents at the level of the year-ago period
- A reliable outlook for the 2020 financial year is not possible due to the ongoing coronavirus crisis: decline in relevant key indicators expected compared to the prior year

1 BUSINESS MODEL

Gigaset AG is an internationally active enterprise operating in the area of communications technology. The company's headquarters is located in Bocholt, Germany, where the company's highly automated production is also carried out. The company maintains other locations in Munich, Germany, Wroclaw, Poland, and in 11 other countries. As of the reporting date of 30 June 2020, the company had 888 employees and conducted distribution activities in 51 countries.

Gigaset operates in the segments of Phones, Smartphones, Smart Home and Professional. The company's regional segments are Germany, Europe (excluding Germany) and Rest of World. The most important markets for Gigaset, where it generates the highest revenues, are Germany and the other European markets of France, Italy and the Netherlands (EU4).

1.1 Phones

The Phones segment is focused on the production and distribution of DECT cordless telephones and DECT/CAT-iq handsets (Gigaset HX portfolio). DECT is the most successful telecommunications standard for cordless telephones and is used in more than 100 countries of the world.[1] Nearly all DECT products for the Phones segment are produced in the company's own production facility in Bocholt. For this reason, the company's products bear the label "Made in Germany". Gigaset offers its customers a broad product portfolio at different price points. Great potential is seen particularly for the handset portfolio comprising HX mobile handsets that can be operated on different routers and the segment of "easy-use" telephones subsumed under the label Gigaset life series. These products address the demographic transformation of Western societies and are aimed at older persons or persons with special physical needs.

[1] DECT (2020) - DECT Technology

1.2 Smartphones

Since 2016, the company has operated in the Smartphones segment offering products in the low to medium price range at prices of up to EUR 300. The strategic goal is to further increase brand familiarity and market share in this segment. The current, fourth smartphone generation was launched in 2019. Gigaset plans to introduce the fifth generation in the second half of 2020.

The central unique selling proposition of the various Gigaset smartphones is the "Made in Germany" label. With the GS185 model introduced in 2018, Gigaset brought smartphone production to Germany and Europe for the first time. Besides differentiating itself from international competitors, Gigaset is capable of offering highly individualized products even in very small batch sizes thanks to its highly automated production facility in Germany. Moreover, the high degree of flexibility enables the company to increasingly address B2B customers and offer them products that are precisely tailored to their needs.

1.3 Smart Home

Gigaset has been active in the Smart Home segment since 2012. At the present time, the company offers products and solutions in the areas of security, convenience, energy and nursing care in support of older persons and those in need of assistance. The portfolio is primarily aimed at users in private households.

From the beginning, Gigaset sought to develop a modular, sensor-based system that enables users to tailor the products to their individual needs. The software-based cloud approach makes it possible for customers to remain in constant contact with their homes and to be informed of various occurrences and events. Thanks to its comprehensive approach, Gigaset offers multifaceted and tailored complete solutions. The sensors and actors, as well as the cloud and app, are fully integrated and adapted to each other. The system is under constant further development, ensuring security, new applications and cooperation ventures with third parties such as Amazon, Philips and Google.

1.4 Professional

The Professional segment is the company's second-biggest revenue driver. The products in this segment range from single-cell and multi-cell systems to DECT-based wireless telephones and non-proprietary IP desk telephones.

These product categories enable Gigaset to benefit from the ongoing shift from analog telephony to all-IP and hybrid solutions.[2] This trend, which has been in effect in the last few years due in part to the spread of cloud-based systems,[3] is being accelerated by the deactivation of analog connections by major network operators such as Deutsche Telekom.[4]

Gigaset introduced new variants of its single-cell and multi-cell models (N670 IP PRO und N870 IP PRO) in 2019. These products make it possible to scale up to 20,000 terminal devices for the first time ever.

The company is therefore capable of addressing the enterprise segment and acquiring new projects.

[2] MZA Consultants (2019) - Business Phones Competitive Environment 2019 - Western Europe - Market Analysis
[3] MZA Consultants (2019) - Hosted-Cloud Business Telephony 2019 - Executive Summary
[4] Handelsblatt (09/03/2019) – Telekom cancels ISDN connections

2 GENERAL ECONOMIC AND INDUSTRY-SPECIFIC FRAMEWORK CONDITIONS

2.1 General economic conditions

According to a study of the International Monetary Fund (IMF) from June 2020, global economic output is expected to decline by 4.9 % in 2020.[5] According to the experts, the economic effects of the ongoing coronavirus pandemic are now presumed to be more serious in some respects than in the last study from April 2020. Lockdowns in nearly all the world's economies have resulted in much lower demand, including consumer demand, as well as lower productivity and fast-rising unemployment. IMF expects an 8 % decline in economic output for the industrialized nations and a 10.2 % decline for the eurozone countries in 2020. In the most important European markets for Gigaset, the IMF expects a 7.8 % decline in economic output for Germany, a 12.5 % decline for France and a 12.8 % decline for Italy. According to Statista, the economy of the Netherlands will contract by 7.5 % in 2020.[6]

2.2 Telecommunications market

2.2.1. Phones market

Germany

Based on units sold, the market for cordless telephones in Germany declined by 4.3 % in the first half of 2020 compared to the first half of 2019. Based on revenues, the market shrank by 5.6 % compared to the first half of last year. Gigaset has performed well in this market, increasing its market share by 1.2 % to now 48.3 % units sold. Based on revenues, the company's market share grew by 0.4 % to now 43.8 %.[7]

France

Based on revenues, the market for cordless telephones in France declined by 14.4 % in the first half of 2020 compared to the first half of 2019. Gigaset also performed well in this difficult environment, increasing its market share as measured by units sold by 0.4 % to now 35.8 % in the first half of 2020 compared to the first half of 2019. Based on revenues, Gigaset registered a modest 0.3 % decline to now 41 % compared to the first half of 2019.[8]

EU-6 region

Based on revenues, the market for cordless telephones in the most important markets in Europe observed by Gigaset (Germany, France, Italy, the United Kingdom, Spain and the Netherlands) shrank by 8.2 % in the first half of 2020 compared to the first half of 2019. All things considered, however, Gigaset successfully defended its market share as measured by units sold and revenues and remains the European market leader with a market share of 37 % (+/- 0 %) and 36 % (-1 %), respectively.[9]

Gigaset continues to place a special emphasis on addressing demographic trends (e.g. the ageing of society) with an appropriate portfolio (Gigaset life series) aimed at persons in the second half of their lives and continually developing and maintaining the products of the universal handset portfolio

[5] IMF (2020) - Economic Outlook 2020
[6] Statista (2020) – Netherlands 2021
[7] GfK (2020) - Hitlist, Hitrate and Country Charts for Germany (Q2 2020)
[8] GfK (2020) - Hitlist, Hitrate and Country Charts for France (Q2 2020)
[9] GfK (2020) - Country Report HUB EU6 Q2 2020

(Gigaset HX). Gigaset is continually raising the bar in the market for designer devices with the fresh new designs and colors of the Gigaset CL390 product series.

2.2.2. Smartphones market

According to the latest numbers of the U.S. market research institute Gartner, smartphone sales plummeted by 20.2 % in the first quarter. Only 299.1 million devices were sold worldwide from January to March, as compared to 374.9 million devices in the same period of last year. According to Gartner, this is an unprecedented decline. The primary reason is the coronavirus crisis and the attendant restrictions, which impacted manufacturers and distributors alike.[10] The temporary closures of factories and the general reduction of spending by consumers also played a role. Industry experts expect sales numbers to decline by around 15 % in 2020 compared to 2019. That would correspond to 1.3 billion smartphones sold, after nearly 1.55 billion in 2019. However, market researchers anticipate a modest recovery already in the second half of 2020, followed by a market growth rate of two to three percent in both 2021 and 2022.[11] After a noticeable decline in Q1 2020, also due to the coronavirus pandemic, the company's sales picked up steam in the second quarter, when sales were 60.4 % higher than in the second quarter of last year.

2.2.3. Smart Home market

Revenues in the global Smart Home market amounted to EUR 50.9 billion in 2018 and EUR 65.3 billion in 2019. According to a forecast by Statista, revenues will rise to EUR 75 billion in the current year and reach a market volume of almost EUR 124 billion in 2023.[12] The forecast has been adjusted to account for the expected, adverse effects of SARS CoV-2. This translates to annual revenue growth of 17.4 % (CAGR 2019-2023). The penetration rate was 7.7 % in 2019 and is expected to reach 18.1 % in 2023. The average amount of revenue per existing smart home is currently EUR 110.87. A global comparison shows that smart home revenues are highest in the United States (approx. EUR 25 billion in 2019).[13]

[10] Your Mobile Phone (2020) – Smartphone Sales Numbers

[11] Inside Digital (2020) – Coronavirus Crisis

[12] Statista (2020) - Smart Home

2.2.4. Professional market

Professional telephony for business customers is characterized by an ongoing trend in favor of IP-based technology. At the same time, the share of cloud-based communications systems is continually rising. In the medium term, it is expected that traditional transmission technology will have been completely pushed out of the market by the year 2024. This will affect around 444 million business users[14] worldwide.

The trend described above is being accelerated further by the coronavirus pandemic, which is increasingly shifting the focus to working from home and intensifying the use of teleconferences, UCC solutions and virtual meetings as instruments of communication. This worldwide and probably lasting trend towards working from home[15] and the resulting increase in demand for telecommunications devices that allow for flexible collaboration present opportunities and new development possibilities for Gigaset in the segment of professional customers.

[13] Statista (2020) – Forecast Smart Home Revenues 2024

[14] MZA Consultants (2019) - Hosted-Cloud Business Telephony 2019, page 3

[15] https://www.dw.com/de/das-homeoffice-bleibt-uns-erhalten/a-54517688

3 GIGASET SHARE

The globally worsening coronavirus pandemic triggered a substantial correction in international equity markets in March and April 2020. The subsequent supportive measures of central banks and governments around the world were highly effective, causing a sharp rebound of equity markets.

The lead German index, the DAX, plunged by 37 % to 8,442 points by the middle of March 2020, but then recovered to 12,311 points by the end of the first half of 2020, for a total loss of 7 % since the start of the year. The SDAX lost 36 % at the low point, but ended the first half 8 % below the level at the start of the year.

Having begun the 2020 financial year with an opening price of EUR 0.34, the Gigaset share closed the first half at EUR 0.26, for a year-to-date loss of 24 %. The price of the Gigaset share was highly volatile during this period. Moreover, the drop to penny-stock levels attracted numerous speculators who were more interested in short-term profit-taking from the wide price fluctuations than a lasting investment in Gigaset shares. Due to the low level of widely held shares, the Gigaset share is generally more exposed to wider price fluctuations even on smaller trades. The company's market capitalization as of the reporting date of June 30, 2020 was EUR 34.4 million.[16]

[16] Deutsche Börse (2020) - DAX and SDAX H1

4 FINANCIAL PERFORMANCE, CASHFLOWS AND FINANCIAL POSITION

4.1 Financial performance

The Gigaset Group generated total **revenues** of EUR 75.8 million in the first half of 2020 (PY: EUR 107.1 million). The 29.2 % revenue decline compared to the first half of last year is particularly attributable to the coronavirus pandemic in 2020. In addition, revenues are affected by the customary seasonal fluctuations in the consumer business.

In the Phones segment, revenues declined by 25.8 % or EUR 19.7 million to EUR 56.7 million in the first half of 2020. Despite the still challenging market environment, unit sales of DECT telephones were well on target through the middle of March 2020, but were then considerably impaired by the Europe-wide lockdowns.

The Smartphones segment generated revenues of EUR 0.2 million in the period from January to June 2020, that being EUR 4.0 million less than in the first half of last year (PY: EUR 4.2 million). The first-quarter drop in revenues in the Smartphone segment resulted from returns of devices by distributors due to the closure of brick-and-mortar shops during the peak of the coronavirus pandemic in Europe. Thanks to pent-up demand effects, unit sales of smartphones improved substantially already in the second quarter.

In the Smart Home segment, revenues of EUR 1.3 million were generated in the first half of 2020 (PY: EUR 1.6 million). The very positive development in the first quarter, which is attributable to the strategic partnership with a leading European telecommunications company, could not be continued in the second quarter due to the effects of the pandemic. As a result, first-half revenues remained below the level of the comparable period of last year.

The Professional segment also exhibited a negative performance in the reporting period, with revenues of EUR 17.6 million as compared to EUR 24.9 million in the first half of last year. Multiple projects and orders in the Professional segment were initially postponed or put on hold as a result of the coronavirus situation.

In summary, revenues are broken down by **product segment** in the table below:

Revenues in EUR millions	**Q1 - Q2 2020**	**Q1 - Q2 2019**	**Change in %**
Phones	56.7	76.4	-25.8
Smartphones	0.2	4.2	-95.2
Smart Home	1.3	1.6	-18.8
Professional	17.6	24.9	-29.3
Gigaset Total	**75.8**	**107.1**	**-29.2**

The breakdown of revenues by country in the segment report is based on both the receiving entities and the domicile of each company ("country of domicile"). Additional information on the segment report is presented in Section 13 Segment Report as part of the notes. To reflect the change resulting from Brexit, the year-ago comparison figures were adjusted as described in the Segment Report.

The regional breakdown of revenues by **receiving entity** is presented in the table below:

Revenues in EUR millions	Q1 - Q2 2020	Q1 - Q2 2019[1]	Change in %
Germany	32.6	48.9	-33.3
EU (excluding Germany)	30.7	41.3	-25.7
Rest of World	12.5	16.9	-26.0
Gigaset Total	**75.8**	**107.1**	**-29.2**

The regional breakdown of revenues by **country of domicile** is presented in the table below:

Revenues in EUR millions	Q1 - Q2 2020	Q1 - Q2 2019[1]	Change in %
Germany	40.3	55.9	-27.9
EU (excluding Germany)	26.0	38.5	-32.5
Rest of World	9.5	12.7	-25.2
Gigaset Total	**75.8**	**107.1**	**-29.2**

[1] For comparison purposes, the year-ago figures were reclassified from EU to Rest of World to reflect the departure of the United Kingdom from the European Union.

The **change in inventories of finished and unfinished goods** as of June 30, 2020 amounted to EUR -1.7 million (PY: EUR -3.0 million). The change resulted mainly from the reduction of finished goods as of the reporting date.

Purchased goods and services, including raw materials, merchandise, finished goods and services, amounted to EUR 37.8 million, that being EUR 12.2 million less than the EUR 50.0 million figure for the first half of last year. Including the change in inventories, the ratio of purchased goods and services to the total operating performance[17] came to 51.0 %, which was slightly higher than the comparable year-ago ratio (PY: 48.1 %).

The **gross profit** calculated as revenues minus purchased goods and services and the change in inventories of finished and unfinished goods declined by 32.8 % to EUR 36.3 million. The gross profit margin[18] of 49.0 % was lower than the comparable year-ago margin of 51.9 %.

The **other internal production capitalized** increased from EUR 3.3 million in the year-ago comparison figure to EUR 4.1 million in the first half of 2020, due to costs for the development of new products.

The **other operating income** of EUR 6.0 million in the first half of 2020 was less than the prior-year comparison figure of EUR 9.3 million. In the first half of last year, other operating income in the amount of EUR 3.3 million resulted from the legal dispute concerning the SKW anti-trust proceedings. Please refer to the description in the Section 9 Other operating income of the notes to the consolidated financial statements for additional details.

Personnel expenses for wages, salaries, social security and pensions amounted to EUR 29.5 million, that being EUR 0.2 million higher than the comparable year-ago figure. The increase resulted mainly from expenses related to pension obligations. The expenses for wages, salaries and social security were reduced by the short-time working schemes in effect from April 2020. The personnel expenses ratio[19] came to 39.8 % (PY: 28.1 %).

[17] This ratio is calculated as purchased goods and services divided by the sum of revenues and the change in inventories of finished and unfinished goods.

[18] The gross profit margin was calculated differently than in the first half of last year. Beginning in 2020, changes in inventory are added to revenues. Thus, the gross profit margin is now calculated as the gross profit divided by revenues plus changes in inventories.

[19] The personnel expenses ratio was calculated differently than in the first half of last year. Beginning in 2020, changes in inventory are added to revenues. Thus, the gross profit margin is now calculated as personnel expenses divided by revenues plus changes in inventories.

The **other operating expenses** of EUR 25.0 million were significantly less than the comparable year-ago figure (PY: EUR 30.7 million). Please refer to the description in the Section 11 Other operating expenses of the notes to the consolidated financial statements for additional details.

Earnings before interest, taxes, depreciation, amortization and impairments (EBITDA) amounted to EUR -8.0 million (PY: EUR 6.7 million). After deducting depreciation, amortization and impairments in the amount of EUR 7.7 million (PY: EUR 7.0 million), **earnings before interest and taxes** (EBIT) came to EUR -15.7 million (PY: EUR -0.3 million).

Including the **financial result** of EUR -0.4 million (PY: EUR 0.6 million), the **result from ordinary activities** amounted to EUR -16.2 million (PY: EUR 0.3 million).

The **consolidated net loss** for the period from January 1 to June 30, 2020 amounted to EUR -11.3 million (PY: consolidated net income of EUR 0.5 million).

On this basis, **earnings per share** came to EUR -0.09 (undiluted/diluted) (PY: EUR 0.00 (undiluted/diluted)).

4.2 Cashflows

The cashflows are presented in the table below:

Cashflows in EUR millions	**Q1 - Q2 2020**	**Q1 - Q2 2019**
Cashflow from operating activities	-1.9	-0.2
Cashflow from investing activities	-5.4	-6.6
Free Cashflow	-7.3	-6.8
Cashflow from financing activities	-0.1	-1.3

In the first half of 2020, the Gigaset Group generated a **cash outflow from operating activities** in the amount of EUR -1.9 million (PY: EUR -0.2 million). This resulted mainly from payments on account of trade payables, other provisions and other liabilities in the amount of EUR 28.5 million, which was countered by cash inflows from payments on account of trade receivables, other receivables and other assets in the amount of EUR 32.1 million. The customary cash outflow in the first half of the year is attributable to the seasonal pattern of the company's business. The company traditionally generates cash inflows in the second half of the year due to the Christmas season.

The **cash outflow from investing activities** amounted to EUR -5.4 million, after EUR -6.6 million in the comparable period of last year. The greater part of investments both in the current period and in the year-ago period related to internal production capitalized for the development of new products and solutions.

The **free cashflow** for the first half of 2020 was significantly negative, at EUR -7.3 million, but was relatively positive compared to the comparable year-ago figure of EUR -6.8 million, considering the adverse effects of the coronavirus pandemic and the resulting declines in revenues and profit. This result was achieved by means of diverse liquidity conservation measures in the first half of 2020, including short-time working schemes , the deferral of tax and social security payments, a deferral of loan repayments, and cost savings of a general nature.

The **cash outflow from financing activities** amounted to EUR -0.1 million in the reporting period (PY: EUR -1.3 million). The cash outflow resulted mainly from principal repayments and interest payments on the credit facility taken out in 2018. A cash outflow of EUR 2.0 million resulted from a loan extended to the French national subsidiary due to coronavirus measures in the first half of 2020.

Please refer to the statement of cashflows for a detailed account of changes in **cash and cash equivalents**. The cashflows include exchange rate changes in the amount of EUR -0.2 million (PY: EUR 0.0 million). Cash and cash equivalents amounted to EUR 28.9 million as of June 30, 2020 (PY: EUR 28.9 million).

4.3 Financial position

The Gigaset Group's **total assets** amounted to EUR 188.2 million as of June 30, 2020, that being significantly less than the comparable figure as of December 31, 2019 (EUR 222.6 million).

The **noncurrent assets** of EUR 84.2 million were EUR 5.7 million higher than the comparable figure as of December 31, 2019. The increase resulted mainly from the recognition of deferred tax assets in respect of temporary differences as of June 30, 2020. Moreover, an increase in internal production capitalized led to a EUR 1.9 million increase in intangible assets. By contrast, property, plant and equipment (EUR 1.1 million) and capitalized right-of-use assets (EUR 0.9 million) were both lower than the respective figures as of December 31, 2019 because depreciation and amortization and disposals exceeded total investments as of June 30, 2020.

Current assets represent 55.3 % of total assets. Compared to the year-ago figure, they declined by EUR 40.1 million to EUR 104.1 million. The biggest driver of this significant reduction, accounting for EUR 20.4 million of the total, were trade receivables in the amount of EUR 25.0 million. In line with seasonal patterns, this figure was considerably lower than the trade receivables of EUR 45.4 million as of December 31, 2019, due to the Christmas season. The other assets of EUR 14.9 million were also considerably lower, by EUR 11.8 million, mainly due to lower receivables from factoring and sales taxes. Cash and cash equivalents were EUR 7.6 million lower than as of December 31, 2019. Please refer to the statement of cashflows for a detailed account of changes in cash and cash equivalents.

The **equity** of the Gigaset Group amounted to EUR 5.1 million as of June 30, 2020, that being EUR 13.5 million less than at the beginning of the year. This corresponds to an equity ratio of 2.7 %, as compared to 8.3 % as of December 31, 2019. The net loss of EUR -11.3 million generated in the first half led to a substantial equity decline. Adding to the decline was the negative effect of exchange rates in the amount of EUR 0.4 million and actuarial losses totaling EUR 1.8 million from the measurement of pension obligations. The actuarial losses resulted from the effect of the change in the discount rate from 1.05 % as of December 31, 2019 to 0.96 % as of the reporting date of June 30, 2020. An equity-increasing effect resulted from the fair value measurement of financial instruments in the Gigaset Group, adding EUR 0.1 million to equity.

Total liabilities amounted to EUR 183.1 million (December 31, 2019 EUR 204.1 million). Current liabilities represent 36.9 % of total liabilities.

Noncurrent liabilities, which mainly consist of pension obligations and financial liabilities, amounted to EUR 115.6 million as of the reporting date of June 30, 2020 (December 31, 2019: EUR 109.2 million). The increase resulted primarily from the increase in pension obligations from EUR 5.3 million to EUR 97.8 million, mainly due to the lower discount rate applied as of the reporting date and the measurement of plan assets in the first half of 2020. The noncurrent financial liabilities rose to EUR 2.1 million as a result of changed repayment agreements.

The **current liabilities** of EUR 67.5 million were about 28.8 % less than as of December 31, 2019. The decline resulted mainly from the decrease in trade payables from EUR 51.2 million to EUR 33.4 million as of June 30, 2020 due to the payment at the beginning of the year of the high levels of outstanding trade payables resulting from the Christmas business. The EUR 4.7 million decrease in current provisions resulted primarily from lower additions for customer bonus and license cost provisions. The other liabilities amounted to EUR 12.9 million as of June 30, 2020, that being EUR 3.7 million lower than at the beginning of the financial year. They mainly consisted of liabilities for wages and salaries, sales tax liabilities and other liabilities.

5 REPORT ON OPPORTUNITIES AND RISKS AS OF JUNE 30, 2020

As a general rule, all entrepreneurial activities involve risk. This includes the risk that business goals will not be achieved as a result of external or internal events, as well as actions and decisions; in extreme cases, a company's ability to continue as a going concern can be jeopardized. Gigaset's risk policy consists in taking advantage of existing opportunities and limiting the associated risks with the use of appropriate instruments.

Risks are assessed on a quantitative basis for the factors of probability of occurrence and extent of losses. The multiplication of these factors yields 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 potential short-term earnings effect on the Gigaset Group in the individual risk categories is presented in the table below:

Category/Sub-category	Risk management
Market and industry risks	
Economic situation | Industry sector | Competition	***
Products | Patents | Certificates	*
Legal operating environment	*
Customers	*
Business and litigation risks	
Information technology	*
Personnel	*
Financial risks	
Liquidity	***
Foreign currency	*
Equity	**
Taxes	**
Liability risks	
Guaranties | Contingent liabilities	*
Legal disputes	*

A detailed description of the opportunities and risks of the Gigaset Group is presented in Gigaset's 2019 Annual Report. The following changes in the risk situation resulting from the measures initiated by the governments of Europe to combat the coronavirus pandemic in the first half of 2020 are described in the following paragraph.

Brick-and-mortar sales outlets have been directly impacted by the substantial restrictions on public life imposed to combat the pandemic, leading to a dramatic decrease in unit sales and revenues in the first half of 2020. Gigaset reacted quickly to the crisis by implementing measures such as short-time working schemes and remote working. Gigaset countered the temporary closure of brick-and-mortar sales outlets with increased online sales. Indeed, Gigaset sees growing opportunities in the further expansion of online sales. In view of Gigaset's continuing dependence on external factors not under its control such as the further course of the coronavirus pandemic and related decisions of governments, the company is exposed to heightened sales market risks. The loan agreement concluded in April 2018 has given rise to heightened liquidity risks. Non-fulfillment of the financial covenants agreed with the lender would entitle the lender to declare an extraordinary termination of the loan agreement and render the loaned amount due and payable immediately, which would result in an uncovered liquidity shortfall. The effects of the coronavirus pandemic have increased the probability that the agreed financial covenant cannot be fulfilled.

The heightened risk of losses on receivables owed by our customers at the end of the 2019 financial year eased in the first half of 2020.

The Group-wide, systematic risk management system is described in detail in the combined management report in Gigaset's 2019 Annual Report.

A fine notice for EUR 2 million has been served on the Spanish subsidiary Gigaset Communications Iberia S.L., with its registered head office in Madrid. The fine notice is based on the fact that the Spanish tax authority objected to the findings of a tax law assessment. With respect to the contested tax law assessment, the Spanish subsidiary had been advised by a prestigious auditing firm. Both the subsidiary and the Spanish subsidiary continue to believe that the assessment does not provide reasonable grounds for the objection that could justify the imposition of a fine. Accordingly, the Spanish subsidiary has appealed against the notice and requested its annulment. An internal Group loan was granted to the Spanish subsidiary to pay the fine at first. The loan was granted and the fine was paid in August. In agreement with the legal counsel of the Spanish subsidiary, the company considers it more likely than not that the requested annulment of the fine notice will be granted and the fine will be refunded.

6 SIGNIFICANT EVENTS AFTER JUNE 30, 2020

The change of the legal registered office of Gigaset AG from Munich to Bocholt was resolved by an amendment of the company's articles of incorporation at the annual general meeting in June 2020. The change was announced when it was recorded in the Commercial Register on July 20, 2020. Henceforth, the registered office of Gigaset AG is located in Bocholt, where nearly all of the company's operational business is conducted.

An amendment of the articles of incorporation concerning the authorization of the Executive Board to conduct capital measures was likewise resolved at the annual general meeting in June. The change was announced when it was recorded in the Commercial Register on July 20, 2020. The options available in the past regarding the Authorized Capital 2016 and Conditional Capital 2016, as well as the Authorized Capital 2019 and Conditional Capital 2019, were revoked without replacement. By resolution of the annual general meeting of June 4, 2020, the Executive Board is now authorized (with the consent of the Supervisory Board) to increase the share capital by EUR 66.2 million (Authorized Capital 2020) and to conditionally increase the share capital by EUR 64.7 million (Conditional Capital 2020) in the time until June 3, 2025.

In July 2020, Gigaset decided to close the subsidiary Gigaset Communications Sweden AB, Stockholm, Sweden, for strategic reasons. Distribution activities in the Scandinavian countries will be continued by the German parent company Gigaset Communications GmbH, Bocholt.

A fine notice for EUR 2 million was served on the Spanish subsidiary Gigaset Communications Iberia S.L., with its registered office in Madrid. The fine notice is based on the fact that the Spanish tax authority objected to the findings of a tax law assessment. With respect to the contested tax law assessment, the Spanish subsidiary had been advised by a prestigious auditing firm. Both the subsidiary and the Spanish subsidiary continue to believe that the assessment does not provide reasonable grounds for the objection that could justify the imposition of a fine. Accordingly, the Spanish subsidiary has appealed against the notice and requested its annulment. An internal Group loan was granted to the Spanish subsidiary to pay the fine initially. The loan was granted and the fine was paid in August. In agreement with the legal counsel of the Spanish subsidiary, the company considers it more likely than not that the requested annulment of the fine notice will be granted and the fine will be refunded.

In August 2020, the CEO mandate of Mr. Weßing was extended ahead of time to the middle of 2022.

Due to the Covid-19 pandemic, Gigaset expects that it will not be able to comply with the financial covenants specified in the loan agreement for the 2020 financial year. Therefore, the financing banks confirmed in writing in September 2020 that they would waive their justified right to call in the loan on a one-time basis if the financial ratios fall short of the agreed covenants. The consequences of the Covid-19 pandemic for 2020 can still not be forecasted in detail. An adjustment of the covenants will be renegotiated by December 31, 2020.

7 OUTLOOK

Overall assessment of the Executive Board

The severity of the upheaval caused by the coronavirus pandemic was made clear in the first half of 2020. It was also made clear that practically no company was prepared for a crisis of this magnitude. Moreover, the scope of action available to companies in the context of border closures and stay-at-home orders was vanishingly small. The fate of companies was decided by factors they could not control themselves, ranging from the progression of the pandemic itself to government decisions and the granting of loans and emergency aid.

Given that it could not be determined at the time of preparing this report whether the situation will improve or change significantly in the second half of 2020, the company is standing by its decision not to provide a detailed forecast for 2020 because a reliable forecast would not be possible due to the unprecedented nature of the situation. As a consequence of the crisis, the management continues to expect a general reduction of relevant key indicators compared to the prior year.

Factor I: Economy

In its updated economic forecast published in the summer of 2020, the European Commission now expects an even deeper and more uneven recession for the Eurozone than it had assumed in the first quarter of 2020. According to the new forecast, the EU economy will undergo a deep recession this year due to the coronavirus pandemic, despite the quick and extensive government response at both the EU level and the national level. This expectation is rooted in the fact that the contact restrictions imposed to contain the pandemic were relaxed more slowly than expected in the spring forecast. Therefore, the effects on economic activity in 2020 will be more severe than initially expected.[20]

In the summer 2020 forecast, it is now expected that the economy of the euro currency area will contract by 8.7 % in 2020 and then grow by 6.1 % in 2021. The economy of the EU overall is expected to contract by 8.3 % in 2020 and then grow by 5.8 % in 2021. Thus, the downturn predicted for 2020 could be much worse than originally expected in the spring: At that time, the forecasts were minus 7.7 % for the euro currency area and minus 7.4 % for the EU overall. The same applies for the recovery next year, which is expected to be somewhat weaker in the summer forecast compared to the spring forecast.[21]

Factor II: Course of the pandemic

At the time of preparing this report, the course of the coronavirus pandemic had reached a new inflection point. After the situation had eased in the months of May and June, making it possible to return to "more normal" behaviors, signs of an emerging second wave showed up in August 2020.[22] Regardless of a medical assessment of the situation, commercial enterprises are primarily faced with the question of whether there will be renewed lockdowns of the same or greater extent than earlier in the year in the second half or whether it will be possible to locally limit so-called hot spots and therefore largely continue public life as before.

At the present time, the company expects that further, full-scale lockdowns will not be imposed. This expectation is based on two considerations. First, important progress has been made in the fight against the virus; face masks, hygiene measures and social distancing have proved to be highly effective. Second, countries can hardly afford the economic consequences of a second lockdown, for which reason alternative measures for dealing with the crisis will have to be devised. Short-time

[20] European Commission (2020) – Summer Forecast

[21] European Commission (2020) – Summer Forecast

[22] Spiegel.de (2020) – The Second Wave Is Already Here

working schemes and looming bankruptcies are already weighing on consumer spending. From an economic standpoint, this process cannot be allowed to advance further.

With reference to the Executive Board's overall assessment for 2020 and the assumptions and unknowns discussed above, the company nonetheless takes an optimistic view of the second half of the year. A conciliatory conclusion of 2020 would be possible if massive lockdowns or a renewed restriction of public life in Germany and Europe can be avoided. This will determine whether consumer sentiment normalizes further or worsens considerably.

7.1 General economic development

The forecast for economic growth in 2021 is fraught with considerable uncertainty due to the ongoing coronavirus pandemic. According to a study by the International Monetary Fund (IMF) published in June 2020, the global economy should grow again at a rate of 5.4 % and the economies of industrialized nations by 4.8 % in 2021. The IMF expects growth of 6.0 % in the Eurozone countries. In the most important European markets for Gigaset, the following economic growth rates are expected: Germany +5.4 %, France +7.3 % and Italy +6.3 %. Statista expects growth of 3 % in the Netherlands.[23]

7.2 Development of the industry

Phones

Regardless of the effects of the coronavirus pandemic, the company expects that the worldwide market for DECT cordless telephones will continue to shrink. The price level will also fall further. This expectation is based on market saturation, strong competition and a constantly growing number of alternative communications technologies. However, some potential could result from the coronavirus pandemic: Increased usage of fixed-line devices was observed already during the lockdown phase early in 2020.[24] Whether or not this will develop into a long-term trend cannot be reliably assessed at this time.

Smartphones

In the context of the coronavirus crisis, worldwide smartphone sales plummeted by around 20 % in the first quarter of 2020.[25] This drop resulted not only from lower demand, but also from the lack of production possibilities due to logistical problems during the time when borders and businesses were closed. Looking forward, therefore, Gigaset expects sales of products in this sector to recover and rise further. This expectation is supported by a recent Statista study on expected smartphone sales through 2024.[26]

Smart Home

Gigaset expects that smart home applications will develop more slowly than forecast also in the foreseeable future. A recent forecast by Statista shows the expected development of revenues in the smart home segment of building security in Germany through the year 2023. According to the study, revenues in this segment, which accounts for the greater part of Gigaset's smart home portfolio, in Germany will be around EUR 4 billion in 2020 and rise to almost EUR 7 billion by 2023.[27] Also in this regard, however, actual market performance could exceed expectations as a result of the long-term effects of the coronavirus pandemic due to a shift in consumer spending. If the home becomes the new center of life where most work will be performed and potentially also where the most leisure time will be spent (particularly for home and property owners), expenditures that had previously gone to the tourism industry or the daily commute will be redirected to the home so as to improve it with smart technologies, for example. However, this shift could not be proved statistically in the short time available.

[23] IWF (2020) - Economic Outlook 2020
[24] https://www.funkschau.de/office-kommunikation/festnetz-erlebt-auferstehung.176121.html
[25] t3n.de – Smartphone Sales 2020
[26] Statista (2020) –Smartphone Sales forecast 2024
[27] Statista 2019 – Digital Market Outlook: Forecast Revenues in the Smart Home Segment in Germany in the Years 2019 to 2023 (in EUR millions) (https://de.statista.com/outlook/279/137/smart-home/deutschland)

Professional

In the segment of business customer telephony, Gigaset expects that the importance of IP-based and cloud-based telephony will continue to grow. With reference to the base of installed telephone systems, the share of IP connections will steadily grow in Europe and increasingly replace traditional transmission technology. It is expected that traditional (TDM-based) licenses will only account for about 25 % of the market in 2023.[28] Besides stationary IP systems, cloud-based telecommunications systems in particular will experience substantial growth of the installed base. The forecasts point to steady growth of these telecommunications solutions in Europe. It is estimated that the installed base will include 46.9 million IP connections in 2023.[29]

7.3 Expected development of revenues and earnings

Thus, Gigaset continues to operate in a challenging market environment. The core market of Phones is subject to further erosion. The new business segments must be expanded further until they become equal in size to the core business in order to completely offset the revenue decline in the Phone segment.

The company will continue to pursue the medium-term goals defined as part of Agenda 2025. The intermediate goal of Agenda 2025 is to stabilize the business of cordless telephones for Gigaset and secure it as a stable source of revenue also in the next few years. At the same time, the new segments of Professional, Smart Home and Smartphones will be expanded further and strengthened with investments in order to offset the loss of revenues in the long term. Generally speaking, the broader portfolio is meant to diversify the company's offering while also minimizing strategic risk.

[28] MZA Hosted-Cloud Business Telephony – Total Europe 2018 – PowerPoint (page 39)

The unexpected coronavirus pandemic has adversely affected the attainment of the company's goals and its business performance. Therefore, the most important goal for 2020 is to end the financial year as well as possible in order to establish a good position for 2021.

Gigaset has hedged the main part of U.S. dollar risk for 2020. Moreover, the forecast is based on an exchange rate of USD 1.13 per EUR, which has held up in the year to date. Based on the current exchange rate, we expect that we will continue to hedge exchange rate risk successfully in the rest of the year.

7.4 Expected development of cashflows, liquidity and capital expenditures

The company's strategy for assuring financial stability is generally conservative in nature. The company also continues to fund itself from its operating activities.

The goal of the credit facility taken out in 2018 for a total exposure of EUR 20 million is to finance necessary investments in the development and expansion of new products. Because the full amount of the loan is not needed, the credit volume was frozen at EUR 15.9 million and the term was extended by two years to conserve Gigaset's liquidity. Repayment of the loan began as planned in January 2020, but it was deferred in agreement with the banks beginning in March as a result of the coronavirus pandemic. The suspension of principal repayments from March to August 2020 should stabilize the liquidity of the Gigaset Group. As of the reporting date of June 30, 2020, the loan balance amounted to EUR 15.4 million. Please refer to the section on Financial liabilities in the notes to the consolidated financial statements for additional details.

Despite the revenue declines resulting from the coronavirus crisis, the Group's liquidity was kept stable in the first half of the year, with freely disposable cash of EUR 27.4 million as of June 30, 2020 (June 30, 2019: EUR 26.4 million). Numerous liquidity conservation measures were implemented to ensure

[29] Hosted-Cloud Business Telephony 2018 – Europe – Excel (Table 2)

adequate financial resources during the peak phase of the pandemic. In the second half of the year, cashflows will be influenced particularly by the repayment deferrals in the first half, the resumption of loan repayments, the pre-financing of the Christmas business and capital expenditures. These factors will therefore also affect the holdings of cash and cash equivalents at the end of the financial year. Nonetheless, Gigaset continues to expect ample cash holdings at the end of the year, also in consideration of all outstanding payment obligations.

7.5 Executive Board's overall assessment of the Group's expected development

In view of the direct effects of the coronavirus pandemic and Gigaset's dependence on external factors that are not under its control (i.e. government decisions regarding stay-at-home orders, business and border closures and the duration and further progression of the pandemic itself), the company will not provide a detailed forecast for 2020 because a reliable forecast would not be possible due to the unprecedented nature of the situation.

As a consequence of the crisis, however, a general reduction of relevant key indicators compared to the prior year is expected.

Bocholt, September 24, 2020
The Executive Board of Gigaset AG

Klaus Weßing, CEO Thomas Schuchardt, CFO

8 CONSOLIDATED INCOME STATEMENT[30]

EUR'000	Q2 2020 4/1 - 06/30/2020	Q2 2019 4/1 - 06/30/2019	1st half 2020 1/1 - 06/30/2020	1st half 2019 1/1 - 06/30/2019
Revenues	43,458	61,252	75,846	107,068
Change in inventories of finished and unfinished goods	-4,080	-1,160	-1,684	-3,000
Purchased goods and services	-19,278	-29,099	-37,837	-50,026
Gross profit	**20,100**	**30,993**	**36,325**	**54,042**
Other internal production capitalized	1,924	1,842	4,142	3,339
Other operating income	2,904	6,437	6,013	9,290
Personnel expenses	-13,596	-14,422	-29,486	-29,268
Other operating expenses	-11,882	-16,317	-24,981	-30,742
EBITDA	**-550**	**8,533**	**-7,987**	**6,661**
Depreciation and amortization	-3,702	-3,482	-7,725	-6,984
EBIT	**-4,252**	**5,051**	**-15,712**	**-323**
Other interest and similar income	8	1,290	190	1,297
Interest and similar expenses	-279	-348	-637	-705
Financial result	**-271**	**942**	**-447**	**592**
Result from ordinary activities	**-4,523**	**5,993**	**-16,159**	**269**
Income taxes	1,290	-1,441	4,863	198
Consolidated net income/ loss for the year	**-3,233**	**4,552**	**-11,296**	**467**
Earnings per share				
– Undiluted (Basic) in EUR	-0.03	0.03	-0.09	0.00
– Diluted in EUR	-0.03	0.03	-0.09	0.00

[30] The consolidated income statement includes key figures that are not defined under IFRS

9 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR'000	Q2 2020 4/1 - 06/30/2020	Q2 2019 4/1 - 06/30/2019	1st half 2020 1/1 - 06/30/2020	1st half 2019 1/1 - 06/30/2019
Consolidated net income/ loss for the year	**-3,233**	**4,552**	**-11,296**	**467**
Items that may possibly be reclassified to profit or loss at a later time				
Currency translation differences	-97	-65	-437	-65
Cashflow hedges	-566	-944	-53	-541
Income taxes recognized on these items	180	300	17	172
Items that will not be reclassified to profit or loss at a later time				
Revaluation effect, net debt of defined benefit pension plans before income taxes	-2,617	-5,876	-2,617	-12,945
Financial instruments at fair value through other comprehensive income (FVOCI)	-100	-900	100	-700
Income taxes recognized on this item	832	1,869	832	4,117
Total changes not recognized in profit or loss	**-2,368**	**-5,616**	**-2,158**	**-9,962**
Total income and expenses recognized	**-5,601**	**-1,064**	**-13,454**	**-9,495**

10 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

EUR'000	06/30/2020	12/31/2019
ASSETS		
Noncurrent assets		
Intangible assets	35,661	33,757
Property, plant and equipment	22,135	23,284
Right of use assets	3,406	4,331
Financial assets	7,786	7,686
Deferred tax assets	15,170	9,374
Total noncurrent assets	**84,158**	**78,432**
Current assets		
Inventories	34,854	35,246
Trade receivables	25,016	45,417
Other assets	14,877	26,670
Tax refund claims	392	293
Cash and cash equivalents	28,920	36,557
Total current assets	**104,059**	**144,183**
Total assets	**188,217**	**222,615**

EUR'000	06/30/2020	12/31/2019
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 equity	-282,422	-268,968
Total equity	**5,089**	**18,543**
Noncurrent liabilities		
Pension obligations	97,780	92,501
Provisions	2,571	2,983
Financial liabilities	12,280	10,176
Lease liabilities	2,112	2,827
Deferred tax liabilities	898	760
Total noncurrent liabilities	**115,641**	**109,247**
Current liabilities		
Provisions	10,114	14,770
Financial liabilities	5,022	5,724
Lease liabilities	1,572	1,563
Trade payables	33,410	51,247
Tax liabilities	4,471	4,945
Other liabilities	12,898	16,576
Total current liabilities	**67,487**	**94,825**
Total equity and liabilities	**188,217**	**222,615**

11 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	EUR'000	Subscribed capital	Additional paid-in capital	Retained earnings	Accumulated other comprehensive equity	Consolidated equity
	December 31, 2018	**132,456**	**86,076**	**68,979**	**-262,490**	**25,021**
1	Consolidated net income 2019	0	0	0	467	467
2	Currency translation differences	0	0	0	-65	-65
3	Cashflow hedges	0	0	0	-369	-369
4	Financial instruments measured at fair value through other comprehensive income (FVOCI)	0	0	0	-700	-700
5	Revaluation effects from defined benefit pension plans	0	0	0	-8,828	-8,828
6	Total changes not recognized in profit or loss	0	0	0	-9,962	-9,962
7	**Total net income (1+6)**	**0**	**0**	**0**	**-9,495**	**-9,495**
	June 30, 2019	**132,456**	**86,076**	**68,979**	**-271,985**	**15,526**
	December 31, 2019	**132,456**	**86,076**	**68,979**	**-268,968**	**18,543**
1	Consolidated loss 2020	0	0	0	-11,296	-11,296
2	Currency translation differences	0	0	0	-437	-437
3	Cashflow hedges	0	0	0	-36	-36
4	Financial instruments measured at fair value through other comprehensive income (FVOCI)	0	0	0	100	100
5	Revaluation effects from defined benefit pension plans	0	0	0	-1,785	-1,785
6	Total changes not recognized in profit or loss	0	0	0	-2,158	-2,158
7	**Total net income (1+6)**	**0**	**0**	**0**	**-13,454**	**-13,454**
	June 30, 2020	**132,456**	**86,076**	**68,979**	**-282,422**	**5,089**

12 CONSOLIDATED STATEMENT OF CASHFLOWS

EUR'000	1/1 - 06/30/2020	1/1/ - 06/30/2019
Result from ordinary activities	**-16,159**	**269**
Depreciation and amortization of property, plant and equipment and intangible assets	7,725	6,984
Increase (+) / decrease (-) in pension provisions	2,662	-89
Gain (-) / loss (+) on the sale of noncurrent assetes	-37	-9
Gain (-) / loss (+) from currency translation	751	-377
Net interest income	447	-592
Interest received	183	1,263
Income taxes paid	-495	-6,574
Increase (-) / decrease (+) in inventories	392	-381
Increase (-) / decrease (+) in trade receivables and other assets	32,141	13,285
Increase (-) / decrease (+) in trade payables, other liabilities and other provisions	-28,510	-14,192
Increase (-) / decrease (+) in other items of the statement of financial position	-1,010	242
Cash inflow (+) /outflow (-) from operating activities (net cashflow)	**-1,910**	**-171**
Proceeds from the sale of noncurrent assets	18	9
Payments of investments in noncurrent assets	-5,458	-6,592
Cash inflow (+)/outflow (-) from investing activities	**-5,440**	**-6,583**
Free cashflow	**-7,350**	**-6,754**
Cashflows from the borrowing (+)/ repayment (-) of current financial liabilities	-548	71
Cashflows from the borrowing of noncurrent financial liabilities	1,950	0
Payments for lease liabilities	-897	-648
Interest paid	-604	-721
Cash inflow (+)/outflow (-) from financing activities	**-99**	**-1,298**
Cash and cash equivalents at beginning of period	34,015	33,870
Changes due to exchange rate differences	-188	28
Cash and cash equivalents at beginning of period, measured at prior-year closing exchange rate	34,203	33,842
Increase (-)/ decrease (+) in restricted cash	791	617
Change in cash and cash equivalents	-7,449	-8,052
Cash and cash equivalents at end of period	**27,357**	**26,435**
Restricted cash	1,563	2,480
Cash and cash equivalents per statement of financial position	**28,920**	**28,915**

13 NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2020

1. General information regarding accounting policies

The preparation of Gigaset AG's consolidated financial statements as of June 30, 2020, and the presentation of comparative year-ago figures were carried out in compliance with the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) adopted and published by the International Accounting Standards Board (IASB) and their interpretation by the Standard Interpretations Committee (SIC) and International Financial Reporting Standards Interpretations Committee (IFRS IC) as they apply in the EU. Accordingly, this unaudited and unreviewed Interim Financial Report as of June 30, 2020, was prepared in accordance with IAS 34. The applied accounting standards correspond to the standards that were already applied in the consolidated financial statements for 2019. In addition, the following new and revised standards were applied in the Gigaset group for the consolidated interim financial statements for the period ended June 30, 2020; however, these standards do not have a material influence on the Group's net assets, financial position or results of operations and provide a true and fair view of the Company:

- Amendments to the Conceptual Framework for Financial Reporting
- Amendments to IFRS 3: Definition of Business
- Amendments to IAS 1/IAS 8: Definition of Material
- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform

In the second quarter of 2020, the IASB published an amendment to IFRS 16 in connection with changes in the area of leases due to Covid-19. These simplifications for lessees with respect to the treatment of rent concessions that were granted as a consequence of the Covid-19 pandemic were not yet adopted into European law before the publication of this interim report and were therefore not to be applied.

The Notes to the 2019 Consolidated Financial Statements apply accordingly in particular with respect to the major accounting policies adopted. The consolidated financial statements are prepared under the premise that the Company will continue as a going concern.

2. Effects of Covid-19 on the interim financial statements

The Covid-19 pandemic and the actions taken by governments and by the Group had the following effects on the accounting in these consolidated financial statements for the period ended June 30, 2020:

2.1 Going concern (IAS 1)

The Covid-19 pandemic severely limited the sale of products for Gigaset on a temporary basis; however, consumer demand is expected to recover soon. The Group's liquidity situation appears to be very stable despite the effects of the pandemic. Despite the clearly negative earnings situation, Gigaset has sufficient freely disposable liquidity in the amount of EUR 27.4 million (PY: EUR 26.4

million). The statement of cashflows also shows that, at EUR -7.4 million, the free cashflow is nearly at the prior year's level (PY: EUR -6.8 million) despite the coronavirus situation. In our experience, this financial indicator is usually negative at the half-year due to seasonal fluctuations. Based on the recovery in consumption and the associated positive revenue trend as well as the availability of liquid resources, the Gigaset Group prepared its interim financial statements for the period ended June 30, 2020, under the assumption that the Company will continue as a going concern.

2.2 External debt financing

An agreement was reached with the banks to defer the repayment of principal for six months from March to August in order to secure liquidity. Please refer to Section 7 Financial liabilities for further details.

Gigaset currently assumes that it will not be able to comply with the financial covenants agreed under the loan for the current financial year due to the effects of the Covid-19 pandemic. In this context, the Executive Board obtained a one-time only suspension of the option to call in the loan available to the banks in the event that the agreed financial covenants are not met. An adjustment of the financial covenants will be negotiated by the end of the current financial year.

2.3 Trade receivables: Expected credit losses (IFRS 9)

So far, no noteworthy credit risks have arisen for the Gigaset Group due to customer insolvencies in the current financial year. In principle, credit risks can be avoided to a large extent based on factoring alone. Additional loan loss provisions have been recognized as of June 30, 2020, in accordance with IFRS 9 for major subsidiaries that do not engage in factoring in order to take into account the elevated credit risk as a consequence of rising customer insolvencies due to the Covid-19 pandemic. For this purpose, macroeconomic expectations regarding the historical probabilities of default were factored into the assessment of the probability of default.

2.4 Test of impairment losses on non-financial assets (IAS 36)

In accordance with IAS 36, all non-financial assets that fall under the scope of application are to be tested at every balance sheet date to determine whether there is any indication of impairment. Without a doubt, such indication of impairment is present as a result of the collapse in revenues and sales described at the beginning of this Section, as the previous underlying corporate planning regarding the determination of the recoverable amount is no longer accurate.

Gigaset examined the recoverability of its assets as of the balance sheet date June 30, 2020, on the basis of corporate planning adjusted for the effects of Covid-19, whereby Gigaset considers the Covid-19 crisis in 2020 to be a non-recurring shock situation from which the economy and consumption will subsequently recover without any lingering effects. The Executive Board of Gigaset AG expects that this event will postpone the development of the business and the planned growth by one to two years. However, there are also new positive signals for the corporate planning as a result of the resurgent use of fixed-line telephony, the expansion and acceptance of home offices, etc.

The capital costs and the derivation of the weighted average cost of capital (WACC) were updated to reflect the effects of the novel coronavirus.

The updating of the WACC shows no material effects on the weighted average costs of capital compared with December 31, 2019. Various parameters merely exhibit differing trends with no effect on the end result.

The internally generated intangible assets accounted for in accordance with IAS 38 as own work capitalized were likewise included in the impairment testing, whereby the profitability of the individual projects was assessed on the basis of the respective business cases.

In the end, the carrying amounts for all material assets were confirmed on the basis of the updated impairment tests as of June 30; consequently, no additional impairment was recognized.

Further scenarios with negative effects were calculated for the respective assets due to the currently difficult forecasts and estimates. For example, alternative calculations were made in additional scenarios with discounts on the annually planned cashflows. This also did not lead to a need to recognize impairment losses on the assets.

2.5 Government grants (IAS 20)

Gigaset reacted promptly to the closing of stores in March and the associated sharp drop in demand with short-time working hours for all employees in Germany. The capacities were temporarily ramped down in particular in the production and logistics. Short-time working schemes have also been implemented in the subsidiaries in Austria and Italy in order to adjust the personnel costs during the Covid-19 pandemic.

The Gigaset Group recorded personnel cost savings of EUR 0.9 million during the first half of 2020 thanks to the short-time working schemes. The claim to the reimbursement of social security contributions is presented in accordance with IAS 20.3 as a grant related to income and shown as a net amount offset with the expenses (IAS 20.29). A receivable from the German Federal Employment Agency (Bundesagentur für Arbeit) was recognized for this claim as well as for the short-time allowances advanced to the employees.

In June 2020, Gigaset's French subsidiary was granted a loan in the amount of EUR 2.0 million. The French government extended the loan interest-free in order to bridge the economically difficult situation exacerbated by the coronavirus. It is to be repaid after 12 months in a lump sum. The loan was initially measured at fair value in accordance with IFRS 9 and accounted for as a financial liability. It will be subsequently measured at amortized cost.

Various subsidiaries received emergency relief in the form of small grants as part of government measures to counteract the effects of the coronavirus; these grants bolstered their liquidity and were recorded as other operating income in accordance with IAS 20.29.

2.6 Income taxes (IAS 12)

Deferred tax assets were also tested for impairment as of the balance sheet date. In this context, Gigaset scrutinized the likelihood of utilizing tax loss carryforwards in future periods by means of the updated corporate planning. According to this examination, the temporarily recognized deferred taxes can be utilized to their full extent to offset future profits; consequently, there is no impairment loss associated with the deferred taxes recognized as of June 30, 2020.

The tax rates to be applied as of June 30, 2020, have not changed since the end of the last financial year and will continue to be applied.

Public authorities and institutions are granting deferrals and deadline extensions in reaction to the Covid-19 pandemic. The Gigaset Group also took advantage of these measures. The majority of these measures relate to income taxes, value added taxes, import VAT and payroll taxes as well as social security contributions. The majority of the subsidiaries also took advantage of these measures in order to secure liquidity.

2.7 Measurement of inventories (IAS 2)

In summary, the valuation allowances on inventories have not increased substantially as of the balance sheet date. At EUR 6.2 million as of June 30, 2020, they only increased by EUR 0.2 million in the current financial year. On the contrary, the trend in the product areas is quite different.

Inventory levels for the Phones, Smart Home and Professional segments decreased significantly as of June 30, 2020, compared with December 31, 2019. It was possible to continue servicing demand with the existing inventory thanks to the short-time working scheme implemented in production; consequently, the risks previously identified in connection with the inventories also faded away with the reduction of the inventory levels. At EUR 3.9 million, the valuation allowance recognized is EUR 1.2 million lower than the amount recognized as of December 31, 2019.

The situation in the Smartphones segment is shaping up otherwise. The risks in this segment were measured at EUR 2.2 million and therefore increased by EUR 1.5 million compared with December 31, 2019. This can be attributed to the numerous returns on the part of distributors in the current financial year. As a result of the general uncertainty and the sharp decrease in sales as a consequence of the lockdown, smartphones already delivered to customers were taken back and returned to inventory. As a result of the reduced opportunity of a sell-off and lower sales prices, Gigaset increased the recognized valuation allowances accordingly in this segment.

2.8 Assumptions and estimates in the accounting treatment and measurement

All of the effects on the accounting described above were measured taking into account the full extent of facts and circumstances of which the Executive Board of Gigaset AG is currently aware. However, governments are imposing relevant measures on short notice as a result of the Covid-19 crisis in order to immediately counteract the impact of the virus that can have tremendous effects on the Group's business activities, its business environment, and in particular on consumers' shopping patterns. Therefore, reliable plans, in particular with respect to the sale of products, are currently very difficult to make and fraught with significant risks.

The Executive Board of the Gigaset Group drew up the premises and estimates without factoring in the possibility of a second pandemic wave. Another lockdown, for example in the fall or winter, would render all assumptions used in the corporate planning obsolete. All these assumptions are therefore fraught with a high level of uncertainty and can change at any time as a result of new developments in the pandemic situation. In summary, extensive new findings can arise quickly and frequently, which can have substantial effects in particular on the following assets:

- Non-financial assets (impairment test)
- Deferred tax assets (impairment test)
- Risks in the measurement of inventories
- Credit risks associated with trade receivables

This would in turn also have corresponding effects on the Group's overall financial performance, cashflows and financial position.

3. Seasonal effects

The Gigaset Group's core business is subject to distinct seasonal fluctuations due to consumer behavior that varies regularly over the course of a calendar year. The highest revenues are realized during the Christmas shopping season, which is why the fourth quarter is traditionally very strong. In contrast, the first quarter serves the restocking of warehouses following the Christmas business and in our experience fluctuates around the same level as the third quarter. Sales for the Christmas season are already affecting inventory levels in the warehouses of distributors and retailers beginning in the third quarter; however, July and August count among the weak summer months with a typically low propensity to spend on the part of consumers. In light of this, the third quarter is normally weaker than the fourth. The second quarter is already characterized by seasonal consumer restraint in the early summer months of May and June; at the same time, distributors and retailers are adjusting their inventory levels to the weak summer months. Therefore, the second quarter is traditionally the weakest revenue quarter of the entire financial year. In addition to the traditional general seasonal fluctuations, there are country and region-specific seasonalities, such as sales promotions related to specific trade fairs[31] (e.g. CEBIT, IFA), back-to-school activities, and the Chinese New Year.

[31] Due to the corona pandemic, no trade fairs were held in the reporting period for 2020.

Due to the global Covid-19 pandemic in 2020, the current reporting period is highly influenced by the measures implemented by governments to counter the novel coronavirus. Beginning in May it was virtually impossible to place and sell products on the market as a result of the lockdowns imposed on Gigaset's most important markets and the related store closings in effect since March as well as the slow pace in which such measures have been eased by public authorities. Consequently, shopping patterns were interrupted abruptly and as a result revenues could only be generated by way of e-commerce for a while. Insofar, the normal seasonal course in 2020 has also been characterized by unprecedented government actions.

4. Notes on financial instruments

The overview of financial assets and liabilities with supplementary information regarding the carrying amount as well as the fair value is presented below analogous to the presentation in the consolidated financial statements for the period ended December 31, 2019.

Carrying amounts, measurement methods and fair values by measurement category in EUR'000	Measurement categories per IFRS 9	Carrying amount 06/30/2020	Fair value 06/30/2020	Amortized cost	Fair value recognized in equity without subsequent reclassifica-tion to the income statement	Fair value through profit and loss	Hedge Accounting	Statement of financial position measurement method per IFRS 16
Assets								
Noncurrent assets								
Financial assets	FVOCI	7,786	7,786	0	7,786	0	0	0
Current assets								
Trade receivables	AC	6,010	6,010	6,010	0	0	0	0
	FVPL	19,006	19,006	0	0	19,006	0	0
Other assets	AC, FVPL	9,642	9,642	9,569	0	0	73	0
Cash and cash equivalent	AC	28,920	28,920	28,920	0	0	0	0
Liabilities								
Noncurrent liabilities								
Financial liabilities	AC	12,280	12,002	12,280	0	0	0	0
Lease liabilities	Leases	0	0	0	0	0	0	2,112
Current liabilities								
Current financial liabilities	AC	5,022	5,452	5,022	0	0	0	0
Current lease liabilities	Leases	0	0	0	0	0	0	1,572
Trade payables	AC	33,410	33,410	33,410	0	0	0	0
Other liabilities	AC, FVPL	560	560	138	0	169	253	0

Carrying amounts, measurement methods and fair values by measurement category in EUR'000	Measurement categories per IFRS 9	Carrying amount 06/30/2020	Fair value 06/30/2020	Amortized cost	Fair value recognized in equity without subsequent reclassification to the income statement	Fair value through profit and loss	Hedge Accounting	Statement of financial position measurement method per IFRS 16
Thereof aggregated by measurement categories in EUR'000								
Financial assets								
At amortized cost (AC)		44,499	44,499	0	0	0	0	0
At fair value through other comprehensive income (FVCOI)		7,786	7,786	0	0	0	0	0
At fair value through profit or loss (FVPL)		19,006	19,006	0	0	0	0	0
Financial assets (hedging)		73	73	0	0	0	0	0
Financial liabilities								
At amortized cost (AC)		50,850	51,002	0	0	0	0	0
At fair value through profit or loss (FVPL)		169	169	0	0	0	0	0
Financial liabilities (hedging)		253	253	0	0	0	0	0

Carrying amounts, measurement methods and fair values by measurement category in EUR'000	Measurement categories per IFRS 9	Carrying amount 12/31/2019	Fair value 12/31/2019	Amortized cost	Fair value recognized in equity without subsequent reclassifica-tion to the income statement	Fair value through profit and loss	Hedge Accounting	Statement of financial position measurement method per IFRS 16
Assets								
Noncurrent assets								
Financial assets	FVOCI	7,686	7,686	0	7,686	0	0	0
Current assets								
Trade receivables	AC	21,944	21,944	21,944	0	0	0	0
	FVPL	23,473	23,473	0	0	23,473	0	0
Other assets	AC, FVPL	15,394	15,394	15,394	0	0	0	0
Cash and cash equivalents	AC	36,557	36,557	36,557	0	0	0	0
Liabilities								
Noncurrent liabilities								
Financial liabilities	AC	10,176	10,126	10,176	0	0	0	0
Lease liabilities	Leases	0	0	0	0	0	0	2,827
Current liabilities								
Current financial liabilities	AC	5,724	6,170	5,724	0	0	0	0
Current lease liabilities	Leases	0	0	0	0	0	0	1,563
Trade payables	AC	51,247	51,247	51,247	0	0	0	0
Other liabilities	AC, FVPL	249	249	121	0	0	128	0

Carrying amounts, measurement methods and fair values by measurement category in EUR'000	Measurement categories per IFRS 9	Carrying amount 12/31/2019	Fair value 12/31/2019	Amortized cost	Fair value recognized in equity without subsequent reclassification to the income statement	Fair value through profit and loss	Hedge Accounting	Statement of financial position measurement method per IFRS 16
Thereof aggregated by measurement categories in EUR'000								
Financial assets								
At amortized cost (AC)		73,895	73,895	0	0	0	0	0
At fair value through other comprehensive income (FVCOI)		7,686	7,686	0	0	0	0	0
At fair value through profit or loss (FVPL)		23,473	23,473	0	0	0	0	0
Financial assets (hedging)		0	0	0	0	0	0	0
Financial liabilities								
At amortized cost (AC)		67,268	67,664	0	0	0	0	0
At fair value through profit or loss (FVPL)		0	0	0	0	0	0	0
Financial liabilities (hedging)		128	128	0	0	0	0	0

With the exception of noncurrent financial liabilities, the fair values of financial assets and liabilities as of June 30 essentially correspond to the carrying amounts. Changes were made compared with December 31 of the prior year with respect to current financial assets and current financial liabilities due to the expiration of currency hedging transactions and the conclusion of new currency hedging transactions as well as the change in maturity of an existing loan and the raising of a short-term loan. No changes were made to financial assets and liabilities existing at this time compared with the end of the year with respect to measurement and the fair value hierarchy.

Regarding the developments and changes with respect to the credit facilities already in place as of December 31, 2019, please refer to our comments regarding the effects of the Covid-19 pandemic in Section 2.2 External credit facility as well as our comments in Section 7 Financial liabilities.

On the reporting date, foreign currency derivatives were presented under Other current assets with a fair value of EUR 73 thousand and under Other current liabilities with a fair value of EUR 422 thousand. As of December 31, 2019, foreign currency derivatives were presented under Other current assets with a fair value of EUR 0 thousand and under Other current liabilities with a fair value of EUR 128 thousand.

As discussed in the 2019 consolidated financial statements, Gigaset applies the rules governing hedge accounting for the hedging of future purchases of merchandise. The existing currency futures contracts for which hedge accounting was applied satisfy the requirements of IFRS 9 for cashflow hedges. The risk management strategies and hedging documentation are adapted to the provisions of IFRS 9. The effectiveness was assessed when the hedging relationships were designated on the basis of a prospective test of effectiveness. This led to the finding that the defined hedging relationships are to be regarded as effective.

EUR 36 thousand (PY: EUR -369 thousand) was recognized in equity in the current period, taking deferred taxes into account.

As of the balance sheet date, there were 37 (December 31, 2019: 36) foreign exchange derivatives maturing in December 2021 with a notional value of USD 49.3 million (December 31, 2019: USD 27.0 million) to hedge the exchange rate of the U.S. dollar against the euro. Twenty-nine USD foreign exchange derivatives are structured as "plain vanilla" currency forwards. Seven USD foreign exchange derivatives are structured as foreign exchange option contracts and one USD foreign exchange derivative is structured as an automatic rolling EUR/USD collar. The rules governing hedge accounting were applied for 36 USD foreign exchange derivatives.

In accordance with IFRS 7.29, it is not necessary to indicate the fair value of current financial assets and liabilities if the carrying amount represents a reasonable approximation of the fair value. Gigaset presents the fair values in the preceding overviews for the sake of being thorough and to help the users of the financial statements to better understand the accounting, but it does not provide a separate determination of the fair values, as the carrying amounts are applied as a reasonable approximation of the fair values. Therefore a separate presentation breaking down the fair values determined for the financial assets and liabilities based on hierarchy levels for the first half of 2020 is not provided for these line items in the table below:

06/30/2020		Hierarchy level			
EUR'000	**Category**	**1**	**2**	**3**	**Total**
Financial assets					
Noncurrent financial assets	FVOCI	0	0	7,786	7,786
Derivative financial instruments	Hedging	0	73	0	73
Financial liabilities					
Noncurrent and current financial liabilities	AC	0	17,454	0	17,454
Derivative financial instruments	FVPL/ Hedging	0	422	0	422

12/31/2019		Hierarchy level			
EUR'000	**Category**	**1**	**2**	**3**	**Total**
Financial assets					
Noncurrent financial assets	FVOCI	0	0	7,686	7,686
Derivative financial instruments	Hedging	0	0	0	0
Financial liabilities					
Noncurrent and current financial liabilities	AC	0	16,296	0	16,296
Derivative financial instruments	FVPL/ Hedging	0	128	0	128

The fair value of derivative financial instruments was calculated using present value and option pricing models. To the extent possible, the relevant market prices and interest rates observed on the balance sheet date that were taken from generally accepted external sources were used as input parameters for these models. In accordance with IFRS 13, the determination of fair value is to be categorized within Level 2 of the fair value hierarchy.

Obligations under leases do not fall under the scope of application of IFRS 9 and are therefore disclosed separately.

Noncurrent financial assets include the carrying amount of the interest in Gigaset Mobile Pte. Ltd., Singapore, which was assigned to the category "At fair value through other comprehensive income (FVOCI)". Since the shares of Gigaset Mobile Pte. Ltd. are equity instruments, Gigaset has elected in accordance with IFRS 9.5.7.5 to assign this financial asset irrevocably to the category "At fair value through other comprehensive income (FVOCI)". A multiple-based approach was used as of the transition date January 1, 2018, based on the information available for the valuation. Since no special peer group could be defined for Gigaset Mobile Pte. Ltd., Gigaset's peer group was applied. The fair market value of Gigaset's 14.98 % interest was determined based on a revenue multiple of 0.33 and the average revenues for the years 2014 to 2017, whereas the revenues for 2017 are not based on the Company's actual figures, but instead on the most recently available values taken from the planning figures of Gigaset Mobile Pte. Ltd. In accordance with IFRS 13, the determination of fair value was to be categorized within Level 3 of the fair value hierarchy. New information was available from Gigaset Mobile Pte. Ltd. in financial years 2018 and 2019. Since no current budgets have been prepared, Gigaset decided to measure the fair value on the basis of the Company's most recently audited annual financial statements and the claim to a proportionate share of the equity based on these financial statements. Due to the fact that the Company conducts its operations in a foreign currency, the effects of evolving exchange rates also had to be subsequently taken into account over the course of the year. No new information was available in 2020. Therefore, for the first half of the year, only the effect of exchange rates – which were recognized directly in other comprehensive income due to the classification as FVOCI – was taken into account. In accordance with IFRS 13, the determination of fair value is to be categorized within Level 3 of the fair value hierarchy. If the equity of Gigaset Mobile Pte. Ltd. were to change by 10 %, the claim to a proportionate share of Gigaset's equity derived therefrom would also change by 10 %. The development of noncurrent financial assets can be broken down as follows:

EUR'000	2020	2019
Value at 1/1	**7,686**	**8,686**
Impairment (not affecting net income)	0	-1,159
Foreign currency effects (not affecting net income)	100	159
Value at 06/30/20 and 12/31/19	**7,786**	**7,686**

Cash and cash equivalents, trade receivables, and current financial assets have short remaining terms. Therefore, the carrying amounts as of the balance sheet date approximate the fair value.

Trade payables and current financial liabilities are due in full within one year. Thus, the nominal value or repayment amount approximates the fair value.

The fair values of other noncurrent financial assets and liabilities with remaining terms of more than one year correspond to the present values of the payments associated with the assets and liabilities under consideration of the respectively current interest parameters, which reflect the currency, interest rate and partner-related changes in terms and conditions. In accordance with IFRS 13, the determination of fair value is to be categorized within Level 2 of the fair value hierarchy.

5. Pension obligations and deferred tax assets

The pension obligations have increased by EUR 5.3 million to EUR 97.8 million as of the balance sheet date June 30, 2020. The obligations from pensions were adjusted on the basis of the relevant interest rate level current as of June 30, 2020, using an approximation method. Due to a decrease in the relevant interest rate level from 1.05 % on December 31, 2019, to 0.96 % as of June 30, 2020, there was an increase in pension obligations from this effect in the amount of EUR 2.6 million and an associated increase in deferred tax assets in the amount of EUR 0.8 million. The change in plan assets for the pension obligations led to an increase of EUR 2.7 million in the reporting period.

6. Provisions

Current provisions decreased compared with December 31, 2019, from EUR 14.8 million to EUR 10.1 million, which can be attributed mainly to the decrease of EUR 2.4 million in provisions for customer discounts and the decrease of EUR 1.2 million in provisions for license fees. At EUR 2.6 million, noncurrent provisions decreased by EUR 0.4 million, which was driven primarily by provisions for partial retirement.

7. Financial liabilities

In 2018 the Group entered into a credit facility for up to EUR 20.0 million. The outstanding loan amounted to EUR 15.9 million on December 31, 2019. Since the tax liabilities turned out to be lower than originally planned, Gigaset was not compelled to draw down the full amount of the loan. The maximum credit volume of originally up to EUR 20.0 million was frozen at EUR 15.9 million. However, at the same time, the loan term was extended by two years in order to lighten the burden on Gigaset's liquidity.

The repayment of the loan principal initially began in January 2020, but a repayment deferral from March through August 2020 was agreed due to the Covid-19 situation in order to secure the Gigaset Group's liquidity during the pandemic. The loan term was left unchanged as monthly payments to be made until October 2024 in connection with the change in the repayment agreement. Thus, the repayment rate will increase accordingly for the period beginning September 2020.

The loan volume as of June 30, 2020, amounts to EUR 15.4 million and can be broken down into a portion amounting to EUR 3.1 million maturing in less than one year and a portion amounting to EUR 12.3 million maturing in over one year and in less than five years. The loan is denominated in euros, bears fixed interest at an effective annual rate of 3.98 %, and is measured at amortized cost. Thus, it has no effect on the position of the Group with respect to currency risk and the risk of changing interest rates.

In the course of government measures to combat the economic effects of the coronavirus, the French subsidiary received an interest-free loan in the amount of EUR 2.0 million with a term of 12 months in order to secure its liquidity. It must be repaid in full upon maturity. The initial measurement was carried out at fair value in accordance with IFRS 9 and accounted for as a short-term financial liability. Subsequent measurement will be carried out at amortized cost.

8. Revenues

Revenues are generated through activities in the four segments: Phones, Professional, Smart Home and Smartphones. The core business is established in the Phones segment and focuses on DECT cordless telephones. The Professional segment includes the corporate customer segment with an extensive offering of corded desk telephones and mobile components. The customers are small and medium-sized enterprises (SMEs). These commercial products are distributed exclusively over system vendors (value-added resellers, VaR). The Smart Home segment sells security and alarm solutions for private households that enable users to maintain a constant connection with their home via smartphone and supported by the cloud. The segment for mobile devices (Smartphones) comprises a product portfolio ranging from the entry-level segment to feature-rich smartphones. Observed on a global basis, revenues are broken down by geographic segments that can be found in the segment reporting. Revenues are normally realized in the short term and the payment obligations relate to a specific time based on the current business model.

The development of revenues is shown below:

Revenues in EUR millions	**Q1 - Q2 2020**	**Q1 - Q2 2019**	**Change in %**
Phones	56.7	76.4	-25.8
Smartphones	0.2	4.2	-95.2
Smart Home	1.3	1.6	-18.8
Professional	17.6	24.9	-29.3
Gigaset Total	**75.8**	**107.1**	**-29.2**

For further information regarding the individual product areas, please refer to the comments in the group management report.

9. Other operating income

Other operating income amounts to EUR 6.0 million in the reporting period after EUR 9.3 million in the prior year. Other operating income mainly includes realized and unrealized foreign exchange gains in the amount of EUR 1.8 million (PY: EUR 1.6 million), income from the reversal of provisions in the amount of EUR 1.0 million (PY: EUR 1.0 million) and income from the reversal of impairment losses on trade receivables in the amount of EUR 0.8 million (PY: EUR 0.0 million) as well as other operating income in the amount of EUR 3.3 million in 2019 as a result of the positive outcome of the legal dispute against SKW.

10. Personnel expenses

Personnel expenses increased in the first half of 2020 by EUR 0.2 million to EUR 29.5 million , which can be attributed to expenses in connection with the valuation of plan assets for pensions in the first six months of 2020 at EUR 1.2 million (PY: income of EUR 1.6 million). Expenses for wages and salaries decreased by EUR 2.1 million to EUR 22.1 million compared with the prior-year period. The introduction of short time work beginning in April 2020 as a consequence of the collapse in consumption as a result of the Covid-19 pandemic was substantially responsible for this.

11. Other operating expenses

Other operating expenses in the 2020 reporting period amount to EUR 25.0 million after EUR 30.7 million in the prior year. The decrease in expenses resulted in particular from the cost reductions for marketing expenses in the amount of EUR 4.1 million, expenses for land and buildings in the amount of EUR 0.7 million, license fees in the amount of EUR 0.6 million, expenses from employee leasing in the amount of EUR 0.5 million, and travel expenses in the amount of EUR 0.5 million. These lower expenses are offset primarily by higher expenses from foreign-exchange losses in the amount of EUR 0.9 million.

12. Net interest income

Net interest income comprises other interest and similar income in the amount of EUR 0.2 million (PY: EUR 1.3 million) and interest and similar expenses of EUR 0.6 million (PY: EUR 0.7 million).

Interest income in 2019 includes extraordinary interest income in the amount of EUR 1.3 million due to the positive outcome of the legal dispute with SKW.

Interest expenses comprise primarily the interest paid in the amount of EUR 0.4 million (PY: EUR 0.3 million) in connection with the credit facility entered into in 2018 as well as interest in the amount of 0.2 million (PY: EUR 0.2 million) in connection with factoring.

13. Segment report

The presentation of segment reporting is based on geographic segments corresponding to the internal reporting. The holding company is presented separately from Gigaset's operating activities. Within the operating activities, the regions "Germany", "EU", and "Rest of World" are differentiated for the geographic areas. The reportable EU segment includes several geographic areas that were aggregated into this segment, including the geographic area "France" as an operating segment. The individual segments were aggregated into the EU segment, because the products and services sold, the customer structures, the distribution structures, and the regulatory environment are comparable. With respect to economic criteria, the aggregation was carried out based on comparable gross margins in the individual geographic areas.

The subsidiary Gigaset Communications UK Ltd. was assigned to the Rest of World segment beginning in February 2020 as a result of Brexit on January 31, 2020. It belonged to the Europe (EU) segment until the end of January 2020 based on the UK’s membership in the European Union. The year-ago figures were adjusted correspondingly for comparison purposes.

The geographic regions of Gigaset, whose main activities lie in the area of communications technology, include the following:

- Germany

  The geographic area "Germany" includes the operating activities in Germany.

- EU

  The geographic area "EU" (European Union) includes the operating activities in Poland, Austria, France, Italy, the Netherlands, Spain, Sweden, and the UK (until January 2020).

- Rest of World

  The geographic area "Rest of World" includes the operating activities in the UK (beginning February 2020), Switzerland, Turkey, Russia, and China.

Transfer pricing between the segments corresponds to the prices that are also realized with third parties. The cost of administrative services is passed on by way of cost allocation.

The relevant segment result is EBITDA.

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

Revenues in the following table are classified based on the regions of the receiving units as defined in IFRS 8.33 a) and are presented as follows for financial year 2020 and the comparison period:

Revenues in EUR millions	**Q1 - Q2 2020**	**Q1 - Q2 2019[1]**
Germany	32.6	48.9
France	10.5	17.5
Europe (excluding Germany and France)	26.8	32.0
Rest of World	5.9	8.7
Total	**75.8**	**107.1**

[1] The prior-year figures were reclassified to Rest of World for comparison purposes due to the United Kingdom's exit from the EU.
In addition, the segments Europe and Rest of World were defined differently in the prior year. Europe was defined as the countries of the European Union (EU). In 2020, the presentation was the same as in the annual report for 2019: Europe broken down by geographic countries. For comparison purposes, the prior-year figures were adjusted with respect to last year's interim report.

Revenues can be broken down primarily into revenues from the Phones segment in the amount of EUR 56.7 million (PY: EUR 76.4 million), from the Smartphone segment in the amount of EUR 0.2 million (PY: EUR 4.2 million) and from the Smart Home segment in the amount of EUR 1.3 million (PY: EUR 1.6 million) as well as from the Professional segment in the amount of EUR 17.6 million (PY: EUR 24.9 million).

The allocation to the individual geographical areas for the current segment reporting in the Group is also still based on the country in which the respective legal unit is domiciled. The following tables present revenues based on the country of domicile.

There were no major individual customers whose share of the revenues reached or exceeded 10 % of the total revenues either in the current year or in the prior year.

January 1 to June 30, 2020 in EUR millions	Germany	EU	Rest of World	Gigaset TOTAL	Holding company	Group
Revenues	40.3	26.0	9.5	75.8	0.0	75.8
Segment result / EBITDA	**-6.3**	**-0.1**	**-0.1**	**-6.5**	**-1.5**	**-8.0**
Depreciation and amortization	-7.1	-0.5	-0.1	-7.7	0.0	-7.7
EBIT	**-13.4**	**-0.6**	**-0.2**	**-14.2**	**-1.5**	**-15.7**
Other interest and similar expenses						0.2
Interest and similar expenses						-0.6
Financial result						**-0.4**
Result from ordinary activities						**-16.2**
Income taxes						4.9
Consolidated net income						**-11.3**

January 1 to June 30, 2019 in EUR millions	Germany	EU[2]	Rest of World[2]	Gigaset TOTAL	Holding company	Group
Revenues	55.9	38.5	12.7	107.1	0.0	107.1
Segment result / EBITDA	**3.1**	**0.9**	**0.5**	**4.5**	**2.1**	**6.7**
Depreciation and amortization	-6.5	-0.4	-0.1	-7.0	0.0	-7.0
EBIT	**-3.4**	**0.5**	**0.4**	**-2.5**	**2.1**	**-0.3**
Other interest and similar expenses						1.3
Interest and similar expenses						-0.7
Financial result						**0.6**
Result from ordinary activities						**0.3**
Income taxes						0.2
Consolidated net income						**0.5**

[2] The prior-year figures were reclassified to Rest of World for comparison purposes due to the United Kingdom's exit from the EU.

Any effects on earnings due to consolidations are assigned to the respective segments.

14. Cashflow statement

At EUR -1.9 million, the cashflow from operating activities trended slightly negative compared with EUR -0.2 million in the prior-year period. Whereas the amounts received from trade receivables, other receivables and other assets increased considerably by EUR 18.9 million to EUR 32.1 million, the increased amounts paid for trade liabilities, other liabilities and other provisions reduced the operating cashflows by EUR -14.3 million to EUR -28.5 million. The negative operating result likewise contributed to a reduction in the cashflow from operating activities.

The cashflow from investing activities increased year-on-year by EUR 1.1 million to EUR -5.4 million in the current year, which can be attributed primarily to lower capital expenditures for noncurrent assets.

At EUR -0.1 million, the cashflow from financing activities developed better than the prior-year amount of EUR -1.3 million. The key driver here was the payment of the EUR 2.0 million borrowed by the French subsidiary. However, this was offset by higher amounts paid out as a result of the repayment initiated in 2020 of the credit facility raised in 2018.

15. Disclosures concerning dealings with related parties

They were essentially no changes in the related parties presented on page 158 ff. in the annual report for 2019.

Only Gigaset Mobile Europe GmbH notified the Company by way of announcement in the commercial register dated March 3, 2020, that it was in the liquidation phase.

No further transactions were executed with the remaining related parties in the reporting period of January to June 2020 and the balances also remain unchanged. No transactions were entered into in the first half of 2020 between the Group and other related parties.

16. Significant events after the reporting date

Please refer to the comments in the combined management report regarding significant events after the reporting date.

Responsibility statement

"To the best of our knowledge and in accordance with the required accounting principles, the interim consolidated financial statements provide a true and fair view of the cashflows, financial position and financial performance of the Group, and the interim combined management report provides a true and fair view of the Group's performance and situation, along with a fair description of the principal opportunities and risks of the Group's future development."

Bocholt, September 24, 2020
The Executive Board of Gigaset AG

Klaus Weßing, CEO Thomas Schuchardt, CFO

FINANCIAL CALENDAR 2020

(Remaining)[32]

November 26, 2020 Interim financial report for Q3 2020

Notes

This interim financial report is not certified. It contains statements and information from Gigaset AG relating to future periods. These statements regarding the future represent estimates that were made based on all information available when the interim financial report was prepared. If the assumptions underlying the forecasts should prove inaccurate, the actual developments and results can deviate from current expectations. The Company does not accept any responsibility to update the statements included in this interim financial report outside of the provisions governing publication stipulated under the law.

The amounts and percentages stated in this interim report are rounded to the nearest whole number; consequently, minor rounding differences can arise as a result.

This English interim report of Gigaset AG can be viewed and downloaded just as the report in German on Gigaset AG's homepage (http://www.gigaset.ag). When in doubt in the event of minor differences in the contents as well as differences in the stated figures, the German version is authoritative.

[32] Subject to change

PUBLICATION DETAILS

Published by

Gigaset AG
Frankenstraße 2
46395 Bocholt, Germany

Phone: +49 (0) 2871/ 912 912
info@gigaset.com, www.gigaset.ag

Edited by

Gigaset AG
Investor Relations & Corporate Communications

Contact

Raphael Dörr
SVP Corporate Communications & Investor Relations | SVP Sponsoring

Gigaset AG
Bernhard-Wicki-Str. 5
80636 Munich, Germany
Phone: +49 (0) 89 / 444 456 866
Mail: info@gigaset.com