2012
ANNUAL REPORT

Gigaset

THE WAY AHEAD

Key Figures

EUR Million,	2008	2009	2010	2011	2012
Consolidated revenues	5,505.0	3,492.0	1,009.5	520.6	437.2
earnings before interest, taxes, depreciation and amortization (EBITDA)	111.5	17.7	0	50.9	-6.7
Earnings before interest and taxes (EBIT)	-115.5	-139.8	-86.8	22.0	-33.5
Consolidated net income/net loss for the financial year	-145.7	-153.0	-100.6	17.5	-30.7
Free cash flow	180.9	-68.9	-41.6	22.5	-32.9
Earnings per share (diluted) in EUR	-5.09	-5.51	-3.45	0.36	-0.61
Earnings per share in continuing operations	-5.34	-2.35	-0.26	0.41	-0.56
Total assets	1,719.0	658.0	345.6	311.4	294.0
Consolidated equity	266.4	121.5	35.0	76.2	45.2
Equity ratio (in %	15.5	18.5	10.1	24.5	15.4
Employees	13,455	5,049	2,333	1,875	1,743

CORDLESS VOICE

Gigaset is the European market, technology, and price leader in DECT telephony. In the 1990s, Gigaset played a decisive role in shaping the DECT standard. And we are still working on further developing numerous application possibilities today. There is a Gigaset telephone in every fourth household in Europe, in Germany even in every second household.

BUSINESS CUSTOMERS

With the "Gigaset pro" product line, Gigaset has created an attractive offering of cordless telephones, telephone systems, professional DECT systems, and handsets for small and medium-sized companies. The pro series offers both reliability and versatility, thereby addressing the daily needs of commercial users.

HOME NETWORKS

With "Gigaset elements", Gigaset is bringing to the market a sensor-based, modular system for networked living that can be expanded at any time, bringing modern individuals closer to their home – no matter where they might be at any given time.

1

Today, Gigaset is a company that operates internationally in the area of communications technology and is Europe's market, quality, and innovation leader for DECT telephones.

2

We are on the way from a pure hardware manufacturer to becoming a digital technology enterprise.

3

Gigaset is making networked home living affordable for the mass market **tomorrow**, thereby transforming the desire to know what is happening in our actual place of residence into a growth market that spans all of society.

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ONE HUNDRED & SIXTY SEVEN

YEARS AGO

the telegraph was invented and sparked a communications revolution. The world became smaller almost overnight. German engineers used the telegraph as a stepping stone to the future – the future was the telephone.

Consumer Products

The Consumer Products operating segment represents Gigaset AG's core business with its broad spectrum of cordless telephones. This category remains attractive for us. As the market leader in Europe and number two worldwide, we benefit from the sustained market consolidation. The three largest competitors already sell around two-thirds of the total volume led by Gigaset. The market share of "secondary brands", i.e. brands established in lower price segments, value brands and local suppliers continues to dwindle[1].

Gigaset AG's leading position in the market is an important advantage for the Company. We take advantage of our product portfolio's strengths as well as the geographical, logistical proximity to our core markets. In contrast, almost all of our competitors produce outside of Europe. Gigaset can deliver to even remote regions of Europe within three days. In addition, Gigaset realizes considerably higher average sales prices than the competition as a premium brand supported by a diverse product portfolio. Gigaset makes a decisive contribution to crowding out competitors and further increasing its market share with its strong brand and clear brand profile.

1) Source: MZA Shipment Review H1 2012 – published September 2012

OUR VALUES

DESIGN

Telephones used to be corded and purely functional devices located outside of one's actual living space. Nowadays, cordless telephones are "lifestyle" products and status symbols that have their place as designer objects in the heart of one's home.

According to MZA, brand and design are crucial factors determining the market in addition to the price of the device. Therefore, Gigaset offers a wide range of functional and ergonomic products that have received numerous awards. Superior design makes every Gigaset telephone unique and shows a clear focus on customers – regardless of whether it is a basic or premium product.

SIMPLE OPERATION

In a world of complex technologies, consumers want a device that is simple and intuitive to operate. Gigaset analyzes, identifies, and serves the needs of consumers by developing purely intuitive solutions with simple user interfaces, clear navigation, and simple operation.

THE SOUND

Gigaset makes a conscious decision to use only the best sound technology in the production of its products, because crystal-clear sound is crucial to experiencing perfect telephony. With HSP (High Sound Performance), Gigaset regularly sets standards with respect to sound quality. Gigaset also provides unrivaled high sound quality even with conversations over the Internet (VoIP) with HDSP (High Definition Sound Performance) and twice as much bandwidth as conventional telephone calls.

MADE IN GERMANY

German engineering is known around the world for high technological standards, above-average quality, and excellent manufacturing expertise. Gigaset also stands for consistently high quality "Made in Germany". Our factory in Bocholt has already won the "Factory of the Year" award three times. According to MZA, companies that produce in China or outsource production to China are struggling with rising production costs associated with higher personnel costs and a strong US dollar.

CONSISTENTLY HIGH QUALITY

All Gigaset products are designed and produced according to the highest standards of quality and technology. This means that every process, every component, and the work of all of our employees is characterized by a common goal: manufacturing products of the highest quality. Gigaset quality management has its own test laboratory in which our products are continuously tested in various stages of production. Numerous quality checks ensure our persistently high quality.

SUSTAINABILITY

Gigaset aims to keep its CO_2 footprint in the entire process chain – from production to packaging and logistics and beyond to waste products – as small as possible. Innovations in this area enable environmentally friendly and sustainable solutions. These include, for instance, the energy-saving mode "ECO DECT" or the radiation-free "ECO Mode Plus" with a reduction in radiation emitted of up to 100 %.

THE TRENDS

FEMALE SHIFT

Women's needs and their taste are one of the most important drivers in the sale of consumer goods. Women already purchase 80 % of all consumer goods in the USA and influence 90 % of all purchase decisions. This also includes consumer goods such as flat screen TVs, tablet PCs, and telephones. In the past year, women have invested more in technical devices than men.[2]

Criteria that influence women in their purchase decisions include simple operation and the design. Moreover, the products should make daily life easier.[3]

ANDROID – MORE THAN AN OPERATING SYSTEM

Android is both an operating system as well as a software platform for mobile devices such as smartphones, cell phones, netbooks, and tablet computers. It is free software with an open source developer code.

The market share of the Android smartphone operating system was 68.1 percent (Q2/2011: 47 percent) in the second quarter of 2012. In 2011, already 209 million smartphone owners used this operating system compared to around 120 million using the iOS operating system from Apple. In September 2012, 1.3 million new Android devices were activated every day.

There are around 700,000 apps for Android in the Google Play Store (as of November 2012). That means that there were almost as many Android apps available in the Google Play Store at that point in time as the current leading supplier on the market Apple.[4]

2) source: Consumer Electronic Association
3) Parks Associates, The Power of Women for Consumer Electronics
4) Source: Google Android-Statistica Dossier 2012

OUR ANSWERS

Gigaset places three elementary demands on each of its products: first-class design, superior quality, and technical innovation. Gigaset focused entirely on its white devices from February to April 2012 under the motto "White Living with Gigaset" – in part in the form of white product line variations and in part with special models and limited editions available only for a short time. The Gigaset L410 hands-free clip is one highlight of this action. Gigaset presented the winner of the reddot Design Awards SL910 just in time for Christmas in a limited special edition in white.

With the SL930, Gigaset presented the first prototype of an Android-based device at the 2012 IFA consumer electronics trade show in Berlin. The free software Android makes it possible for Gigaset to develop for the first time a standard platform for high-end products, base stations in the area of ISDN, IP/VoIP, and Android-based table-top devices and mobile components – both in the Consumer Products as well as the Business Customers segments. The goal is to optimize product costs by reusing individual components in multiple product points. Development and maintenance expenses are distributed over the largest possible product range. This clearly optimizes the costs per product. Our Android-based devices appeal to experienced smartphone users with access to thousands of apps. The SL930 will synchronize addresses, appointments, and notes directly with the cloud and enables efficient access to the Internet/e-mail as well as music and video streaming via WLAN. Synchronization with the Google Cloud is already possible with Gigaset Quick Sync software for many Gigaset mobile components.

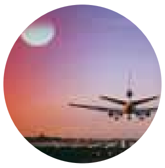
FOR

BUSINESS CUSTOMERS

Every company is unique, but we have the perfect solution for all of them. Regardless of whether a complete solution or components: Gigaset focuses on scalability, high flexibility, and compatibility.

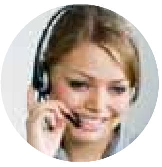
3 IN ONE

The telephone, cell phone, and PC. It is one thing to connect working devices with one another – our telephones ensure that they also communicate with one another. Because when you bundle things, you reach your goal with surprising ease.



23 AIRPORTS

were visited in 5 countries during our roadshow "Take off with Gigaset pro" and presented the entire Gigaset pro portfolio to professional traders. The action was part of the Gigaset Partner Program to support professional traders in their daily work.



60 % OF ALL

major companies have already recognized the advantages of the Internet for telephone conversations and switched their telephone system to Voice over IP. However, a company does not have to be large to take advantage of the benefits. Therefore, Gigaset appeals to small and medium-sized enterprises with up to 100 participants.

The Business Customers segment is divided into two divisions: The area for our so-called customer-specific products is distinguished by the OEM business with white label products that are sold under third-party brands. In addition, the segment also includes business products under the Gigaset pro brand. Gigaset has been active in the area of customer-specific products since 2008, and Gigaset pro was introduced on the market in 2011.

The Gigaset pro product line is oriented on small and medium-sized enterprises with up to 100 employees. The IP telephone systems and system phones are distinguished by a wide range of functions, flexible scalability, simple operation and configuration as well as timeless design. Thus, Gigaset also makes its many years of experience from the retail customer area available to customers in the promising growth market for professional IP telephone systems. The main features of the Gigaset brand, such as high quality, simple operation and appealing design, are just as important here as our experience in VoIP (Voice over Internet Protocol).

OUR VALUES

SIMPLE OPERATION

Our top priority in the Business Customers segment is simple and intuitive operation. As soon as the IP system phones are connected to the corporate network, their configuration is carried out almost independently. Gigaset brings its decades of experience from the consumer market to the development of business telephones: Simple and logically-structured menus as well as easily readable displays facilitate daily activities.

DESIGN IS IMPORTANT – ALSO IN THE OFFICE

In addition to simple operation, Gigaset also places value on excellent design in the development of its professional product line. The product features and design elements have already set benchmarks in the premium consumer segment. With their titanium and black covers, the telephones will be the center of attention on your desk.

SEAMLESS COLLABORATION BETWEEN DIFFERENT DEVICES

The perfect integration of DECT telephones in the business infrastructure is one of Gigaset's primary strengths. Bluetooth enables the use of hands-free devices as well as the integration of cell phones. The so-called "link2mobile" function enables our customers to take incoming calls from their mobile phone with many desktop phone models.

SCALABILITY

The Gigaset pro line opens a comprehensive portfolio of solutions for professional users with the open and widely used SIP standard (Session Initiation Protocol). Based on this technological standard, Gigaset offers telephone solutions for self-employed individuals and small offices (SOHOs, Small Offices Home Offices) and companies with up to 100 employees. Thanks to its high degree of scalability, the Gigaset pro line can accompany a company's growth every step of the way.

COST-EFFICIENCY

Small and medium-sized enterprises can use a comprehensive, low-cost speech communication solution with the telephone systems of the Gigaset pro product line. The integrated unified communications functions permit state-of-the-art, yet cost-efficient communications processes: The telecommunications systems function both as an answering machine as well as a fax server and forward incoming fax and voice messages automatically to the receiver's e-mail account.

THE TRENDS

INDIVIDUALIZATION AND NEW WORK

The work environment is changing: more flexibility, mobile workstations, less rigid function descriptions. The number of part-time workers is increasing, as is the number of self-employed individuals. In particular younger employees are looking for working conditions with mobile online applications that combine their private and professional lives optimally. Remote workers and telecommuting long ago ceased to be a phenomenon.

VOIP TELEPHONY

The business customer market is in state of upheaval – turning away from ISDN solutions in favor of IP-based solutions. Study results document: Around 60 percent of large corporations have recognized the advantage of converging speech and data networks and have already converted their telephone systems to VoIP. However, using the Internet for telephone conversations also offers small and medium-sized enterprises a number of advantages. It is now possible to achieve excellent connections with IP technology as a result of the major advances in transmission speeds in the Internet. Voice over IP enables so-called HD telephony or HDSP with suitable terminal devices. In addition to speech quality, in particular financial considerations are the decisive factor when switching to a VoIP-based telephone system. For example, the costs for telephone conversations can be significantly reduced, and conversations with other IP telephones are even free as a general rule. Moreover, companies can save money when equipping their workstations, because in the future every desk will no longer need both a network and telephone jack; an Ethernet connection will suffice and two separate networks will no longer have to be operated.

OUR ANSWERS

Gigaset pro is based on the open standard SIP (Session Initiation Protocol) commonly used in IP telephony. Thus, systems and telephones that have already been installed are compatible with all other SIP-certified devices. The connection to the IP network is made either by Ethernet cable or wireless via WLAN.

Wireless availability is ensured over the entire company premises with the multi-cell system introduced in February. The system allows up to 20 DECT base stations to be connected to one another wirelessly and configured in the simplest way. Thus, up to 100 employees can be reached wherever they are on the company premises.

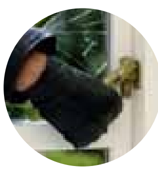
The functionality was expanded again with the free software update in March 2012. The so-called presence functions allow callers to recognize whether their colleagues are available for a conversation even before the conversation takes place. Another innovation is the integration of fixed lines and cell phones (integrated fixed-mobile convergence, iFMC). Incoming calls can be routed to both the mobile phone as well as the fixed line telephone at specified times.

With "Maxwell", Gigaset showed the prototype of a table-top telephone designed as a touch telephone for demanding business users at the IFA consumer electronics trade show. The tablet-like device without any keys will be operated exclusively via a touch screen. The "Maxwell" is to be based on the Android operating system and is designed to allow Voice-over IP telephone conversations via the SIP protocol and videoconferences. If the generous 10.1" multi-touch display is not large enough, the conference can be transmitted via HDMI connection and projector to a screen or directly to a flat screen. "Maxwell" can be integrated perfectly into the existing business telephony with the Gigaset T300 and T500 telephone systems. The high-quality workmanship puts the device squarely in the premium segment of office communications.

HOME NETWORKS

Modern individuals are on the go. Normally they can only guess what is happening at home while they are away. Gigaset once again connects mobile individuals reliably with their home.

Gigaset elements



130 THAUSAND

residential burglaries take place every year in Germany according to criminal statistics of the Federal Criminal Police Office (BKA), 55,000 of which between 6 a.m. and 9 p.m. Only around 16 % of the cases are ever solved. The loss exceeds 500 euros 68 % of the time, and is over 5,000 euros 20 % of the time, thereby far exceeding the cost of „Gigaset elements".

40 % OF INDIVIDUALS

in Germany lived in single-person households in 2009 according to the Federal Statistical Office of Germany. This number is expected to rise to 43 percent by 2030. The number of households is expected to increase to 41 million by 2025. „Gigaset elements" makes networked living affordable and available for the general public.

2013 IS THE YEAR

in which Gigaset will bring a modular, sensor-based system to the market with „Gigaset elements", which connects you to your home: simple, reliable, and professional. What Gigaset elements can do for you is as many and varied as the elements that make up your life. It grows with every element that you add.

THE TRENDS

NETWORKING

The topic of home networking is becoming increasingly important. Already years ago there were numerous approaches by various suppliers who attempted to demonstrate their technological expertise in model homes. The concept of the "Internet of Things" was overused without actually resonating with consumers' daily lives. Equipping or converting one's home or condominium used to be a complex and expensive endeavor. Most systems required a technician. But now the time is ripe: Modern individuals are not only spending much more time outside the home today, they are meanwhile accustomed to using Internet-based services on-the-go thanks to smartphones. According to a study by Cisco Systems, there are already more networked devices than people. In 2015, a global population of 7.6 billion people is expected to be faced with 50 billion networked devices. In this changed situation, the need to remain in touch with one's own home while on-the-go is growing. Applications' plug-and-play functions are playing a key role for developing the market. In the area of multimedia, users have grown accustomed to simply setting up systems and using them.

DEMOGRAPHIC DEVELOPMENTS

The age pyramid is shifting upward, in particular in western countries. This change is influencing all areas of daily life: Politics in the form of health care systems, the labor market or social security, but also consumption through new service offers, new product categories, and greater purchasing power on the part of the so-called “silver society”. Intelligent technical assistance systems are increasingly contributing to fulfilling the desire for self-reliant living in one’s own home into old age. Special AAL solutions (AAL: Ambient Assisted Living) are intended in particular to provide daily support for the older generation.

Despite the continuously shrinking population in Germany, the number of households in 2030 will increase from 40.3 to 41 million. More and more people are living in single-person households. At the same time, the number of residential burglaries is rising. According to police criminal statistics for 2011, residential burglaries increased from 2010 to 2011 by 9.3 %, with the number of day-time burglaries in homes increasing by 9.4 %. Few of these cases are solved. In some West German metropolitan areas, less than 10 percent of such crimes are solved.

“SELF-MONITORING”

Modern individuals want to understand themselves and learn more about themselves. Portable sensors with online platforms are taking on an increasingly important role. The following can be increasingly observed, not only in the area of health care, but also in particular in the area of lifestyle: “How many steps did I go today? How often did I wake up last night? How much time did I spend stuck in a traffic jam?” The answer to these questions can be presented easily with the help of sensor-based instruments. This way, the user has the possibility of taking the necessary steps to implement change through improved “self-understanding”.

OUR ANSWERS

With "Gigaset elements", Gigaset presented an innovative, sensor-based IP system at the IFA consumer electronics trade show that connects modern people with their homes – even while they are on-the-go.

Ultra-modern sensors linked with an Internet-capable DECT ULE base and a web server enable numerous applications in the home environment. For example, the door sensor recognizes whether the front door has been opened and can differentiate between a key and forceable entry. The sensor analyzes the typical vibrations generated by a key or break-in. In addition, the motion detector provides the user with certainty regarding whether someone merely opened the door or actually entered the home. Window sensors that can recognize the position of the window and report whether the window is open or closed. With the remote control socket, the user can tell how much electricity the plugged-in devices are using, thereby permitting the optimization of power consumption. A smartphone app informs the user immediately, regardless of their current location, and gives them the opportunity to act.

"GIGASET ELEMENTS"

is a modular system that can be expanded as necessary and adapts to the growing individual daily requirements of our customers, whereby Gigaset will work in the future with qualified service partners to seamlessly integrate new services into its current service offering and make them easily and directly accessible for our customers.

"Gigaset elements" is not only expandable, it is also capable of learning: It recognizes regularly recurring activities and enables the users to learn more about themselves and their habits. This way, the users can better structure their home environment, saving money in the process.

"Gigaset elements" offers the positive feeling of knowing always and everywhere what is going on at home and being able to react if necessary. Whatever one's personal needs (security, family, pets), Gigaset elements has simple solutions ready for the various tasks and makes the home a little bit better.

"Gigaset elements" is more than just a new product. It is our first step toward becoming a digitally mature company. With this new offering, Gigaset is also developing additional sources of sales revenue beyond its core business. The integration and brokerage of diverse partner service providers enables the expansion to a multi-faceted network of service providers.

OUR STARTING ADVANTAGE

GIGASET IS CLOSE TO ITS CUSTOMERS

For decades, Gigaset has been where other suppliers have yet to arrive: with people in their homes. Thanks to our many years of expertise and the trust built up through constant quality and reliability, Gigaset can satisfy the individual needs of its customers and thereby definitively shape the growth market of networked home living.

WE HAVE THE TECHNOLOGY

25 years of knowledge and experience and our innovative role as a leader in telecommunications for the home form the corner stone for products and services that ensure that Gigaset has a decisive competitive edge. Our transmission standard DECT, which Gigaset made a key contribution in developing, not only offers reliable transmission over a long range, it also has low latency and thus enables real-time communication. In addition, power consumption is comparatively low and the security standard is high as a result of encryption and authentication.

Gigaset augments proven technologies with the possibilities of the Internet, thereby connecting the home with the Cloud – with information and services that are available everywhere over the Internet and can be accessed at any time and anywhere thanks to mobile terminal devices.

GIGASET KNOWS THE NEEDS OF ITS CUSTOMERS

The system is simple to operate, can be expanded to meet individual needs, and is multi-functional. The sensors can be installed and configured quickly. They are wireless and battery-operated. Gigaset adapts to your personal requirements. We make "Gigaset elements" better, more versatile, and more helpful with every module.

Gigaset makes networked home living affordable for the mass market, thereby transforming the desire to know what is happening in our actual place of residence into a broad growth market.

OUR STRONG BRAND & GOOD DISTRIBUTION CHANNELS

Gigaset is one of the most-trusted brands in the area of cordless telecommunication and is regarded as a premium supplier with high quality.

With around 16 million devices sold each year, Gigaset is the market leader in the area of cordless communications and has excellent access to relevant mass distribution channels in over 60 countries. In Germany, the distribution rate is around 95 percent.

TO OUR SHARE-HOLDERS

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Milestones 2012

January

- Enhancement of the Executive Board with Charles Fränkl as CEO

February

- Expansion of the offering for small and medium-sized enterprises with the multicell N720 DECT IP PRO and cordless SL610H PRO

March

- Announcement of cooperation between Gigaset and Teldat in the terminal equipment business

June

- Presentation of key points of the "Gigaset 2015" growth strategy at the annual shareholders' meeting of Gigaset AG
- Selection of Gigaset SL 910 as "Product of the Year 2012" in the cordless telephone category by the readers of the magazine "connect"

August

- Concretization of the "Gigaset 2015" growth strategy
- Presentation of the future product portfolio as part of the new corporate strategy under the thematic concept of "Creating a World Beyond Telephony" at the IFA consumer electronics trade show in Berlin
- Announcement and specification of a cost-savings and efficiency program with an annual savings potential of at least EUR 30.0 million
- Market launch of the first landline telephone with hybrid operation

October

- Resolution of a collective agreement with the employee representatives regarding the reduction of up to 279 jobs at the Munich and Bocholt sites as part of the announced cost-savings and efficiency program

Dear Shareholders,

2012 was a year of strategic reorientation for Gigaset AG. The Executive Board adopted the "Gigaset 2015" strategy early in the year and has implemented it consistently ever since. The new strategy includes the transformation from a pure hardware manufacturer to a digital company. For this purpose, we adapted our structures and processes to the changes in market conditions and will be active primarily in three operating business units in the future: Consumer Products, Business Customers, and Home Networks.

The current market trend underscores the necessity of our new strategic orientation. The persistent European debt crisis weakened the consumer climate again in fiscal year 2012, in particular in Southern Europe. The European market for cordless telephones shrank by around 13 % based on sales revenue.[1] We would not have been able to completely avoid the general development, even if Gigaset had performed better than the market and continuously expanded its market share. Gigaset AG's strategic reorientation is necessary to be able to meet these challenges and simultaneously realize future opportunities, because the advancing trend of digitalization of our business shows: We see opportunities for growth and earnings ahead that we intend to take advantage of now and especially in the future. Our "Gigaset 2015" strategy is the right way to proceed.

With this strategy, we will orient our Company consistently on attractive growth platforms. We have already taken steps that further bolster the competitiveness of our core business with cordless telephones and should further expand our market share in the Consumer Products segment. We are addressing a market with major growth potential in the future with new Android-based products. Our entry in the market with business customers was a logical step in the expansion of our core business. We are concentrating on the growing market for IP-based product offerings for small and medium-sized enterprises. In particular, our high standards of quality and the simple operation of our products have made a key contribution to establishing the success of this segment. In the promising Home Networks segment, Gigaset will also develop networked home living and therefore the "Internet of Things" for the consumer market, whereby we benefit from our well-known brand, an excellent distribution network and an experienced team of developers. Gigaset elements will offer our customers unique value in use thanks to simple installation, an attractive price and above all thanks to intelligent data processing in a cloud-based system capable of learning.

In addition, during the course of the reorientation, we created the necessary conditions to position Gigaset as a streamlined medium-sized enterprise. We successfully completed the first two phases of the cost-savings and efficiency program initiated across the Group. Therefore, the first positive effects were already clear in fiscal year 2012. Starting in 2014, we expect annual savings of at least EUR 30.0 million. All new businesses will be largely autonomous in entrepreneurial activities, giving them the necessary freedom of action, to act in their respective markets successfully.

One thing is certain: We have reached important milestones in implementing the strategy in 2012 and are well on our way to becoming the creative force behind the industry's consolidation with "Gigaset 2015". This is also evident in our product innovations, which we presented under the thematic concept of "Creating a World Beyond Telephony" at the IFA consumer electronics trade show in September 2012. For the Business Customers segment, we

[1]The data was taken from the survey on cordless telephones by the Retail Panel of GfK Retail and Technology GmbH in the countries of Belgium, Germany, the United Kingdom, Italy, the Netherlands, Austria, Poland, Switzerland, Spain, and Russia. Collection period: 2012; Basis GfK Panel Market.

showed, among other things, our product “Maxwell”, the prototype of a tablet-like desktop telephone for the demanding business user. In the Home Networks segment, industry professionals were able to see the new product line “Gigaset elements” for themselves for the first time. The Android-based full touch telephone SL930 on display sets new standards for the Consumer Products segment with respect to the connection of innovative technologies with a superior design. In addition, our cordless telephone SL910, for example, was awarded “Product of the Year 2012” by the readers of the magazine “connect” and also awarded “Best Design 2012-2013” by the Dutch magazine “Digital Movie” – further proof that our products are keeping pace with the times and our portfolio corresponds to the individual needs of our customers.

The consistent implementation of our growth strategy in all three operating segments begins with 2013. We intend to further expand our market share in the Consumer Products segment. We remain the leader in Europe and rank second worldwide. Our strong brand enables us to realize average sales prices that are far above those of our competitors. We will reduce our development times and make the developing process more cost-efficient by using Android. The product portfolio will be expanded to include adjacent products. We are taking advantage of the Gigaset brand’s potential to develop additional business segments.

We will also consistently further expand the Business Customers segment in 2013, whereby we are focusing on strong partnerships in Germany and around the world as well as a committed team. The introduction of the product “Maxwell” in 2013 will represent a milestone in the expansion of our product portfolio as well as our focus on our platform strategy.

The number of Internet-capable devices has long exceeded the number of people living in the world. “Networking” is the critical key word in everyone’s daily interactions. Modern communications technologies are developing into growth drivers and terminal communications devices are increasingly becoming management and controlling devices. Our new products for 2013 are clearly oriented on these trends. Our simple to install, highly competitive, and energy-efficient DECT technology enables us to benefit from the megatrend of the “intelligent” home” in the Home Networks segment. Our “Gigaset elements” product line will also be introduced already in the second quarter of 2013 and is further evidence of our successful growth strategy. With “Gigaset elements” we will connect mobile individuals with their homes in a trusted and reliable way – anytime, anywhere. That is our vision and our express goal.

Dear Shareholders,

We have already achieved significant milestones with the consistent implementation of our “Gigaset 2015” growth strategy, our cost-savings and efficiency program, and numerous product innovations. We are convinced that we have chosen the right path with this strategy. Come along with us as we take our next step toward becoming a digital company – a step that will enable us to participate in this market’s growth potential.

Your sincerely

The Gigaset Executive Board

Maik Brockmann Charles Fränkl Dr Alexander Blum

Capital market and Gigaset share

The end result on the capital market for the past market year turned out very well. The DAX rose 29.1 % to 7,612 points. Investors are looking back on the strongest performance of the DAX since 2003. The MDAX rose even more steeply by 33.9 %. The TecDAX recorded a 20.9 % gain for the year.

Compared to other stock markets around the world, German stock markets performed better in 2012 than, for instance, the Dow Jones with a gain of around 7 % or the Eurostoxx 50, which rose by 13 %. Persistently low interest rates, the aggressive money market policies of central banks, and the rescue mechanisms against the euro debt crisis created a comparatively attractive market environment in 2012. The DAX also reflected the strengths of the German economy, which proved to be relatively robust despite a challenging environment. The DAX had fallen back to a level of 6,000 points at the middle of the year, but it began a substantial rally in July. The European Central Bank's binding signal of long-term support for the currency area provided additional impetus.

Performance of the Gigaset share

The share price of Gigaset AG exhibited a high degree of volatility in 2012. The price dropped initially to EUR 2.23 after starting the year quietly at a level of EUR 2.41. Investors' buying interest returned after the announcement of preliminary operating figures for 2011. The share increased to EUR 3.33 by February 1 and reached its annual high already early in the year. The share price benefited even before this in particular after a major investor magazine included the share in a sample securities portfolio. This was followed by a phase of consolidation with sustained high volatility. Nevertheless, the value stabilized in February and March and listed mostly above the 200 day line (EUR 2.81 to EUR 3.01).

Unfortunately, the international stock market climate clouded over in May and June. Evonik Degussa GmbH's request for arbitration against Gigaset AG end of April also proved inauspicious. The Gigaset share lost value successively in the second quarter. The stock finally fell below the value of EUR 1.00 in the fourth quarter. The Gigaset share was unable to rise above this value for long even in the final trading days of the year. The closing price for the year was EUR 0.97.

Dividends

The annual shareholders' meeting resolved on June 12, 2012, to place the net income for the 2011 fiscal year in the revenue reserves and carry it forward to a new account. In this important phase of transformation, Gigaset AG's earnings should be reinvested in order to further the Company's long-term development and position it successfully on the market.

Over 90 % of Gigaset shares widely held

As of the end of fiscal year 2012, 95 % of the shares of Gigaset AG were widely held as defined by Deutsche Börse AG. The Company is unaware of any shareholder who holds more than 10 % of the voting rights. The shares are mostly owned by private German investors, but also by institutional investors from Germany, the United Kingdom, and the USA.

The following investors have notified the Company that they hold shares of Gigaset AG:

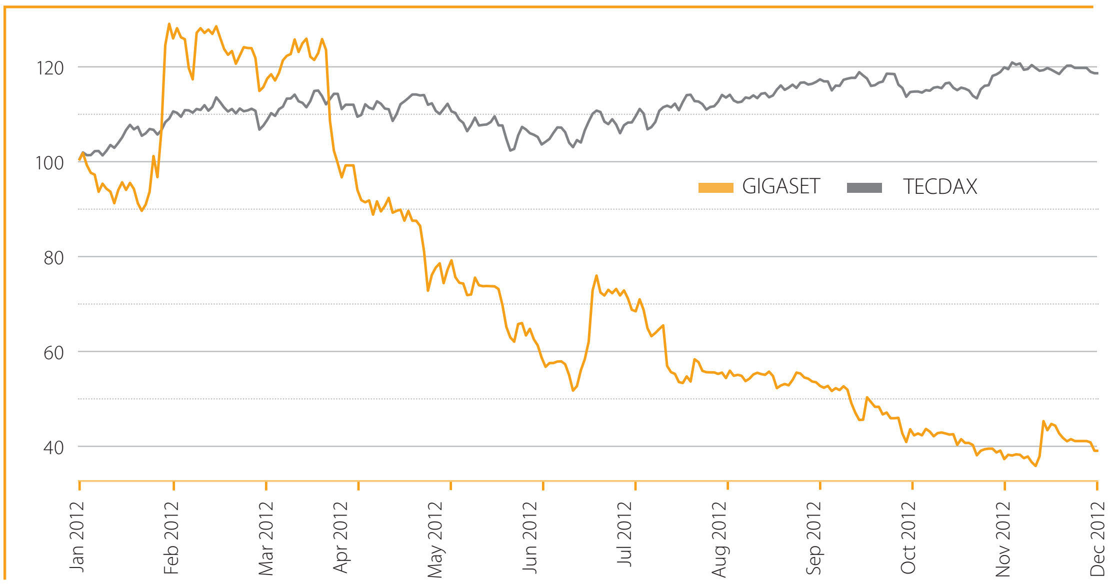
Name	Shares in %
Mantra	5.19
Dr. Dr. Peter Löw	3.62

Transactions entered into by managers of Gigaset AG are published on the Company's website in compliance with the German Securities Trading Act (Wertpapierhandelsgesetz, "WpHG"). Detailed information regarding the shares and options held by the Executive Board and Supervisory Board as well as the securities transactions on the part of members of the Company's governing bodies requiring disclosure can be found in the Section on "Corporate Governance" of this annual report.

Information on the share (as of March 2013)	
WKN	515600
ISIN	DE 0005156004
Stock market code	GGS
Reuters Xetra code	GGS.DE
Bloomberg Xetra code	GGS:GR
Stock type	No-par value bearer shares
Segment	Prime Standard

Share indicators	2012	2011
Number of shares as of December 31	50,014,911	50,014,911
Share capital in EUR	50,014,911	50,014,911
Closing price on December 31in EUR	0.97	2.46
Market capitalization on December 31 (EUR millions)	48.5	123.2
Average daily trading volume (shares)	370,915	417,000
52 week high (EUR)	3.33	4.81
52 week low (EUR)	0.86	2.13
Earnings per share (diluted) at the end of the year in continuing operations (EUR)	-0.56	0.41
Dividends	0.00	0.00

Gigaset share performance



Investor relations and corporate communications in 2012

Constant and uniform communication with all capital market participants is very important to Gigaset AG. That is why our investor relations work includes keeping our shareholders informed of the Company's current developments by means of quarterly, half-yearly, and annual reports. Telephone conferences were once again conducted with analysts and investors to coincide with the presentation of the half-yearly and quarterly results; these conferences elicited a strong response and will continue to serve as a targeted channel of communication in the future. We also communicated with institutional investors and financial analysts in numerous one-on-one meetings, including at capital market conferences and road shows. Private investors were also able to get a detailed view of Gigaset AG in personal meetings, on our website, or by subscribing to our newsletter, published for the first time in December 2012.

In addition, both the Executive Board of Gigaset AG as well as corporate communications representatives sought out regular contact with journalists. They commented on the strategic reorientation and the "Gigaset 2015" strategy in numerous background discussions and interviews.

All financial reports, ad hoc and press releases, the financial calendar, annual shareholders' meeting documents, and a wide range of current information about the Company are also made available promptly in the Investor Relations section of the Company's website (www.gigaset.ag).

Analysts

Financial analysts at Deutsche Bank AG began covering Gigaset AG in the past year. The analysts' recommendations are currently (as of March 18, 2013):

Analyst	Date	Price target (EUR)	Empfehlung
Equinet Bank AG	1/7/2013	1.50	BUY
Bankhaus Lampe	11/13/2012	1.00	SELL
Deutsche Bank	11/12/2012	1.20	HOLD

Contact

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Corporate Governance Report

Gigaset AG understands corporate governance as a process that is continuously developed and improved. With only a few exceptions, Gigaset AG complies with the German Corporate Governance Code (the "Code"), which was issued in 2002 and most recently expanded on May 15, 2012.

Management and control structure – Supervisory Board

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

The Supervisory Board appoints the members of the Executive Board and determines the allocation of duties. It monitors and advises the Executive Board on the management of the business. The Supervisory Board discusses the planning and business development as well as the strategy and its implementation regularly. Important Executive Board decisions are bound by its approval. In addition to dealing with the quarterly reports, Gigaset AG's annual financial statements and the consolidated financial statements are discussed and approved under consideration of the auditor's long-form audit reports and results of the review conducted by the Audit Committee. The Supervisory Board formed an Audit Committee for this purpose. Furthermore, the Supervisory Board set up a Capital Market Committee, which performs the duties of the Supervisory Board pursuant to Art. 4.4 and 4.5 of the Company's Articles of Association.

Management and control structure – Executive Board

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

Securities transactions by the Executive Board and Supervisory Board requiring disclosure

The members of the Executive Board and Supervisory Board are obligated under section 15a of the German Securities Trading Act (Wertpapierhandelsgesetz, "WpHG") to disclose the purchase or sale of shares of Gigaset AG or related financial instruments if the value of the transactions entered into by the individual board members and their related parties equals or exceeds the sum of EUR 5,000.00 within one calendar year ("Directors Dealings").

The Company received no corresponding notifications under 15a WpHG in fiscal year 2012 or before the date on which the balance sheet was prepared in fiscal year 2013.

Declaration of conformity

In March 2013, the Executive Board and Supervisory Board of Gigaset AG issued the declaration of conformity with the German Corporate Governance Code in the version dated May 15, 2012, required under section 161 AktG and made it permanently available to the shareholders on the homepage (www.gigaset.com). The Executive Board and Supervisory Board of Gigaset AG thereby declare that, with few exceptions, they have complied and will comply in the future with the Code Commission's recommendations regarding the management and monitoring of the enterprise published in the electronic Federal Gazette in the current version dated May 15, 2012. The declaration of conformity and the notes on the deviations from the Code are printed in Section "German Corporate Governance Code" of this annual report.

Main features of the remuneration system for Gigaset AG's governing bodies

Remuneration of the Executive Board

The duties and contribution of each member of the Executive Board are taken into account when determining their remuneration. In fiscal year 2012, the remuneration consisted of a fixed salary component and a performance-based component, comprising a bonus agreement/payment linked to the increase in value of a virtual stock portfolio (based on the success of the Company) as well as the achievement of specific goals established for each board position (based on the performance of the respective board member) for each and every board member working during the reporting period.

The Executive Board remuneration comprises the following separate components:

› The fixed remuneration is paid out monthly as a salary.

› The variable remuneration consists of a special allowance measured based on the increase in value of a virtual stock portfolio as well as an individual bonus agreement for each and every Executive Board member working in the reporting period.

The starting point for the calculation of the variable remuneration with respect to the virtual stock portfolio for each and every Executive Board member working in the reporting period is a certain number of shares of Gigaset AG (virtual stock portfolio), measured at a certain share price (starting value). The amount of the variable remuneration in each case is determined based on the possible increase in value of the virtual stock portfolio over a certain period, i.e. with respect to a future date determined in advance (valuation date). The amount of variable remuneration results from the difference in the value of the virtual stock portfolio measured at the price prevailing on the valuation date and the starting value (increase in value). As a rule, the increase in value – calculated based on the price at the valuation date – is settled in cash.

Remuneration of the Supervisory Board

The annual shareholders' meeting held on June 10, 2011, resolved a new remuneration rule for the Supervisory Board; specifically: "Every member of the Supervisory Board receives a fixed salary of EUR 1,000.00 for each month or partial month served on the board as well as EUR 1,000.00 for each Supervisory Board meeting or committee meeting attended. The Chairman of the Supervisory Board receives a fixed salary of EUR 1,500.00 for each month or partial month served on the board as well as EUR 1,500.00 for each Supervisory Board meeting or committee meeting attended.

The remuneration is due at the end of the annual shareholders' meeting which resolves to approve the actions of the board members for the past fiscal year.

Shareholdings of the Executive Board and Supervisory Board

The Company asked the members of its Executive and Supervisory Boards how many shares of Gigaset AG they hold. According to their own admission, the members of the Executive Board hold 34,348 shares of Gigaset AG as of the balance sheet date.

According to their own admission, the members of the Supervisory Board hold a total of 1,824,038 shares of Gigaset AG as of the balance sheet date. This corresponds to a share of 3.65 % of the issued shares.

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

Number of shares	12/31/2012	as of the date on which the balance sheet was prepared
Executive Board		
Charles Fränkl (Chairman of the Executive Board)	0	0
Dr. Alexander Blum	34,348	34,348
Maik Brockmann	0	0
Supervisory Board		
Rudi Lamprecht (Chairman)	300	300
Prof. Dr. Michael Judis (Vice Chairman)	10,604	10,604
Dr. Dr. Peter Maria Löw	1,811,833	1,811,833
Susanne Klöß	0	0
Bernhard Riedel	1,301	1,301
David Hersh	0	0

Information on stock options and similar incentive systems

Please refer to the comments in the remuneration report for information on the Executive Board members' virtual stock portfolios.

Other information regarding corporate governance at Gigaset AG

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

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

Report of the Supervisory Board

Fiscal year 2012 was a year of transition for Gigaset AG: Its past as an equity investment and restructuring company was concluded with the sale of the last equity investments not belonging to the core segment. In its core segment Telecommunication, the Company has set its sights on growth – in addition to cordless telephones, it now also produces communications solutions for corporate customers as well as products in the Home Control segment. The Supervisory Board was actively involved with the Company and its Executive Board, which is reflected in numerous long meetings.

Collaboration with the Executive Board

The Executive Board, which was completed at the beginning of fiscal year 2012 with the appointment of Charles Fränkl as CEO, and the Supervisory Board worked together constructively and successfully during the entire fiscal year. The Supervisory Board performed all its duties as required by law and the Articles of Association and monitored and advised the Executive Board in its work, whereby the Supervisory Board was able to rely on the outstanding expertise of some of its members, in particular in the areas of telecommunications, M&A and financing. The Executive Board kept the Supervisory Board up-to-date and fully informed in writing or through verbal reports on all relevant questions regarding the development of the Company, the course of business and position of the Group, in particular regarding the development of the business and financial position as well as on the acquisition or disposal of equity investments in whole or in part. Other regular topics of discussion included compliance, the risk position and risk management, the development of liquidity and the budget, and basic questions regarding corporate policy and strategy.

Activity of the Supervisory Board

The Supervisory Board normally performs its duties within the scope of monthly meetings (see more on this below). In these meetings, the Supervisory Board routinely deals with the reports of the Executive Board on finance and investment and human resource planning, as well as – in particular – the implementation of new corporate strategies, including the resulting intermediate and long-term opportunities for growth.

The Supervisory Board questioned the management on the submitted reports, in particular regarding current developments and potential acquisition and disposal projects as well as pending decisions. Necessary authorizations were issued after a detailed review of the documents presented by the Executive Board .

Moreover, periodic meetings were held between the Chairman of the Supervisory Board and the members of the Executive Board. In these meetings, the management was questioned about current developments, pending decisions were discussed in detail, and resolutions of the Supervisory Board were prepared.

Furthermore, the Supervisory Board addressed the clarification and elimination of risks from the Company's past.

Meetings and resolutions of the Supervisory Board in 2012

The Supervisory Board convened for a total of eight meetings in fiscal year 2012 (January 13, 2012, February 24, 2012, March 26, 2012, May 14, 2012, August 6, 2012, September 28, 2012, November 8, 2012, and December 7, 2012). In addition, the Supervisory Board met at the annual shareholders' meeting held on June 12, 2012.

The Supervisory Board discussed the Executive Board's reports in detail in its meetings, including the economic development of equity investments. The members of the Executive Board were also normally present at these meetings, unless the discussion was specifically about matters involving the Executive Board. In addition, the Supervisory Board made decisions in writing by circulating documents on three occasions.

In the past reporting period, the Supervisory Board observed the ongoing business development and the implementation of the corporate strategy just as closely as the strategic development of the Company, in particular in regard to the focus on the Telecommunications and Accessories segment. Special emphasis was placed on the Company's liquidity situation as well as the nature and scope of contingent liabilities.

Activity of the Audit Committee

An Audit Committee was formed so that the Supervisory Board could perform its duties as required by law and the Articles of Association as efficiently as possible. This committee comprised a total of three members in fiscal year 2012 and convened on March 26, 2012, and September 28, 2012, as well as in preparation of the Supervisory Board's meeting held on March 22, 2013.

Corporate Governance

The Supervisory Board regularly deals with the application and further development of the applicable standards of good and responsible governance under the German Corporate Governance Code.

In March 2013, the Executive Board and Supervisory Board issued a current declaration of conformity in accordance with section 161 of the German Stock Corporation Act (Aktiengesetz, "AktG") and made it permanently available to the Company's shareholders on its website.

In accordance with the recommendations of the Code, the Supervisory Board obtained a declaration of independence from the auditor on May 27, 2011, regarding professional, financial, or other relationships between the auditor and the Company that could call its independence into question. The declaration also covers the scope of other advisory services rendered for the Company in the fiscal year just ended as confirmed by the auditor in a letter dated December 21, 2012.

Risk management

The Supervisory Board dealt with the issue of risk in detail in 2012, in particular with the risk management system. The Executive Board reported extensively on the risk situation and key individual risks. The structure and function of Gigaset AG's risk management system was audited and confirmed by the auditor.

Personnel matters of the Executive Board

After the Executive Board was completed with the appointment of Charles Fränkl as CEO as of January 1, 2012, the now three-person Executive Board was able to manage the Company in 2012 as a cohesive team. Maik Brockmann's appointment to the Executive Board, which expired in 2012, was extended by resolution of the Supervisory Board until March 31, 2014.

Personnel matters of the Supervisory Board

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

- Rudi Lamprecht (Chairman) until March 25, 2013
- Prof. Dr. Michael Judis (Vice Chairman)
- Dr. Dr. Peter Löw
- Susanne Klöß
- Bernhard Riedel
- David Hersh
- Barbara Münch, née Thätig from March 26, 2013

Notes on the management report

With respect to the notes on the management report in accordance with section 171 AktG, please refer to the disclosures in the management report regarding sections 289(4), 315(4) of the German Commercial Code (Handelsgesetzbuch, "HGB"). Information related to the Company's subscribed capital, the provisions governing the appointment and removal of members of the Executive Board, the amendment of the Articles of Association, the authorizations of the Executive Board, and shares to be issued or redeemed can be found in the combined management report of the Company.

Munich, March 2013

On behalf of the Supervisory Board

Bernhard Riedel
Chairman

MANAGEMENT REPORT

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1. Business model

Gigaset AG is a global enterprise with activities in the field of telecommunications. Based in Munich and with its main production facility in Bocholt, the company is, based on total sales, the leading manufacturer for DECT telephones in Western Europe. Based on sold basis station Gigaset ranks in second place word wide. The premium vendor enjoyed a market presence in more than 70 countries and employed approximately 1,700 people.

The Gigaset Group is divided globally into regional segments. In this context, the Europe segment, especially Germany and France, represents comfortably the largest share of total business activity. Most of the total sales are made in the Consumer product business and thus in the cordless voice business.

The company is represented in the Americas region by separate legal units in the United States, Brazil, and Argentina. In the Asia-Pacific / Middle East region, separate legal units have been set up in China and the United Arab Emirates. Gigaset markets its products through both a direct and an indirect distribution structure

The Group covers a broad market base across its three divisions: Consumer Products, Business Customers and Home Networks. Gigaset is renowned for its high quality, future-looking products for the fixed-line telephony segment.

1.1 Consumer Products

Gigaset is the European market leader, technology leader and price leader in DECT, which stands for Digital Enhanced Cordless Telecommunications, the most successful telecommunications standard for cordless telephones in the world. Gigaset helped to shape the DECT standard in the 1990s, since when the company has maintained its position as the market, technology, and price leader for DECT telephony in Europe. Market coverage is a key factor behind the company's success: a Gigaset phone is found in one in every four homes in Europe and one in every two in Germany. Gigaset enjoys a brand awareness level of over 80 % in Germany. All of its proprietary products are manufactured predominantly in the highly automated Bocholt plant, which has won several awards.

1.2 Business Customers

The company has created an attractive offering for small and medium-sized enterprises with the "Gigaset pro" product line. The constantly growing portfolio of Gigaset pro products is geared to the needs of the SME segment. The Gigaset pro series provides the kind of versatility and reliability that commercial users need in their day-to-day operations. These telephones are widely appreciated for their simple administration and installation. Due to the depth that is required for commercial products, Gigaset only distributes the pro line through value-added resellers (VARs).

Gigaset has thus greatly expanded its product range with the Gigaset pro, enabling it to tap new customer groups. The company markets a product line which, in addition to the private customers that it has traditionally served with great success, now also includes small offices and home offices (known as the SOHO market) and the fast-growing, high-potential SME market for professional IP telephone systems. The intention is to turn Gigaset pro into a second pillar of the company in this growing SME market over the coming years that will contribute a significant proportion of revenues in the future.

1.3 Home Networks

Gigaset is about to launch a modular, sensor-based "Connected Living" system for private households. Gigaset elements enables the user to maintain a permanent connection to elements in their home via smartphone. The starter kit on the topic of security enables the user to react immediately to unforeseen events (the child does not return home as usual at 2 p.m., someone gains unauthorized access). Additional applications on topics such as energy or help for the elderly will follow in the coming months.

2 General economic climate and industry environment

2.1 General economic climate

The general economic environment in 2012 included numerous uncertainties. Further characterized by the persistent European sovereign debt crisis, the economic and business developments of 2012 differed greatly from one region to another. Overall, the global economy lost its momentum. According to experts, global production volumes only increased by an average of 3.2 % annually. The increase in the gross domestic product of major industrial nations was also comparatively weak; the eurozone even slid into recession. In contrast, the German economy proved itself a stable engine of growth over the course of the year.

From a global perspective, the first half of 2012 developed more positively than was expected at the end of 2011. Positive impulses from the BRIC countries and emerging economies provided the global economy with a stable start to the year. Nevertheless, a high degree of uncertainty continued to dominate the expectations of international market participants. The US economy developed positively, albeit at a low level. Compared to the euro the US dollar appreciated considerably. Developments in Europe differed greatly from one region to another. Sales markets in Southern Europe, which are particularly important for Gigaset, suffered under the effects of the sovereign debt crisis and were characterized by weak consumer spending. In contrast, the domestic economies of Germany and other Northern and Central European countries remained robust.

The fiscal policy measures and interventions implemented by the ECB to further stabilize the financial markets only calmed the markets temporarily. The considerably more tangible recovery in the first quarter of 2012 was unsustainable. Risk premiums on European government securities once again recorded increases and the international financial markets experienced turbulence. The speculation connected to the Greek parliamentary election reinforced this trend. The recessive phase in the eurozone and in particular in Southern Europe persisted contrary to expectations. The Ifo business climate index and the initially more perceptible economic optimism at the middle of the year also cooled in Germany. Decreasing demand from abroad provided increasingly for headwind and a dwindling order book.

The global downturn continued at first in the second half of the year. Trust in a growing global economy and economic upswings remained muted. Growth in the USA developed comparatively weak, while consumer demand rose. The euro gained strength again in the second half of the year. The subdued economic dynamic was also noticeable in the emerging economies. Structural measures in the periphery countries impacted not only the propensity of European companies to invest, it also had a negative impact on the export business and consumer spending. The published economic data showed that the recession in Europe was worsening. However, the German economy grew slightly and proved to be more stable.

Despite a sobering start in the fourth quarter of 2012 and the persistent economic weakness, the perspective for growth improved at the end of the year. Work on solutions for the financial, economic, and sovereign debt crisis continued. Global monetary measures stimulated the financial markets. The indicator for the Ifo global economic climate only decreased somewhat in the fourth quarter. The Ifo business climate index for Germany increased, whereas some European countries are still in recession. The German consumer confidence leveled off securely.

2.2 Telecommunications market

2.2.1 Consumer Products Markt

The European market for cordless telephones decreased in the past year both with respect to sales revenue as well as units sold. The global financial and sovereign debt crisis clouded in particular the consumer climate in Southern European regions. The increasing willingness of consumers to forgo landline telephones – the so-called "mobile replacement" – reinforced this trend, in particular in the relatively saturated Western European markets.

The continued declining significance of analog technology and other digital standards was observed in the global market for cordless telephones. In contrast, the digital DECT standard only recorded a slight decline. In the Asian and Pacific regions as well as in South America, the number of devices sold in the first half of 2012 grew and was able to partially compensate the decline of other standards in these regions.*

The market trend in Western Europe exhibits consolidation with an overall stable to slightly decreasing price level, whereby the highest average sales prices for DECT cordless telephones are realized in Germany. The largest European markets are in Germany, France and the United Kingdom. Already today, the three largest competitors are selling around two-thirds of the total volume, led by Gigaset. So-called secondary brands, i.e. brands that are established in low price segments, value brands, and local suppliers continue to lose market shares.*

In its market-leading position, Gigaset can utilize the strengths of its portfolio and the geographical and logistical proximity to its core markets, while relevant competitors produce almost without exception outside of Europe. Gigaset is capable of delivering to remote regions of Europe within three days. Supported by a wide-ranging product portfolio, Gigaset also realizes considerably higher average sales prices than the competition with its premium brands. Thus, Gigaset makes a decisive contribution to crowding out secondary and value brands with its clear brand profile.

2.2.2 Business Customer Markt

The market for corporate customers in the past year was also subject to the negative influence of the financial, economic, and sovereign debt crisis, similar to the European Market for cordless telephones. The number of internet protocol (IP) connections remained at the same level, while the total number of connections in Western Europe has fallen by approximately 10 percent overall. These IP-based telephone systems represent almost 50 percent of the market as a whole. Online telephone systems – so-called "hosted PBX" – are also increasing in importance. This offers customers the advantage of not purchasing or leasing a telephone system, but rather procuring the entire telephony from one supplier. Gigaset is active in both areas and serves the growing demand for internet-based communications solutions.

*Source: MZA Shipment Review H1 2012 – published September 2012

The market trend looks similar in Eastern Europe. While the number of IP connections in Western Europe increased from 44 % in 2011 to 49 % in 2012, the number in Eastern Europe increased from 18 % to 22 %. At a global level, the 3 % decrease in the market as a whole is somewhat smaller as a result of growth in regions such as North America and Asian Pacific, but the increase in IP-based systems resembles the development in Europe.

The market as a whole continues to be characterized by heterogeneity. There are currently no signs of consolidation.

3 Significant events in fiscal 2012

Fiscal year 2012 was primarily characterized by the planning and implementation of the "Gigaset 2015" strategy. The cornerstones of the strategy, announced by Charles Fränkl at the 2012 annual shareholders' meeting, were concretized at the half-year and have already been implemented in some areas. The strategic reorientation of Gigaset AG required a cost-savings and efficiency program that enables annual savings of at least EUR 30 million. The first effects were already clear in fiscal year 2012. These and other important events of the past year are discussed below:

3.1 Evonik Degussa submits a request for arbitration

Evonik Degussa GmbH submitted a request for arbitration dated April 30, 2012, against Gigaset AG to Deutsche Institution für Schiedsgerichtsbarkeit e. V. Evonik Degussa GmbH demands payment of a contractual penalty in the amount of EUR 12 million on the basis of a contract from 2006. Gigaset had already repudiated the allegations from Evonik as well as the asserted claims and intends to defend itself against the request for arbitration. Gigaset bases its assessment on the expert report of a reputable law firm. Gigaset had already recognized risk provisions in the amount of EUR 3.6 million in the annual financial statements as of December 31, 2011, in coordination with the auditor.

3.2 Readers of "connect" select the innovative SL910 as "Product of the Year 2012"

The readers of the magazine "connect" have selected the Gigaset SL910A as "Product of the Year 2012" in the cordless telephone category. The first full touch home telephone received 46 % of the votes in this category and was thus the winner out of a group of eight nominated products. Over 45,000 "connect" readers participated in the vote on networks, services, and products of the year. Overall, Gigaset products took the top five places on the "connect" best list. According to the consumer researcher Gesellschaft für Konsumforschung (GfK), it was the third best selling telephone in the European markets observed by Gigaset in the fourth quarter of 2012.

3.3 "Gigaset 2015" strategy: Cornerstones presented at the 2012 annual shareholders' meeting and concretized at the half-year

Around 250 shareholders and guests convened at the annual shareholders' meeting of Gigaset AG at the "Alte Kongresshalle" in Munich on June 12, 2012. Charles Fränkl, Chairman of the Executive Board of Gigaset AG, presented the cornerstones of the new growth strategy in his speech. In the future, Gigaset will consistently take advantage of its opportunities for growth in three segments. The communications company will profit from innovations in

**Source:: MZA PBX/IP PBX Annual Fast View CY 2012 – Published January 2013 the stable core business Cordless Voice and be active as a driving force of market consolidation. In the market for Business Customers, Gigaset is concentrating on IP-based solutions for small and medium-sized enterprises. In the Home Networks segment, Gigaset intends to develop networked home living for the consumer market, whereby the communication specialist will profit in the Home Networks segment from its well-known brand, excellent distribution, and an experienced R&D team.

3.4 Gigaset presents itself at the IFA consumer electronics trade show

Gigaset presented itself at the IFA in Berlin from August 31 to September 5, 2012, in its new orientation with the three business segments Consumer Products, Business Customers, and Home Networks. The Company demonstrated its broad technological expertise in all areas at the trade show, which will grow far beyond the core business of cordless telephones in the future, whereby Gigaset will focus on an open, modular IP platform consistently across all business segments that will enable cloud-based Internet service and a portfolio of applications and services. In the future, Gigaset will also focus in particular on the Google operating system Android – in addition to the proven DECT standard – so that Gigaset customers can also continue to benefit from rapid innovation cycles and a multitude of new applications.

3.5 Restructuring 2012: Gigaset concretizes plans to secure its competitiveness for the long term

Gigaset AG substantiated its announced cost-savings and efficiency program with a potential annual savings of EUR 30 million. The results were presented to the employees and employee representatives without delay. The program includes various measures with which Gigaset intends to secure its competitiveness in the currently difficult market environment. In addition to reducing material and service costs, the efficiency program also includes the planned reduction of the workforce from almost 1,700 employees to approximately 1,350. The layoffs are to be carried out responsibly. In fiscal year 2012, the Company recognized provisions for restructuring in the amount of EUR 19.2 million. In addition to severances for job losses, these provisions also include the costs for a transitional company and associated expenses for qualification measures. The first effects from the cost-savings and efficiency program are already achieved in 2012.

3.6 Requirements met for the purchase price reduction on the part of Siemens AG

Siemens AG notified Gigaset in a letter dated September 27, 2012, that it considered the requirements for the agreed reduction of the second half of the third purchase price installment, including accrued interest, to be met. Effective immediately, the Company is no longer obligated to provide information and documentation to Siemens AG under an overall agreement. In light of this, Gigaset AG reversed the previously recognized purchase price liability (including accrued interest) of EUR 9.9 million to profit or loss in fiscal year 2012.

4 Business developments of the Gigaset Group

4.1 Consumer Products

The persistent financial, economic and sovereign debt crisis continues to unsettle the markets and cloud the consumer climate. This also has an effect on Gigaset AG's sales revenues, as the development in particular in the second half of the year showed. While sales revenues in the first two quarters were only slightly down year-on-year, the Group recorded a decrease in sales revenue for the full 2012 fiscal year of 8.5 %. The European market as a whole for cordless telephones also declined in 2012. The market shrank around 13 percent based on sales revenues. At the same time, Gigaset was able to expand its market share in its core business with digital cordless telephones in the primary European markets by 2 % (based on sales volume) and by 2 % (based on sales revenue)*. Therefore, Gigaset is profiting from the market's sustained consolidation. Secondary brands, i.e. brands in lower price segments, "value brands", and local suppliers continue to lose market share.

As a driver of innovation in the area of DECT-based cordless telephones, Gigaset AG received various awards in the fiscal year just ended for the innovative touch screen telephone SL910 introduced in 2011. For example, Gigaset received an award for innovation from the Spanish magazine "Actualidad Económica". The SL910 was also selected by readers of the magazine "connect" as "Product of the Year 2012" in the cordless telephone category. In total, Gigaset products took the top five places and eight of the first ten places in the "connect" best list in the category of cordless telephones (source: connect, 11/2012 issue). "Connect" regularly tests, among other things, the values for talk and standby time, ease of use, and various aspects of call quality and volume during calls. According to consumer researcher Gesellschaft für Konsumforschung (GfK), the SL 910 ranked third in sales in the fourth quarter in the European markets observed by Gigaset*.

The range of Gigaset cordless telephones was successfully expanded by numerous innovative models also in 2012. For example, three models of the "A" series (A120, A220, A220A), the most affordable DECT telephone family ever manufactured in Germany, were launched in April. According to GfK, the A120 currently ranks in the TOP 10 in the markets observed by Gigaset*. The first cordless hybrid telephone with both a touch screen and a keyboard was introduced to the market at the end of August. The product took first place in the "connect" best list in the category of landline telephones with a rating of "very good". Gigaset received the renowned "iF Design Award" for the design of its family-friendly telephone C620/C620A, which will be on the market in the second quarter of 2013.

The high rate of innovation as well as the continuously high "Made in Germany" quality of Gigaset products enable us to minimize the general price decline. Gigaset continues to realize considerably higher average sales prices than its competitors and thereby successfully maintains its premium position.*

Nevertheless, Gigaset paved the way in the past year to expand its activities in the Consumer Products segment in new growth markets. The Adjacent Products segment represents a product range outside the core portfolio "Voice". This takes advantage of the Gigaset brand's potential to generate additional business. Examples include the expansion of the Headset and Cable portfolios as well as the planned introduction of Baby Phones.

**The data was taken from surveys by the Retail Panel for cordless telephones of GfK Retail and Technology GmbH in the countries of Belgium, Germany, France, the United Kingdom, Italy, the Netherlands, Austria, Poland, Switzerland, Spain, Turkey, and Russia. Collection period: 2012; Basis GfK Panel Market

Furthermore, consistent with the strategic reorientation of the core business, a new technology platform was conceived to provide competitive Android and IP products while simultaneously reducing development costs. With its Android-based full touch telephone SL 930, Gigaset will set new landline standards by combining innovative technologies with superior design. The prototype was already presented at the IFA consumer electronics trade show in Berlin in September 2012 and the phone is expected to to be introduced to the market in the summer of 2013.

Source for all asterisks: The data was taken from surveys by the Retail Panel for cordless telephones of GfK Retail and Technology GmbH in the countries of Belgium, Germany, France, the United Kingdom, Italy, the Netherlands, Austria, Poland, Switzerland, Spain, Turkey, and Russia. Collection period: 2012; Basis GfK Panel Market

4.2 Business Customers

Following its market launch in 2011, Gigaset AG was able to establish the Business Customers segment as an important second pillar for the Company. Sales revenue for the product line "pro" grew by around 70 percent compared to the prior year.

We focused on developing additional sales regions and expanding the collaboration with sales partners and value added resellers. In addition to the countries whose markets we have already developed, including Germany, Austria, France, and the Netherlands, we were able to expand operations in Italy, Spain, Switzerland, Austria, Poland, the United Kingdom, and the Scandinavian countries, doubling the number of distributors and resellers in the process. We attach great importance to the collaboration with our sales partners in the multi-level sales concept. Gigaset AG invests in these partnerships through a highly diversified partner program that comprises training sessions, roadshows, and the provision of information by means of an extranet.

Furthermore, our cooperation with Teldat yielded a partner that has excellent market access in many European regions. Teldat GmbH integrates consumer devices produced by Gigaset into its line of elmeg products, thereby supplementing its line of IP devices.

For this expansion, it was absolutely necessary to attract talent with technical and industry expertise. The team was further strengthened both at the country level as well as in the new production center in Düsseldorf.

The Business Customers unit was also able to expand its product portfolio to meet the demand from consumers. The multi-cell DECT solution introduced early in 2012 was well-received in the market and enables wireless accessibility over the entire company premises. The system's capabilities were further expanded and its operation was simplified through the free software update.

Gigaset AG presented "Maxwell", the prototype of a new Android-based tablet-like business telephone with an innovative video conference function and a generous 10.1 inch multi-touch display, at the IFA consumer electronics trade show in Berlin at the beginning of September 2012. We plan to introduce this telephone to the market in the fourth quarter of 2013.

**The data was taken from surveys by the Retail Panel for cordless telephones of GfK Retail and Technology GmbH in the countries of Belgium, Germany, France, the United Kingdom, Italy, the Netherlands, Austria, Poland, Switzerland, Spain, Turkey, and Russia. Collection period: 2012; Basis GfK Panel Market

4.3 Home network

Gigaset AG also presented the newest pillar of the new strategy, the Home Networks segment, at the IFA trade show. In this context, Gigaset showed concrete concepts of the new "Gigaset elements" product line for the first time: the most modern sensors that enable numerous applications in a home environment linked with an Internet-capable DECT-ULE base station and a secure web server. At the trade show, prototypes showed how "Gigaset elements" recognizes whether a door is forced open, a wash machine overflows, a window is left open, or the room temperature is correct. A smartphone app informs the user immediately no matter where they are and gives them the opportunity to act. There are future areas of application for "Gigaset elements", among other things, in the areas of security, energy management, and nursing. The first products in this area are planned to be introduced in the second quarter of 2013.

4.4 Marketing

In the past year, Gigaset further enhanced its brand profile. The Gigaset name stands for the brand promise of high quality "Made in Germany". Gigaset is built upon a long tradition and many years of experience in telephony. An offshoot of Siemens AG, which established telephony more than 160 years ago and co-developed the DECT standard, Gigaset has continued to pursue this research and development expertise coupled with technical know-how.

Various marketing communication campaigns have been rolled out to bolster sales. The launch of the S820 hybrid telephone was supported by the "best of both worlds" online and print campaign, which emphasizes the unique combination of a touch display and a conventional keyboard. Gigaset successfully returned to television advertising at the end of the year, just in time for the Christmas shopping season. The commercial, which focuses in particular on the attractiveness of the premium product SL910, was aired in November and around Christmas in various German programs of relevance for the target group. The first steps for a Gigaset online shop were completed concurrently. The SL910 has been available in Germany since October 2012; other products, such as the SL910 in white, have been available since December. A "Lifestyle Trend" was started with this version, which was also accompanied by PR and advertising measures.

4.5 Sales and distribution

Gigaset only sells its cordless voice products indirectly to retailers, telecommunications companies and distributors. These sales partners offer Gigaset products both in stationary stores and increasingly also via online channels. Major customers are served by key account managers, with additional support provided by regional sales employees to implement the sales and distribution strategy based on the country-specific distribution model.

Gigaset's sales team comprises a total of 131 employees. The team's structure was consolidated and realigned during the course of Gigaset's strategic reorientation. The Gigaset pro segment also sells its products only on an indirect basis via distributors; value added resellers, and other manufacturers of consumer devices (such as Teldat) as well as network operators.

The objective of Gigaset's distribution strategy is to further defend the price advantage of the Gigaset brand in the market, to secure and further expand the Company's market shares in Europe, and to sustainably increase the Company's market shares in Asia, the Middle East, and Africa, as well as Central and Eastern Europe, in particular Russia and the United Kingdom. At the present time, the Company is in the process of partially converting its sales and distribution model to include direct deliveries to retailers. Above all, Gigaset is striving to systematically exploit the market potential arising from the exit of B-level and C-level brands from the market due to consolidation.

Gigaset once again defended its strong position against competitors in key markets in a generally difficult retail and operator environment. This success was aided in particular by undertaking regional expansion measures and by participating in large-scale invitations to tender on the part of retailers and telecommunications providers. The Company's development varied depending on the region and country.

In Europe, Gigaset was able to increase its market share in terms of units sold as well as total market value, in particular in its home country of Germany. The successful implementation of a concept to authorize specialty stores for the Consumer Products segment in Germany was a milestone in 2012. In addition, an OEM contract over the supply of Gigaset pro consumer devices was formed with Teldat. (Footnote: An Original Equipment Manufacturer is a company that manufactures components or products in its own plants, but does not offer them for sale in its own stores.)

The successful collaboration with an operator on the Iberian peninsula was further expanded, offsetting intermittent declines in sales in the neighboring country. Gigaset is optimistic about future development in this region, since the Company is once again represented in the lower price segment with the launch of the A220H and is expecting the effect on the middle and high-end segment to be positive. In Spain, Gigaset continued to increase its market share in terms of units sold in 2012, rising to number two in the market.

The business was also successfully expanded in the Asia-Pacific and Latin American sales regions. The market share was even increased in China, despite the transition from the Siemens Gigaset brand to the single Gigaset brand. Additional market shares were also gained in Turkey as well as in the Arab Emirates.

In Latin America, a leading telecommunications provider was attracted with Telefonica del Peru. In Chile, the introduction of the Gigaset portfolio was completed in the retail segment. However, the increased import restrictions in Argentina had a negative impact on the regional market development.

4.6 Research and development

Gigaset's research and development program concentrates primarily on product development for the Consumer Products, Business Customers, and Home Networks business segments. In addition to product development, research and development takes on a key role in the area of innovations, with a focus on technical aspects.

This includes participating in the standardization of relevant market technologies, for example, network connections or wireless technologies such as DECT. In order to support this, Gigaset is represented in relevant standardization committees, for example, with a representative in the DECT Forum, an international organization of manufacturers, network operators, and other companies with the goal of further developing the DECT standard.

One focus of the development work in the past fiscal year was on the development of the Gigaset platform for IP and Android-based products. In the area of hardware/software development, the platform should optimize product costs by reusing components in multiple product points. In this manner, development and maintenance expenses can be distributed over the widest range of products possible and costs per product significantly reduced.

The new platform is aimed at high-end products, i.e. the base stations in the area of ISDN, IP/VoIP and Android-based table-top devices and mobile components for the consumer and pro segments.

* Unter einem Original Equipment Manufacturer versteht man einen Hersteller von Komponenten oder Produkten, der diesen in seinen eigenen Fabriken produziert, sie aber nicht selbst in den Handel bringt.

4.7 Environment

Gigaset AG observes the principles of sustainable conservation of the environment and the natural resources on which mankind depends.

Gigaset's products are manufactured according to the highest environmental protection and quality standards in the production facility in Bocholt. Gigaset obtained certification according to the DIN ISO 14001 standard for its environmental management system as early as 2007.

Our commitment to protecting the environment is reflected both in the development and production of particularly energy-efficient Gigaset ECO DECT cordless telephones as well as in the consumption of energy at the production site in Bocholt. The consumption of electricity and natural gas was reduced by around one-fifth from 2008 to 2012 through the implementation of many measures in the area of infrastructure and production.

Gigaset once again demonstrates its commitment to the environment with its relocation to the new office spaces in a so-called "green building" in Düsseldorf.

4.8 Employees

Gigaset reacted to the rapidly changing market conditions and the decline of the core business of cordless telephones by reorganizing its corporate structures and initiating an efficiency program in 2012. The goal is to strengthen the Company's competitiveness and bring the organization in line with current market conditions. The associated reduction in personnel was negotiated with the employee committees in less than three months. Implementation began in October immediately after the planned restructuring measures were announced. Therefore, an initial savings effect was already observed in 2012. The reduction in personnel is being carried out in three phases and will be completed at the end of 2013.

When the measures have been completed, 240 employees will have left the Company. The original plan was to cut 279 jobs, but we were able to reduce this number through internal transfers. The reduction is being carried out by means of transfer to a transitional company, plant-specific notices of termination, early retirements, natural fluctuation, and the expiration of contracts of limited duration. In addition, 20 jobs were cut outside of Germany.

The restructuring will result in savings of around EUR 12 million in 2013, with a full year effect of EUR 16 million starting in 2014. An additional savings potential of around one million euros is expected starting in 2014 from measures that have been initiated and mostly implemented in the subsidiaries.

In 2012, Gigaset also initiated an extensive adjustment of the employee structure with its "Gigaset 2015" growth strategy. In order to orient the Company more consistently on business units and structure the collaboration of product management, development, and production more effectively, we began expanding the production center in Düsseldorf. Sales and distribution was streamlined from six to three regions. Gigaset AG organized its own staff functions to better serve the entire Group by relying on employees of Gigaset Communications GmbH.

Gigaset is currently positioning itself on the market as an international communications company leading in the area of technology and products. This technological leadership and the international orientation of all its locations puts Gigaset in a very good position in the competition for the best employees. The high qualification of employees in all areas from development to production forms the basis of the Company's success. Gigaset ensures that individual qualifications and potential are identified and continually promoted by means of structured and process-oriented employee development. This makes it possible to quickly find a successor for vacated positions and offers more possibilities to fill new positions. The identification of employees with the Gigaset Group and their commitment to the Company is very high. Fluctuation as a result of voluntary termination of employment fell considerably below 2 % in 2012 – despite the restructuring.

Owing to the Company's vertical depth, spanning development, marketing and distribution as well as production and logistics, Gigaset has a need for employees with a wide range of skills. This need is covered in part by its own employees (key talents, apprentices/trainees) as well as through recruitment (college graduates, interns, job exchanges). Gigaset needs highly qualified employees in technical fields along the entire highly automated production process chain. This need is satisfied primarily through its own technical training program. The Company also relies on temporary workers primarily for semi-skilled activities to provide the Company with the necessary flexibility in a highly seasonal sales market.

The Group had an average of 1,799 employees in fiscal year 2012 (prior year: 1,910). There were 1,749 employees working for the Gigaset Group as of the reporting date on December 31, 2011 (prior year: 1,875).

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

Key figures of Gigaset AG	2012	2011
Non-current asset	EUR 241.5 million	EUR 226.0 million
Current asset	EUR 6.5 million	EUR 6.2 million
Equity	EUR 202.4 million	EUR 210.4 million
Non-current liabilities	EUR 12.5 million	EUR 0.0 million
Current liabilities	EUR 33.1 million	EUR 21.8 million
Equity as a percentage of assets	81.6 %	90.6 %
Return on equity	-3.9 %	2.4 %
Return on investment	-3.2 %	2.2 %

5.1 Financial performance

Sales revenues in the amount of EUR 0.6 million (prior year: EUR 0.8 million) comprise almost exclusively advisory services rendered for associated companies in Germany.

Other operating income fell from EUR 4.3 million to EUR 1.1 million. The main items in the fiscal year are income from the reimbursement of expenses from associated companies in the amount of EUR 0.6 million (prior year: EUR 0.1 million) as well as income from the release of provisions in the amount of EUR 0.4 million. In the prior year, other operating income was characterized in particular by income from the reversal of allowances on receivables in the amount of EUR 2.8 million as well as by payments on derecognized receivables in the amount of EUR 0.1 million.

No **costs for purchased services** were incurred during the fiscal year. In the prior year, costs were presented in the amount of EUR 0.4 million for external consultants.

Personnel expenses increased to EUR 1.7 million (prior year: EUR 1.0 million). The increase was the result of changes in personnel carried out by Gigaset Communications GmbH as part of the Group's organizational reorientation.

Impairment write-downs of current assets presented in the prior year – insofar as they exceed the typical write-downs in the corporation – in the amount of EUR 4.6 million include the impairment losses related to the sale of interest in VAN Netten Holding GmbH.

Other operating expenses were incurred in fiscal 2012 in the amount of EUR 11.1 million (prior year: EUR 11.2 million. This includes in particular expenses for legal disputes, official proceedings, and guarantees in the amount of EUR 4.7 million (prior year: EUR 4.6 million), legal and advisory costs in the amount of EUR 1.3 million (prior year: EUR 1.0 million) as well as the cost allocation on the part of Gigaset Communications GmbH in the amount of EUR 2.4 million (prior year: EUR 0.0 million).

Investment income amounted to EUR 0.0 million in the fiscal year. In the prior year, this included a dividend in kind from Gigaset Malta Ltd. in the amount of EUR 10.0 million.

Impairment write-downs of financial assets and current securities in the amount of EUR 2.9 million include the write-down of other loans to van Netten GmbH. In the prior year, impairment write-downs were recognized in the amount of EUR 0.3 million on the interest in AT Operations 1 GmbH.

Taxes on income (EUR 6.5 million; prior year: EUR 8.0 million) include tax income from the recognition of deferred taxes in the amount of EUR 7.3 million (prior year: EUR 9.4 million).

A **net loss for the fiscal year** of EUR 8.0 million (prior year: net profit for the fiscal year of EUR 5.1 million) was generated for fiscal year 2012.

5.2 Cash flows and financing

The Company has access to the Group's liquid assets as a result of the integration of Gigaset AG in the Group cash pooling scheme. The authorized capital continues to offer the opportunity to take advantage of additional financial flexibility.

As of the end of the year, Gigaset AG has non-current liabilities to banks in the amount of EUR 12.0 million. These result from the syndicated loan agreement signed on January 9, 2012. The credit line amounts to a total of EUR 35.0 million and has a term of four years. As of December 31, 2012 the usage of the credit line in the Gigaset group amounts to EUR 32.0 million.

5.3 Net assets

Gigaset AG's **total assets** amount to EUR 247.9 million as of December 31, 2012 (prior year: EUR 232.2 million), and thus increased approximately 6.8 % year-on-year. This can be mainly attributed to the increase in financial assets and deferred tax assets.

Non-current assets increased by EUR 15.4 million year-on-year and now amount to EUR 241.5 million, representing 97.4 % of total assets. This primarily includes financial assets and deferred tax assets. The increase in financial assets results from Gigaset Beteiligungsverwaltungs GmbH's contribution to capital reserves in the amount of EUR 11.0 million. This was offset by impairment write-downs of loans to van Netten GmbH in the amount of EUR 2.9 million.

Current assets are nearly unchanged at EUR 6.5 million (prior year: EUR 6.2 million) and represent 2.6 % of total assets. They include primarily receivables from associated companies and other assets. Receivables from associated companies increased year-on-year by EUR 1.4 million, whereas a decrease in other assets was recorded, which can be largely attributed to the claim on the part of Schierholz Translift Global Manufacturing & Finance AG i.L. for accounts receivable settled in the reporting period in the amount of EUR 1.4 million.

The increase in total assets can be seen under equity and liabilities mainly in the increase in non-current liabilities, current provisions, and other liabilities. This is offset by the decrease in equity as a result of the net loss for the year.

Gigaset AG's **equity** decreased by the net loss for the period of EUR -8.0 million and now amounts to EUR 202.4 million. As a result of this and the increase in total assets, equity as a percentage of assets fell from 90.6 % to 81.6 %.

Non-current liabilities mainly include pension provisions and liabilities to banks. The pension provisions in the amount of EUR 0.4 million were taken over for the personnel transferred from Gigaset Communications GmbH as part of the Group's organizational reorientation. Liabilities to banks can be explained by a syndicated loan extended by Deutsche Bank AG in the amount of EUR 12 million.

Current provisions include provisions for taxes in the amount of EUR 2.2 million (prior year: EUR 1.4 million) and other provisions in the amount of EUR 13.6 million (prior year: 9.5 million). The other provisions were recognized in particular for legal disputes, guarantee claims and claims asserted for losses as well as for outstanding purchase invoices.

In the fiscal year just ended, Gigaset AG's **current liabilities** increased by EUR 6.5 million to EUR 17.4 million (prior year: EUR 10.9 million). Liabilities to associated companies in the amount of EUR 16.7 million (prior year: EUR 5.3 million) represent the majority of current liabilities.

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

6.1 Financial performance

Sales revenues

Gigaset Group generated **sales revenue** in the total amount of EUR 437.2 million (PY: EUR 520.6 million) in the 2012 fiscal year just ended in a difficult economic environment, EUR 419.6 million (PY: EUR 458.6 million) of which can be attributed to the core business. Sales revenue from continuing operations is generated almost exclusively from the Gigaset Communications Group and is subject to the typical seasonal fluctuations in the retail business. In Europe, the decline in sales due to the decreasing market as a whole (-13 %) for cordless telephones was partially compensated by the increase in market share. In total, sales revenue fell by 4.71 % year-on-year to EUR 368.0 million in Europe, whereby the development of the European markets varied considerably. While the sales markets in Southern Europe suffered under the effects of the financial, economic, and sovereign debt crisis and were therefore characterized by weak consumer spending, the domestic economies in Germany and other countries of Northern and Central Europe proved to be more robust. The significant decline in sales of EUR 40.2 million to EUR 23.8 million in America is due in particular to the restrictive customs and import regulations in Argentina and Brazil as well as increased competition in the dwindling telecommunications market in North and South America. Sales revenue also decreased in the Asia-Pacific/Middle East region, whereby political unrest in the Middle East is primarily responsible.

Sales revenue developed as follows:

Sales revenue in €m	2012	2011	Change
Europe	368.0	386.2	-4.71 %
America	23.8	40.2	-40.80 %
Asia-Pacific/Middle East	27.7	32.1	-13.71 %
Gigaset Total	419.5	458.5	-8.51 %
Holding	0.0	0.1	-100.00 %
Other	17.7	62.0	-71.45 %
Total	**437.2**	**520.6**	**-16.02 %**
of which continuing operations	419.5	458.6	-8.53 %
of which discontinued operations	17.7	62.0	-71.45 %

Other own work capitalized in the amount of EUR 16.1 million (PY: EUR 17.8 million) can be attributed exclusively to continuing operations and mainly includes costs related to the development of new products. The year-on-year decrease can be explained in light of scheduling delays at the end of the year. Certain projects were not able to be capitalized as planned, since the necessary milestones had not been reached by December 31, 2012, due to the restructuring of human resources on short notice. The capitalization of these projects has been delayed until 2013.

Other operating income decreased from EUR 40.0 million to EUR 31.8 million. The significant items are the purchase price reduction on the part of Siemens AG in the amount of EUR 9.9 million (PY: EUR 0.0 million), exchange rate gains in the amount of EUR 6.5 million (PY:EUR 8.5 million) and EUR 3.7 million in income from the release of provisions (PY: EUR 13.1 million). Furthermore, income was realized from the reversal of impairment and/or from the derecognition of liabilities in the amount of EUR 3.3 million (PY: EUR 5.7 million) and gains from forward exchange deals in the amount of EUR 2.8 million (PY: EUR 1.6 million). Other operating income also includes a deconsolidation gain from the liquidation of Schierholz Translift Global Manufacturing & Finance AG in the amount of EUR 0.6 million (PY: EUR 2.6 million from the disposal of the Oxxynova Group).

The **cost of materials** for raw materials, merchandise, finished goods and purchased services was EUR 226.1 million, a decrease compared to the previous year's amount of EUR 267.2 million that is essentially in proportion to the decrease in sales revenue. The cost of materials ratio increased slightly from 51.3 % to 51.7 %.

Personnel expenses for wages, salaries, social security contributions and old age pensions amount to EUR 136.6 million, a year-on-year increase of EUR 18.3 million. This development was driven in particular by restructuring expenses in the amount of EUR 19.2 million. A total of 269 employees in Germany are being laid off from the 279 originally planned under the 2012 restructuring program. The annual savings after all measures have been fully implemented are estimated at EUR 30.0 million together with the decrease in goods and services.

Other operating expenses in the amount of EUR 128.4 million were incurred in the reporting period (PY: EUR 139.1 million). These include in particular marketing expenses (EUR 37.6 million; PY: EUR 40.7 million), general administrative expenses (EUR 22.1 million; PY: EUR 20.8 million), transport costs (EUR 12.8 million; PY: EUR 14.6 million) and exchange rate losses (EUR 8.6 million; PY: EUR 12.6 million). The consistently implemented cost-saving measures have also shown their effect in the fiscal year just ended.

EBITDA decreased from EUR 50.9 million to EUR –6.7 million in particular as a result of the restructuring expenses and the costs to build up and expand the new business segments as well as the financial, economic and sovereign debt crisis and the decrease in sales revenue due to the decline in consumer confidence.

The results can be broken down as follows:

EBITDA in €m	2012	2011	Change
Europe	9.7	58.9	-83.53 %
America	-6.5	-0.7	-828.57 %
Asia-Pacific/Middle East	1.3	1.6	-18.75 %
Gigaset Total	4.5	59.8	-92.47 %
Holding	-10.3	-8.3	-24.10 %
Other	-0.9	-0.6	-50.00 %
Total	**-6.7**	**50.9**	**-113.16 %**
of which continuing operations	-5.8	51.5	-111.26 %
of which discontinued operations	-0.9	-0.6	-50.00 %

Depreciation and amortization amounts to EUR 24.8 million (PY: EUR 26.8 million) and results almost exclusively from continuing operations. **Impairment write-downs** amount to EUR 1.9 million (PY: EUR 2.1 million). These relate to impairment losses on the difference between the fair value less costs to sell and the reclassified net assets of SM Electronic Group under IFRS 5 (disposal group). The impairment write-downs of SM Electronic Group recognized in 2011 result from restructuring measures and amount to EUR 1.9 million. The restructuring measures provided mainly for the outsourcing of logistics, whereby the high bay warehouse and other assets necessary for logistics could no longer be used. Impairment write-downs in the amount of EUR 0.2 million in 2011 related to the van Netten Group, which was sold in the same year.

EBIT can be broken down as follows:

EBIT in €m	2012	2011	Change
Europe	-15.1	32.4	-146.60 %
America	-6.5	-0.7	-828.57 %
Asia-Pacific/Middle East	1.3	1.5	-13.33 %
Gigaset Total	-20.3	33.2	-161.14 %
Holding	-10.4	-8.4	-23.81 %
Other	-2.8	-2.8	0.00 %
Total	**-33.5**	**22.0**	**-252.27 %**
of which continuing operations	-30.7	24.8	-223.79 %
of which discontinued operations	-2.8	-2.8	0.00 %

Net financial income decreased year-on-year by EUR 1.1 million to EUR –3.9 million. This development can be attributed primarily to an impairment loss of EUR 2.5 million for a loan receivable reported under financial assets.

The **consolidated net loss** for the year after non-controlling interests amounts to EUR –30.7 million compared to a consolidated net profit of EUR 17.4 million in the previous year.

This results in **earnings per share** of EUR –0.61 (basic/diluted) (PY: EUR 0.35 (basic/diluted)).

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6.2 Cash Flows

Cash flows

€m	2012	2011
Cash flow from operating activities	-24.1	32.0
Cash flow from investing activities	-8.8	-9.5
Free cash flow	-32.9	22.5
Cash flow from financing activities	26.2	1.9

In fiscal year 2012, Gigaset Group recorded a **cash outflow from continuing operations** of EUR 24.1 million (compared to a cash inflow of EUR 32.0 million in the previous fiscal year). This can be mainly attributed to the lower payments received on trade receivables due to decreasing sales revenues. The disbursements begun in connection with the restructuring in the fourth quarter had the same impact on operating cash flows as did the settling of trade payables.

Cash outflow from investing activities amounted to EUR 8.8 million (PY: EUR 9.5 million) and primarily reflects investments in non-current assets.

Thus, **free cash flow** amounted to EUR –32.9 million compared to EUR 22.5 million in the previous fiscal year.

Cash inflow from financing activities amounts to EUR 26.2 million (prior year comparison period: cash inflow of EUR 1.9 million) and results from the utilization of the syndicated loan.

Cash inflow attributable to discontinued operations amounted to EUR 0.1 million and is presented in detail in the notes. Furthermore, cash flows include changes in exchange rates in the amount of EUR –749 thousand.

Cash and cash equivalents decreased year-on-year by EUR 7.6 million to EUR 54.7 million.

6.3 Financial Position

The Gigaset Group's **total assets** as of December 31, 2012, amounted to around EUR 294.0 million and thus decreased by approximately 5.6 % compared to December 31, 2011. This can be primarily attributed to the declining business with cordless DECT telephones. The development of promising growth markets in the Business Customers and Home Networks segments is in its starting phase and was not able to compensate this development.

Non-current assets increased to EUR 107.7 million. The increase results mainly from higher deferred tax assets. These can be attributed mainly to existing tax loss carryforwards that can be used in the future. The deferred taxes are recognized, among other things, in light of a profit-and-loss transfer agreement planned for 2013 in the Gigaset Group. The non-current loan to a former subsidiary presented under financial assets in the amount of EUR 2.3 million was fully written off in 2012 after this company filed for insolvency in the fourth quarter of 2012. The decrease of EUR 1.8 million in property, plant and equipment is compensated by additional investments in intangible assets.

Current assets represent 63.4 % of total assets. Compared to the 2011 annual financial statements, they fell by EUR 22.1 million and now amount to EUR 186.3 million. The decrease results in particular from a reduction in current assets in light of the decrease in sales revenue in fiscal year 2012. Inventories, which rose during the course of the year, fell once again at the end of the year after the Christmas shopping season. The Company allowed its inventories to decrease from EUR 35.8 million to EUR 33.4 million in quick reaction to the lower overall market level. The EUR 8.7 million decrease in trade receivables to EUR 51.0 million can be mainly explained by the lower sales revenues compared to the previous year. Cash and cash equivalents decreased from EUR 62.3 million to EUR 54.7 million. Please refer to the statement of cash flows for a breakdown of changes in cash and cash equivalents. The development of other assets from EUR 27.2 million to EUR 26.4 million can be mainly explained by the lower deposits made in connection with the factoring program (EUR –1.2 million) as well as the repayment of a current loan (EUR 0.6 million). This is offset by the recording of a reimbursement claim in the amount of EUR 1.1 million related to the employment and qualification company continued under the 2012 restructuring measures. The assets held for sale presented as of the reporting date represent assets of the SM Electronic Group. The EUR 1.6 million decrease in these assets results mainly from an additional need to recognize impairment losses arising from the difference between the fair value less costs to sell and the reclassified net assets of the SM Electronic Group under IFRS 5 (disposal group).

Total liabilities amount to EUR 248.8 million, 71.5 % of which are current.

The Gigaset Group's **equity** as of the reporting date amounts to around EUR 45.2 million compared to EUR 76.2 million in the previous year. The equity ratio as of the reporting date is around 15.4 % (PY: 24.5 %).

Non-current liabilities increased by EUR 32.0 million mainly as a result of the utilization of the syndicated loan. In addition to financing the operating business, the funds raised served in particular to repay costly short-term sources of financing and develop new business segments. The increase in non-current provisions is based mainly on the partial retirement agreements newly formed in fiscal year 2012. Provisions for partial retirement agreements increased by EUR 4.3 million to EUR 5.3 million. Sixty five (65) new partial retirement agreements were formed in the fiscal year; as of the end of the year, partial retirement commitments had been made to a total of 85 employees.

Current Liabilities in the amount of EUR 178.0 million are considerably below the carrying amount in the annual financial statements as of December 31, 2011. **Current provisions** increased by EUR 19.2 million in particular as a result of the allocation of restructuring provisions. EUR 5.3 million of these provisions had already been utilized by the end of the year. In addition, provisions were recognized in the amount of EUR 3.0 million for the legal dispute with the insolvency administrator of Sommer Road Cargo Solutions GmbH & Co. KG. This was offset by the EUR 8.9 million decrease in current guarantee provisions to EUR 6.9 million as well as the EUR 3.7 million decrease in current provisions for expected losses from executory contracts to EUR 2.6 million. Current **financial liabilities** were almost entirely repaid in fiscal year 2012 through long-term financing in the form of a syndicated loan. Trade payables decreased by EUR 9.6 million to EUR 86.6 million as a result of the optimized procurement and production process adjusted to declining sales revenue. The EUR 17.0 million decrease in **other liabilities** can be mainly explained by the occurrence of the conditions for a purchase price reduction of EUR 9.9 million on the part of Siemens AG. In addition, the liabilities to personnel decreased from EUR 14.6 million to EUR 11.8 million as a result of the quick implementation of the restructuring measures. The liabilities related to **assets held for sale** include the SM Electronic Group's liabilities. The reduction of these liabilities results mainly from the termination of a foreign currency derivative in the amount of EUR 1.8 million as well as the reversal of provisions in the amount of EUR 1.0 million.

6.4 General assessment of the Group's economic situation

Fiscal year 2012 was characterized in particular by a dwindling telecommunications market. The persistent financial, economic and sovereign debt crisis and the resulting drop in consumer confidence led to declining sales revenue figures in the Gigaset Group's core business. The Company was able to partially compensate the decrease in sales in the European market as a whole through gains in market share. The Company had to accept a significant drop in sales in America and the Asia/Pacific region. The reorientation of the business purpose and the associated expansion of the Business Customers segment as well as the expansion of the promising Home Networks segment were continued. The EUR 19.2 million in costs associated with the restructuring begun in the third quarter had a negative impact on the annual financial statements as of December 31, 2012. The annual savings for personnel and material costs after all measures have taken effect are expected to be EUR 30.0 million. In addition, the Company met Siemens AG's requirements for a reduction of EUR 9.9 million in the purchase price earlier than expected in fiscal year 2012 and received a corresponding amount of income. In light of this, the Gigaset Group is reporting EBITDA in the amount of EUR –6.7 million as of year-end. EBITDA adjusted for restructuring effects is forecasted to be positive as in the third quarter, but considerably lower than in the previous year.

6.5 Key indicators of financial performance, cash flows and financial position

	2012	2011
Equity ratio	15.4 %	24.5 %
Ratio of non-current assets to total assets	30.1 %	28.4 %
Debt capital structure	71.5 %	85.7 %
Return on sales	negative	4.2 %
Return on equity	negative	23.0 %
Return on investment	negative	5.6 %

6.6 Description and elucidation of the management system

The Executive Board analyzes and manages the development of the Group on a monthly basis using various key indicators. The observation of sales revenue and the development of profit margins as well as EBITDA by region plays an important role in monitoring the operating business. Operating costs are analyzed and managed in detail based on cost categories and the department in which the costs are incurred. Significant effects are analyzed and measured based on budgeted amounts as part of the monthly reporting. Integrated financial planning (income statement, balance sheet, financial plan) is implemented group-wide for the reliable analysis of changes in liquidity. In addition, risk management is an integral part of business processes and decisions.

6.7 Non-financial performance indicators

The primary non-financial performance indicators for Gigaset are

- Research and development
- Environment
- Employees

Due to the high priority of these factors for the Gigaset Group, they are presented in detail in Sections 4.6 to 4.8.

7 Opportunities and risks report as of December 31, 2012

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

7.1 Market-related risks

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

Industry risks are risks that affect a certain market or a certain manufacturing sector. Due to the concentration on the area of telecommunications and accessories, there is a special dependency on the development in this industry, whereby Gigaset is exposed to intense competition. Generally, there are also dependencies here on the development of commodities prices and the risk of the entry of new, aggressive competitors.

The products of the Gigaset Group are widely distributed and are valued by their retailer and distributor customers due to the strong brand name and the innovative product portfolio. The excellent market position reflects not lastly this high degree of product acceptance. Since, as a rule, these are continuous, long-term partnerships, the dependency on individual retailers and distributors is generally low. However, there can be a greater dependency on individual customers when entering into new markets, in particular in the beginning.

The successful transition from the use of the "Siemens Gigaset" brand to the use of the "Gigaset" brand can lead to lower sales or the necessity of increased marketing expenses.

Due to the falling market trend in some target markets, there is a basic risk of general price decline for the product range as well as decreasing market volume in the medium term. This is being countered with consistent cost management and an innovative product portfolio in a strong, distinguished product design.

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

7.2 Entrepreneurial opportunities

The Company sees entrepreneurial opportunities with the "Business Customers" business unit and the Gigaset pro product portfolio. In addition to the traditional consumer segment, the Company is addressing a new customer segment, "Small Offices and Home Offices" (in short: SOHO), with Gigaset pro and is developing the corresponding potential for sales growth. Organizational changes have already been implemented. Gigaset pro is developing into another pillar of the Gigaset Group.

Gigaset plans to offer a modular smart home system with its new "Home Networks" segment called "Gigaset elements", which initially includes products and services in the areas of security solutions in condominiums, help for the elderly, and energy management.

In the newly created "EMS" segment (Electronic Manufacturing Services), Gigaset offers contract manufacturing in the areas of communications and electronics. Gigaset intends to support its core business with the EMS segment and also develop new technological fields.

In addition, the Company sees further opportunities in the development of regional markets (e.g. the United Kingdom, Russia, and Asia) using the established Gigaset brand and existing worldwide distribution network. Gigaset has the corresponding expertise to meet the market's increasing technical requirements in the area of research & development and launch product innovations in the market.

Strengthening the regional market positions is a key requirement for participating in future growth opportunities. At the same time, the forecast growth is also based on the development of more price-sensitive segments. The Group conducted a comprehensive analysis of the market determinants in the fiscal year and has already implemented corresponding measures targeted to reinforce and expand its market position. If the consolidation of the market presence and acceptance cannot be realized to the desired degree, there will be an earnings risk of weaker sales figures.

Due to the waiver of the last purchase price installment – including accrued interest – by Siemens AG, Gigaset was able to realize the corresponding earnings potential earlier than planned in fiscal year 2012. Gigaset AG sees its opportunities in particular in the development of its most important subsidiary, Gigaset Communications GmbH. Furthermore, operating activities can also be expanded through the purchase of companies with the right "strategic fit", whereby a particularly responsible approach to acquisitions has top priority, in particular when it comes to the use of authorized capital and thus the potential dilution of shares.

7.3 Company-specific risks

7.3.1 Information systems and reporting structure

Reliable and consistent information systems and reporting structures capable of providing useful information are necessary in order to monitor and manage the Group as well as the development of subsidiaries. Gigaset has a professional bookkeeping, controlling, information, and risk management system at its disposal and has established a company-wide, regular subsidiary controlling and risk management system. Technical functionality is ensured through corresponding IT support. The Executive Board is periodically and promptly informed of long-term developments in the countries and regions.

Nevertheless, the failure of the information system in a specific situation or in connection with the newly implemented worldwide introduction of SAP software cannot be ruled out, nor can its improper use by the relevant employees such that negative economic developments in a specific region are not promptly reported.

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

7.3.2 Other company-specific risks

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

Gigaset could be unable to continue to develop innovative products or to react in a timely manner to technical advances and the resulting changing requirements; however, costs are saved through proactive management with respect to the R&D programs and the technological development in forward-looking areas such as Voice over IP telephony (VoIP) is simultaneously accelerated.

Gigaset could be unable to sufficiently protect its own intellectual property and know-how. The fact that Gigaset could violate the intellectual property of third parties or be obligated to pay for the use of third-party intellectual property can also not be ruled out.

Defects in Gigaset's products can lead to warranty and product liability claims as well as the loss of sales revenue, which could impact Gigaset's results. Gigaset purchases commodities and materials predominantly from at least two suppliers. Gigaset has set up a supplier-management center in Shanghai in order to manage and monitor suppliers for its cooperation with suppliers in Asia. The Company tries to avoid dependency on specific suppliers with respect to prices, volumes, and innovations through wide-ranging collaboration.

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

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

There is a risk of default for existing receivables of individual Gigaset companies from Group companies if the respective debtor company cannot repay the debt. With the exception of important facts and circumstances listed under "Risks from contingent liabilities and legal disputes" in the Section entitled "Opportunities and risk report as of December 31, 2012", there are no identifiable facts or circumstances that could lead to Gigaset AG having to pay for liabilities on the part of subsidiaries.

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

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

7.4 Financial risks

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

7.4.1 Liquidity of the Gigaset Group

Operations are financed both through own funds as well as through working capital lines of credit under a syndicated loan agreement. Cash flows from operating activities cover the short-term financing requirements in connection with borrowed capital. The factoring of trade receivables that began on October 1, 2008, continued to serve as a short-term financing instrument.

The Group is exposed to relatively sharp, seasonal fluctuations in liquidity that are typical for the retail business. It currently has enough cash and cash equivalents, current receivables, and assets to service its liabilities.

7.4.2 Debt and liquidity of Gigaset AG

The syndicated loan raised in January 2012 was used to finance the Gigaset Group's working capital needs. In order to further finance its operations as well as provide financing for acquisitions, the Gigaset Group is dependent on strengthening its financial flexibility through additional measures to raise equity or borrowed funds. The equity raising measures authorized by the annual shareholders' meeting in 2012 must be implemented for this purpose.

7.4.3 Interest rate, currency and liquidity risks

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

Income is earned and expenses are incurred in foreign currencies in the Gigaset Group, for instance for the procurement of numerous components for production in the dollar zone. As a rule, the associated currency risk is hedged by financing international activities in matching currencies or by using derivative financial instruments to hedge foreign currency exposures.

A change in capital market interest rates can result in changes in the fair value of fixed-income securities and non-securitized receivables as well as plan assets to cover pension obligations. In individual cases, Gigaset enters into typical banking transactions to hedge interest rate risk.

The Group uses various instruments to refinance and hedge its receivables portfolio, such as factoring or loan default insurance, in order to hedge cash flow risks and to ensure the liquidity of the Group. If it should be necessary to refinance existing liabilities or renegotiate the terms of factoring agreed to by Gigaset Group companies as a result of the expiration or termination of corresponding agreements, Gigaset will be financially dependent on the then available terms and conditions. Covenants of currently existing loans significantly limit Gigaset's financial and operational flexibility.

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

7.5 Tax risks

The Company receives tax advise on an ongoing basis in order to identify any risks in advance.

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

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

The Company has achieved a below-average effective tax rate through the expected use of tax loss-carryforwards that have previously not been fully recognized.

The following topics in particular are currently being discussed with the tax authorities in the ongoing tax audit of the years 2006 to 2008:

Income from the disposal of long-term equity investments from past years was collected by the Company exempt from tax following an intensive review of the corporate income tax provisions; the majority of losses incurred in relation to (forced) sales were neutralized for tax purposes; the relevant years are subject to further review.

Starting with tax assessment period 2008, the Company began deducting input tax credits strictly proportionately as determined based on a comprehensible business formula, whereas input tax amounts were deducted in full in previous years.

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

7.6 Risk from contingent liabilities and legal disputes

7.6.1 Guarantees on the part of the parent company

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

7.6.2 Legal disputes involving Gigaset AG

Gigaset AG is involved in various legal disputes in connection with its general operations, in particular processes and arbitration proceedings, as well as official administrative proceedings, or such proceedings could be initiated or claims asserted against the Company in the future. Even if the outcome of individual proceedings cannot be predicted with certainty due to the imponderabilities with which legal disputes are always fraught, there will not be any significant negative impacts on the Group's financial performance in excess of the risks reflected in the financial statements as liabilities or provisions according to current assessments. In particular, there are numerous labor law disputes with former employees as well as civil law disputes with suppliers and service providers, each of which of immaterial significance.

The following major legal disputes involving Gigaset AG are currently pending:

Cartel cases involving SKW. In July 2009, the European Commission imposed a total administrative fine of EUR 61.1 million on various European companies in the calcium carbide sector in connection with an investigation under anti-trust laws. SKW Stahl-Metallurgie Holding AG and its subsidiary SKW Stahl-Metallurgie GmbH were made joint and severally liable for an administrative fine levied in the total amount of EUR 13.3 million in this matter. As the group parent company at the time, Gigaset AG is also joint and severally liable for this administrative fine by order of the European Commission based on the assumption that Gigaset AG as the group parent formed an "entrepreneurial unit" with the entities directly involved in the cartel. The administrative fine of EUR 6.65 million including interest attributable to the Company has been fully paid subject to claims for reimbursement (EUR 1 million in 2009, remainder including interest in 2010); however, the Company has filed suit both against the Commission's notice of the order as well as against its former subsidiary for the possible reimbursement of the administrative fine paid by Gigaset. The legal dispute between the Company and SKW Stahl-Metallurgie Holding AG as well as SKW Stahl-Metallurgie GmbH has so far not brought any clarity with respect to the legally appropriate allocation of the total administrative fine between SKW Stahl-Metallurgie Holding AG and SKW Stahl-Metallurgie GmbH as the entities directly involved in the cartel on the one hand and the Company as merely the jointly liable former group parent on the other. The point of law is currently on appeal before the Federal Supreme Court for clarification. Until this appeal on a point of law is decided, there is at least an abstract risk of a court of instance shifting the internal allocation of liability to the detriment of the Company. This could result in the Company being obligated to reimburse administrative fines originally levied on SKW Stahl-Metallurgie Holding AG and SKW Stahl-Metallurgie GmbH.

Evonik in the matter of Oxxynova. Evonik Degussa GmbH demands that the Company pay a contractual penalty of EUR 12 million based on a share purchase agreement dated September 8, 2006. It submitted a corresponding request for arbitration against the Company dated April 30, 2012, at Deutsche Institution für Schiedsgerichtsbarkeit e.V. Under this share purchase agreement, Oxy Holding GmbH had acquired all shares in Oxxynova GmbH (formerly

Oxxynova Holding GmbH) from Evonik Degussa GmbH (formerly Degussa AG) and issued various buyer warranties and guarantees. These also included the guarantee to operate the production sites of Oxxynova GmbH in Lülsdorf and Steyerberg for at least five additional years following the completion of the share transfer (October 12, 2006). In addition to Oxy Holding GmbH, Gigaset AG undertook as the guarantor to guarantee certain obligations on the part of Oxy Holding GmbH, also including the production site guarantee. In its request for arbitration, Evonik Degussa GmbH is taking the view that Oxy Holding GmbH violated its obligations arising from the production site guarantee, because its subsidiary Oxxynova GmbH closed the site in Lülsdorf in 2007. Hence, a contractual penalty of EUR 12 million is incurred, for which the Company is jointly and severally liable as the guarantor. The Company filed a motion for dismissal in a written legal brief dated September 28, 2012. It considers the suit to be insufficient in point of law because some of the basic information for the claims asserted has not been presented; it also considers the suit to be unjustified because the contractual requirements for the incurrence of the contractual penalty have not been met. In its answer to the complaint, the Company explains that Oxxynova GmbH lost key customers and the global market trend for Oxxynova's product was extraordinarily negative; as a result, Oxxynova was justified in closing the production site based on the wording of the contract. In addition, from the Company's point of view, Evonik Degussa GmbH would have been obligated to agree to the closing of the Lülsdorf site. However, it refused in violation of the contract to negotiate with the Company over the remission of the contractual penalty. In addition, the decommissioning of the Lülsdorf site was only resolved on March 23, 2010 (and implemented as of June 30, 2010), which is why the contractual penalty should amount to a maximum of EUR 7 million, even if one were inclined to agree with the arguments presented by Evonik Degussa GmbH. As a result of the existing uncertainties and the impending legal dispute, Gigaset AG recognized provisions in the amount of EUR 3.6 million as of December 31, 2011. The first hearing in court will take place at the end of June 2013.

Sommer Road Cargo Solutions GmbH & Co. KG. The insolvency administrator of Sommer Road Cargo Solutions GmbH & Co. KG. ("Sommer") brought charges against Gigaset AG and its former Executive Board member Dr. Martin Vorderwülbecke. Sommer was an investee of ARQUES Industries AG from October 2005 until March 2009. The plaintiff demands that the defendant pay EUR 3 million on a joint and severally liable basis. The plaintiff alleges that, as the group parent company of the Sommer Group at the time in 2007, ARQUES Industries AG unlawfully demanded that Sommer repay a loan and/or carried out a constructive distribution of dividends from Sommer Group's assets in the form of contractual terms inconsistent with arm's length standards and thus, among other things, violated the applicable capital maintenance rules. Sommer thereby incurred a loss equal at least to the amount in dispute, for which Gigaset should be jointly and severally liable together with the managing director at the time and Executive Board member Dr. Vorderwülbecke. Insolvency proceedings were initiated against Sommer on December 31, 2009. Gigaset AG considers the facts and circumstances in this matter to be incomplete and inaccurately presented and considers the complaint to be groundless. In addition, the receivables in question fall under the statue of limitations and any deadline for appeal against the insolvency has expired, since the essence of the claims dates back to 2007. Therefore, Gigaset AG will defend itself against the complaint.

SME vs. Thomson for compensation of losses. In its complaint pending before the regional court of Lübeck since November 2009, SME Holding GmbH demands that Thomson Sales Europe S. A. ("Thomson"), based in France, pay compensation for losses in the amount of USD 10.1 million, among other things. In the opinion of SME Holding GmbH, Thomson violated guarantees from a purchase and assignment agreement dated November 28, 2007. With that contract, SME Holding GmbH (trading at the time as "ARQUES Equity Management GmbH" and already a wholly owned subsidiary of the Company) acquired all shares in SM Electronic GmbH from Thomson. The background of the claim for compensation for losses is that SM Electronic GmbH was exposed to claims on the part of the US-based patent exploitation company MPEG LA, LLC ("MPEG LA") after the transaction negotiated in the purchase and assignment agreement was executed. MPEG LA issues sub-licenses for numerous patents of various companies relating to all aspects of MPEG-2 Video decoding and encoding. It alleges a past and ongoing violation on the part of SM Electronic GmbH of one of the patents it utilizes. SM Electronic GmbH saw and sees the asserted claims as justified on the merits of the case. In order to protect itself, it made a commitment to MPEG LA in a settlement agreed in May 2009 and a patent license agreement formed in October 2009 and effective retroactively as of June 1, 1994, among other things, to pay license fees of approximately USD 10.1 million in arrears for the past use of patented inventions until December 31, 2007. SME Holding GmbH supports its claims for compensation of losses asserted before the regional court of Lübeck in the approximate amount of USD 10.1 million against Thomson, in particular on a guarantee in the purchase and assignment agreement dated November 28, 2007, over the propriety of SM Electronic GmbH's financial statements, on the alleged lack of provisions for license claims, including those of MPEG LA, as well as the allegation that another company of the Thomson Group was aware or had to be aware of the threat of such claims before the purchase and assignment agreement was formed. Thomson filed a motion to dismiss the complaint, supported among other things by the view that asserted claims have no contractual or legal basis; in particular, the purchase and assignment agreement dated November 28, 2007, contains practically no guarantees with respect to rights protecting intellectual property. In addition, SME Holding GmbH did not incur any recoverable losses. The proceedings have not made any significant progress since SME Holding GmbH's counterplea on November 16, 2010, among other things, due to necessary translations, numerous third-party notices and supporting interventions on the part of third-parties as well as the associated servicing of documents abroad. MPEG LA initially deferred its license claims against SM Electronic GmbH in multiple letters because it was aware of the dispute before the regional court and also because of the claim asserted on more than one occasion by SM Electronic GmbH that it was unable to pay the entire outstanding license fees in arrears. Most recently, both parties and SME Holding GmbH agreed on August 8, 2012, that SM Electronic GmbH will satisfy its obligation to pay the license fees in arrears, which at the time amounted to approximately USD 9.8 million, by paying a slightly elevated license fee on every product licensed under the patent licensing agreement formed in October 2009 and sold after August 8, 2012, in addition to the license fees originally agreed for this purpose until the outstanding license fees are paid in full. However, the deferred claim would be payable immediately in full under certain circumstances; for instance, if SM Electronic GmbH were to shut down its operations or no longer sell any MPEG-2 products. If Thomson is ordered to pay compensation to SME Holding GmbH in the complaint before the regional court, the awarded amount is to be paid to MPEG LA to reduce any outstanding license fees.

Criminal proceedings in the matter of Gigaset Communications GmbH. The district attorney of Munich has accused two former members of the Company's Executive Board with breach of fiduciary duty and aiding and abetting the breach of fiduciary duty in 2009. One former Executive Board member is accused of allowing disbursements in violation of the capital maintenance rules pursuant to section 30 of the German Limited Liability Companies Act (Gesetz betreffend die Gesellschaften mit beschränkter Haftung, "GmbHG") in their parallel role as the managing director of Gigaset Communications GmbH; the other Executive Board member is accused of aiding the disbursements. The charges have been brought, but not yet admitted. The Company is a secondary participant in the proceedings. The Company denies criminal responsibility on the part of the Company for the actions of its executives for factual as well as legal reasons. It is trying to prevent the case from going to trial, or alternatively for the case to be dismissed – if necessary, in exchange for payment of a fine.

7.7 Opportunities and risk report with respect to discontinued operations

7.7.1 Opportunities and risks report with tespect to the equity investment in SM Electronic Group classified as held for sale

The SM Electronic corporate group has a relatively broad customer base at its disposal and supplies major specialty stores, warehouses, and retail chains in Germany and other German-speaking countries. These activities expose the Company to the general fluctuations of the consumer climate. The Company has long-term customer relationships with key customers. SM Electronic Group continually expands its operating activities to include new areas and segments with the goal of further developing the existing product and customer portfolio. The German consumer electronics market is characterized by a large number of participants and strong price pressure. The procurement business is subject to the fluctuation of the US dollar. The company finances itself mainly through intragroup loans. A factoring agreement was entered into with Coface as an external source of financing. There are other risks related to the elimination of the balance sheet deficit. Individual companies of the SM Electronic Group are exposed to substantial third-party claims due to the violation of industrial rights prior to the takeover by Gigaset and which are the subject of a legal dispute with the seller of these companies. The contingent liabilities and process risks resulting from these facts and circumstances are monitored on an ongoing basis in Gigaset AG's internal risk management system.

The backlog of incoming orders is subject to a high degree of fluctuation. SM Electronic sees excellent entrepreneurial opportunities in the optimization of its product portfolio and the reorientation of its international business. SM Electronic could significantly and permanently improve its cost structure by optimizing internal processes, modernizing its IT, and outsourcing logistics and services.

7.7.2 Opportunities and risks from equity investments that have already been sold

Opportunities and risks from equity investments that have already been sold were reflected in the consolidated financial statements until they were deconsolidated. As a rule, the opportunities and risks related to the operating activities of equity investments that have been sold were entirely eliminated by the respective sale. With the exception of the facts and circumstances listed under "Risks from contingent liabilities and legal disputes" in the notes, the Company is not aware of any legal bases or risks arising from the sale of the equity investments that could justify claims against Gigaset for liabilities on the part of the disposed equity investments.

8 Description of the main features of the internal control and risk management system with regard to the accounting process of Gigaset AG and the Gigaset Group (Section 289 (5) and Section 315 (2) 5 HGB)

8.1 Internal control and management using the Group-wide planning and reporting process

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

As the group parent, it is particularly important for Gigaset to continuously and consistently monitor and manage the development and risks in the individual subsidiaries. This takes place within the scope of a regular planning and reporting process as well as on the basis of group-wide, uniform accounting guidelines (Gigaset accounting manual).

The basis for this is the prompt availability of reliable and consistent information. Providing the data base is the responsibility of the Finance and Controlling departments of the holding company as well as the individual subsidiaries. Corresponding processes and monitoring measures both integrated and independent from the processes are adapted and implemented as necessary depending on the situation and industry affiliation of the respective company. Quick access to the information needed to manage the Group is ensured through this process.

The preparation and analysis of information from the subsidiaries takes place at Gigaset primarily in the Finance department in the areas of subsidiary controlling, financial accounting and reporting, liquidity management, and risk controlling. The completeness and accuracy of accounting data are periodically reviewed. The group auditor and other auditing bodies are included in the control environment of the Gigaset Group with auditing activities that are independent of the process. In particular the audit of consolidated financial statements by the group auditor and the audit of the financial statements of consolidated Group companies represent the primary process-independent monitoring measures with respect to the group accounting process.

The Supervisory Board of Gigaset AG and in particular the Audit Committee are also integrated in Gigaset's internal monitoring system with process-independent audit activities.

For instance, the bookkeeping and accounting processes – in particular in connection with the annual and quarterly financial statements – are clearly governed by the following measures:

8.2 Structural information

- The accounting is carried out in the Gigaset Group both locally in the subsidiaries as well as centrally in the Shared Service Center in Bocholt. The separate financial statements are prepared in accordance with local accounting regulations and adjusted to the specifications of International Financial Reporting Standards (IFRS) as they are applied in the EU as well as to the supplementary commercial law provisions under section 315a(1) of the German Commercial Code (Handelsgesetzbuch, "HGB") as necessary for the group accounting.

- The uniformity of the accounting and measurement in the Group is ensured on the one hand through the Gigaset accounting manual as well as on the other hand through the financial accounting and preparation of final accounts carried out in part centrally.

- Accounting processes are recorded using individually selected professional accounting systems that are adapted as needed, such as SAP or DATEV.

8.3 Process and control information

- Central and local duties and responsibilities are defined.

- Accounting control mechanisms, such as the principle of review by a "second set of eyes", validation by the systems, manual inspections, and documentation of changes are implemented.

- Deadline and process plans for separate and consolidated financial statements are prepared and distributed or are made generally accessible.

- Analysis and – if necessary – adjustment of the reporting packages presented by the Group companies.

- Plausibility check of the systems at the Group level.

- Single-step consolidation process with a professional consolidation system.

- Use of standardized and complete sets of forms.

- Use of experienced, trained employees.

- The auditor performs a check function as a process-independent instrument within the scope of their statutory audit engagement.

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

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

8.4 Group-wide systematic risk management

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

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

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

R2C_risk to chance provides Gigaset with a systematic, web-based risk management system with which all risks can be recorded group-wide and presented in consolidated form for each company or from the perspective of the Group. The individual risks can be efficiently managed at single company level on this basis and a current and complete view of the risk situation in the Group can be supplied at the same time. The compliance and monitoring of the risk strategies established by the Executive Board for the Gigaset Group is thereby optimally ensured.

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

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

- Market risk (economy/industry/competition, products/patents/certificates, legal environment, customers)
- Company/process risks (research/development, procurement, production, sales/marketing, delivery/after sales, accounting/finance/controlling, organization/auditing/IT, personnel, insurance, unanticipated events, acquisition/operations/exit)
- Financial risks (result, liquidity, debt/financing, equity, taxes, other financial risks)
- Contingent liabilities (guarantees/contingent liabilities, other financial obligations, legal disputes, D&O liability)

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

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

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

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

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

Monthly target/actual comparisons are conducted as part of subsidiary controlling to supplement the risk process and the current forecast is promptly adjusted if necessary. Liquidity management is based on weekly observation periods. Necessary measures can be prepared and implemented on short notice by providing the Executive Board with up-to-date information.

8.5 Qualifying comments

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

9 Report pursuant to Sections 289 (4) and 315 (4) HGB

Sections 289(4), 315(4) no. 1 HGB: The subscribed capital of Gigaset AG as of December 31, 2011, amounts to EUR 50,014,911 and is divided into 50,014,911 no-par value bearer shares with a notional value of EUR 1.00 per share. Each share grants the same rights and one vote.

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

Sections 289(4), 315(4) no. 3 HGB: As of the date of this report, the Company has not received any notifications regarding shareholdings in excess of ten percent of the voting rights.

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

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

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

Sections 289(4), 315(4) no. 7 HGB:
Contingent Capital 2011 (Section 4.3 of the Articles of Association)
The annual shareholders' meeting held on July 3, 2008, created the possibility of a stock option plan with "Contingent Capital 2008/I". The "Stock Option Plan 2008" and the related Contingent Capital 2008/I were annulled by resolution of the annual shareholders' meeting held on June 10, 2011, and a "Contingent Capital 2011" was created for the introduction of a "Stock Option Plan 2011".

According to this resolution, the share capital of the Company is conditionally increased by up to nominal EUR 1,300,000.00 through the issue of up to 1,300,000 new no-par value bearer shares ("Contingent Capital 2011"). The conditional increase of capital serves exclusively the granting of subscription rights ("options") to members of the Company's Executive Board and selected employees of the Company as well as members of the management and selected employees of affiliated companies ("individuals eligible for subscription") under the Gigaset AG Stock Option Plan 2011 ("Stock Option Plan") that are issued as specified under the resolution by the annual shareholders' meeting dated June 10, 2011. The conditional capital increase may only be carried out to the extent that options are issued under the Stock Option Plan, individuals eligible for subscription exercise these options, and the Company does not settle the options by granting treasury shares or paying cash compensation. The new shares participate in earnings from the beginning of the fiscal year in which they are are issued.

The annual shareholders' meeting held on June 10, 2011, authorized the Supervisory Board insofar to issue options to the members of the Company's Executive Board under the Stock Option Plan until December 31, 2014. The Executive Board is authorized with the approval of the Supervisory Board to issue options to the other individuals eligible for subscription under the Stock Option Plan until December 31, 2014. To the extent that members of the management and employees of affiliated companies are affected, this is carried out in coordination with the executive bodies responsible for remunerating these individuals eligible for subscription.

Other key points under the Stock Option Plan include:

1. Contents of options: Each option authorizes the acquisition of a share of Gigaset AG ("Gigaset share").

2. Group of individuals eligible for subscription: Individuals eligible for subscription include members of the Company's Executive Board and selected employees of the Company as well as members of the management and selected employees of affiliated companies. A total of up to 1,300,000 options can be issued for all groups

combined until December 31, 2014 ("total volume"). The options can be broken down to the specific groups of individuals eligible for subscription as follows:

(a) a maximum of 600,000 options for members of the Company's Executive Board (consequently up to approximately 46 %),

(b) a maximum of 500,000 options for selected employees of the Company or an affiliated company (consequently up to approximately 38.5 %),

(c) a maximum of 200,000 options for members of the management of affiliated companies (consequently up to approximately 15.5 %).

3. Acquisition periods: Options may be allotted once or in multiple tranches each within 45 (forty five) days following the date on which the results of the fiscal year just ended are announced, or each within 45 (forty five) days following the date on which the results of the first, second, or third quarter of the current fiscal year are announced, but no later than two weeks before the end of the respective current quarter. The day of allotment ("Allotment Date") of the options should be the same for the tranches and is determined by the Supervisory Board if members of the Executive Board are affected and otherwise by the Executive Board.

4. Term of options, blocking periods: Options have a total term of seven years from the Allotment Date and can only be exercised after the expiration of a vesting period. The vesting period comprises a minimum of four years from the Allotment Date. Options that are not exercised before the expiration of their term are forfeited without entitlement to substitution or compensation. Options may not be exercised during the period of 15 calendar days before the end of every quarter or fiscal year up to and including the first trading day after publication of the quarterly results or results for the year ("blocking periods"). In addition, individuals eligible for subscription must adhere to the limitations ensuing from general legal provisions, such as the German Securities Trading Act (provisions governing insider information).

5. Performance targets and strike price

(a) Performance targets: The performance target is determined based on the unweighted opening price of the Gigaset share in the XETRA trading system (or a comparable successor system) of the Frankfurt Stock Exchange on the option's exercise date or with respect to the relative performance target in addition to the status of the TecDAX (or a comparable successor index) on the Allotment Date and on the option's exercise date. The options may only be issued

- if the opening price of the Gigaset share in the XETRA trading system (or a comparable successor system) of the Frankfurt Stock Exchange on the option's exercise date exceeds the strike price by at least 15 % ("absolute performance target") and

- if the price of the Gigaset share in the XETRA trading system (or a comparable successor system) of the Frankfurt Stock Exchange between the Allotment Date and option's exercise date has performed better than the TecDAX (or a comparable successor index) in the same period ("relative performance target").

If the absolute and relative performance targets have been reached, every option can be exercised within its term in compliance with the provisions of the Gigaset AG Stock Option Plan 2011.

(b) Strike price: The strike price for a Gigaset share when the option is exercised corresponds to the unweighted average of the opening price of the Gigaset share on the Frankfurt Stock Exchange in the XETRA trading system (or a comparable successor system) on the ten (10) trading days of the Frankfurt Stock Exchange before the option's respective Allotment Date. The lowest issue price within the meaning of section 9(1) AktG shall be paid as the strike price.

6. Capital and structural measures, anti-dilution provisions: If the Company increases its capital during the term of the option, thereby granting a direct or indirect subscription right to the shareholders, the strike price will be reduced according to the option terms. The strike price is not reduced if the individual eligible for subscription receives a direct or indirect subscription right for new shares that puts them in the position as if they had already exercised the options from the Stock Option Plan. The option terms can provide adjustment rules for other cases of capital, structural, or comparable measures. Section 9 AktG remains unaffected. The option terms must establish an appropriate upper limit for option gains in the event of extraordinary developments. This also applies if option gains would result in an inappropriate total compensation of the individual eligible for subscription.

7. Non-transferability: The options may not be transferred and as a general rule must be exercised by the individuals eligible for subscription. However, the options may be inherited. The option terms can specify that the heir or heirs of the individual eligible for subscription rights must exercise the options within three months after the inheritance, but no earlier than the expiration of the vesting period.

8. Fulfillment of the options: The Company can choose to offer the individuals eligible for subscription treasury shares of the Company or cash compensation instead of issuing Gigaset shares from the Contingent Capital 2011 created for this purpose. The decision regarding which alternative to offer to the individuals eligible for subscription is made by the Supervisory Board if the individuals eligible for subscription are members of the Company's Executive Board; otherwise, the Executive Board shall decide. In reaching their decision, the Executive Board and Supervisory Board must be guided by the interest of the shareholders and of the Company. The option terms must be designed such that the Company has this option. The cash compensation should equal the difference between the strike price and the opening price of the Gigaset share in the XETRA trading system (or a comparable successor system) on the option's exercise date.

9. Additional rules: Other details for the granting and fulfillment of options and the other exercise terms are established by the Supervisory Board if members of the Company's Executive Board are affected. These terms and details are established by the Executive Board for other individuals eligible for subscription – in coordination with the executive bodies responsible for remunerating the eligible individuals if members of the management or employees of affiliated companies are affected. The additional rules include in particular:

(a) The establishment of options for individuals eligible for subscription or groups of individuals eligible for subscription,

(b) the establishment of provisions governing the execution of the Stock Option Plan,

(c) the procedure for granting and exercising options,

(d) the determination of holding periods beyond the minimum vesting period of four years, in particular the determination of graduated holding periods for some options, as well as the alteration of holding periods within the scope of statutory provisions in special cases, such as the change of control over the Company,

(e) the rules governing the treatment and exercise of options in special cases, such as the retirement of the eligible individual from the service of the Company, change of control over the Company, or the execution of a "Squeeze Out Process".

10. Taxation: The individuals eligible for subscription are responsible for paying all taxes due upon the allotment or exercise of options or upon the sale of Gigaset shares by the individuals eligible for subscription.

11. Duty to report: The Executive Board and the Supervisory Board shall report on the utilization of the Stock Option Plan and options granted to the eligible individuals for every fiscal year respectively in the segment report.

Contingent Capital 2012 (Section 4.4 of the Articles of Association)

The annual shareholders' meeting held on June 12, 2012, resolved to create a Contingent Capital 2012 in Section 4.4. of the Articles of Association. Accordingly, the share capital is contingently increased by up to EUR 23,500,000.00 by the issue of 23,500,000 new no-par value bearer shares conferring the right to participate in the earnings from the beginning of the fiscal year in which they are issued. The conditional increase in capital serves to grant shares to the bearer or creditor of bonds with warrants and/or convertible bonds issued by the Company or a subordinate Group company until June 11, 2017 for cash compensation , on the basis of the authorization by the annual shareholders' meeting held on June 12, 2012. New shares are issued respectively at the option or conversion price specified under the aforementioned authorization. The conditional increase in capital may only be carried out to the extent that option rights and/or conversion rights arising from the bonds are exercised and/or conversion requirements from the debt securities are met and to the extent that cash compensation is not paid or treasury shares are not offered for subscription. The Executive Board is authorized with the approval of the Supervisory Board to establish the other details regarding the execution of the conditional increase in capital (Contingent Capital 2012).

Authorized Capital 2010 (Section 4.5 of the Articles of Association)

In accordance with Art. 4(5) of the Articles of Association, the Executive Board is authorized with the approval of the Supervisory Board to increase the share capital in the period until December 20, 2015, once or in multiple stages by up to EUR 19,833,335 through the issue of new no-par value bearer shares conferring the right to participate in the earnings from the beginning of the fiscal year in which they are issued in exchange for cash and/or contributions in kind (Authorized Capital 2010). As a general rule, the shareholders are entitled to subscription rights. The new shares can also be underwritten by one or more credit institutions with the requirement that they be offered to the shareholders (indirect subscription right). The Executive Board is authorized with the approval of the Supervisory Board to decide on the contents of the share rights and the terms under which the shares are issued as well as the details of the execution of the capital increase. Furthermore, the Executive Board is authorized with the approval of the Supervisory Board to disapply shareholders' pre-emptive rights

a) with respect to capital increases in exchange for cash contributions if the issue price of the new shares is not significantly lower than the stock exchange price at the time of the final determination of the issue price and the shares issued based on this letter a) of this authorization do not exceed a total of 10 % of the share capital while disapplying shareholders' pre-emptive rights in exchange for cash contributions at neither the effective date, nor the date on which this authorization is made use of. The proportional amount of share capital attributed to shares (i) that are issued or sold beginning with December 20, 2010, until the authorization expires while disapplying shareholders' pre-emptive rights in direct or corresponding application of section 186(3) sentence 4 AktG; or (ii) that were issued to satisfy conversion or option rights or conversion requirements or can still be issued if the underlying debt securities were issued during the term of this authorization while disapplying shareholders' pre-emptive rights pursuant to section 186(3) sentence 4 AktG; or (iii) that were sold by the Company (treasury shares) if the sale was carried out based on an authorization that was valid at the effective date of the authorized capital while disapplying shareholders' pre-emptive rights is to be added to this amount of 10 % of the share capital

b) to the extent necessary in order to grant the bearers or creditors of convertible bonds or bonds with warrants that were issued by the Company or subordinate Group companies subscription rights to new shares to the same extent that they would be entitled to receive if the option or conversion rights were exercised or after the conversion requirement was met;

c) if the capital increase is carried out in exchange for contributions in kind for the purpose of acquiring companies (including indirectly), parts of companies, long-term equity investments, or other assets;

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

The Supervisory Board is further authorized to amend the version of the Articles of Association to reflect the respective amount of the capital increase from the Authorized Capital 2010.

Notice regarding share redemption authorization (expired)

The authorization to redeem shares created by resolution of the annual shareholders' meeting held on July 3, 2008, expired on January 3, 2010.

Notice regarding Contingent Capital 2009 (annulled by resolution of the annual shareholders' meeting held on June 12, 2012)

The annual general shareholders' meeting held on August 5, 2009, had created the authorization to issue bonds with warrants and/or convertible bonds. The Executive Board was insofar authorized to increase the Company's share capital by up to EUR 11,925,000 through the issue of 11,925,000 new no-par value bearer shares conferring the right to participate in earnings from the beginning of the fiscal year in which they were issued. The Executive Board took advantage of this authorization by resolution dated November 11, 2010, and issued convertible bonds divided in up to 11,900,001 bonds bearing 9 % interest p.a. with the approval of the Supervisory Board. These bonds were fully subscribed. A decision was made by resolution of the Executive Board dated February 10, 2011, with the approval of the Supervisory Board to convert these convertible bonds as specified under bond terms as of June 30,

2011. In fiscal year 2011, 10,348,241 subscription rights were exercised based on these conversion rights and contingent capital was thereby converted to share capital. The share capital now amounts to EUR 50,014,911. Accordingly, EUR 1,576,759 still remained from the Contingent Capital 2009. The annual shareholders' meeting held on June 12, 2012, annulled this amount of the Contingent Capital 2009.

Sections 289(4), 315(4) no. 8 HGB: A loan agreement formed by Gigaset AG includes a so-called "change of control" clause. Under this loan agreement, Gigaset AG is obligated to report a change of shareholders if a certain threshold amount is exceeded. Under this clause, the bank has the right to terminate the loan agreement effective immediately if the change in the shareholder structure leads to a change of control from the perspective of the financing bank or has a significant permanent effect on the development of the business or Gigaset AG's outlook or financial position.

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

10 German Corporate Governance Code – Gigaset AG complies with Code recommendations

10.1 Statement on corporate governance at Gigaset AG

10.1.1 Declaration of conformity

Corporate governance is an issue that Gigaset AG takes very seriously. In the reporting period, the Executive Board and the Supervisory Board dealt with issues relating to compliance with the German Corporate Governance Code (the "Code"), including the new recommendations added to the Code in the revised version dated May 15, 2012. With only a few exceptions, Gigaset AG complies with the recommendations of the Code issued in 2002 and most recently amended on May 15, 2012, and views corporate governance as a process that is constantly being developed and improved.

In March, the Executive Board and Supervisory Board of Gigaset AG submitted the declaration of conformity with the German Corporate Governance Code in the version dated May 15, 2012, as required under section 161 of the German Stock Corporation Act (Aktiengesetz, AktG) and made it permanently available to the shareholders on the Company's website (www.gigaset.com). The Executive Board and Supervisory Board of Gigaset AG thereby declare that, with few exceptions, they have complied and will comply in the future with the Code Commission's recommendations regarding the management and supervision of the enterprise published in the electronic Federal Gazette in the current version dated May 15, 2012.

The deviations are explained in the following statement.

Section 3.8 of the German Corporate Governance Code specifies that a deductible of at least 10 % of the loss is to be agreed if the Company takes out a D&O insurance policy for the members of the Supervisory Board. Contrary to this, a deductible of at least 10 % of the loss was not agreed with the members of the Company's Supervisory Board when the D&O insurance policy was purchased. The company is of the opinion that the members of the

Supervisory Board of Gigaset AG exercise their duties with the requisite level of care even without such a deductible.

Section 4.2.3 of the German Corporate Governance Code specifies that the remuneration structure is to be oriented on the Company's sustainable growth. The monetary compensation elements are to comprise both fixed and variable elements. The Supervisory Board must ensure that the variable elements are in general based on a multi-year assessment. In addition, section 4.2.3 specifies that retroactive changes to the performance targets or comparison parameters are to be ruled out and that in general a limitation (cap) is to be agreed by the Supervisory Board for extraordinary developments. Furthermore, care should be taken when Executive Board member contracts are formed to ensure that payments to an Executive Board member on premature termination of their contract, including fringe benefits, do not exceed two years' remuneration (severance pay cap) and compensate no more than the remaining term of the employment contract. If the employment contract is terminated for a serious cause for which the Executive Board member is responsible, no payments are to be made to the Executive Board member.

Contrary to **Section 4.2.3 of the German Corporate Governance Code**, the variable elements of remuneration paid to board members Charles Fränkl, Dr. Alexander Blum and Maik Brockmann are not based on a multi-year assessment. Mr. Brockmann's and Mr. Fränkl's Executive Board member contracts and Dr. Blum's managing director contract both have terms of only two years; as a result, stipulating a multi-year assessment basis would not offer any additional protection or other advantages in the opinion of the Company.

In addition, contrary to **Section 4.2.3 of the German Corporate Governance Code**, retroactive changes to the performance targets or comparison parameters are not ruled out. Dr. Blum's and Mr. Fränkl's variable remuneration is tied to the degree of achievement of the target established for Gigaset AG's respectively Gigaset Communications GmbH's business success. Setting the target at the beginning of every fiscal year enables Gigaset AG respectively Gigaset Communications GmbH to respond flexibly to changing parameters. With regard to the payment of a bonus to Mr. Brockmann for months January till March 2012, it has been contractually agreed that the Supervisory Board decides both on whether such a payment will be made as well as the amount and timing of such a payment. In the opinion of the Company, such an arrangement enables it to respond to any positive or negative developments in an optimal and flexible manner.

The variable remuneration for Mr. Brockman that has been paid from April 2012 is also tied to the degree of achievement of the Gigaset AG. Consequently, also at this point Gigaset AG is enabled to respond flexibly to changing parameters by setting the target at the beginning of every fiscal year.

Furthermore, contrary to **Section 4.2.3 of the German Corporate Governance Code**, the variable remuneration elements of Executive Board member Maik Brockmanndo not provide for any possibility of limitation (cap) until March, 31, 2013. For Executive Board member Dr. Alexander Blum the variable remuneration elements do not provide for any possibility of limitation (cap). In the case of the variable remuneration that was paid to Mr. Brockmann until March, 31, 2012 respectively September, 30, 2012 the Supervisory Board decided both whether a bonus will be paid as well as the amount and timing of such a payment. In setting the amount of such a payment, appropriate consideration must also be given to any payment made on the basis of the capital appreciation of a virtual stock portfolio. The Company is of the opinion that the interplay between bonus payments and payments based on the capital appreciation of a virtual stock portfolio (the Supervisory Board is entitled to pay a smaller bonus or no bonus at all to account for any large payment resulting from the higher share price) and the brief terms of the corresponding employment contracts already offered adequate protection against any inappropriately high variable remuneration paid to Executive Board member Mr. Brockmann. From April, 1, 2012 respecitvely October, 1, 2012 a possibility of limitation regarding variable elements is agreed with Executive Board member Brockmann. In the case of Executive Board member Dr. Blum, the variable remuneration payable upon 100 % achievement of the target is only EUR 30,000.00 before taxes. In the opinion of the Company, the brief two year contract term also offers adequate protection against any inappropriately high variable remuneration paid to Executive Board member Dr. Blum.

In addition, contrary to **Section 4.2.3 of the German Corporate Governance Code**, no severance pay caps were agreed with Executive Board member Maik Brockmann until March, 31, 2012. For Dr. Alexander Blum no severance pay caps were agreed. The Company is of the opinion that the brief two year contract term already offers adequate protection against any inappropriately high severance payments. Furthermore a severance pay cap is agreed with Executive Board member Brockmann with effect from April, 1, 2012.

Contrary to **Section 5.1.2 of the German Corporate Governance Code**, no age limit has been specified for the members of the Executive Board. No succession planning has yet been conducted. The Company is of the opinion that an age limit in itself is not a sensible or appropriate criterion for excluding someone from holding the office of an Executive Board member, particularly in consideration of the fact that such an age limit could be interpreted as a kind of discrimination. The primary qualifications for appointment to the Company's Executive Board are the respective candidate's knowledge, ability, and professional experience. Given the term of Executive Board member contracts and the number of members serving on the Executive Board, succession planning does not seem to be necessary at the present time.

Contrary to **Section 5.1.3 of the German Corporate Governance Code**, the Supervisory Board did not enact any by-laws in the current period of office. Given the positive cooperation and close coordination among Supervisory Board members in the past, Gigaset AG does not perceive a compelling necessity to establish by-laws at the present time.

Contrary to **Sections 5.3.2 of the German Corporate Governance Code**, the Audit Committee that was established by the Supervisory Board does not deal with issues related to Complicance. Due to its importance this issue is rather considered in plenary meetings.

Contrary to **Sections 5.3.1 and 5.3.3 of the German Corporate Governance Code,** the Supervisory Board has not formed any committees, with the exception of an Audit Committee and a Capital Market Committee. Section 5.3.1 of the Code recommends the establishment of professionally qualified committees with the goal of enhancing the efficiency of the Supervisory Board's work. The current composition of the Supervisory Board with its manageable size of only six members and the practice of holding meetings almost every month ensure that the Supervisory Board's work is carried out efficiently and that strategic issues and detailed questions are discussed intensively. In addition, given the size of the Supervisory Board, the establishment of committees is not expected to enhance the board's efficiency any further. A Nominating Committee has not been established because only shareholder representatives serve on the Supervisory Board.

Contrary to **Section 5.4.1 of the German Corporate Governance Code**, according to which the Supervisory Board is to set an age limit for its members, no age limit has been established for the members of the Supervisory Board. The Company is of the opinion that an age limit in itself is not a sensible or appropriate criterion for excluding someone from holding the office of a Supervisory Board member, particularly in consideration of the fact that such an age limit could be interpreted as a kind of discrimination. The election proposals submitted to the annual shareholders' meeting are based primarily on the respective candidate's knowledge, ability and professional experience.

Contrary to **Section 5.4.1 of the German Corporate Governance Code**, the Supervisory Board has not specified any concrete objectives regarding its composition. The Supervisory Board is elected by the annual shareholders' meeting. Gigaset AG is of the opinion that the suitability of candidates is decided solely by the Company's shareholders.

Contrary to **Section 5.4.6 of the German Corporate Governance Code**, the members of the Supervisory Board are paid a fixed salary. The remuneration does not include a performance-based element. The Company is of the opinion that payment of a fixed salary reinforces the independence of Supervisory Board members and prevents potential conflicts of interest, while ensuring that the Supervisory Board performs its duties to the full extent.

Contrary to **Section 5.4.7 of the German Corporate Governance Code**, Supervisory Board member Dr. Dr. Löw participated in less than half of the Supervisory Board's meetings in fiscal year 2012.

10.1.2 Report on corporate governance

10.1.2.1 Functioning of the Executive Board

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

The Executive Board defines the goals and strategies for the corporate group, its subgroups, and subsidiaries and sets the guidelines and principles for the corporate policy derived therefrom. It coordinates and controls the activities, specifies the portfolio, develops and deploys managers, distributes the resources, and decides upon the corporate group's financial management and reporting.

Where more than one person has been appointed to the Executive Board, the members of the Executive Board have joint responsibility for managing the Company as a whole. Irrespective of the overall responsibility of all members of the Executive Board, the individual members each have personal responsibility for managing the areas assigned to them under the relevant Executive Board resolutions. The Executive Board in its entirety decides upon all matters of fundamental and essential significance and upon all cases specified by law or other means. Executive Board meetings are held at regular intervals and are convened by the Chairman of the Executive Board. In addition, any member may call for a meeting to be convened. Where the law does not require unanimity, the Executive Board adopts resolutions upon a simple majority of the votes cast. In the event of a tie, the Chairman casts the deciding vote. According to the Executive Board's by-laws and schedule of responsibilities, the Chairman of the Executive Board is specifically responsible for leading and coordinating the Group Executive Board. It represents the Company and corporate group vis-a-vis third parties and the workforce in matters that affect more than just parts of the Company or the corporate group. In addition, it has special responsibility for certain Corporate Center units and their areas of activity.

10.1.2.2 Supervisory Board: Guidance and supervision

The Supervisory Board is tasked with supervising and advising the Executive Board. It comprises six members. The Supervisory Board is directly involved in decisions of fundamental importance for the Company; it also agrees on the Company's strategic orientation with the Executive Board and discusses the progress achieved on implementing the business strategy with the Executive Board. The Chairman of the Supervisory Board coordinates the board's work and chairs its meetings. The Executive Board keeps the Supervisory Board informed at all times about the Company's policies, planning and strategy as part of a regular exchange of views. The Supervisory Board approves the annual plan and the financial framework, and adopts the annual financial statements of Gigaset AG and the consolidated financial statements of the Gigaset Group, together with the combined management report, taking into account the reports submitted by the independent auditors.

10.1.2.3 Supervisory Board committees

Audit Committee: Since the annual shareholders' meeting held on June 10, 2011, the Audit Committee has comprised three Supervisory Board members, namely, Mr. Hersh (Chairman), Dr. Dr. Löw, and Mr. Riedel. The members of the Supervisory Board who also served on the Audit Committee in the fiscal year meet the statutory requirements of independence and expertise in the areas of accounting or auditing that members of the Supervisory Board and Audit Committee must fulfill.

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

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

Capital Market Committee: The Supervisory Board has also formed a Capital Market Committee pursuant to section 107(3) AktG that discharges the duties and exercises the authority of the Supervisory Board under Articles 4.4 and 4.5 of the Company's Articles of Association as well as its additional powers of authority under Article 11 of the Articles of Association. The corresponding responsibilities of the Supervisory Board are transferred to the Capital Market Committee to be decided and exercised independently. The Capital Market Committee comprises Supervisory Board members Mr. Lamprecht (Chairman), Mr. Hersh, and Mr. Riedel.

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

Under section 15a of the German Securities Trading Act (Wertpapierhandelsgesetz, WpHG), members of the Executive and Supervisory Boards as well as their related parties are obligated to disclose the purchase or sale of shares of Gigaset AG if the total value of such transactions reaches or exceeds EUR 5,000 in a given calendar year. Gigaset AG publishes information regarding such transactions immediately on its webpage and notifies the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht, BaFin) in writing accordingly; the information is communicated to the commercial register for archiving. Gigaset AG was not notified of any such transactions in fiscal 2012.

10.1.2.5 Corporate compliance

Our commercial activities are oriented on the legal systems of various countries and regions, which give rise to diverse obligations and duties for the Gigaset Group and its employees at home and abroad. Gigaset always conducts its operations responsibly and in compliance with the statutory provisions and official regulations applicable in the countries where Group companies operate. Gigaset expects all of its employees to demonstrate proper legal and ethical behavior in their day-to-day activities. Indeed, every single employee influences the Company's reputation with his or her professional behavior. A constant dialog and close monitoring lay the foundation for conducting our business activities responsibly and in compliance with the applicable laws.

10.1.2.6 Extensive reporting

In order to ensure a high level of transparency, we notify our shareholders, financial analysts, media and other interested parties at regular intervals regarding the position of the Company and key commercial developments. Gigaset AG informs its shareholders four times a year about the development of its business and the Company's financial position, financial performance and cash flows together with the associated risks. In accordance with their statutory obligation, the members of the Company's Executive Board confirm that – to the best of their knowledge – the respective quarterly or annual financial statements, the consolidated financial statements, and the combined management report provide a true and fair view of the Company. The annual financial statements of Gigaset AG, the consolidated financial statements of the Gigaset Group, and the combined management report will be published within 90 days of the end of the respective fiscal year. Shareholders and third parties are also informed during the course of the year by means of a half-yearly financial report and quarterly financial reports after the end of the first and third quarters. In addition, Gigaset AG releases information in press and analyst conferences. Gigaset AG also uses the Internet as a means of publishing current information. This provides access to timetables for the key publications and events, including the annual reports, quarterly financial reports, and the annual shareholders' meeting. In line with the principle of fair disclosure, we treat all shareholders and key target groups alike when providing information. We use appropriate media channels to make information about important new circumstances promptly available to the general public. In addition to the regular reports, we release ad hoc reports regarding relevant facts and circumstances that could significantly affect the price of the Gigaset share were they to be disclosed.

10.2 Principles of the remuneration system for Gigaset AG's executives

10.2.1 Remuneration paid to members of the Executive Board

The duties and contribution of the respective Executive Board member are taken into account when determining their remuneration. The remuneration granted in fiscal 2012 comprised both fixed annual salary and performance-based components. The variable components consist of bonus agreements for all members of the Executive Board employed during the reporting period which are tied to the increase in value of a virtual share portfolio (dependent on the Company's performance) as well as to the fulfillment of certain goals established for the area respectively assigned to the board member (dependent on the success of that area).

The remuneration of the Executive Board comprises separate fixed and variable components. The fixed remuneration is paid in the form of a monthly salary. The variable remuneration comprises, on the one hand, a special bonus, the amount of which is determined based on the increase in value of a virtual stock portfolio, and on the other, an individual bonus agreement for each of the Executive Board members employed in the fiscal year.

The basis for calculating the variable remuneration with respect to the virtual stock portfolio for all members of the Executive Board employed during the reporting period is a specific number of shares in Gigaset AG ("virtual stock portfolio") valued at a specific share price ("initial value"). The amount of variable remuneration is calculated in each case from the possible increase in value of the virtual stock portfolio over a specific period, i.e. relative to a pre-determined future date ("valuation date"). The amount of variable remuneration is derived from the difference between the value of the virtual stock portfolio measured at the share price on the valuation date and its initial value ("increase in value"). The general policy is to settle the increase in value in cash, converted at the share price on the valuation date.

10.2.2 Remuneration paid to members of the Supervisory Board

The annual general meeting held on June 10, 2011, resolved the following remuneration scheme for the Supervisory Board:

"Each member of the Supervisory Board receives a fixed payment of EUR 1,000.00 for each month or partial month of their term in office as well as a payment of EUR 1,000.00 for each Supervisory Board meeting or committee meeting attended. The Chairman of the Supervisory Board receives a fixed payment of EUR 1,500.00 for each month or partial month of his term in office as well as a payment of EUR 1,500.00 for each Supervisory Board meeting or committee meeting attended. The payments are due after the end of the annual shareholders' meeting adopting a resolution to approve the actions of the Supervisory Board for the previous fiscal year."

This resolution of the annual shareholders' meeting is implemented by the Company.

11 Significant events after the balance sheet date

11.1 The insolvency administrator of Sommer Road Cargo Solutions GmbH & Co. KG filed suit against Gigaset AG and its former Executive Board member Dr. Martin Vorderwülbecke

The insolvency administrator of Sommer Road Cargo Solutions GmbH & Co. KG ("Sommer") brought charges against Gigaset AG and its former Executive Board member Dr. Martin Vorderwülbecke at the end of 2012. Sommer was an investee of ARQUES Industries AG from October 2005 until March 2009. The plaintiff demands that the defendant pay EUR 3 million on a joint and severally liable basis. The plaintiff alleges that, as the group parent company of the Sommer Group at the time in 2007, ARQUES Industries AG unlawfully demanded that Sommer repay a loan and/or carried out a constructive distribution of dividends from Sommer Group's assets in the form of contractual terms inconsistent with arm's length standards and thus, among other things, violated the applicable capital maintenance rules. Sommer thereby incurred a loss equal at least to the amount in dispute, for which Gigaset in its present form should be jointly and severally liable together with the managing director at the time and Executive Board member Dr. Vorderwülbecke. Insolvency proceedings were initiated against Sommer on December 31, 2009. Gigaset AG considers the alleged facts and circumstances in this matter to be incomplete and inaccurately presented and considers the complaint to be groundless. In addition, the receivables in question fall under the statute of limitations and any deadline for appeal against the insolvency has expired, since the essence of the claims dates back to 2007. Therefore, Gigaset AG will defend itself against the complaint.

11.2 The charges against Gigaset AG as the secondary participant in a criminal process were dropped in exchange for an administrative fine.

The district attorney of Munich accused two former members of the Company's Executive Board of breach of fiduciary duty and aiding and abetting the breach of fiduciary duty in 2009. One former Executive Board member is accused of allowing disbursements in violation of the capital maintenance rules pursuant to section 30 of the German Limited Liability Companies Act (Gesetz betreffend die Gesellschaften mit beschränkter Haftung, "GmbHG") in his parallel role as the managing director of Gigaset Communications GmbH; the other Executive Board member is accused of aiding the disbursements. The Company is a secondary participant in the proceedings. An administrative fine of EUR 350,000 was levied against Gigaset AG as a secondary participant in the proceedings in a decision handed down on January 29, 2013. The decision concludes a longstanding legal dispute. The Company had recognized provisions in the corresponding amount in prior years; as a result, its earnings were not impacted in fiscal year 2013.

11.3 Chairman of Gigaset AG Supervisory Board resigns for personal reasons

Rudi Lamprecht, Member of the Gigaset AG Supervisory Board since June 10, 2011 and Chairman of the Supervisory Board, resigns his position as Chairman of the Supervisory Board with notice dated March 11, 2013 for purely personal and private reasons and left the Supervisory Board. As the elected substitute member of the Gigaset AG Supervisory Board; Ms Barbara Münch, néeThätig will succeed Mr Lamprecht. The Supervisory Board elected Mr. Bernhard Riedel as chairman at their regular meeting on March 22, 2013.

12 Forecast report and outlook

12.1 General economic development

We continue to expect global gross domestic product (GDP) to rise moderately in the two coming years. The United Nations forecasts global growth of 2.4 % in 2013, which is only slightly above growth in 2012 (+0.2 %). The growth rate is expected to be 3.2 % in 2014. This development can still be attributed to the strained economic situation in the major industrial nations, whose effect can also already be seen in the weakened economic growth of developing and emerging economies.

Economic growth in the USA will stagnate in 2013 due to persistently high unemployment and lackluster demand in the investment business. Growth expectations for 2013 and 2014 are minimal in the eurozone due to the high unemployment rate, which reached a record level of 12 % in 2012, as well as the uncertainty regarding the end of the sovereign debt crisis. In Japan, economic growth is expected to decline due to government austerity measures and rising taxes on consumption. A global recession is possible due to sustained turbulence in the financial sector and the further expansion of sovereign debt in individual EU countries.

The economic development of emerging economies is being increasing impacted by the weakening of industrial nations. Growth is expected to be 5.1 % for 2013 and 5.6 % for 2014 in emerging economies as a result of increased fluctuations in capital flows and commodity prices as well as low export volumes. In particular China and India are among the most important engines of growth among developing countries. GDP growth in China is expected to be 7.9 % for 2013 and 8.0 % for 2014. India's economy is expected to expand by more than 6 % in the next two years.

12.2 Development of the industry

Market for cordless telephones[1]

According to experts, the persistently weak economic environment and increasing competition from smartphones and other portable communications devices are contributing to a mid-single digit percentage rate decline in the market for landline telephony in 2013 and 2014. However, this decline will let up slightly in subsequent years according to the current forecast. The market for DECT standards will also shrink slightly with respect to unit sales. The analog standard and other digital standards will be on the decline worldwide and decrease further in significance, whereby the two aforementioned standards are declining without exception in all regions.

On the other hand, the DECT market is developing inconsistently. In Europe, the DECT market will decline slightly in the coming years measured in unit volume, whereby slight growth is forecasted for Asia and Latin America. In the Middle East and in Africa, the DECT market will initially decline, only to subsequently rise again slightly. The North American market for DECT devices is expected to decline further with respect to units sold compared to the previous year starting in 2013 and can continue declining until 2017.

There are signs of lower prices in the years to come in all regions, whereby the DECT market will record the smallest decline in the lower single-digit range. However, the price level for DECT telephones should further stabilize starting in 2015.

1) Source: MZA Global Cordless Telephones – 2012 Forecast Edition (published October 2012)

Market for business customers[2]

According to market studies, development in the European telecommunications market is leaning heavily in the direction of IP telephony. Demand for hybrid IP systems already constitutes 90 % of total demand and will further increase in the next four years. Similar trends are expected in the market for IP terminals. The number of IP terminals sold in Europe is forecasted to grow by nearly 40 % until 2017, whereas the market for digital and analog terminals will decline. Gigaset pro offerings include not only consumer devices but also serve the sharply rising demand for telephone networks – so-called "hosted" communications solutions.

Market for Smart Home Systems & Services[3]

The market for Smart Home Systems & Services (SHSS) in Western Europe is considered to be extremely promising. The number of Smart Home households will increase from 5.8 million in 2012 to 33 million by 2017. This opens up new possibilities for expansion for technology and service providers in the area of SHSS. Whereas only 3 % of all Western European households could be classified as "Smart Homes" in 2012, this number is expected to rise to 18 % of all households by 2017. Sales revenues from installation and other services as well as the provision of hardware components amounted to around USD 3 billion in 2012. The market research institute Strategy Analytics expects the sales potential to triple in the next five years to around USD 10 billion, whereby the provision of hardware will represent the strongest sales component at 62 %. The service sector in the area of Smart Homes is expected to reach 21 % of all sales or USD 2.1 billion in 2017. Around 18 % (USD 1.8 billion) of the sales volume will be realized with installation services.

The SHSS market worldwide is still at the beginning of its potential to expand. Whereas only 1 % of all households in Asia can be classified as Smart Homes, the USA represents the currently best-developed market with around 10 % of all households . The Asian market for Smart Homes is expected to continue to grow more slowly than the US or Western European markets.

12.3 Development of the Gigaset Group

The forecast below is based only on continuing operations. The presentation is broken down into geographic segments, as applied in the management control process.

12.3.1 Financial performance

The decrease in sales revenue for continuing operations lies within the communicated expectations. The earnings forecast for 2012 was not reached in particular as a result of the decline in sales and non-recurring effects related to restructuring. Emphasis will also be placed on the Gigaset Group's strategic goal of generating sustainable growth in the next two years. Gigaset Group is focusing on expanding lucrative growth markets, in particular in Europe, in reaction to the declining development of the classic telecommunications market as well as to ensure that the Company grows sustainably. The Group also aims to optimize its product portfolio and corporate structures. In addition to continuing the core business, emphasis will be placed on expanding Gigaset pro and building up the new Home Networks segment. The Group's financial situation should also be improved and greater strategic flexibility ensured by increasing efficiency through an orientation on sustainable profitability.

2) Source MZA PBX/IP PBX – 2012 Forecast Edition (published September 2012)
3) Source: Strategy Analytics

The market trend in Europe points to consolidation with an overall stable to slightly declining price level. Three of the largest competitors are already selling considerably more than two-thirds of the total volume led by Gigaset. So-called B-brands, discount brands, and local suppliers continue to lose market share. In its position as the market leader, Gigaset can take advantage of the strengths in its portfolio as well as its geographic and logistical proximity to the core markets, while the competitors almost exclusively produce outside of Europe. Gigaset can deliver to even remote regions of Europe within three days. In addition, Gigaset realizes considerably higher average sales prices than the competition as a premium brand supported by a broad product portfolio. Gigaset makes a crucial contribution to crowding out B-brands and discount brands with its clear brand profile.

On the one hand, business development in fiscal years 2013 and 2014 will be characterized by the possible effects of the financial crisis on the primary sales market Europe and the forecasted decline of the classic telecommunications market. In addition, the forecasted business success is related to the planned expansion of Gigaset pro and a successful market entry in the Home Networks segment. These uncertain general conditions – especially in Europe – make a reliable outlook significantly more difficult. The highly volatile trend on the foreign exchange markets also has an effect. Invoices are issued primarily in US dollars on Gigaset's procurement markets, whereby a stronger US dollar has a negative effect on the Group's profitability. In light of this, we expect that sales in 2013 will fall short of the previous year's level. Thanks to positive restructuring effects and strict cost management, earnings (EBITDA) are expected to improve significantly year-on-year.

The Company sees great potential, in particular in Internet-based voice/video communication for private and business customers. The Company will tap a new product segment of home networking based on cloud platforms and Android-based platforms. This also enables Gigaset to develop and expand new partnerships as well as new market segments, for example the new Home Networks segment. For 2014, sales and earnings are expected to improve compared to 2012 as a result of the additional capital expenditures and the economic recovery.

This forecast is based on the described general economic and industry-specific trends. The forecast is not based on inorganic growth through acquisitions. In addition, the forecast is based on a USD/EUR exchange rate of 1.30.

The earnings forecast presented for the Group also applies mainly for the individual regional segments. The largest segment Europe will continue to be influenced by macroeconomic risks in individual markets. Total sales revenues are expected to fall short of the previous year's level, while earnings are expected to exceed it.

Sales revenues for the Asia Pacific/Middle East segment are forecasted to slightly exceed the previous year's level. The positive development in the regional direct business will be nearly absorbed by declining sales expectations in China as a result of non-recurring effects. Earnings in the Asia Pacific/Middle East segment are expected to decline.

A dramatic decline in sales is expected in the Americas, which can be largely attributed to lower sales revenues in the Brazilian market. However, we expect earnings to improve in the Americas.

12.3.2 Cash flows

The sustained financial, economic and sovereign debt crisis has complicated refinancing possibilities on the credit markets. The Company finances itself in particular through the syndicated credit line secured at the beginning of 2012 in the amount of up to EUR 35.0 million as well as through factoring.

As a result of the very uneven distribution of revenues over the course of a given year, varying levels of liquidity are required during the year that might, under certain circumstances, need to be covered by taking out loans at short notice. It may come to a shortfall in the summer months of 2013. The Gigaset Executive Board has drawn up an action plan aimed at closing this liquidity gap. In cases where temporary deteriorations in the general economic environment coincide with periods when Gigaset regularly has a need for high levels of liquidity, liquidity reserves could be consumed faster than planned. In these cases, Gigaset would rely upon drawing down existing credit lines - where available - or requesting additional loans. All in all, the maintenance of the existing credit lines is essential for the long-term financing concept.

Gigaset has initiated talks with potential investors regarding the financing of the investments to expand the Business Customers division and set up the Home Networks division. Negotiations are being conducted regarding a commitment to provide additional financial resources. Furthermore, the company is looking into alternative sources of finance like sale-and-leaseback or the pre-financing of some inventories.

Against this backdrop, the continued existence of the corporate group as a going concern depends notably on the existing finance facilities within the framework of the syndicated loan and factoring activities being maintained. The continued existence of the corporate group as a going concern could be endangered if it proves impossible to obtain additional liquidity or implement the envisaged measures to cover liquidity requirements as planned, especially in a changing economic environment.

We will continue to focus on managing liquidity in the coming two fiscal years. The Company's strategy with respect to securing financial stability remains conservative in order to preserve the Group's operational and strategic flexibility.

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

12.4 Development of Gigaset AG

12.4.1 Financial performance

As the Gigaset Group's holding company, Gigaset AG does not generate any noteworthy sales revenues. Gigaset AG's earnings are determined based on personnel costs and other expenses for the management, the Legal & Tax department, Audit, Corporate Communications, Group Brand Communications, Business Development, and Investor Relations.

As a holding company, Gigaset AG's performance is heavily influenced by the development of its subsidiaries, particularly the operating Gigaset Communications Group. Due to the planned profit-and-loss transfer agreement, earnings are expected to improve as a result of subsidiaries' profits in 2013 and 2014.

12.4.2 Cash flows

Gigaset AG has access to the subsidiaries' cash as a result of its integration in the Group cash pooling scheme. The authorized capital continues to offer the possibility of additional financial flexibility.

12.5 Overall statement regarding expected development

The implementation of the announced strategic measures for sustainable growth has been initiated. Ensuring the future security of the Group and the holding company is among the Executive Board's most urgent duties. Therefore, the expansion and development of promising markets as well as portfolio and product optimization are an ongoing process of development.

Our sales and earnings goals at both the Group and Company level for fiscal years 2013 and 2014 are subject to opportunities and risks. In light of the strained economic situation in the major industrial nations and the uncertain development trends in the financial sector, a reliable forecast for the fiscal year just begun cannot be made at this time. We continue to focus on strict cost discipline with an unchanged high level of investment in the product portfolio as well as the strategic orientation on promising markets. We will continue to optimize net working capital.

The new fiscal year entails some challenges for the Group that must be mastered. We will continue to implement our strategy consistently and focus on interesting growth markets, in particular within Europe. We will also continue to expand our product portfolio and further improve our financial situation, thereby creating the basis for sustainable growth.

In addition, acquisitions in the area of telecommunications are possible at the level of Gigaset AG. Acquisitions can contribute in particular to promoting Gigaset's strategic further development and introducing new product innovations. A potential acquisition target's "strategic fit" in the Gigaset Group is a strict requirement for acquisition.

Significant effects from portfolio measures as well as from legal and regulatory areas are exempt from this forecast. The described market and industry conditions are a requirement for the forecast. Gigaset's actual development can differ positively as well as negatively from our forecast due to the described opportunities and risks.

Development in the first two months of the current fiscal year is slightly below expectations due to a shift in sales to the following quarters.

Munich, March 27, 2013

Gigaset AG

The Executive Board

FINANCIAL STATEMENTS

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Consolidated Income Statement for the period from January 1 to December 31, 2012

EUR'000	Note	01/01/ – 12/31/2012 Continuing operations	Discontinued operations	Total
Revenues	1	419,557	17,687	437,244
Change in inventories of finished and unfinished goods		-621	25	-596
Other internal production capitalized	2	16,076	0	16,076
Other operating income	3	26,052	5,707	31,759
Purchased goods and services	4	-216,099	-10,001	-226,100
Personnel expenses	5	-134,048	-2,599	-136,647
Other operating expenses	6	-116,750	-11,680	-128,430
EBITDA		-5,833	-861	-6,694
Depreciation and amortization		-24,844	0	-24,844
Impairment losses	7	0	-1,935	-1,935
EBIT		-30,677	-2,796	-33,473
Impairment on financial assets	15	-2,471	0	-2,471
Other interest and similar income	8	911	1	912
Interest and similar expenses	8	-2,160	-145	-2,305
Net financial expenses		-3,720	-144	-3,864
Income from ordinary activities		-34,397	-2,940	-37,337
Income taxes	9	6,235	410	6,645
Consolidated net income / loss for the year		**-28,162**	**-2,530**	**-30,692**
Share of consolidated net income / loss attributable to non-controlling interests	10	0	0	0
Share of consolidated net income / lloss attributable to shareholders of GIGASET AG	10	-28,162	-2,530	-30,692
Earnings per common share	11			
- Basic earnings per share, in EUR		-0.56	-0.05	-0.61
- Diluted earnings per share, in EUR		-0.56	-0.05	-0.61

Consolidated Income Statement for the period from January 1 to December 31, 2012

01/01/ – 12/31/2011				
Continuing operations	Discontinued operations	Total	Note	EUR'000
458,569	61,982	520,551	1	Revenues
-1,068	-1,725	-2,793		Change in inventories of finished and unfinished goods
17,761	0	17,761	2	Other internal production capitalized
30,029	9,955	39,984	3	Other operating income
-229,081	-38,093	-267,174	4	Purchased goods and services
-107,742	-10,602	-118,344	5	Personnel expenses
-117,013	-22,113	-139,126	6	Other operating expenses
51,455	**-596**	**50,859**		**EBITDA**
-26,578	-201	-26,779		Depreciation and amortization
-31	-2,050	-2,081	7	Impairment losses
24,846	**-2,847**	**21,999**		**EBIT**
0	0	0	15	Impairment on financial assets
1,002	12	1,014	8	Other interest and similar income
-3,507	-269	-3,776	8	Interest and similar expenses
-2,505	**-257**	**-2,762**		**Net financial expenses**
22,341	**-3,104**	**19,237**		**Income from ordinary activities**
-1,804	108	-1,696	9	Income taxes
20,537	**-2,996**	**17,541**		**Consolidated net income / loss for the year**
0	126	126	10	Share of consolidated net income / lloss attributable to non-controlling interests
20,537	-3,122	17,415	10	Share of consolidated net income / lloss attributable to shareholders of GIGASET AG
			11	**Earnings per common share**
0.41	-0.06	0.35		- Basic earnings per share, in EUR
0.41	-0.06	0.35		- Diluted earnings per share, in EUR

Statement of Comprehensive Income

	01/01/ – 12/31/2012		
EUR'000	Continuing operations	Discontinued operations	Total
Consolidated net income / loss for the year	-28,162	-2,530	-30,692
Currency translation differences	-330	-7	-337
Total changes not recognized in the income statement	-330	-7	-337
Total comprehensive income and expenses	-28,492	-2,537	-31,029
thereof attributable to non-controlling interests	0	0	0
thereof attributable to shareholders of GIGASET AG	-28,492	-2,537	-31,029

Statement of Comprehensive Income

	01/01/ – 12/31/2011		
Continuing operations	**Discontinued operations**	**Total**	**EUR'000**
20,537	-2,996	17,541	Consolidated net income / loss for the year
93	10	103	Currency translation differences
93	10	103	Total changes not recognized in the income statement
20,630	-2,986	17,644	Total comprehensive income and expenses
0	126	126	thereof attributable to non-controlling interests
20,630	-3,112	17,518	thereof attributable to shareholders of GIGASET AG

Consolidated Statement of Financial Position at December 31, 2012

EUR'000	Note	12/31/2012	12/31/2011
ASSETS			
Non-current assets			
Intangible assets	13	44,226	42,431
Property, plant and equipment	14	44,148	45,911
Financial assets	15	0	2,334
Deferred tax assets	28	19,316	12,240
Total non-current assets		107,690	102,916
Current assets			
Inventories	16	33,418	35,804
Trade receivables	17	50,998	59,723
Other assets	18	26,424	27,163
Current tax assets	19	2,017	3,076
Cash and cash equivalents	20	54,651	62,262
		167,508	188,028
Available-for-sale assets	21	18,788	20,416
Total current assets		186,296	208,444
Total assets		**293,986**	**311,360**

Consolidated Statement of Financial Position at December 31, 2012

EUR'000	Note	12/31/2012	12/31/2011
EQUITY AND LIABILITIES			
Equity	22		
Subscribed capital		50,015	50,015
Additional paid-in capital		87,981	87,981
Retained earnings		68,979	22,858
Accumulated other comprehensive income		-161,771	-84,621
		45,204	76,233
Non-controlling interests		0	0
Total equity		45,204	76,233
Non-current liabilities			
Pension obligations	24	12,069	10,258
Provisions	25	12,755	7,392
Liabilities liabilities	26	32,000	0
Other liabilities	27	27	35
Deferred tax liabilities	28	13,967	15,958
Total non-current liabilities		70,818	33,643
Current liabilities			
Provisions	25	41,284	27,222
Financial liabilities	29	306	6,083
Trade payables	30	86,644	96,239
Current tax liabilities	31	6,384	7,790
Other liabilities	32	24,558	41,568
		159,176	178,902
Liabilities related to assets held for sale	21	18,788	22,582
Total current liabilities		177,964	201,484
Total equity and liabilities		**293,986**	**311,360**

Consolidated Statement of Changes in Equity at December 31, 2012

	EUR'000	Subscribed capital	Additional paid-in capital	Retained earnings
	December 31, 2010	**39,629**	**74,606**	**20,290**
1	Capital increase	10,348	13,268	0
2	Appropriation to retained earnings	0	0	2,568
3	Stock option program	0	0	0
4	Changes in non-controlling interests	0	0	0
5	Total transactions with shareholders	0	0	0
6	Consolidated net income 2011	0	0	0
7	Non-controlling interests	0	0	0
8	Consolidated net income after non-controlling interests	0	0	0
9	Currency translation differences	0	0	0
10	Total changes not recognized in the income statement	0	0	0
11	Total net income (10+12)	0	0	0
12	Treasury shares	38	107	0
	December 31, 2011	**50,015**	**87,981**	**22,858**
1	Capital increase	0	0	0
2	Appropriation to retained earnings	0	0	46,121
3	Stock option program	0	0	0
4	Changes in non-controlling interests	0	0	0
5	Total transactions with shareholders	0	0	0
6	Consolidated loss 2012	0	0	0
7	Non-controlling interests	0	0	0
8	Consolidated loss after non-controlling interests	0	0	0
9	Currency translation differences	0	0	0
10	Total changes not recognized in the income statement	0	0	0
11	Total net income (10+12)	0	0	0
12	Treasury shares	0	0	0
	December 31, 2012	**50,015**	**87,981**	**68,979**

Consolidated Statement of Changes in Equity at December 31, 2012

Accumulated other compre-hensive income	Adjustment items for non-controlling interests	Consolidated		
-99,580	**95**	**35,040**	**December 31, 2010**	
0	0	23,616	Capital increase	1
-2,568	0	0	Appropriation to retained earnings	2
9	0	9	Stock option program	3
0	-221	-221	Changes in non-controlling interests	4
9	-221	-212	Total transactions with shareholders	5
17,415	0	17,415	Consolidated net income 2011	6
0	126	126	Non-controlling interests	7
17,415	126	17,541	Consolidated net income after non-controlling interests	8
103	0	103	Currency translation differences	9
103	0	103	Total changes not recognized in the income statement	10
17,518	126	17,644	Total net income (10+12)	11
0	0	145	Treasury shares	12
-84,621	**0**	**76,233**	**December 31, 2011**	
0	0	0	Capital increase	1
-46,121	0	0	Appropriation to retained earnings	2
0	0	0	Stock option program	3
0	0	0	Changes in non-controlling interests	4
0	0	0	Total transactions with shareholders	5
-30,692	0	-30,692	Consolidated loss 2012	6
0	0	0	Non-controlling interests	7
-30,692	0	-30,692	Consolidated loss after non-controlling interests	8
-337	0	-337	Currency translation differences	9
-337	0	-337	Total changes not recognized in the income statement	10
-31,029	0	-31,029	Total net income (10+12)	11
0	0	0	Treasury shares	12
-161,771	**0**	**45,204**	**December 31, 2012**	

Consolidated Cash Flow Statement
for the Period from January 1 to December 31, 2012

EUR'000	01/01/ – 12/31/2012	01/01/ – 12/31/2011
Earnings before taxes (EBT)	-37,337	19,237
Reversal of negative goodwill	0	-1,888
Depreciation and amortization of property, plant and equipment and intangible assets	24,844	26,779
Impairment losses	1,935	2,081
Increase (+)/decrease (-) in pension provisions	1,811	2,070
Gain (-)/loss (+) on the sale of non-current assets	83	-508
Gain (-)/loss (+) on deconsolidation	-604	-2,580
Gain (-)/loss (+) on currency translation	1,716	4,101
Issuance of stock options	0	9
Other non-cash items	-16,082	-20,095
Net interest income	1,393	2,762
Interest received	186	264
Interest paid	-1,490	-2,465
Income taxes paid	-3,264	-4,021
Impairment	2,471	0
Increase (-)/ decrease (+) in inventories	2,386	601
Increase (-)/ decrease (+) in trade receivables and other receivables	9,461	32,465
Increase (+)/ decrease (-) in trade payables, other liabilities and other provisions	-7,429	-21,855
Increase (+)/ decrease (-) in other balance sheet items	-4,204	-4,971
Cash inflow (+)/ outflow (-) from operating activities (net cash flow)	**-24,124**	**31,986**
Payments for shares in companies	0	-650
Cash acquired with the acquisition of shares in companies	0	1,626
Proceeds from the sale of shares in companies	0	305
Cash transferred with the sale of shares in companies	0	-1,079
Proceeds from the sale of non-current assets	11	579
Payments for investments in non-current assets	-8,835	-10,301
Cash inflow (+)/ outflow (-) from investing activities	**-8,824**	**-9,520**
Free cash flow	**-32,948**	**22,466**

Consolidated Cash Flow Statement for the Period from January 1 to December 31, 2012

EUR'000	01/01/ – 12/31/2012	01/01/ – 12/31/2011
Cash flows from the borrowing (+)/ repayment (-) of current financial liabilities	-5,777	1,843
Cash flows from the borrowing of non-current financial liabilities	32,000	0
Payments related to liabilities under finance leases	0	-58
Sale of treasury shares	0	145
Cash inflow (+)/ outflow (-) from financing activities	26,223	1,930
Net funds at beginning of period	59,127	29,800
Changes due to exchange rate differences	-749	13
Net funds at beginning of period, measured at prior-year exchange rate	59,876	29,787
Increase (-)/ decrease (+) in restricted cash	1,483	5,680
Change in cash and cash equivalents	-6,725	24,396
Net funds at end of period	53,885	59,876
Restricted cash[1]	1,797	3,280
Cash and cash equivalents	55,682	63,156
Cash presented within the balance sheet item of "assets held for sale"	1,031	894
Cash and cash equivalents presented in the balance sheet	**54,651**	**62,262**

1. In accordance with a collateral agreement with Deutsche Bank AG dated January 31, 2013, further cash of EUR 11.4 million has been pledged as collateral for the purpose of making payments under the redundancy plan and the reconciliation of interests on the occasion of restructuring.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

A. GENERAL INFORMATION AND PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

Business activities

Gigaset AG (or the "company") is a joint stock corporation under German law, has its head office and principal place of business in Munich as per its Articles of Incorporation, and is filed in the Commercial Register with Munich District Court under entry no. HRB 146911. The company's offices are located at Hofmannstrasse 61 in 81379 Munich.

Gigaset AG is a company active worldwide in the area of communications technology. The company is Europe's market leader in DECT telephones. A premium supplier, Gigaset AG has more than 1,700 employees and a market presence in more than 70 countries, putting it in second place worldwide.

The Gigaset Group is divided into regional segments across the world for internal controlling purposes. The Europe segment comprises by far the largest share of the overall business. Within Europe, Germany is far and away the largest individual market. Gigaset sells its products using a direct and an indirect sales structure.

Please see the group management report for further details on business activities.

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

Presentation of the consolidated financial statements

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

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

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

In accordance with IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations), a distinction is made between the continuing divisions and the discontinued divisions, and non-current assets held for sale. Continuing and discontinued operations are shown separately in the statement of comprehensive income and the statement of cash flows for the reporting period and the prior year. In addition, a combined presentation is made in the statement of comprehensive income and the statement of cash flows, where the individual items for both the continuing divisions and the discontinued divisions are shown. Please see Notes statement No. 33, Segment Reporting, for the composition of the discontinued and continuing divisions.

As a result of the very uneven distribution of revenues over the course of a given year, varying levels of liquidity are required during the year that might, under certain circumstances, need to be covered by taking out loans at short notice. It may come to a shortfall in the summer months of 2013. The Gigaset Executive Board has drawn up an action plan aimed at closing this liquidity gap. In cases where temporary deteriorations in the general economic environment coincide with periods when Gigaset regularly has a need for high levels of liquidity, liquidity reserves could be consumed faster than planned. In these cases, Gigaset would rely upon drawing down existing credit lines - where available - or requesting additional loans. All in all, the maintenance of the existing credit lines is essential for the long-term financing concept.

Gigaset has initiated talks with potential investors regarding the financing of the investments to expand the Business Customers division and set up the Home Networks division. Negotiations are being conducted regarding a commitment to provide additional financial resources. Furthermore, the company is looking into alternative sources of finance like sale-and-leaseback or the pre-financing of some inventories.

Against this backdrop, the continued existence of the corporate group as a going concern depends notably on the existing finance facilities within the framework of the syndicated loan and factoring activities being maintained. The continued existence of the corporate group as a going concern could be endangered if it proves impossible to obtain additional liquidity or implement the envisaged measures to cover liquidity requirements as planned, especially in a changing economic environment.

The continued existence of the company is assumed on account of the measures that have been initiated and the financial statements prepared under the assumption of a going concern.

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

Accounting principles

The consolidated financial statements of Gigaset for fiscal 2012 and the prior-year figures presented have been prepared in accordance with the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) adopted and published by the International Accounting Standards Board (IASB) and the interpretations of the Standard Interpretations Committee (SIC) and the International Financial Reporting Standards Interpretations Committee (IFRS IC), as applicable in the European Union.

Furthermore, the German commercial regulations to be applied additionally in accordance with Section 315a (1) of the German Commercial Code (HGB) were observed. All the standards in effect and applicable to fiscal 2012 have been observed. They help to provide a true and fair view of the financial position, cash flows, and financial performance of the GIGASET Group.

In addition, application of the following standards and interpretations revised and newly issued by the IASB was obligatory starting from fiscal 2012:

- Amendment to IFRS 7 (Financial Instruments: Disclosures)

  The amendments to IFRS 7 relate to expanded disclosure obligations in the transfer of financial assets, and are intended to enable more transparency regarding the effects of the risks remaining with the company. The amended standard enters into force for reporting periods beginning on or after July 1, 2011. Stating the required new information for previous periods is not required. Earlier application is permitted. The amendments had no effect on the consolidated financial statements.

The mandatory application of amendments to standards or interpretations resulted in no significant effect on the financial position, cash flows, or financial performance of the Gigaset Group.

Application of the following revised and newly issued standards and interpretations already adopted by the IASB was not yet mandatory in fiscal 2012:

Standards		**Application mandatory for Gigaset from**	**Adopted by EU Commission**
IFRS 1	Hyperinflation	01/01/2013[1)]	Yes[1)]
IAS 12	Recovery of Underlying Assets	01/01/2013[1)]	Yes[1)]
IFRS 1	Recognition of Loans from Governments	01/01/2013[1)]	Yes[1)]
IFRS 10	Consolidated financial statements	01/01/2014[2)]	Yes[2)]
IFRS 11	Joint Arrangements	01/01/2014[2)]	Yes[2)]
IFRS 12	Disclosure of Interests in Other Entities	01/01/2014[2)]	Yes[2)]
IFRS 13	Fair Value Measurement	01/01/2013	Yes
IAS 1	Presentation of Financial Statements	01/01/2013	Yes
IAS 19	Employee Benefits	01/01/2013	Yes
IAS 27	Separate Financial Statements	01/01/2014[2)]	Yes[2)]
IAS 28	Investments in Associates and Joint Ventures	01/01/2014[2)]	Yes[2)]
IFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities	01/01/2013	Yes
Diverse	Improvements to International Financial Reporting Standards (May 2012)	01/01/2013	No
IAS 32	Amendments to Offsetting Financial Assets and Financial Liabilities	01/01/2014	Yes
IFRS 9	Financial Instruments	01/01/2015	No
IFRS 9 / IFRS 7	Amendments to Mandatory Effective Date and Transition Disclosures	01/01/2015	No

Standards		Application mandatory for Gigaset from	Adopted by EU Commission
Interpretationen			
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	1/1/2013	Yes

1) The original regulations in the rules of the IASB provided for required application starting already in fiscal year 2012. In the Official Journal of the European Union, L360 dated December 29, 2012, however, the European Commission standardized on an initial application date for the amendments for fiscal years that begin on or after January 1, 2013.
2) The original regulations in the rules of the IASB provided for required application starting already in fiscal year 2013. In the Official Journal of the European Union, L360 dated December 29, 2012, however, the European Commission standardized on an initial application date for the amendments for fiscal years that begin on or after January 1, 2014.

The amendments to IAS 19 are expected to have a significant effect on the presentation of the financial position, cash flows, or financial performance of the Gigaset Group.

The main amendment to IAS 19 is that unexpected fluctuations in pension obligations and any plan assets, known as actuarial gains and losses, will be presented directly in other comprehensive income (OCI) within equity. The option exercised up until now by Gigaset to defer recognition, known as the corridor method, has been eliminated. This will probably lead to equity becoming more volatile. A further accounting change requires interest expense to be determined on the basis of the benefit-oriented net obligation in the future. Furthermore, the amended standard requires more comprehensive disclosures than before.

An additional material amendment to IAS 19 related to accounting for semi-retirement arrangement agreements. With regard to the obligation to pay top-up amounts arising from semi-retirement arrangement agreements, this amendment leads to the circumstance that these payments can no longer be recognized as termination benefits. Due to their dependency on work performance in the future and their long-term earning period, these payments must instead be recognized as other long-term employee benefits. Due to this amendment, the obligations arising from semi-retirement arrangement top-up amounts must generally be recognized as other long-term employee benefits pursuant to IAS 19. Due to this amendment in classification, the expenses are no longer to be recorded in the full amount at the time when the company is irrevocably obligated to recognize them, but instead to be accrued according to their earning period. Due to the restructuring measures in the fourth quarter of 2012, material effects result from this amendment.

If the provisions applicable from fiscal 2013 had been applied to the existing pension obligations and semi-retirement arrangements at the Gigaset Group for fiscal 2012, this would have had a positive impact of EUR 5.2 million on earnings, increased the disclosed pension obligations by EUR 30.2 million, reduced the disclosed provisions for semi-retirement arrangements by EUR 3.4 million, increased deferred tax assets by EUR 8.0 million, and reduced consolidated shareholder's equity by EUR 18.8 million.

The effects of the first-time application of the other revised or newly issued standards and interpretations cannot be reliably estimated at the present time. The company estimates that the new standard IFRS 10, IFRS 11, IFRS 12 and IFRS 13 will have no material impact.

Scope and method of consolidation

The present consolidated financial statements at December 31, 2012 include the separate financial statements of the parent company, Gigaset, and its subsidiaries, where appropriate together with special purpose entities.

Subsidiaries are all companies whose financial and business policies are controlled by the Group, usually accompanied by a share of voting rights in excess of 50 %. The existence and effect of potential voting rights which can be exercised in the present or converted are also taken into account when determining whether such control exists.

Subsidiaries are included in the consolidated financial statements from the date on which control passes to the Group (full consolidation). They are deconsolidated from the date on which such control ends. Special purpose entities for which the Group does not hold a majority of the voting rights are nevertheless included in the group of subsidiaries provided the Group obtains a majority of the benefits from the activities of the special purpose entity or bears a majority of the risk.

Capital consolidation of the subsidiaries is carried out in accordance with IAS 27 (Consolidated and Separate Financial Statements according to IFRS) in conjunction with IFRS 3 (Business Combinations) by offsetting the carrying amount of the investment from the parent's share of equity in the subsidiary, which is remeasured at the date of acquisition (remeasurement method).

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

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

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

Non-controlling interests in the consolidated equity and profit are presented separately from the parent's share of equity and profit. Changes in non-controlling interests resulting from disposals resulting from the loss of control give rise to profits and losses that are recognized in the consolidated income statement.

Besides the parent company, 45 subsidiaries – consisting of 18 domestic and 27 foreign companies – were included in the consolidated financial statements of Gigaset at December 31, 2012.

Compared with December 31, 2011, 1 company was deconsolidated due to liquidation. No initial consolidations occurred in fiscal 2012.

No companies were accounted for in the consolidated financial statements by the equity method at December 31, 2012.

One company whose effect on the financial position, cash flows, and financial performance is not significant either individually or on aggregate has not been consolidated. This subsidiary is carried at amortized cost.

Details of the subsidiaries that belong to the consolidation group are included in the list of shareholdings (Section 313 (4) German Commercial Code (HGB)), which is presented as an annex to the consolidated financial statement at the end of the notes.

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

Currency translation

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

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

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

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

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

		Exchange rate at *)		Average exchange rate *)	
		12/31/2012	12/31/2011	2012	2011
United Arab Emirates	AED	4.8537	4.7454	4.7219	5.1132
Argentina	ARS	6.4801	5.5547	5.8309	5.7393
Australia	AUD	1.2712	1.2723	1.2413	1.3482
Brazil	BRL	2.7036	2.4159	2.5097	2.3261
Canada	CAD	1.3137	1.3215	1.2848	1.3756
Switzerland	CHF	1.2072	1.2156	1.2053	1.2340
China	CNY	8.2207	8.1588	8.1094	8.9961
Denmark	DKK	7.4610	7.4342	7.4438	7.4507
United Kingdom	GBP	0.8161	0.8353	0.8111	0.8678
Hong Kong	HKD	10.2260	10.0510	9.9725	10.8345
Japan	JPY	113.6100	100.2000	102.6212	111.0211
Mexico	MXN	17.1845	18.0512	16.9087	17.2854
Norway	NOK	7.3483	7.7540	7.4755	7.7903
Poland	PLN	4.0740	4.4580	4.1843	4.1187
Russia	RUB	40.3295	41.7650	39.9238	40.8797
Sweden	SEK	8.5820	8.9120	8.7067	9.0273
Turkey	TRL	2.3551	2.4432	2.3145	2.3351
USA	USD	1.3194	1.2939	1.2856	1.3917
South Africa	ZAR	11.1727	10.4830	10.5545	10.0882

*) Equivalent for EUR 1

B. SUMMARY OF PRINCIPAL ACCOUNTING AND VALUATION METHODS

The annual financial statements of the companies included in the consolidated financial statements are based on uniform accounting and valuation principles, which were also applied when determining the prior-year comparison values. The consolidated financial statements are prepared in accordance with the principle of historical acquisition or production cost, except for available-for-sale financial assets, derivative financial instruments, and purchased shareholder loans, which are measured at fair value.

The principal accounting and valuation methods applied when preparing the present consolidated financial statements are described below.

Recognition of income and expenses

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

The "income from the reversal of negative goodwill" is presented as other operating income and is therefore included in the earnings before interest, taxes, depreciation and amortization (EBITDA).

Research and development expenditures

Expenditures for research, which is defined as original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in full as an expense. On the other hand, expenditures for development, which is defined as the application of research findings or other knowledge to a plan or design for the production of new or substantially improved products and processes, are capitalized. Recognition is permitted if the entity can demonstrate its ability to measure reliably the development expenditures and that the product or process is technically and economically feasible and will generate probable future economic benefits. In addition, Gigaset must have the intention and the resources available to complete the development and to use or sell the asset. The capitalized expenses cover the cost of materials, direct labor costs, and the directly allocable general overhead, provided these serve to make the asset available for use. The capitalized costs are recognized under internally generated intangible assets. Other development expenditures are recognized immediately in profit or loss when they arise. Capitalized development expenditures are disclosed at production cost, less cumulative amortization and impairments.

Government grants

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

Net financial income/expenses

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

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

Actuarial methods are used to divide the payments received under finance leases into interest and principal portions.

Income taxes

The corporate tax rate totaled 33.0 % in the reporting period (prior year 33.0 %).

A uniform rate of 15.0 % for corporate income tax plus a solidarity surcharge of 5.5 % is applied to distributed and retained profits when calculating current taxes in Germany. Local trade tax is levied on profits generated in Germany, as is corporate income tax. The local trade tax charge ranges from 14.35 % to 17.15 %.

The profit generated by international Group subsidiaries is determined on the basis of local tax law and is taxed at the rate relevant for the country of domicile. The applicable country-specific income tax rates vary between 15.8 % and 44.0 %.

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

The recognition of deferred tax assets on tax loss carryforwards is subject to the following rules:

- In the case of company acquisitions, deferred tax assets are not normally recognized on tax loss carryforwards at the acquisition date, except in amounts up to the amount of deferred tax liabilities that have been recognized, provided that netting is permissible.
- In the case of companies that have a history of generating losses instead of profits, deferred tax assets are recognized even after the acquisition date only up to the amount required to offset deferred tax liabilities.
- Only in the case of companies that have a history of generating profits with an expectation of positive results in the future are deferred tax assets recognized on existing tax loss carry-forwards.

Impairment losses are recognized for deferred tax assets that are no longer expected to be realized within a plannable period. Unrecognized deferred tax assets are reviewed and capitalized to the extent to which it has become probable for them to be utilized on account of taxable income generated in the future.

Deferred tax assets and liabilities relating to items recognized directly in equity are disclosed in equity. Deferred tax assets and liabilities are offset if there is an enforceable claim to offset the current tax refund claims against current tax liabilities. In addition, the deferred tax assets and liabilities must relate to income taxes regarding the same taxable entity that are payable to the same tax authority.

Earnings per share

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

Goodwill

The goodwill arising on consolidation represents the excess of the acquisition cost of a company acquisition over the Group's share of the fair value of the identifiable assets, liabilities, and contingent liabilities of a subsidiary or jointly managed company at the date of acquisition. According to IFRS 3 (Business Combinations), goodwill is not subject to scheduled amortization. Instead, IAS 36 (Impairment of Assets) states that an impairment test should be carried out once a year, and also when there is any indication of impairment. If necessary, the goodwill is written down to its recoverable amount. Every impairment loss is recognized immediately in income and original values may not be reinstated at a later time. When a subsidiary or jointly managed company is sold, the attributable amount of goodwill is included in the calculation of the profit or loss on the sale.

For purposes of the impairment test, the goodwill is allocated to the cash-generating units or groups of such cash-generating units that are expected to derive a benefit from the underlying business combination.

Other intangible assets

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

The following estimated useful lives are applied:

- Patents, utility designs, trademarks, publication rights/copyrights/performance rights: 3-5 years
- Brands, company logos, ERP software, and Internet domain names: 5-10 years
- Customer relationships/lists: over the expected useful life, but generally between 2-5 years
- Licensed software: 3 years

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

Purchased intangible assets with indefinite useful lives are not subject to scheduled amortization but are tested for impairment once a year in accordance with IAS 36. If the fair value or the value in use is less than the carrying amount, the impairment is recognized as an expense in the statement of comprehensive income.

If customer lists, customer relationships, and favorable contracts are capitalized in connection with the purchase price allocation process pursuant to IFRS 3, they are amortized over their estimated useful lives. When there are indications of impairment, these assets are tested for impairment and written down to the lower recoverable amount in accordance with IAS 36.

Internally generated intangible assets

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

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

Property, plant and equipment

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

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

› Buildings: 10-50 years

› Technical plant and machinery: 5-15 years

› Operational and business equipment: 2-10 years

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

Borrowing costs

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

› is a qualifying asset and

› the borrowing costs to be capitalized are material.

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

Special purpose entities

Special purpose entities are created to fulfill a single, well-defined purpose. They are consolidated if the Group can exercise a controlling influence over the special purpose entity. This is determined by assessing the following criteria:

- Are the activities of the special purpose entity being conducted on behalf of the Group according to its specific business needs so that the Group obtains benefits from the special purpose entity's operations?
- Does the Group have the decision-making powers to obtain the majority of the benefits of the activities of the special purpose entity?
- Does the Group have right to obtain the majority of the benefits of the special purpose entity and therefore may be exposed to risks incident to the activities of the special purpose entity?
- Does the Group retain the majority of the residual or ownership risks or assets related to the special purpose entity or its assets in order to obtain benefits from its business activities?

The special purpose entity is included in the consolidated financial statements if a controlling influence is identified in this way.

Non-current assets held for sale

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

Impairment of non-financial assets

Assets with indefinite useful lives are not subject to scheduled depreciation but are tested for possible impairment annually and when there are indications of possible impairment. Assets qualifying for scheduled depreciation are tested for possible impairment when certain events or changed circumstances indicate that the carrying amount may no longer be recoverable. An impairment loss is recognized in the amount by which the carrying amount exceeds the recoverable amount. The recoverable amount is the higher amount of the asset's value in use and its fair value minus its costs to sell. For the impairment test, assets are aggregated at the lowest level at which cash flows can be identified separately (cash-generating units).

If an impairment loss is later reversed, the carrying amount of the asset (or cash-generating unit) is increased to the newly estimated recoverable amount. The increase in the carrying amount is limited to the amortized value that would have resulted if no impairment loss had been recognized in prior years for the asset (or cash-generating unit). Reversals of impairment losses are recognized immediately in profit or loss for the period. Impairment losses in goodwill are not reversed.

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

Leases

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

An asset that was rented or leased and is the economic property of the respective Group company (finance lease) is capitalized at the present value of the minimum lease payments or at the lower fair value in accordance with IAS 17 and depreciated over its useful life. If it is not sufficiently certain at the inception of the lease that ownership will transfer to the lessee, the asset is depreciated in full over the shorter of the lease term or the useful life.

The corresponding liability to the lessor is recognized in the statement of financial position as an obligation under finance leases within liabilities due to other creditors. The lease payments are divided into an interest portion and a lease obligation repayment portion in such a way as to ensure a constant rate of interest on the outstanding liability.

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

When Gigaset is the lessor under a finance lease, it recognizes a lease receivable due from the lessee in the statement of financial position, instead of an asset. The amount of the lease receivable corresponds to the lessor's net investment in the leased item at the time of recognition as an asset. The income received under finance leases is recognized over time in a pattern that reflects a constant periodic rate of return on the lessor's net investment from the lease relationship. Rental income received under operating leases is recognized in the statement of comprehensive income on a straight-line basis over the term of the respective lease.

Inventories

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

Trade receivables

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

Factoring

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

Interest and del credere risk due to purchase price retentions are recognized as trade receivables, classified as "continuing involvement." This continuing involvement is offset by a corresponding provision covering the additional risk of a potential loss of the receivables from the factor arising from the purchase price retentions.

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

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

The interest expenses resulting from the sale of receivables are recognized in the net financial income/expenses. Administrative fees are recognized as other operating expenses.

Receivables measured at fair value through profit and loss

Purchased receivables under shareholder loans are classified as financial instruments measured at fair value through profit or loss at the time of initial recognition. In accordance with IAS 39, these receivables are classified on the basis of the fair values according to the documented risk and portfolio management strategy of these receivables and their future performance capacity.

In the consolidated financial statements of Gigaset, a considerable quantity of receivables under shareholder loans is eliminated in the consolidation process. If the receivables in question were not classified in this way, but were instead measured at amortized acquisition and production cost, only the purchase price paid for those receivables at the acquisition date would be recognized when the company owing the receivables would be transitionally accounted for by some other consolidation method than full consolidation or would be deconsolidated. Because the purchase price paid for such receivables is usually only a symbolic amount, any appreciation in the receivables resulting from successful restructuring of that company would not be adequately presented. This treatment serves to enhance the relevance of the information contained in the consolidated financial statements of Gigaset.

Purchased receivables are measured on the basis of contractually agreed repayment plans which are based on market rates of interest, plus an appropriate risk premium. Changes in the fair value of such assets are recognized in profit or loss. The carrying amounts of such assets are reviewed at the reporting date or whenever circumstances indicate a change in the value of such assets.

Non-consolidated receivables measured at fair value through profit or loss are recognized under other assets.

Cash and cash equivalents

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

Financial assets

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

Financial assets at fair value through profit or loss

This category has two subcategories: financial assets classified as held for trading from the outset and financial assets classified at fair value through profit or loss from the outset. A financial asset is assigned to this category if it was purchased with the intention of selling it immediately or in the near term or if it was so designated by management. Derivatives also belong to this category. Assets in this category are presented as current assets if they are either held for trading or are expected to be recovered within 12 months of the reporting date.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise if the Group provides money, goods, or services directly to the borrower without the intention of trading this receivable. They are presented as current assets as long as their due date is not more than 12 months after the reporting date and as non-current assets if their due date is more than 12 months after the reporting date. Loans and receivables are presented in the statement of financial position under trade receivables and other receivables. Loans and receivables are measured at amortized cost calculated in accordance with the effective interest method.

Held-to-maturity financial assets

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

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially measured at fair value and subsequently at amortized cost calculated in accordance with the effective interest method, less any impairments. If loans are due in more than 12 months, they are presented as non-current assets. They are presented as current assets when they are due in not more than 12 months of the reporting date or, if they should be due in more than 12 months, when they are normally recovered in the ordinary course of business. Financial assets held to maturity are recognized at amortized cost calculated in accordance with the effective interest method.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that have either been assigned to this category or have not been assigned to any other category. They are presented as non-current assets if management does not intend to sell them within 12 months of the reporting date.

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

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

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

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

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

Derivative financial instruments

In accordance with IAS 39, derivative financial instruments are measured at fair value at the reporting date, if the fair value can be reliably measured. Changes in the fair value of such financial instruments are recognized in profit or loss.

Shareholders' equity

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

If a Group company purchases company shares (treasury shares), the value of the consideration paid, including the directly allocable additional costs (on an after-tax basis) are deducted from the shareholders' equity until such time as the shares are withdrawn, re-issued, or resold. When such shares are subsequently re-issued or sold, the consideration received is recognized in shareholders' equity after deduction of directly allocable transaction costs and the corresponding income taxes.

Provisions

Provisions are established to account for a present legal or constructive obligation resulting from a past event, if it is likely that the settlement of the obligation will lead to an outflow of economic resources and it is possible to reliably determine the amount of the provisions. In the event of several similar obligations, the likelihood of an outflow of economic resources is assessed with reference to the overall group of obligations.

Provisions for warranties are recognized when the goods concerned are sold or the service is performed. The required amount of the provision is determined on the basis of historic values and an appraisal of the probability of occurrence in the future. In accordance with IAS 37, and in conjunction with IFRS 3 in the case of newly acquired companies, restructuring provisions are only established if a detailed restructuring plan exists.

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

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

Employee Benefits

Pension obligations

There are various pension plans in effect within Gigaset, including both defined benefit and defined contribution plans. Defined contribution plans are plans for post-employment benefits under which the company pays defined contributions to an independent entity (pension fund or insurance carrier) and has neither a legal nor a constructive obligation to pay further contributions if the pension fund does not have sufficient assets to cover all the benefits relating to the employees' services in the reporting period or earlier periods. A defined benefit plan is any plan that is not a defined contribution plan.

The agreements underlying the defined benefit plans provide for different benefits in Gigaset, depending on the subsidiary concerned. These benefits essentially comprise the following:

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

The provision for defined benefit plans recognized in the consolidated statement of financial position is based on the present value of the pension obligation less the fair value of the pension plan assets at the reporting date, with due consideration given to actuarial gains and losses and service time cost to be recognized in subsequent periods.

The pension provisions for the company's pension plan are measured in accordance with the projected unit credit method prescribed in IAS 19 (Employee Benefits). They are measured anew by independent actuaries at each reporting date. Under this expectancy cash value method, the pension provisions are calculated on the basis of the known pensions and the vested pension rights at the reporting date and the anticipated future increases in salaries and pensions. Gigaset's pension plan assets consist of the employer's pension liability insurance, which has been pledged to the pension beneficiaries, and other assets which meet the definition of plan assets according to IAS 19. The cumulative actuarial gains or losses over the years resulting from the difference between the expected and the actual pension obligations and plan assets at year-end are only recognized if they differ from the maximum pension obligation or plan assets by ten percent. In such a case, the excess amount is divided by the average remaining employment period of the qualifying employees and recognized as additional income or expense. Past service costs for not yet vested pension rights are recognized over the period of employment remaining until the pension rights are vested. The expense for already vested pension rights is recognized immediately. Reduced performance in connection with already earned pension rights must be recognized in the corresponding amount as negative past service cost. The interest portion of the additions to provisions recognized as pension expenses (interest costs for pension obligations and expected income from pension plan assets) is recognized as personnel expenses.

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

Share-based payment

Gigaset AG established a stock option plan in fiscal year 2005. Due to its discontinuation, this plan was replaced with a new stock option plan in 2008. The model adopted in 2008 was replaced with a new stock option plan in 2011 due to the change in the business model. Existing stock option contracts were not modified by the new stock option plan. The company has the right to settle the options by issuing shares from the Contingent Capital 2011 created for this purpose, by repurchasing treasury shares, or by cash settlement. The settlement type must be selected by the Supervisory Board or the Executive Board in the interests of the shareholders and the company. Fundamentally, however, the plan is to service the claims arising from the 2011 stock option plan using shares from the Contingent Capital 2011 created for this purpose. In accordance with IFRS 2, the fair value of the services rendered by the employees in exchange for the granting of options is recognized as an expense. The total cost, which is recognized as an expense over the vesting period, is measured as the fair value of the options (likely to be) exercisable. The fair value of the options is measured once by means of a Monte Carlo simulation at the respective grant dates. Non-market-based barriers to exercising options are reflected in the assumptions concerning the anticipated number of options to be exercised. The estimated number of options that can be exercised is reassessed at each reporting date. The effects of any changes made to the original estimates are recognized in the statement of comprehensive income and by making a corresponding adjustment in equity over the time remaining until the shares become vested.

The members of Gigaset's Executive Board receive the appreciation in a "virtual share portfolio" as a variable component of their compensation. The basis for calculating the variable compensation based on the "virtual share portfolio" is a specific number of shares of Gigaset AG (the "virtual share portfolio"), measured at a certain share price ("initial value"). The amount of variable compensation is calculated in every case from the possible appreciation of the virtual share portfolio over a certain period of time, that is, relative to a pre-determined future date ("valuation date"). The difference between the value of the virtual share portfolio measured at the share price at the valuation date and the initial value ("capital appreciation") yields the amount of variable compensation. As a general policy, the capital appreciation amount (converted at the share price at the valuation date) is settled in cash. The obligations existing due to this agreement are measured and recognized at fair value at each reporting date by means of a Monte Carlo simulation, since they are "cash settled" options pursuant to IFRS. Changes in the fair value of such financial instruments are recognized in profit or loss.

Termination benefits

Termination benefits are provided when the Group terminates an employee's employment before the normal retirement date or when the employee leaves voluntarily in exchange for those benefits. The Group recognizes termination benefits when it has a demonstrable and unavoidable obligation to terminate the employment of current employees on the basis of a detailed formal plan that cannot be retracted or if it has a demonstrable obligation to pay such benefits when the employee has voluntarily accepted the termination of his employment. Termination benefits that fall due more than 12 months after the reporting date are discounted to present value. Termination benefits payable are presented with the personnel provisions. Also, the employee benefits payable under the German model of partial early retirement known as Altersteilzeit are stated within this item.

Profit-sharing and bonus plans

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

Liabilities

Financial liabilities are composed of liabilities and derivative financial instruments with negative fair values. Liabilities are measured at amortized cost. This means that current liabilities are measured at the amounts required to repay or settle the underlying obligations, while non-current liabilities and long-term debts are measured at amortized cost in accordance with the effective interest method. Liabilities under finance leases are measured at the present value of the future minimum lease payments.

In accordance with the definition given in IAS 32, assets can be designated as equity from the company's perspective only when there is no requirement to repay those assets or provide other financial assets instead. The company's assets may be subject to repayment obligations if (non-controlling) shareholders hold a right of redemption and when the exercise of this right establishes a claim for compensation from the company. Such capital made available to non-controlling interests is recognized as a liability under IAS 32 even when it is classified as shareholders' equity under the laws and regulations of a given country.

Segment reporting

In accordance with IFRS 8, operating segments are recognized on the basis of the company's internal organization and reporting structure. An operating segment is defined as a "component of an entity" that engages in business activities from which it may earn income and incur expenses, whose financial performance is reviewed regularly by the responsible corporate instance to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available. The responsible corporate instance is the Executive Board of the company.

In segment reporting, the Group's operating divisions are structured according to their principal activities and the geographical regions of the Gigaset Group.

Gigaset's operating segments are:

- Gigaset
  - Europe
  - Americas
  - Asia-Pacific/Middle East

- Holding

- Other (discontinued)

Legal disputes and claims for damages

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

Assumptions and estimates made for accounting and valuation purposes

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

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

Estimates made for the purposes of purchase price allocation

Estimates are usually made to determine the fair value of assets and liabilities acquired in the context of business combinations. Land, buildings, technical plant, and machinery are typically appraised by an independent expert, whereas marketable securities are measured at their market value. Expert appraisals of the market values of property, plant and equipment are subject to a certain degree of uncertainty as a result of assumptions necessarily applied for this purpose. Depending on the type of asset and difficulty of the measurement, Gigaset determines the fair values of any intangible assets either by consulting an independent expert or by measuring the fair value internally, using an appropriate evaluation method. Depending on the type of asset and availability of pertinent information, we apply different valuation techniques based on cost, market price, or income approaches. The capitalized income approach is preferred to measure the value of intangible assets due to its particular significance. For example, the relief-from-royalty method is used to measure the value of brands and licenses. Under this method, we estimate the cost savings resulting from the fact that the company owns the brands and licenses itself and does not have to pay any fees to a licensor. The after-tax cost savings are then discounted to present value and applied as the value of the intangible asset. When determining the values of intangible assets, it is necessary to make estimates concerning future revenues and earnings as well as the economic lives of those assets, in particular, which are subject to a certain degree of uncertainty as a result of the assumptions applied for this purpose. Similarly, when determining the fair values of contingent liabilities, assumptions need to be made with regard to the probability of the corresponding liabilities having to be settled in the future. By their nature, such assumptions are subject to a certain degree of uncertainty as well. Gigaset considers the estimates made with respect to the useful lives of certain assets, the assumptions regarding general economic conditions and developments in the industries in which the Gigaset operates, and the estimated present values of future cash flows to be reasonable. Nonetheless, changes in the relevant assumptions or circumstances may necessitate correction in the future, which could, in turn, result in additional impairment losses in the future if the developments anticipated by Gigaset do not materialize. Additional effects may result from provisional purchase price allocations that are based on the best information available at the reporting date, which may change due to new information coming to light in subsequent periods.

Estimates made in connection with impairment tests

In accordance with IAS 36 (Impairment of Assets) and IAS 38 (Intangible Assets), goodwill and intangible assets with an indefinite useful life are tested for possible impairment once a year or more often if events or changed circumstances indicate the possibility of impairment. The systematic amortization of goodwill is prohibited. For purposes of the impairment tests, the net carrying amounts of each individual cash-generating unit within Gigaset is compared with the recoverable amount, defined as the higher of the net realizable value or the value in use. In accordance with the relevant definition, the smallest identifiable business units, which are the lowest level at Gigaset at which goodwill is monitored for internal management purposes and for which there are independent cash flows, are normally considered to be cash-generating units.

If the carrying amount of the cash-generating unit is higher than the recoverable amount, an impairment loss is recognized in the amount of the difference. The impairment loss calculated in this way is first deducted from the goodwill of the strategic business unit concerned. Any remaining amount is then deducted from the other assets of the strategic business unit concerned in proportion to their carrying amounts, provided this falls within the scope of IAS 36.

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

Estimates made with regard to receivables measured at fair value

The fair value of receivables is measured on the basis of contractually agreed repayment plans. The assumptions made with regard to actual future payments are generally based on the free cash flows available to the company that owes the receivable. These free cash flows are based on assumptions and estimates that are based on the budget of the company that owes the receivable. The budgets are subject to planning risks and uncertainties, which are reflected in the credit risk of the companies in question. The credit risk is accounted for by means of adequate discount rates and risk margins in relation to the company's progress in the restructuring process. The discount rate is determined as the current EURIBOR plus a safety margin suited to the creditor in question. The fair values calculated on this basis are subject to a certain degree of uncertainty as a result of the necessary assumptions and estimates made for this purpose. If these assumptions and estimates applied for the purpose of fair value measurement undergo changes in subsequent periods, the values are adjusted accordingly.

Income taxes

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

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

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

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

Provisions

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

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

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

C. NOTES ON FINANCIAL INSTRUMENTS

Significance

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

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

Financial risk factors

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

The Group's comprehensive risk management program is focused on the unpredictability of developments in the financial markets and is aimed at minimizing the potentially negative consequences of those developments on the Group's cash flows. The Group employs derivative financial instruments to hedge certain risks. Risk management is performed by the central finance department (Corporate Finance) on the basis of the guidelines adopted by the Executive Board. Corporate Finance identifies, assesses and hedges financial risks in close cooperation with the operating units of the Group. The Executive Board issues written directives setting out both the principles for Group-wide risk management and guidelines for certain areas, such as the manner of dealing with foreign currency risk, interest rate and credit risk, the use of derivative and non-derivative financial instruments and the investment of surplus liquidity. Such hedging transactions are not subject to hedge accounting rules.

Credit risk/ default risk

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

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

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

Of the loans and receivables presented for the Group at the end of 2012 in the total amount of EUR 64,438 thousand (PY: EUR 77,468 thousand), an amount of EUR 32,232 thousand or 50.0 % (PY: EUR 56,959 thousand or 73.5 %) was insured. Trade credit insurance has been used as the security instrument for most of the receivables. In addition, other forms of security exist in the form of letters of credit, customer deposits and bank guaranties.

The default risk equal to the carrying amounts of loans and receivables (EUR 64,438 thousand, PY: EUR 77,468 thousand) is limited to a maximum default risk of EUR 32,206 thousand (PY: EUR 20,509 thousand) by means of trade credit insurance, letters of credit and other credit improvements.

EUR'000	Carrying amount	Maximum default risk	Secured portion	2012 %
Total	**64,438**	**32,206**	**32,232**	**50.0**
Trade receivables	50,998	18,766	32,232	50.0
Loans	0	0	0	0.0
Other receivables	13,440	13,440	0	0.0

EUR'000	Carrying amount	Maximum default risk	Secured portion	2011 %
Total	**77,468**	**20,509**	**56,959**	**73.5**
Trade receivables	59,723	2,764	56,959	73.5
Loans	2,334	2,334	0	0.0
Other receivables	15,411	15,411	0	0.0

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

	2012		2011	
	EUR'000	%	EUR'000	%
Total	**64,438**	**100.0**	**77,468**	**100.0**
Germany	14,046	21.8	25,298	32.7
Europe - EU	35,289	54.8	26,497	34.2
Europe - Other	5,438	8.4	3,174	4.1
Rest of world	9,665	15.0	22,499	29.0

As a rule, valuation allowances are charged in adequate amounts to account for discernible default risks in the receivables portfolio. The changes in valuation allowances on trade receivables are presented in tabular format in Note 17 Trade receivables.

Liquidity risk

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

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

Due to the dynamic nature of the business environment in which the Group operates, the goal of Corporate Finance is to preserve the necessary financing flexibility. Regarding the liquidity risk in the Gigaset group and the measures of the executive board we refer to the management report.

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

2012 in EUR'000	Carrying amount	Total outflow	< 1 year	1-5 years	> 5 years
Non-derivative financial liabilities	118,951	123,947	88,475	35,472	0
Trade payables	86,644	86,644	86,644	0	0
Liabilities due to banks	32,306	37,302	1,830	35,472	0
Other financial liabilities	0	0	0	0	0
Other liabilities	1	1	1	0	0
Derivative financial liabilities	507	593	593	0	0
Total	**119,458**	**124,540**	**89,068**	**35,472**	**0**

2011 in EUR'000	Carrying amount	Total outflow	< 1 Jahr	1-5 Jahre	> 5 Jahre
Non-derivative financial liabilities	111,766	111,766	111,766	0	0
Trade payables	96,239	96,239	96,239	0	0
Liabilities to banks	4,946	4,946	4,946	0	0
Other financial liabilities	1,137	1,137	1,137	0	0
Other liabilities	9,444	9,444	9,444	0	0
Derivative financial liabilities	0	0	0	0	0
Total	**111,766**	**111,766**	**111,766**	**0**	**0**

A more detailed presentation of current liabilities to banks and current financial liabilities in the maturity range "< 1 year" is provided in Note 29 Current financial liabilities; the same for trade payables is provided in Note 30 Trade payables, and the same for derivative financial liabilities is provided in Note 32 Current other liabilities.

The Company had no obligations arising from finance lease agreements at the reporting date.

For the syndicate loans, financial ratios ("financial covenants") to be performed by Gigaset were agreed upon with the banks providing credit. These financial covenants include the interest-cover ratio, equity, and debt-equity ratio of the Gigaset Group.

The governing components for the calculation of the financial ratios ("financial covenants") under the syndicate loan agreement are not unequivocally defined under IFRS or the German Commercial Code (HGB). Therefore, Gigaset and the syndicating banks disagreed as to whether the financial ratios provided by Gigaset at September 30, 2012, with regard to factoring in extraordinary influences (expenses for development of new product generations, tool costs for new products, expenses for converting the brand from "Siemens" to "Gigaset", and investments in projects to secure the future) were calculated in accordance with the agreement and consequently whether the financial covenants of the agreement were complied with in the 3rd quarter of 2012. Since the issue did not require any decision from Gigaset's perspective, particularly given the context of discussions that had already begun for the further growth financing of the Gigaset Group, Gigaset submitted a precautionary waiver application on December 6, 2012. The syndicating banks granted this waiver by letter dated January 31, 2013. Since that time, Gigaset and the syndicating banks have been negotiating on the further development of their business relationship, particularly on the issue of a possible adjustment of the financial covenants. Due to ongoing negotiations the financial covenance for December 31, 2012 have not been calculated yet.

Of the total financial liabilities presented for the Group at year-end 2012 in the amount of EUR 119,458 thousand (PY: EUR 111,766 thousand), an amount of EUR 21,445 thousand or 18.0 % (PY: EUR 6,941 thousand or 6.2 %) is secured. The security items are broken down in the table below:

EUR'000	Intangible assets	Land and buildings	Other property, plant and equipment	Inven-tories	Trade receivables	Other security	2012 %
Trade payables	0	0	0	1,226	5,219	0	5.4
Liabilities to banks	0	15,000	0	0	0	0	12.6
Other financial liabilities	0	0	0	0	0	0	0.0
Other liabilities	0	0	0	0	0	0	0.0
Total	**0**	**15,000**	**0**	**1,226**	**5,219**	**0**	**18.0**

EUR'000	Intangible assets	Land and buildings	Other property, plant and equipment	Inven-tories	Trade receivables	Other security	2011 %
Trade payables	0	0	0	2,144	4,797	0	6.2
Liabilities to banks	0	0	0	0	0	0	0.0
Other financial liabilities	0	0	0	0	0	0	0.0
Other liabilities	0	0	0	0	0	0	0.0
Total	**0**	**0**	**0**	**2,144**	**4,797**	**0**	**6.2**

The collateral provided regarding land and buildings relates exclusively to the collateral provided in the context of the syndicate loan. Furthermore, most of the Gigaset companies receive goods under country-specific retentions of title.

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

	2012		2011	
	EUR'000	%	EUR'000	%
Total	**119,458**	**100.0**	**111,766**	**100.0**
Germany	58,521	49.0	42,251	37.8
Europe - EU (excluding Germany)	21,529	18.0	24,236	21.7
Europe - Other	923	0.8	1,218	1.1
Rest of world	38,485	32.2	44,061	39.4

Market price risk

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

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

The loans presented under financial liabilities and the liabilities under finance leases are subject to a theoretical interest rate risk. Price risks exist primarily in the context of procuring raw materials and manufacturing materials.

Foreign currency risk

By reason of the Group's international operations, it is subject to foreign currency risk, based on changes in exchange rates of various foreign currencies. Foreign currency risks arise with respect to expected future transactions, the assets and liabilities recognized in the statement of financial position and the net investments in foreign business operations. To hedge such risks arising from expected future transactions and from the assets and liabilities recognized in the statement of financial position, the Group companies employ forward exchange deals, as needed, in coordination with Corporate Finance.

Of the financial instruments presented for the Group, an amount of EUR 40,182 thousand (PY: EUR 57,552 thousand) consisted of financial assets denominated in foreign currencies and an amount of EUR 45,501 thousand (PY: EUR 49,232 thousand) consisted of financial liabilities denominated in foreign currencies. The risk concentrations based on foreign currencies are presented in the following table:

	2012		2011	
Financial assets in	**EUR'000**	**%**	**EUR'000**	**%**
USD (U.S. dollars)	9,876	24.7	16,353	28.5
BRL (Brazilian reales)	7,080	17.6	9,261	16.1
CHF (Swiss francs)	4,935	12.3	3,922	6.8
GBP (British pounds)	4,597	11.4	3,320	5.8
TRL (Turkish lira)	3,483	8.7	3,089	5.4
RUB (Russian rubles)	2,663	6.6	2,670	4.6
ARS (Argentine pesos)	2,293	5.7	4,724	8.2
PLN (Polish zloty)	1,503	3.7	1,395	2.4
CNY (Chinese renminbi yuan)	1,097	2.7	8,833	15.3
SEK (Swedish krona)	887	2.2	3,152	5.5
MXN (Mexican pesos)	672	1.7	508	0.9
NOK (Norwegian krone)	401	1.0	0	0.0
JPY (Japanese yen)	336	0.8	133	0.2
DKK (Danish krone)	186	0.5	0	0.0
AED (United Arab Emirates dirham)	112	0.3	192	0.3
Other	61	0.1	0	0.0
Total	**40,182**	**100.0**	**57,552**	**100.0**

	2012		2011	
Financial liabilities in	**EUR'000**	**%**	**EUR'000**	**%**
USD (U.S. dollars)	39,221	86.4	41,107	83.5
CNY (Chinese renminbi yuan)	1,376	3.0	3,420	6.9
JPY (Japanese yen)	1,332	2.9	1,016	2.1
SEK (Swedish krona)	638	1.4	581	1.2
CHF (Swiss francs)	596	1.3	771	1.6
AED (United Arab Emirates dirham)	565	1.2	577	1.2
ARS (Argentine pesos)	442	1.0	275	0.6
TRL (Turkish lira)	361	0.8	328	0.7
PLN (Polish zloty)	327	0.7	516	1.0
RUB (Russian rubles)	247	0.5	212	0.4
BRL (Brazilian reales)	191	0.4	346	0.7
GBP (British pounds)	186	0.4	62	0.1
Other	19	0.0	21	0.0
Total	**45,501**	**100.0**	**49,232**	**100.0**

For the purpose of presenting market risks, IFRS 7 requires the use of sensitivity analyses to assess the effects of hypothetical changes in relevant risk variables on the entity's financial performance and equity. In addition to currency risks, the Gigaset Group is subject to interest rate risks and price risks. The periodic effects are determined by applying the hypothetical changes in risk variables to the portfolio of financial instruments at the reporting date. For that purpose, it is assumed that the portfolio at the reporting date is representative of the full year.

At the reporting date, the Gigaset Group was subject to currency risks, which are reflected in the items of trade receivables, loan receivables, other receivables and trade payables, liabilities to banks and loan liabilities.

Result of the currency sensitivity analysis:

If the relative value of the euro against the foreign currencies in which the Gigaset Group operates had been 10 % higher or 10 % lower at December 31, 2012, the equity presented in the functional currency would have been EUR 493 thousand higher or EUR -602 thousand lower, respectively (PY: EUR 755 thousand lower or 924 thousand higher).

The hypothetical effect on profit or loss (after taxes) of EUR 493 thousand (PY: EUR -755 thousand) or EUR -602 thousand (PY: EUR 924 thousand), respectively, is broken down in the table below on the basis of the corresponding currency sensitivities:

	2012		2011	
EUR'000	**+10%**	**-10%**	**+10%**	**-10%**
EUR/USD	2,668	-3,261	2,250	-2,750
EUR/JPY	91	-111	80	-98
EUR/AED	41	-50	35	-43
EUR/CNY	25	-31	-492	601
EUR/CAD	4	-5	0	0
EUR/ZAR	0	0	2	-2
EUR/DKK	-16	20	0	0
EUR/SEK	-23	28	-234	286
EUR/NOK	-36	44	0	0
EUR/MXN	-61	75	-46	56
EUR/PLN	-107	131	-80	98
EUR/ARS	-168	206	-404	494
EUR/RUB	-220	268	-223	273
EUR/TRL	-284	347	-251	307
EUR/CHF	-394	482	-286	350
EUR/GBP	-401	490	-296	362
EUR/BRL	-626	765	-810	990
Total	**493**	**-602**	**-755**	**924**

At the reporting date, the Group held 26 foreign currency derivatives (PY: 3) to hedge the exchange rate of the U.S. dollar against the euro, for a total notional amount of EUR 69.1 million (PY: EUR 16.0 million). Of these derivatives, 24 (PY: 3) are designed as "bonus-eventual" currency futures contracts, all of which were concluded on December 20, 2012. The remaining two foreign currency forward transactions are "outright-forward" transactions and were concluded on December 27, 2012.

As of the reporting date, the terms of the forward foreign exchange contracts run from January to December 2013. The following hedging transactions were concluded for the following U.S. dollar amounts for the individual months: January - USD 10.6 million (PY: USD 9.0 million), February - USD 10.2 million (PY: USD 4.0 million), March - USD 6.8 million (PY: USD 3.0 million), April - USD 5.0 million, May - USD 4.2 million, June - USD 6.8 million, July - USD 4.3 million, August - USD 3.9 million, September - USD 4.9 million, October - USD 3.0 million, November - USD 3.8 million, December - USD 5.6 million.

At the reporting date, these derivatives were measured at their fair value of EUR +28 thousand and EUR -221 thousand, and are recognized under other current assets or other current liabilities (PY: EUR +998 thousand and recognitions under other current assets).

The currency sensitivity analysis yielded the result that if the U.S. dollar exchange rate had been 10 % higher, the fair value would have been lower by EUR 3,029 thousand (PY: reduction in the amount of EUR 1,083 thousand), and if the U.S. dollar exchange rate had been 10 % lower, the fair value would have been higher by EUR 4,247 thousand (PY: EUR 1,354 thousand).

Interest rate risks

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

Gigaset concluded an interest rate swap in the amount of EUR 20 million in fiscal year 2012 to hedge the variable interest syndicate loan. The interest rate swap provides for a swap between the three-month Euribor and a fixed interest rate. Due to the interest rate swap, the variable component of the interest on the syndicate loan was exchanged for a fixed interest rate in the amount of 0.79 % per annum. The fair value of the interest rate swap is EUR -286 thousand at the reporting date.

The interest rate sensitivity analyses were based on the following assumptions:

Both fixed interest rates and variable interest rates have been stipulated for interest-bearing receivables and liabilities. Market interest rate risks of non-derivative financial instruments with fixed interest rates can have an effect on profit or loss only when they are measured at fair value. Accordingly, all financial instruments with fixed interest rates that are measured at amortized cost are not subject to interest rate risks according to the definition of IFRS 7. Market interest rate changes of primary financial instruments with variable interest have an effect on the cash flows of these financial instruments. In contrast, the cash flows of the interest rate swap develop contrary to the cash flows of the variable interest loans. They are likewise recognized in the context of the interest rate sensitivity analysis.

To determine the interest rate sensitivities, we assume both a decline in the interest rate by 100 basis points, and also an increase in the interest rate of 100 basis points.

The interest rate sensitivity analysis for the variable interest loan showed, taking the existing interest rate swap into account, that an interest rate 100 basis points higher would lead to an increase in the interest cash flow payable by EUR 508 thousand, and an interest rate 100 basis points lower would lead to an increase in the interest cash flow payable by EUR 43 thousand. The increase in case of a reduction in the interest rate results from the fact that additional payments would have to be made to the bank in case of a negative three-month Euribor. In the prior year, the sensitivity analyses did not lead to any potential effects on profit and loss, since only short-term interest-bearing receivables and liabilities with fixed interest rates were on hand at the closing date, and no interest hedging transactions existed.

Other price risks

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

Classification

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

Carrying amounts, measurement methods and fair values by measurement category	Note	Measurement method per IAS 39		
EUR'000		Measurement category per IAS 39	Carrying amount 2012	Fair value 2012
Assets				
Non-current assets				
Financial assets	15	LaR	0	0
Current assets				
Trade receivables	17	LaR	50,998	50,998
Other assets	18	LaR. FA-HfT	13,468	13,468
Cash and cash equivalents	20	LaR	54,651	54,651
Liabilities				
Non-current liabilities				
Financial liabilities	26	FL-AC	32,000	32,010
Other liabilities	27	FL-AC	0	0
Current liabilities				
Current financial liabilities	29	FL-AC	306	306
Trade payables	30	FL-AC	86,644	86,644
Other liabilities	32	FL-AC. FL-HfT	508	508
thereof aggregated by measurement category according to IAS 39:				
Financial assets				
Loans and receivables (LaR)			119,089	119,089
Held-to-maturity financial investments (HtM)			0	0
Available-for-sale financial assets (AfS)			0	0
Financial assets held for trading (FA-HfT)			28	28
Financial assets designated at fair value (FA-FVO)			0	0
Financial liabilities				
Measured at amortized cost (FL-AC)			118,951	118,961
Financial liabilities held for trading (FL-HfT)			507	507

Measurement method per IAS 39			Statement of financial position measurement method per IAS 17	
Amortized cost	Fair value recog-nized in equity	Fair value through profit and loss		EUR'000
				Assets
				Non-current assets
0	0	0	0	Financial assets
				Current assets
50,998	0	0	0	Trade receivables
13,440	0	28	0	Other assets
54,651	0	0	0	Cash and cash equivalents
				Liabilities
				Non-current liabilities
32,000	0	0	0	Financial liabilities
0	0	0	0	Other liabilities
			0	Current liabilities
306			0	Current financial liabilities
86,644	0	0	0	Trade payables
1	0	507	0	Other liabilities
				thereof aggregated by measurement category according to IAS 39:
				Financial assets
				Loans and receivables (LaR)
				Held-to-maturity financial investments (HtM)
				Available-for-sale financial assets (AfS)
				Financial assets held for trading (FA-HfT)
				Financial assets designated at fair value (FA-FVO)
				Financial liabilities
				Measured at amortized cost (FL-AC)
				Financial liabilities held for trading (FL-HfT)

Carrying amounts, measurement methods and fair values by measurement category	Note	Measurement method per IAS 39		
EUR'000		Measurement category per IAS 39	Carrying amount 2012	Fair value 2012
Assets				
Non-current assets				
Financial assets	15	LaR	2,334	2,525
Current assets				
Trade receivables	17	LaR	59,723	59,723
Other assets	18	LaR. FA-HfT	16,409	16,409
Cash and cash equivalents	20	LaR	62,262	62,262
Liabilities				
Non-current liabilities				
Financial liabilities	26	FL-AC	0	0
Other liabilities	27	FL-AC	0	0
Current liabilities				
Current financial liabilities	29	FL-AC	6,083	6,083
Trade payables	30	FL-AC	96,239	96,239
Other liabilities	32	FL-AC	9,444	9,444
thereof aggregated by measurement category according to IAS 39:				
Financial assets				
Loans and receivables (LaR)			139,730	139,921
Held-to-maturity financial investments (HtM)			0	0
Available-for-sale financial assets (AfS)			0	0
Financial assets held for trading (FA-HfT)			998	998
Financial assets designated at fair value (FA-FVO)			0	0
Financial liabilities				
Measured at amortized cost (FL-AC)			111,766	111,766
Financial liabilities held for trading (FL-HfT)			0	0

Measurement method per IAS 39			Statement of financial position measurement method per IAS 17	
Amortized cost	**Fair value recog-nized in equity**	**Fair value through profit and loss**		**EUR'000**
				Assets
				Non-current assets
2,334	0	0	0	Financial assets
				Current assets
59,723	0	0	0	Trade receivables
15,411	0	998	0	Other assets
62,262	0	0	0	Cash and cash equivalents
				Liabilities
				Non-current liabilities
0	0	0	0	Financial liabilities
0	0	0	0	Other liabilities
			0	Current liabilities
6,083			0	Current financial liabilities
96,239	0	0	0	Trade payables
9,444	0	0	0	Other liabilities
				thereof aggregated by measurement category according to IAS 39:
				Financial assets
				Loans and receivables (LaR)
				Held-to-maturity financial investments (HtM)
				Available-for-sale financial assets (AfS)
				Financial assets held for trading (FA-HfT)
				Financial assets designated at fair value (FA-FVO)
				Financial liabilities
				Measured at amortized cost (FL-AC)
				Financial liabilities held for trading (FL-HfT)

In financial year 2012, the category of other assets included derivative financial assets in the amount of EUR 28 thousand (PY: EUR 998 thousand). The other liabilities include short-term derivative liabilities in the amount of EUR 507 thousand (PY: EUR 0 thousand). As in the prior year, the item of other liabilities included no long-term derivative liabilities.

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

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

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

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

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

For those financial instruments attributed to disposal groups according to IFRS 5, the carrying amounts, measured values and fair values according to the measurement categories of IAS 39 are presented separately in Note 21.

Net gains or losses under financial instruments

EUR'000	From interest	From subsequent measurement: At fair value	From subsequent measurement: Currency trans-lation	From subsequent measurement: Impair-ment	From disposal	Net gain or loss 2012	Net gain or loss 2011
Financial assets							
Loans and receivables	-328	0	-1,990	-2,437	0	-4,755	-96
Held to maturity	0	0	0	0	0	0	0
Available for sale	0	0	0	0	0	0	0
Designated at fair value	0	0	0	0	0	0	0
Financial liabilities							
Measured at amortized cost	-1,290	0	213	0	2,200	1,123	-8,558
Derivative financial instruments							
Held for trading	0	2,228	0	0	0	2,228	1,236

In particular, this item includes interest income on loans extended, interest expenses for receivables from factoring and interest expenses for liabilities to banks and other financial liabilities. No interest income was generated in 2012 or 2011 on financial assets in which impairment losses had been recognized ("unwinding").

The other components of the net gain or loss are recognized as other operating income and expenses (see Notes 3 and 6).

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

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

Net gains or losses on financial instruments held for trading included income and expenses from changes in market values in the amount of EUR 2,228 thousand (PY: EUR 1,236 thousand).

Capital management

Gigaset's new business model provides for a concentration on the telecommunications industry and accessories. Due to the planned further growth, the primary goal of capital management is to secure the survival of Gigaset as a going concern during expansion and then to optimize the ratio of equity to debt for the benefit of all shareholders. The capital structures are managed in the Gigaset Group and the remaining holding companies. On the Group level, capital management is monitored by means of a regular reporting process and is supported and optimized when necessary. Decisions on dividend payments or capital measures are made individually on the basis of the internal reporting system and in agreement with the Gigaset Group.

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

Change in the gearing ratio:

EUR'000	2012	2011
Non-current liabilities	70,818	33,643
Current liabilities	177,964	201,484
Liabilities	248,782	235,127
Equity	45,204	76,233
Gearing ratio	5.5	3.1

D. NOTES TO THE INCOME STATEMENT

1. Revenues

The consolidated revenues of the Group break down as follows:

	2012			2011		
EUR'000	**Continuing operations**	**Discon-tinued operations**	**Total**	**Continuing operations**	**Discon-tinued operations**	**Total**
Revenues from sales of goods	419,557	17,687	437,244	458,569	61,982	520,551
Total	**419,557**	**17,687**	**437,244**	**458,569**	**61,982**	**520,551**

The total revenues break down as follows:

EUR'000	**2012**	**2011**
Trading revenues	17,732	21,544
Production revenues	419,512	499,007
Total	**437,244**	**520,551**

For a breakdown of revenues by geographic regions, please refer to the notes on the Segment Report.

2. Other internal production capitalized

The internal production capitalized consisted of capitalized development costs and the recognition of internally generated intangible and tangible assets, as follows:

	2012			2011		
EUR'000	**Continuing operations**	**Discon-tinued operations**	**Total**	**Continuing operations**	**Discon-tinued operations**	**Total**
Gigaset Group	16,076	0	16,076	17,761	0	17,761
	16,076	**0**	**16,076**	**17,761**	**0**	**17,761**

3. Other operating income

The other operating income breaks down as follows:

	2012			2011		
EUR'000	Continuing operations	Discon-tinued operations	Total	Continuing operations	Discon-tinued operations	Total
Waiver of purchase price, Siemens AG	9,893	0	9,893	0	0	0
Exchange rate changes	5,986	548	6,534	7,790	664	8,454
Reversal of provisions	2,719	961	3,680	13,060	66	13,126
Charge-off of liabilities	2,200	0	2,200	0	0	0
Reversal of valua-tion allowances	1,109	4	1,113	244	0	244
Income from derivatives	958	1,750	2,708	1,634	0	1,634
Deconsolidations	604	0	604	0	2,580	2,580
Disposal of non-current assets	10	3	13	469	116	585
Reversal of nega-tive goodwill arising on consolidation	0	0	0	0	1,888	1,888
Miscellaneous oper-ating income	2,573	2,441	5,014	6,832	4,641	11,473
Total	**26,052**	**5,707**	**31,759**	**30,029**	**9,955**	**39,984**

The income from deconsolidations in 2012 amounted to EUR 604 thousand in fiscal year 2012 and result from the liquidation of Schierholz Translift Global Manufacturing & Finance AG. The income from deconsolidations in 2011 in the amount of EUR 2,580 thousand resulted from the Oxxynova Group, which was sold in connection with the portfolio streamlining strategy.

The stated income from reversals of negative goodwill arising on consolidation in the amount of EUR 1,888 thousand in 2011 resulted from the acquisition of the SM Electronic Group.

4. Purchased goods and services

	2012			2011		
EUR'000	**Continuing operations**	**Discon-tinued operations**	**Total**	**Continuing operations**	**Discon-tinued operations**	**Total**
Raw materials and supplies	163,954	9,492	173,446	175,390	36,495	211,885
Purchased goods	47,283	40	47,323	49,004	272	49,276
Purchased services	267	77	344	838	208	1,046
Other	4,595	392	4,987	3,849	1,118	4,967
Total	**216,099**	**10,001**	**226,100**	**229,081**	**38,093**	**267,174**

In the reporting year, other purchased goods and services included write-ups of fixed assets in the amount of EUR 7 thousand (PY: EUR 0 thousand) in the category of continuing operations and write-ups of fixed assets in the amount of EUR 0 thousand (PY: EUR 553 thousand) in the category of discontinued operations.

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

EUR'000	**2012**	**2011**
Gigaset Group	216,099	228,471
SM Electronic Group	10,001	12,338
Oxxynova Group	0	14,596
van Netten Group	0	11,159
Holding	0	610
Total	**226,100**	**267,174**

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

EUR'000	**2012**	**2011**
Gigaset Group	163,954	175,390
SM Electronic Group	9,492	12,008
Oxxynova Group	0	13,340
van Netten Group	0	11,147
Total	**173,446**	**211,855**

The expenses for purchased goods derived from the following groups:

EUR'000	2012	2011
Gigaset Group	47,283	49,004
SM Electronic Group	40	181
Oxxynova Group	0	80
van Netten Group	0	11
Total	**47,323**	**49,276**

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

EUR'000	2012	2011
Holding	267	228
SM Electronic Group	77	19
Gigaset Group	0	611
Oxxynova Group	0	188
Total	**344**	**1,046**

As in the prior year, the other purchased goods and services consisted mainly of energy supply costs.

5. Personnel expenses

	2012			2011		
EUR'000	Continuing operations	Discon-tinued operations	Total	Continuing operations	Discon-tinued operations	Total
Wages and salaries	114,870	2,204	117,074	88,792	8,773	97,565
Social security, pension and other benefit costs	19,178	395	19,573	18,950	1,829	20,779
Total	**134,048**	**2,599**	**136,647**	**107,742**	**10,602**	**118,344**

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

EUR'000	2012	2011
Gigaset Group	132,397	106,617
SM Electronic Group	2,599	4,885
Holding	1,651	1,124
van Netten Group	0	4,400
Oxxynova Group	0	1,318
Total	**136,647**	**118,344**

The wages and salaries contained remuneration of EUR 65 thousand reducing expenses (PY: EUR 108 thousand in expenses) for share-based payments. This amount is derived from the development of the liabilities arising from the cash-settled share-based remuneration of the Executive Board.

6. Other operating expenses

The other operating expenses break down as follows:

	2012			2011		
EUR'000	**Continuing operations**	**Discon-tinued operations**	**Total**	**Continuing operations**	**Discon-tinued operations**	**Total**
Marketing and representation expenses	34,167	3,390	37,557	36,619	4,068	40,687
Administrative expenses	20,366	1,744	22,110	17,035	3,739	20,774
Outgoing freight/ transport costs	11,072	1,735	12,807	11,763	2,828	14,591
Addition to warranty provisions	8,220	0	8,220	9,868	0	9,868
Consulting expenses	8,749	453	9,202	5,655	996	6,651
Exchange rate changes	7,651	599	8,250	11,554	1,001	12,555
Personnel leasing	4,245	0	4,245	4,876	0	4,876
Expenses for land/buildings (including rent)	4,112	547	4,659	3,891	2,257	6,148
Maintenance of technical equipment, machinery and operational and office equipment	2,652	37	2,689	2,947	1,446	4,393
Other taxes	1,902	3	1,905	1,740	7	1,747
Write-offs on receivables and losses on receivables	982	97	1,079	4,096	1	4,097
Patent and licensing fees	698	2,382	3,080	1,043	3,496	4,539
Expenses for financial derivatives	479	0	479	398	0	398
Losses on the disposal of non-current assets	61	35	96	45	32	77
Addition to provision for anticipated losses	32	0	32	283	417	700
Miscellaneous operating expenses	11,362	658	12,020	5,200	1,825	7,025
Total	**116,750**	**11,680**	**128,430**	**117,013**	**22,113**	**139,126**

7. Impairments

The impairment losses break down as follows:

	2012			2011		
EUR'000	Continuing operations	Discon-tinued operations	Total	Continuing operations	Discon-tinued operations	Total
SM Electronics Group	0	1,935	1,935	0	1,897	1,897
van Netten Group	0	0	0	0	153	153
Gigaset Group	0	0	0	31	0	31
Total	**0**	**1,935**	**1,935**	**31**	**2,050**	**2,081**

The impairment losses recognized in the SM Electronic Group in 2012 amounted to EUR 1,935 thousand (PY: EUR 1,897 thousand). The impairment in 2012 results from the difference in the fair value less costs to sell and the reclassified net asset values pursuant to IFRS 5 (held-for-sale group). The impairment losses recognized in 2011 resulted from restructuring measures. An essential aspect of the restructuring measures was the outsourcing of logistics, for which reason the high-bay warehouse and other assets required for logistics could no longer be used. The impairment losses in 2011 in the total amount of EUR 1,897 thousand related to intangible assets in the amount of EUR 110 thousand, and to property, plant and equipment in the amount of EUR 1,787 thousand.

The van Netten Group was sold in financial year 2011 and already classified as a disposal group in 2010. Therefore, the corresponding assets and liabilities of the van Netten Group were presented as assets held for sale and as liabilities related to assets held for sale. In consideration of the fair value less costs to sell, an impairment loss of EUR 153 thousand was recognized in 2011. The impairment loss recognized in 2011 reflected the change in the assets and liabilities held until the deconsolidation date in June 2011.

The impairment losses recognized in the Gigaset Group in 2011 in the total amount of EUR 31 thousand related to intangible assets in the amount of EUR 26 thousand, and to property, plant and equipment in the amount of EUR 5 thousand. No impairment losses were recognized in the Gigaset Group for 2012.

8. Net interest income/expenses

	2012			2011		
EUR'000	Continuing operations	Discon-tinued operations	Total	Continuing operations	Discon-tinued operations	Total
Other interest and similar income	911	1	912	1,002	12	1,014
Interest and similar expenses	-2,160	-145	-2,305	-3,507	-269	-3,776
Net interest income/expenses	**-1,249**	**-144**	**-1,393**	**-2,505**	**-257**	**-2,762**

Other interest and similar income in the amount of EUR 912 thousand (PY: EUR 1,014 thousand) consisted mainly of interest on loans extended, current account balances and term deposits, which are assigned to the category of loans and receivables. The interest income arising from the discounting of provisions amounted to EUR 257 thousand (PY: EUR 78 thousand).

Interest and similar expenses in the amount of EUR -2,305 thousand (PY: EUR 3,776 thousand) were mainly composed of interest payments to banks on loans received, which are assigned to the category of financial liabilities at amortized cost. This item also included interest expenses on receivables under factoring arrangements, which reduced the net result of the loans and receivables category by EUR 910 thousand (PY: TEUR 1,037 thousand), as well as interest on the purchase price obligation waived in 2012 in the amount of EUR 449 thousand (PY: EUR 598 thousand).

In the previous year, the interest and similar expenses also included interest expenses arising from the convertible bond that was converted in 2011 in the amount of EUR 1,239 thousand.

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

9. Income taxes

The income tax expenses break down as follows:

	2012			2011		
EUR'000	Continuing operations	Discon-tinued operations	Total	Continuing operations	Discon-tinued operations	Total
Current tax expenses	-2,837	-41	-2,878	-7,914	-21	-7,935
Deferred tax income	9,072	451	9,523	6,110	129	6,239
Total income tax expenses/income	**6,235**	**410**	**6,645**	**-1,804**	**108**	**-1,696**

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

EUR'000	2012	2011
Profit/loss before income taxes	-37,337	19,237
expected income tax rate	33.0%	33.0%
expected income tax expenses	-12,321	6,348
Effect of income from reversals of negative goodwill recognized in the income statement	0	-623
Tax rate changes	482	-787
Tax rate differences	260	-100
Tax-exempt income	-337	-837
Non-deductible expenses	429	500
Change in valuation allowance for deferred tax assets and unrecognized deferred tax assets in respect of tax loss carry-forwards	3,091	-3,330
Current taxes for different periods	933	1,406
Tax credits	135	-1
Other effects	683	-880
Income tax expenses (+) / income (-) recognized in the income statement	**-6,645**	**1,696**
Effective tax rate	17.80%	8.82%

10. Non-controlling interests

The consolidated loss of EUR -30,692 thousand (PY: consolidated net income of EUR 17,541 thousand) comprised non-controlling interests of EUR 0 thousand (PY: EUR 126 thousand).

11. Earnings per common share

The basic and diluted earnings per share amounted to EUR -0.61 in financial year 2012 (PY: EUR 0.35), as per the following calculation:

	2012			2011		
EUR'000	Continuing operations	Aufgegebene Geschäftsbereiche	Konzern	Continuing operations	Aufgegebene Geschäftsbereiche	Konzern
PROFIT/LOSS						
Basis for the basic earnings per share (share of period profit or loss attributable to shareholders of the parent company)	-28,162	-2,530	-30,692	20,537	-3,122	17,415
Effect of potentially diluting common shares: stock options	0	0	0	0	0	0
Basis for the diluted earnings per share	-28,162	-2,530	-30,692	20,537	-3,122	17,415
NUMBER OF SHARES						
Weighted average common shares for the basic earnings per share	50,014,911	50,014,911	50,014,911	50,014,264	50,014,264	50,014,264
Effect of potentially diluting common shares: stock options	0	0	0	9,315	0	9,315
Weighted average common shares for the diluted earnings per share	50,014,911	50,014,911	50,014,911	50,023,579	50,014,264	50,023,579
Basic earnings per share (in EUR)	-0.56	-0.05	-0.61	0.41	-0.06	0.35
Diluted earnings per share (in EUR)	-0.56	-0.05	-0.61	0.41	-0.06	0.35

There were no diluting effects in the current financial year, so that the undiluted earnings per share corresponds to the diluted earnings per share. Due to the negative result for the discontinued operations in 2011, no diluted earnings per share were calculated, in accordance with IAS 33.

The potentially diluting common shares (stock options) expired in 2011, so that no further potentially diluting common shares existed in financial year 2012.

12. Dividend proposal

No dividend was distributed to shareholders for fiscal year 2011.

The Annual Shareholders' Meeting on June 12, 2012, adopted a resolution to appropriate EUR 46,121 thousand of the net income of the previous year in the amount of EUR 48,689 thousand to Other retained earnings, and to carry forward the remaining amount of EUR 2,568 thousand to new account.

The 2012 financial year net loss calculated in accordance with the German Commercial Code (GCC) amounted to EUR -7,966 thousand. The Executive Board and the Supervisory Board will propose to the Annual Shareholders' Meeting that the company offset the financial year net loss of Gigaset AG of EUR 2,568 thousand from 2011 and carry forward the remaining net loss for the year of EUR -5,398 thousand to new account.

E. NOTES TO THE STATEMENT OF FINANCIAL POSITION

13. Intangible assets

EUR'000	Franchises, intellectual property rights, and similar rights and licenses	Other intan-gible assets	Advance payments	Total
Acquisition cost at 1/1/2012	25,303	56,552	104	81,959
Currency translation	5	0	0	5
Additions	517	11,795	2,043	14,355
Disposals	-75	-8	0	-83
Transfers	-73	-75	-104	-252
Balance at 12/31/2012	25,677	68,264	2,043	95,984
Amortization at 1/1/2012	-6,952	-32,576	0	-39,528
Currency translation	-4	0	0	-4
Additions	-2,323	-10,223	0	-12,546
Disposals	75	0	0	75
Transfers	178	67	0	245
Balance at 12/31/2012	**-9,026**	**-42,732**	**0**	**-51,758**
Net carrying amount at 12/31/2011	18,351	23,976	104	42,431
Net carrying amount at 12/31/2012	**16,651**	**25,532**	**2,043**	**44,226**
Acquisition cost at 1/1/2011	29,496	42,535	18	72,049
Companies added to consolidation group	121	0	34	155
Currency translation	-8	3	0	-5
Additions	1,732	14,014	110	15,856
Disposals	-5,896	0	0	-5,896
Transfers	-142	0	-58	-200
Balance at 12/31/2011	25,303	56,552	104	81,959
Amortization at 1/1/2011	-9,480	-24,247	0	-33,727
Currency translation	6	-1	0	5
Additions	-3,277	-8,328	-34	-11,639
Impairments (IAS 36)	-136	0	0	-136
Disposals	5,793	0	0	5,793
Transfers	142	0	34	176
Balance at 12/31/2011	-6,952	-32,576	0	-39,528
Net carrying amount at 12/31/2010	20,016	18,288	18	38,322
Net carrying amount at 12/31/2011	18,351	23,976	104	42,431

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

EUR'000	12/31/2012	12/31/2011
Brand names	8,399	8,399
Patents	6,152	7,222
Franchises	1,921	2,313
Customer bases	179	417
Total	**16,651**	**18,351**

The **customer bases** in the total amount of EUR 179 thousand (PY: EUR 417 thousand) pertained to two subsidiaries of Gigaset Communications GmbH. The customer bases of the Gigaset Group are amortized on a straight-line basis over useful lives ranging from 3 to 5 years.

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

At the reporting date, the brand name Gigaset was presented in the amount of EUR 8,399 thousand (PY: EUR 8,399 thousand). The brand name "Gigaset" is ascribed to the operating Gigaset Group, as the smallest cash-generating unit. The brand name was subjected to an impairment test at December 31, 2012 on the basis of the fair value less costs to sell. The calculation was conducted on the basis of a four-year cash flow plan. Appropriate growth rates were applied for the period thereafter. The applied discount factor after taxes was 10.36 % per annum (PY: 9.88 % per annum). Based on the detailed business plan, the growth discount was set at 0.5 % (PY: 0.5 %). Based on this calculation, there was no need to recognize an impairment loss. The calculations showed that realistically assumable changes in the underlying assumptions would not lead to any impairment loss.

The franchises in the amount of EUR 1,921 thousand (PY: EUR 2,313 thousand) mainly consisted of software licenses held in the Gigaset Group.

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

Capitalized development expenses of EUR 25,532 thousand (PY: EUR 23,976 thousand), all of which pertained exclusively to Gigaset Communications GmbH, have been presented within the item of other intangible assets. The development activities of the Gigaset Group represent capitalized product developments. Research and development expenses of EUR 27,831 thousand (PY: EUR 28,009 thousand) were recognized as expenses in fiscal year 2012, primarily at Gigaset Communications GmbH.

No capitalized goodwill existed at the reporting date.

In financial 2011, the item of "Companies added to the consolidation group" was composed of accumulated acquisition and production costs and accumulated amortization due to the first-time consolidation of the SM Electronic Group.

No impairment losses were recognized in intangible assets in financial year 2012 pursuant to IAS 36. The impairment losses recognized in financial 2011 in the amount of EUR 136 thousand related to intangible assets of the SM Electronic Group in the amount of EUR 110 thousand and intangible assets of the Gigaset Group in the amount of EUR 26 thousand. For additional information on impairment losses, please refer to our comments in the section entitled "Impairment losses."

Borrowing costs of EUR 249 thousand were capitalized in financial year 2012 (PY: EUR 466 thousand). The underlying interest rate amounts to 4.49 %.

14. Property, plant and equipment

EUR'000	Land, leasehold rights	Buildings, including buildings on non-owned land (excluding finance leases)	Technical equipment, plant and machinery (excluding finance leases)
Acquisition cost at 1/1/2012	4,025	20,666	6,490
Companies added to consolidation group	0	0	0
Companies removed from consolidation group	0	0	0
Currency translation	0	-1	-36
Additions	0	15	327
Disposals	0	0	-1,542
Transfers	0	-102	78
Balance at 12/31/2012	**4,025**	**20,578**	**5,317**
Depreciation at 1/1/2012	0	-4,294	-2,685
Companies removed from consolidation group	0	0	0
Currency translation	0	2	45
Additions	0	-1,423	-886
Impairments (IAS 36)	0	0	0
Disposals of impairments (IAS 36)	0	0	477
Disposals	0	0	1,065
Transfers	0	101	1
Balance at 12/31/2012	0	-5,614	-1,983
Net carrying amount at 12/31/2011	4,025	16,372	3,805
Net carrying amount at 12/31/2012	**4,025**	**14,964**	**3,334**

Other equipment, operational and office equipment (excluding finance leases)	Other equipment, operational and office equipment (finance leases)	Advance payments and construction in progress	Total	EUR'000
55,680	0	666	87,527	Acquisition cost at 1/1/2012
0	0	0	0	Companies added to consolidation group
0	0	0	0	Companies removed from consolidation group
-76	0	0	-113	Currency translation
9,390	0	791	10,523	Additions
-6,693	0	0	-8,235	Disposals
-18	0	-659	-701	Transfers
58,283	**0**	**798**	**89,001**	**Balance at 12/31/2012**
-34,637	0	0	-41,616	Depreciation at 1/1/2012
0	0	0	0	Companies removed from consolidation group
77	0	0	124	Currency translation
-9,989	0	0	-12,298	Additions
0	0	0	0	Impairments (IAS 36)
2,061	0	0	2,538	Disposals of impairments (IAS 36)
4,633	0	0	5,698	Disposals
599	0	0	701	Transfers
-37,256	0	0	-44,853	Balance at 12/31/2012
21,043	0	666	45,911	Net carrying amount at 12/31/2011
21,027	**0**	**798**	**44,148**	**Net carrying amount at 12/31/2012**

EUR'000	Land, leasehold rights	Buildings, including buildings on non-owned land (excluding finance leases)	Technical equipment, plant and machinery (excluding finance leases)
Acquisition cost at 1/1/2011	4,025	20,509	9,770
Companies added to consolidation group	0	961	129
Companies removed from consolidation group	0	0	0
Currency translation	0	18	-226
Additions	0	0	913
Disposals	0	139	-4,061
Transfers	0	-961	-36
Balance at 12/31/2011	**4,025**	**20,666**	**6,489**
Depreciation at 1/1/2011	0	-2,838	-4,396
Companies removed from consolidation group	0	0	0
Currency translation	0	-12	214
Additions	0	-1,465	-2,582
Impairments (IAS 36)	0	-940	-115
Reversal of impairments	0	0	2,052
Disposals	0	0	2,106
Transfers	0	961	36
Balance at 12/31/2011	0	-4,294	-2,685
Net carrying amount at 12/31/2010	4,025	17,671	5,374
Net carrying amount at 12/31/2011	**4,025**	**16,372**	**3,804**

Other equipment, operational and office equipment (excluding finance leases)	Other equipment, operational and office equipment (finance leases)	Advance payments and construction in progress	Total	EUR'000
50,633	58	309	85,304	Acquisition cost at 1/1/2011
811	0	0	1,901	Companies added to consolidation group
0	0	0	0	Companies removed from consolidation group
-324	0	0	-532	Currency translation
10,697	0	668	12,278	Additions
-5,574	0	0	-9,496	Disposals
-563	-58	-310	-1,928	Transfers
55,680	**0**	**667**	**87,527**	**Balance at 12/31/2011**
-29,390	0	0	-36,624	Depreciation at 1/1/2011
0	0	0	0	Companies removed from consolidation group
303	0	0	505	Currency translation
-11,093	0	0	-15,140	Additions
-737	0	0	-1,792	Impairments (IAS 36)
1,903	0	0	3,955	Reversal of impairments
3,814	0	0	5,920	Disposals
563	0	0	1,560	Transfers
-34,637	0	0	-41,616	Balance at 12/31/2011
21,243	58	309	48,680	Net carrying amount at 12/31/2010
21,043	**0**	**667**	**45,911**	**Net carrying amount at 12/31/2011**

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

No impairment losses were recognized on property, plant and equipment in 2012 (PY: EUR 1,792 thousand). For additional information on impairment losses, please refer to our comments in the section entitled "Impairment losses."

Property, plant and equipment in the amount of EUR 15,000 thousand (PY: EUR 0 thousand) have been pledged as security for financial liabilities. For additional information on security, please refer to the notes on financial instruments in the section entitled "Liquidity risk."

15. Financial assets

The financial assets included loans extended with a term of more than one year. All loans were measured at amortized cost. These loans showed the following development in financial year 2012:

EUR'000	12/31/2012	12/31/2011
Balance at 1/1	2,334	0
Changes in consolidation group	0	2,300
Additions	137	34
Impairment	-2,471	0
Balance at 12/31	**0**	**2,334**

As in the previous year, the financial assets at December 31, 2012, included a loan extended to the van Netten Group. In connection with the sale of the van Netten Group, a repayment plan was agreed to repay the loan that had previously been extended to the company. Due to the commencement of insolvency proceedings in the 4th quarter of 2012 and the subsequent communication with the insolvency administrator, the company assumes that the loan can no longer be collected and therefore wrote off the loan entirely.

16. Inventories

The inventories break down as follows:

EUR'000	12/31/2012	12/31/2011
Finished goods, trading stock and finished services	23,096	25,110
Semi-finished goods and services in progress	1,568	1,574
Raw materials and supplies	8,016	8,117
Advance payments	738	1,003
Total	**33,418**	**35,804**

Inventories are measured at the lower of acquisition or production cost and the net realizable value less costs to sell at the reporting date. The valuation allowances comprised within purchased goods and services amounted to EUR 1,495 thousand at the reporting date (PY: EUR 872 thousand). The valuation allowances were mainly charged to account for slow-moving inventories and insufficient salability.

The amounts presented under inventories derived exclusively from Gigaset Communications GmbH and its subsidiaries.

The inventories of the SM Electronic Group were presented as "Assets held for sale" at the reporting date, in accordance with IFRS 5.

Inventories in the amount of EUR 1,674 thousand have been pledged as security for financial liabilities (PY: EUR 2,144 thousand). A detailed presentation of security can be found in the notes on financial instruments in the section entitled "Liquidity risk."

17. Trade receivables

EUR'000	12/31/2012	12/31/2011
Receivables before valuation allowances	55,587	65,563
Valuation allowances	-4,589	-5,840
Carrying amount of receivables	**50,998**	**59,723**

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

EUR'000	2012	2011
01/01	5,840	1,942
Addition	982	4,097
Consumption	-1,124	0
Reversal	-1,109	-199
31. 12.	**4,589**	**5,840**

No interest income was collected in the reporting period on trade payables against which valuation allowances had been charged.

Some companies of the Gigaset Group assigned a portion of their trade receivables to a financing company. The maximum volume of factoring agreements concluded at the reporting date was EUR 50,000 thousand (PY: EUR 50,000 thousand). However, the maximum volume was not utilized at the reporting date. Receivables in the amount of EUR 47,590 thousand (PY: EUR 40,230 thousand) were sold. Based on the contractual formulation of some factoring agreements, it can neither be assumed that the corresponding receivables were completely transferred, nor that the risks and rewards of the receivables remained completely with the company. In accordance with IAS 39, therefore, the companies recognized a so-called "continuing involvement" of EUR 302 thousand (PY: EUR 783 thousand), which was composed of the remaining interest rate risk in the amount of EUR 151 thousand (PY: EUR 388 thousand) and the del credere risk remaining with the company by virtue of the purchase price retention, in the amount of EUR 151 thousand (PY: EUR 395 thousand). The expenses in connection with factoring totaled EUR 1,174 thousand in the reporting period (PY: EUR 1,285 thousand). They include the factoring fees and the interest expenses for factoring. There were no flowbacks of cash arising from the purchase price retentions as part of factoring to the factoring company in either the current year or the prior year.

In addition, the trade payables also comprised receivables due from the respective factor in connection with the purchase price retentions in the amount of EUR 5,819 thousand (PY: EUR 7,090 thousand). This does not include those companies that were carried within the disposal group in the item “assets held for sale” pursuant to the regulations of IFRS 5.

The age structure of trade receivables at December 31, 2012 is presented in the table below:

EUR’000	12/31/2012	12/31/2011
Carrying amount	50,998	59,723
thereof: neither impaired nor past due at the reporting date	37,850	34,173
thereof: impaired at the reporting date	2,976	5,610
thereof: not impaired, but past due by the following time intervals at the reporting date	10,172	19,940
Past due up to 90 days	8,681	18,443
Past due 90 days to 180 days	555	262
Past due 180 days to one year	629	251
Past due by more than one year	307	984

Of the total trade receivables presented in the statement of financial position, an amount of EUR 5,219 thousand (PY: EUR 4,797 thousand) has been pledged as security for financial liabilities. A detailed presentation of security can be found in the notes on financial instruments in the section entitled "Liquidity risk."

With regard to the receivables that were neither impaired nor past due, there were no indications that payments will not be made when due.

The Gigaset Group received trade credit insurance, letters of credit and other credit improvements in the amount of EUR 32,232 thousand (PY: EUR 56,959 thousand) as security for trade receivables and outstanding invoices in financial year 2012.

The largest constituent items within trade receivables were divided among the sub-groups as follows:

EUR’000	12/31/2012	12/31/2011
Gigaset Group	50,998	59,211
Holding	0	512
Total	**50,998**	**59,723**

In accordance with the provisions of IFRS 5, the trade receivables of the SM Electronic Group were presented within the item of “Assets held for sale” at the reporting date.

By reason of the international activity of the Gigaset Group, the following receivables denominated in foreign currencies were converted to the Group currency (EUR) at December 31, 2012:

	12/31/2012		12/31/2011	
Foreign currency	**EUR'000**	**%**	**EUR'000**	**%**
GBP (British pounds)	3,629	18.2	2,759	9.2
BRL (Brazilian reales)	3,351	16.8	6,344	21.1
CHF (Swiss francs)	3,288	16.5	2,784	9.2
USD (U.S. dollars)	2,696	13.5	8,446	28.0
TRL (Turkish lira)	2,090	10.5	2,513	8.3
RUB (Russian rubles)	1,791	9.0	2,044	6.8
ARS (Argentine pesos)	1,195	6.0	1,528	5.1
MXN (Mexican pesos)	672	3.4	0	0
PLN (Polish zloty)	595	3.0	785	2.6
SEK (Swedish krona)	519	2.6	2,292	7.6
Other	142	0.5	642	2.1
Total	**19,968**	**100.0**	**30,137**	**100.0**

18. Other assets

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

EUR'000	**12/31/2012**	**12/31/2011**
Receivables from factoring	11,859	13,614
Tax receivables	8,018	7,978
Refunds due	1.077	650
Current loans	934	886
Receivables from pension liability insurance	685	18
Security deposits	493	141
Accrual and deferral	439	409
Debit balances in vendor accounts	153	120
Derivatives	28	998
Other assets	3,815	2,349
Total	**26,424**	**27,163**

The tax receivables do not include income tax receivables because those are presented separately. The tax receivables presented in this item were mainly composed of sales tax refund claims in the amount of EUR 7,686 thousand (PY: EUR 7,701 thousand) most of which attributable, in turn, to the Gigaset Group, in the amount of EUR 7,173 thousand (PY: EUR 7,680 thousand).

The receivables from factoring in 2012 consisted mainly of the outstanding portion of the purchase price receivable still owed to the Gigaset Group, in the amount of EUR 11,859 thousand (PY: EUR 13,614 thousand).

19. Current tax assets

This item was composed exclusively of current income tax assets, including an amount of EUR 2,017 thousand (PY: EUR 3,076 thousand) attributable to the Gigaset Group.

20. Cash and cash equivalents

This item comprises cash on hand, cash in banks for deposits that are due in less than three months, and financial instruments with an original term to maturity of less than three months. Of the total amount presented herein, an amount of EUR 1,797 thousand (PY: EUR 3,280 thousand) has been pledged as security for credit facilities and for currency hedging transactions (restricted cash).

EUR'000	12/31/2012	12/31/2011
Cash on hand and cash at banks	52,854	58,982
Restricted cash[2]	1,797	3,280
Total	**54,651**	**62,262**

21. Non-current disposal groups held for sale and discontinued operations

In accordance with IFRS 5, non-current assets and disposal groups are presented separately in the statement of financial position as "held for sale" if they can be sold in their current condition and the sale is highly probable. Assets classified as "held for sale" are measured at fair value less costs to sell, if that amount is less than the carrying amount. Based on this classification, liabilities that are directly related to such assets are presented separately in the statement of financial position as liabilities "held for sale."

In December 2011, the Supervisory Board approved the sale of the SM Electronic Group and efforts to sell the Group were begun immediately. Because the SM Electronic Group satisfies the criterion of immediate salability according to IFRS 5 and the execution of this plan continues to be considered highly probable, the SM Electronic Group has been classified as a disposal group according to IFRS 5.

*In accordance with a collateral agreement with Deutsche Bank AG dated January 31, 2013, further cash of EUR 11.4 million has been pledged as collateral for the purpose of making payments under the redundancy plan and the reconciliation of interests on the occasion of restructuring.

At December 31, 2012, the assets and liabilities of the disposal group SM Electronic (Other Segment) break down as follows:

	12/31/2012		12/31/2011	
EUR'000	**Amount before impairment**	**Impairment pursuant to IFRS 5**	**Amount after impairment**	**Amount as of 12/31/2011**
Assets				
Deferred tax assets	3,247	-1,935	1,312	17
Inventories	3,853	0	3,853	3,861
Current receivables and other assets	12,592	0	12,592	15,644
Cash and cash equivalents	1,031	0	1,031	894
Total	**20,723**	**-1,935**	**18,788**	**20,416**
Liabilities				
Provisions	400		400	1,693
Other liabilities	14,883		14,883	20,195
Deferred tax liabilities	3,505		3,505	694
Total	**18,788**		**18,788**	**22,582**

Because IFRS 5 requires that impairments be recognized if the fair value less costs to sell is less than the carrying amount, an impairment loss of EUR 1,935 thousand (PY: EUR 0 thousand) was recognized for the disposal group.

The following additional disclosures are made with regard to discontinued operations: In 2011, Gigaset divested itself of the Carl Froh Group, the Oxxynova Group and the van Netten Group (all of the Other Segment). These operations are now presented as discontinued operations. The SM Electronic Group is also presented as discontinued operations because it is deemed to be an important business division in terms of total assets and revenues.

The cash and cash equivalents attributable to discontinued operations are presented in the table below:

EUR'000	12/31/2012	12/31/2011
Cash inflow (+)/ outflow (-) from operating activities	169	-1,491
Cash inflow (+)/ outflow (-) from investing activities	-32	246
Cash inflow (+)/ outflow (-) from financing activities	0	0
Change in cash and cash equivalents	**137**	**-1,245**

The disclosures concerning the financial instruments within the above-mentioned disposal groups that must be measured in accordance with IAS 39 are presented in the table below.

Carrying amounts, measurement methods and fair values by measurement category

EUR'000	Measurement category per IAS 39	Carrying amount 2012	Fair value 2012
Assets			
Current assets			
Trade receivables	LaR	694	694
Other assets	LaR	11,153	11,153
Cash and cash equivalents	LaR	1,031	1,031
Liabilities			
Current liabilities			
Trade payables	FL-AC	14,564	14,564
Other liabilities	FL-HfT	0	0
Thereof aggregated by measurement category according to IAS 39:			
Financial assets			
Loans and receivables (LaR)		12,878	12,878
Financial liabilities			
Measured at amortized cost (FL-AC)		14,564	14,564
Financial liabilities held for trading (FL-HfT)		0	0

Measurement method per IAS 39			Statement of financial position measurement method per IAS 177	
Amortized cost	Fair value recognized in equity	Fair value through profit and loss		EUR'000
				Assets
				Current assets
694	0	0	-	Trade receivables
11,153	0	0	-	Other assets
1,031	0	0	-	Cash and cash equivalents
				Liabilities
				Current liabilities
14,564	0	0	-	Trade payables
0	0	0	-	Other liabilities
				Thereof aggregated by measurement category according to IAS 39:
				Financial assets
				Loans and receivables (LaR)
				Financial liabilities
				Measured at amortized cost (FL-AC)
				Financial liabilities held for trading (FL-HfT)

Carrying amounts, measurement methods and fair values by measurement category

EUR'000	Measurement category per IAS 39	Carrying amount 2012	Fair value 2012
Assets			
Current assets			
Trade receivables	LaR	3,284	3,284
Other assets	LaR	8,657	8,657
Cash and cash equivalents	LaR	894	894
Liabilities			
Current liabilities			
Trade payables	FL-AC	17,980	17,980
Other liabilities	FL-HfT	1,750	1,750
Thereof aggregated by measurement category according to IAS 39:			
Financial assets			
Loans and receivables (LaR)		12,835	12,835
Financial liabilities			
Measured at amortized cost (FL-AC)		17,980	17,980
Financial liabilities held for trading (FL-HfT)		1,750	1,750

Amortized cost	Fair value recognized in equity	Fair value through profit and loss	Statement of financial position measurement method per IAS 177	EUR'000
Measurement method per IAS 39				
				Assets
				Current assets
3,284	0	0	-	Trade receivables
8,657	0	0	-	Other assets
894	0	0	-	Cash and cash equivalents
				Liabilities
				Current liabilities
17,980	0	0	-	Trade payables
0	0	1,750	-	Other liabilities
				Thereof aggregated by measurement category according to IAS 39:
				Financial assets
				Loans and receivables (LaR)
				Financial liabilities
				Measured at amortized cost (FL-AC)
				Financial liabilities held for trading (FL-HfT)

22. Equity

Subscribed capital

The company's share capital is EUR 50,014,911.00 (PY: EUR 50,014,911.00) and is divided into 50,014,911 (PY: 50,014,911) no-par bearer shares. The shares are bearer shares. Thus, every no-par share represents EUR 1.00 of the company's share capital.

At the reporting date of December 31, 2012, no treasury shares were held, as also at December 31, 2011. By resolution of the Annual Shareholders' Meeting of June 12, 2012, the company was authorized to acquire up to 10 % of the existing capital stock itself. This authorization is valid until June 11, 2017.

Additional paid-in capital

The additional paid-in capital at December 31, 2012 amounted to EUR 87,981 thousand, as in the previous year.

Retained earnings

By resolution of the Annual Shareholders' Meeting of June 12, 2012, the retained earnings rose from EUR 22,858 thousand to EUR 68,979 thousand due to the appropriation of the profit of Gigaset AG for 2011 according to the GCC, in the amount of EUR 46,121 thousand. In financial year 2011, one-half the profit for 2011 of Gigaset AG according to the GCC in the amount of EUR 2,568 thousand was already appropriated to retained earnings, which cause the retained earnings to increase to EUR 22,858 thousand in 2011 following EUR 20,290 thousand in 2010.

Non-controlling interests

At the reporting date of December 31, 2012, the adjustment entry for non-controlling interests amounted to EUR 0 thousand, as in the previous year.

Accumulated other comprehensive income from discontinued operations

The item of accumulated other comprehensive income includes currency translation differences from discontinued operations in the amount of EUR 3 thousand (PY: EUR 10 thousand).

Authorized Capital / Conditional Capital

Pursuant to Article 4 (5) of the Articles of Incorporation, the Executive Board is authorized to increase the Company's capital stock by issuing new shares in the period through December 20, 2015, with the consent of the Supervisory Board, by a total of up to EUR 19,833,335.00, all at once or in partial amounts, through the issuance of new bearer shares that participate in profits starting at the beginning of the year of issue, against cash or in-kind capital contributions (Authorized Capital 2010). The existing shareholders are fundamentally entitled to a subscription right, but it can be excluded under certain circumstances. The new shares can also be accepted by one or more financial institutions with the obligation to offer them to the existing shareholders for purchase (Indirect Subscription Right). The Executive Board was authorized to decide upon the content of the stock rights and the terms of the stock issue with the consent of the Supervisory Board and to specify the details of implementation of the capital increase. The Supervisory Board was further authorized to amend the wording of the Articles of Incorporation in accordance with the specific scope of the capital increase from the Authorized Capital 2010.

The Annual Shareholders' Meeting of June 10, 2011, resolved to annul the Contingent Capital 2008/I and create a new Contingent Capital (Contingent Capital 2011/I), by means of which the company's share capital can be increased by up to EUR 1,300,000.00. However, the Contingent Capital serves the exclusive purpose of granting subscription rights ("stock options") to members of the company's Executive Board and selected employees of the company or its affiliated companies. The Executive Board is authorized, with the consent of the Supervisory Board, to grant stock options to beneficiaries in connection with the stock option plan in the time until December 31, 2014.

The Annual Shareholders' Meeting resolved on June 12, 2012, that the Company is authorized, with the consent of the Supervisory Board, to issue warrant-linked and/or convertible bonds once or multiple times, with or without term limits, with a total nominal amount of up to EUR 250,000,000.00 ("bonds") or to grant the holders or creditors of bonds option and/or conversion rights to a total of up to 23,500,000 bearer no-par-value shares of the Company with a proportional share of the capital stock of up to EUR 23,500,000.00 after further specification of the terms and conditions of the individual bonds. The shareholders are fundamentally entitled to a subscription right. However, it can be excluded under certain circumstances. The new shares can also be accepted by one or more financial institutions with the obligation to offer them to the existing shareholders for purchase (Indirect Subscription Right). The Executive Board was authorized to decide upon the content of the stock rights and the terms of the stock issue with the consent of the Supervisory Board and to specify the details of implementation of the capital increase.

The Annual Shareholders' Meeting of June 12, 2012, resolved to annul the Contingent Capital 2009 and create a new Contingent Capital (Contingent Capital 2012), by means of which the company's share capital can be increased by up to EUR 23,500,000.00. This contingent capital is intended to be used to grant shares to the holder or creditor of warrant-linked and/or convertible bonds that are issued by the Company. The Management Board is authorized, with the consent of the Supervisory Board, to determine the other details for carrying out the conditional capital increase.

Stock options

Gigaset AG introduced a stock option plan in financial year 2005. Because it expired, is was replaced with a new stock option program in 2008. By reason of the changes made to the business model, the stock option plan authorized in 2008 was replaced with a new stock option program in 2011. The new stock option plan does not entail any changes to existing stock option contracts. The company is entitled to fulfill the stock options either by issuing shares from the Conditional Capital 2011 created for that purpose, or by buying back treasury shares, or by paying a cash settlement. The Supervisory Board or Executive Board may select the means of fulfillment in the interest of the shareholders and the company. In general, however, the company plans to service the claims arising from the Stock Option Plan 2011 by issuing shares from the Conditional Capital 2011 created for that purpose. No stock options were issued under this stock option plan in 2012, as in the previous year, and no further stock options were outstanding at the reporting date. In accordance with Executive Board agreements, cash-settled options were issued in six (PY: three) different tranches for 780,000 shares (PY: 450,000 shares) of Gigaset AG. Unlike standard stock options, the subscription rights under this stock option plan or Executive Board agreements are not linked to fixed exercise prices, as a general rule. On any one of up to three delivery dates, the beneficiary can request delivery of a certain number of common shares of Gigaset AG or the payment of the vested claim. The number of shares or the vested claim to be delivered or paid on a given delivery date is determined on the basis of the performance of the

Gigaset share since the start date (calculation for the first tranche) or on the final valuation date (i.e., the final exercise date). If the share price decreases during that time, no shares will be delivered and no payments are made. As a general rule, the stock options expire if the employee leaves the Group before the stock options become vested.

The measurement results of the various cash-settled tranches issued or still outstanding in 2012 are presented in the table below:

Tranche	Grant date	Starting price	Delivery date	Closing price 12/31/2011	Interest rate	Volatility	Fair value of grant	Fair value at the reporting date
2 III / 2011	07,02,2011	1.38 €	31,01,2013	0.97	0.02%	115.98%	1.37	0.01
1 I / 2012	01/01/2012	2.56 €	12/31/2012	0.97	0.02%	-	0.65	0.00
1 II / 2012	01/01/2012	1.04 €	12/31/2013	0.97	0.02%	61.48%	0.59	0.21
1 III / 2012	01/01/2012	-	12/31/2014	0.97	0.02%	56.06%	0.92	0.21
2 I / 2012	28,09,2012	2.94 €	31,03,2013	0.97	0.02%	59.67%	0.01	0.00
2 II / 2012	28,09,2012	-	31,03,2014	0.97	0.02%	57.81%	0.27	0.22
2 III / 2012	28,09,2012	-	31,03,2015	0.97	0.02%	63.77%	0.30	0.24

Tranches 1 I / 2012, 1 II / 2012, and 1 III / 2012 are each limited to a maximum outpayment amount of EUR 300,000.00 each. Tranches 2 I / 2012, 2 II / 2012, and 2 III / 2012 are each limited to a maximum outpayment amount of EUR 220,000.00 each.

At the reporting date, 780,000 (all cash settled) (PY: 500,000 (all cash settled)) stock options were outstanding, of which 780,000 (PY: 500,000) cannot yet be exercised. At the reporting date, the average weighted exercise price of the outstanding stock options was EUR 1.91 (PY: EUR 2.75). The stock options were measured by means of a Monte-Carlo simulation. For this purpose, a simulation of the lognormal-distributed process was conducted for the price of the Gigaset share in order to measure the performance of the share between two valuation dates. The stock options granted are composed of up to three sub-options. Each sub-option is measured separately in the simulation model. The fair value of each stock option is calculated as the sum of the sub-options.

The cash-settled tranches were measured at the reporting date on the basis of the interest rates calculated on the basis of the yield curves for German government bonds for the individual measurement periods.

For measurement purposes, a dividend yield of 0.00 % was applied.

The decision regarding the dividend proposal for 2012 will be made at the statement of financial position meeting of the Supervisory Board on March 22, 2013, and then published along with the annual financial statements approved by the Supervisory Board and the final annual report for fiscal year 2012. A dividend higher than the amount presented above would lead to a decrease in the value of the stock options, and conversely a dividend lower than the amount presented above would lead to an increase in the value of the stock options. However, the information available on the grant date represents the determining basis for calculating the value of the stock options. Consequently, the calculation has not been adjusted, but will be considered for the purpose of future calculations.

The measurement based on Monte Carlo simulation was conducted on the basis of historical volatilities. The historical volatility applied was calculated on a weekly basis. The life span of the stock options was applied as the relevant period for determining the historical volatility.

No options were exercised in financial year 2012. 230,000 options were exercised in financial year 2011. To date, the claims arising from the stock option plan were settled by issuing shares to the beneficiaries. By way of exception, the company exercised the option to settle the claims in cash in 2011. Therefore, no shares were issued in 2011; instead, the 30,000 stock options were settled in June by means of a cash payment in the amount of EUR 81 thousand. The share price on the exercise date amounted to EUR 3.81 and the exercise price was EUR 1.11. To date, an expense of EUR 79 thousand has been recognized to account for the stock options that have been exercised so far. The difference between this amount and the actual payment has been recognized directly in equity. In connection with the exercise of 200,000 cash-settled stock options with an exercise price of EUR 2.00 in 2011, an amount of EUR 150 thousand was paid to the beneficiary. The weighted share price on the exercise date was EUR 2.75.

The fair value of the cash-settled stock options to be recognized on a pro-rated basis at the reporting date was EUR 43 thousand (PY: EUR 88 thousand) and is presented as "other liabilities."

In the reporting year, there were a total of 500,000 (PY: 150,000) expired or forfeited stock options, with an average exercise price of EUR 2.71 (PY: EUR 3.30).

In 2012, the Group recognized expenses of EUR 0 thousand (PY: EUR 9 thousand) in connection with share-based payments to be settled with equity instruments and income of EUR 65 thousand (PY: expenses of EUR 99 thousand) for cash-settled stock options. The average remaining life of the stock options, based on the first possible exercise date, is 14 months (PY: 12 months) for the cash-settled stock options.

The equity-settled stock options were included in the calculation of the diluted earnings per share in 2011 as long as the relevant results figure was not negative.

23. Convertible bond

Gigaset AG issued a non-subordinated, unsecured convertible bond in the total nominal amount of up to EUR 23,800,002 in 2010.

The convertible bond was sub-divided into up to 11,900,001 fractional bearer bonds ranking pari passu with a nominal value or issue price of EUR 2.00 each. They earned interest at a rate of 9 % p.a. and could be converted into up to 11,900,001 shares of the company.

The conversion right or conversion obligation was neither a self-standing derivative nor an embedded derivative that would have to be recognized separately in accordance with IAS 39.

By resolution of February 10, 2011, the Executive Board resolved, with the consent of the Supervisory Board, to convert this convertible bond in accordance with the issue terms and conditions on June 30, 2011.

The convertible bond was exchanged with effect as of June 30, 2011. Each holder of a fractional bond received 0.8696 shares with an imputed value of EUR 1.00 per share relative to the total capital stock of the company. As a result of this conversion, the number of shares outstanding increased by 10,348,241. Thus, the total number of shares issued by Gigaset AG rose to 50,014,911. In consideration of the directly attributable costs and deferred taxes in the amount of EUR 184 thousand, the conversion increased the Group's equity by EUR 23,616 thousand. The interest accrued on the bond at the rate of 9 % p.a. in the time from January 1, 2011, to the conversion date was also due and payable upon conversion. The interest was paid on July 1, 2011.

24. Pension obligations

Provisions for pensions and similar obligations have been recognized for a total of seven Group companies. The total amount of pension provisions was divided up among the following companies:

EUR'000	2012	2011
Gigaset Group	11,529	10,217
Gigaset Holding	40	41
Total	**12,069**	**10,258**

The initial funding of the pension provision at Gigaset AG results from the transfer of 25 employees that moved from Gigaset Communications GmbH to Gigaset AG.

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

EUR'000	2012	2011
Balance at 1/1	55,965	71,048
Companies added to consolidation group	0	0
Companies removed from consolidation group	0	-16,852
Current service cost	1,423	1,464
Employee contributions	33	160
Interest expenses	3,007	2,884
Pension benefits paid	-769	-647
Plan settlements	-66	0
Actuarial gains/losses	26,257	-2,102
Foreign currency effects	3	10
Balance at 12/31	**85,853**	**55,965**

The provision for pension obligations was measured as follows:

EUR'000	2012	2011
Provision		
Projected unit credit value of pension obligations	85,853	55,965
- internally financed	6,063	4,553
- externally financed	79,790	51,412
Unrecognized actuarial gains/losses	-33,768	-8,294
Unrecognized subsequent service cost	0	0
Fair value of plan assets	-40,079	-38,170
Unrecognized assets as per IAS 19.58 (b)	55	757
Foreign currency effects	8	0
Pension provisions	12,069	10,258
Pension provisions related to assets held for sale	0	0
Total pension provisions	**12,069**	**10,258**

The pension expenses recognized in fiscal year 2012 were composed of the following elements:

EUR'000	2012	2011
Pension expenses		
Current service cost	1,423	1,464
Expected income from plan assets	-1,376	-1,420
Compounding of expected pension obligation	3,007	2,884
Amortization of actuarial gains/losses	259	404
Amortization of subsequent service cost	0	3
Effects of plan adjustments (pension plan reduction or settlement)	0	0
Effects of unrecognized assets as per IAS 19.58 (b)	0	236
Total pension expenses	**3,313**	**3,571**

Pension expenses are presented as personnel expenses in the item of social security, pension and other benefits. The actual return on plan assets has been presented as EUR 1,918 thousand (PY: EUR -524 thousand).

The plan assets showed the following development:

EUR'000	2012	2011
Plan assets		
Fair value of plan assets at 01/01	38,170	37,533
Acquisitions	0	568
Divestitures	-734	-185
Expected income from plan assets	1,376	1,420
Actuarial gains/losses	542	-1,944
Employer contributions	812	735
Employee contributions	27	64
Benefits paid	-114	-18
Foreign currency effects	0	-3
Fair value of plan assets at 12/31	**40,079**	**38,170**

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

EUR'000	2012	2011
Institutional fund	38,775	36,525
Fixed-income securities	382	949
Equities	269	286
Real estate and real estate funds	190	175
Assets used or held by the company	442	0
Other	21	235
Total	**40,079**	**38,170**

Additional information at December 31, 2012:

EUR'000	2012	2011	2010	2009	2008
Projected unit credit value	85,853	55,965	71,048	72,192	169,899
Market value of plan assets	40,079	38,170	37,533	35,213	83,452
Surplus (+) / deficit (-)	-45,774	-17,795	-33,515	-36,979	-86,447
Experience-based adjustment of plan liabilities	202	-1,598	1,361	-790	525
Experience-based adjustment of plan assets	-554	-1,944	470	-312	-9,506

The expected contributions to plan assets and the benefit payments in the following year (net obligation) totaled EUR 366 thousand (PY: EUR 121 thousand).

The current employer's contributions to the statutory pension insurance system are recognized as operating expenses in the respective year. In fiscal year 2012, they amounted to EUR 6,204 thousand (PY: EUR 6,199 thousand) for the Group.

The calculation was based on the following actuarial assumptions:

EUR'000	2012	2011
Discount factor	3.31	5.37
Salary trend	2.25	2.25
Pension trend	1.96	1.95
Employee turnover	*	*
Return on plan assets	3.68	3.82
Mortality tables:		
Germany	Heubeck 2005 G	Heubeck 2005 G
Italy	ISTAT 2002	ISTAT 2002
Austria	Pagler 2008 Generation Table, Salaried Employees	Pagler 2008 Generation Table, Salaried Employees
Switzerland	BVG 2005	BVG 2005
Brazil	RP-2000	RP-2000

* depending on age

The expected return on plan assets of the companies corresponds to the expected income from plan assets, after taking the expected contributions and disbursements into account. It is composed of interest, dividends and other income earned on the investment of plan assets, including realized and unrealized gains in assets, less expenses for administering the plan and any taxes to be paid by the plan.

25. Provisions

EUR'000	Balance at 01/01/2012	Changes in consolida-tion group	Utilization	Reversal	Addition	Reclas-sification	Currency/ interest effects	Balance at 12/31/2012
Restructuring	415	-5,145	-546	19,230	0	-20	13,934	13,934
Warranties	11,418	-10,270	-264	8,220	0	-55	9,049	9,049
Personnel	4,227	-423	-3	5,219	-8	-269	8,743	8,743
Onerous contracts	4,390	-65	-1,126	32	0	0	3,231	3,231
Environmental remediation	249	-6	0	0	0	0	243	243
Other	13,915	-7,430	-780	13,571	-285	-152	18,839	18,839
Total	**34,614**	**-23,339**	**-2,719**	**46,272**	**-293**	**-496**	**54,039**	**54,039**

The **restructuring provision** comprises measures aimed at reducing the impact of large-scale layoffs and severance pay in the amount of EUR 13,934 thousand (PY: EUR 415 thousand).

The **warranty provisions** of EUR 9,049 thousand (PY: EUR 11,418 thousand) pertained exclusively to the Gigaset Group and were calculated on the basis of experience values and estimates of future occurrence probabilities.

The **personnel provisions** for the past two financial years break down as follows:

EUR'000	12/31/2012	12/31/2011
Personnel		
Early partial retirement (Altersteilzeit)	5,314	1,012
Service anniversary bonuses	3,429	3,215
Total	**8,743**	**4,227**

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

EUR'000	12/31/2012	12/31/2011
Onerous contracts		
Gigaset Group	2,554	3,713
Holding	677	677
Total	**3,231**	**4,390**

The provision for environmental risks in the amount of EUR 243 thousand (PY: EUR 249 thousand) was recognized in respect of a groundwater purification project at the production facility in Bocholt.

The maturity structure of provisions is presented below:

EUR'000	12/31/2012	12/31/2011
Non-current provisions	12,755	7,392
Current provisions	41,284	27,222
Total	**54,039**	**34,614**

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

EUR'000	12/31/2012	12/31/2011
Personnel	8,524	3,768
Warranties	2,149	2,541
Onerous contracts	677	677
Environmental risks	233	243
Other	1,172	163
Total	**12,755**	**7,392**

26. Non-current financial liabilities

The non-current financial liabilities in the amount of EUR 32,000 (PY: EUR 0 thousand) relate entirely to the syndicate loan and were exercised by the following companies:

EUR'000	12/31/2012	12/31/2011
Gigaset Communications GmbH	20,000	0
Gigaset AG	12,000	0
Total	**32,000**	**0**

The syndicate loan charges variable interest. The interest rate is determined from the three-month Euribor plus a creditworthiness surcharge, which in turn is calculated according to financial ratios. The interest rate is determined anew for each drawn tranche using a three-month cycle. The interest rate for the individual tranches at December 31, 2012, was between 4.59 % and 4.61 % per annum. Insofar as the individual loan tranches are not repaid by the company ahead of the due date, the loan is due and payable on January 8, 2016. Please see the discussion in Section C, "Notes on financial instruments" regarding the existing agreements on financial ratios ("financial covenants").

27. Other non-current liabilities

The other non-current liabilities exclusively contain the non-current portion of the liabilities from cash-settled stock options of the Executive Board and amount to EUR 27 thousand at December 31, 2012 (PY: EUR 35 thousand).

28. Deferred tax assets and deferred tax liabilities

Deferred taxes result from the different values contained in the IFRS financial statements as compared to the financial statements prepared for tax purposes, and from consolidation measures.

Deferred tax liabilities and assets were recognized in respect of the following items:

EUR'000	12/31/2012	12/31/2011
Deferred tax assets	EUR'000	EUR'000
Intangible assets	309	330
Property, plant and equipment	28	50
Financial assets	0	3
Inventories	140	231
Receivables and other current assets	402	786
Provisions	2,576	1,096
Liabilities	884	1,112
Tax loss carry-forwards	17,519	9,823
Total deferred tax assets	**21,858**	**13,431**
thereof current	1,634	2,794
thereof non-current	20,224	10,637
Deferred tax liabilities		
Intangible assets	12,571	12,493
Property, plant and equipment	3,521	3,900
Financial assets	0	0
Inventories	41	24
Receivables and other current assets	188	462
Provisions	14	33
Liabilities	174	237
Total deferred tax liabilities	**16,509**	**17,149**
thereof current	356	723
thereof non-current	16,153	16,426
Net balance of deferred tax assets and liabilities	2,542	1,191
Deferred tax assets presented in the statement of financial position	**19,316**	**12,240**
Deferred tax liabilities presented in the statement of financial position	**13,967**	**15,958**

No deferred tax assets were recognized in respect of corporate income tax loss carry-forwards totaling EUR 148,142 thousand (PY: EUR 117,339 thousand) and trade tax loss carry-forwards totaling EUR 84,342 thousand (PY: EUR 61,636 thousand). Of the non-recognized corporate income tax loss carry-forwards, an amount of EUR 70,855 thousand related to foreign companies (PY: EUR 62,366 thousand), of which, in turn, EUR 13,578 thousand (PY: EUR 14,362) will expire within 5 to 20 years. With regard to German companies, it should be noted that share transfers of 25 % to 50 % result in a proportional reduction of existing tax loss carry-forwards, while share transfers of more than 50 % lead to the complete loss of existing tax loss carry-forwards.

Gigaset AG has exercised the option of recognizing deferred tax assets (EUR 16,861 thousand, PY: 9,412 thousand) for the use of tax loss carry-forwards in connection with future tax constructions.

No deferred tax liabilities were recognized in respect of temporary differences related to shares in subsidiaries in the amount of EUR 23,986 thousand (PY: EUR 44,337 thousand).

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

29. Current financial liabilities

EUR'000	12/31/2012	12/31/2011
Liabilities due to banks	306	4,946
Other current financial liabilities	0	1,137
Total	**306**	**6,083**

Based on the usual payment terms agreed with banks and other business partners, the due dates and the corre-spond-ing cash outflows of current financial liabilities are as follows:

EUR'000	12/31/2012	12/31/2011
Carrying amount	306	6,083
thereof due in the following time periods:		
< 30 days	306	4,277
30 - < 90 days	0	345
90 - < 180 days	0	516
180 days – 1 year	0	945

The current liabilities to banks consisted mainly of current account overdrafts, most of which were owed by the following corporate groups:

EUR'000	12/31/2012	12/31/2011
Gigaset Group	169	0
Gigaset AG	123	2,965
AT Operations 2 GmbH	14	1,823
Hortensienweg	0	158
Total	**306**	**4,946**

Of the outstanding liabilities to banks, some bear interest at variable rates and others at fixed rates. At the reporting date, the interest rates on such liabilities ranged from 3.47 % p.a. to 4.61 % p.a.

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

The other current financial liabilities consisted of loan liabilities payable by Gigaset AG to third parties, which did not include any liabilities denominated in foreign currencies. The other current financial liabilities were fully repaid in January 2012.

30. Trade payables

Based on the usual payment terms agreed with suppliers and other business partners, the due dates and the corresponding cash outflows of current trade payables are presented in the table below:

EUR'000	12/31/2012	12/31/2011
Carrying amount	86,644	96,239
thereof due in the following time periods:		
< 30 days	45,805	55,962
30 – 90 days	40,818	39,484
90 – 180 days	21	241
180 days – 1 year	0	552

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

EUR'000	12/31/2012	12/31/2011
Gigaset Group	84,919	94,360
Holding	1,725	1,879
Total	**86,644**	**96,239**

By reason of the international activity of the Gigaset Group, the trade payables at December 31, 2012 included the following amounts denominated in foreign currencies, which have been translated to the euro, as the Group currency:

	12/31/2012		12/31/2011	
Foreign currency	**EUR'000**	**%**	**EUR'000**	**%**
USD (U.S. dollars)	38,999	86.5	41,107	83.5
CNY (Chinese renminbi yuan)	1,376	3.0	3,420	6.9
JPY (Japanese yen)	1,332	2.9	1,016	2.1
SEK (Swedish krona)	638	1.4	581	1.2
CHF (Swiss francs)	596	1.3	771	1.6
AED (United Arab Emirates dirham)	565	1.2	577	1.2
ARS (Argentine pesos)	442	1.0	275	0.6
TRL (Turkish lira)	361	0.8	328	0.7
PLN (Polish zloty)	292	0.6	516	1.0
RUB (Russian rubles)	247	0.5	212	0.4
BRL (Brazilian reales)	191	0.4	346	0.7
GBP (British pounds)	186	0.4	62	0.1
Other	20	0.0	21	0.0
Total	**45,245**	**100.0**	**49,232**	**100.0**

Of the trade payables presented in the statement of financial position, an amount of EUR 5,218 thousand (PY: EUR 4,796 thousand) is secured by trade receivables, an amount of EUR 1,226 thousand (PY: EUR 2,144 thousand) by inventories, an amount of EUR 53 thousand (PY: EUR 0 thousand) by intangible assets as security.

31. Tax liabilities

This item consisted exclusively of income tax liabilities and derived from the Gigaset Group, in the amount of EUR 6,382 thousand (PY: EUR 7,790 thousand).

32. Current other liabilities

EUR'000	12/31/2012	12/31/2011
Other personnel-related liabilities	11,829	14,586
Other taxes	4,595	3,618
Customs liabilities	3,054	3,660
Social security contributions	994	1,096
Advance payments received	986	5,659
Derivatives	507	0
Wages and salaries	137	406
Accruals and deferrals	48	67
Purchase price liabilities	0	9,444
Miscellaneous other liabilities	2,408	3,032
Total	**24,558**	**41,568**

The other current liabilities did not bear interest in financial year 2012. In the previous year, only the purchase price liabilities bore interest. Due to the fact that they are due in less than one year, the difference between the carrying amount of the liabilities and the fair values of the liabilities can be deemed to be immaterial. Therefore, the repayment amounts presented in the statement of financial position are equivalent to the market values of the liabilities.

The other personnel-related liabilities were mainly composed of the following items:

EUR'000	12/31/2012	12/31/2011
Profit-based bonuses and other bonuses	4,674	2,523
Vacation leave not yet taken	2,386	3,844
Work time accounts	1,954	2,309
Miscellaneous personnel-related liabilities	2,815	5,910
Total	**11,829**	**14,586**

The purchase price liabilities stated in the previous year were waived for Gigaset by Siemens AG in 2012 due to the occurrence of the conditions for the waiver of purchase price.

F. OTHER INFORMATION

33. Segment report

Due to the reorientation of the business model of the Gigaset Group at the end of 2010, the segment report was adjusted accordingly. The activities of Gigaset are presented separately from those of the holding company. By reason of the information applied by Gigaset for internal management purposes, the activities of the Gigaset Group are additionally segmented by geographical regions.

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

› "Europe"

The geographical segment of "Europe" comprises all operating activities of the Gigaset Group in the European countries, as well as the operating activities in Russia, because they are co-managed by the European companies. Thus, this segment comprises the operating activities in Germany, France, Great Britain, Italy, Netherlands, Austria, Poland, Russia, Sweden, Switzerland, Spain and Turkey.

› "Americas"

The geographical segment of "Americas" comprises the operating activities of the Gigaset Group in Canada, the United States, Brazil and Argentina.

› "Asia-Pacific/Middle East"

The geographical segment of "Asia-Pacific / Middle East" comprises the operating activities in China and in the United Arab Emirates.

Because all companies which do not belong to the core activities of the Group have already been or will be closed or sold, the corresponding groups are presented within the "Other" segment.

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

At December 31, 2012, the “Other” segment comprised the SM Electronic Group, which is being held for sale.

At December 31, 2011, the “Other” segment comprised the following companies: Carl Froh Group (sold in the first quarter of 2011), Oxxynova Group (sold in the first quarter of 2011), van Netten Group (sold in the second quarter of 2011), the “Home Media” Division (closed) and the SM Electronic Group, which was being held for sale.

Activities are attributed to the individual geographical regions on the basis of the country of domicile of the respective legal entity. Therefore, revenues and profit/loss contributions are attributed to geographical regions on the basis of legal entities, in accordance with the internal reporting system. The breakdown of revenues by receiving entities (home country of the recipient) is presented in the table of revenues by region, which follows the summary tables on the individual segments.

January 1 to December 31, 2012	Europe	Americas	Asia-Pacific/ Middle East	Gigaset Total
Revenues				
External revenues	368,031	23,839	27,641	419,511
Continuing operations	368,031	23,839	27,641	419,511
Discontinued operations	*0*	*0*	*0*	*0*
Internal revenues	5,877	0	0	5,877
Continuing operations	5,877	0	0	5,877
Discontinued operations	*0*	*0*	*0*	*0*
Total revenues	373,908	23,839	27,641	425,388
Continuing operations	373,908	23,839	27,641	425,388
Discontinued operations	*0*	*0*	*0*	*0*
Segment EBITDA	9,657	-6,466	1,353	4,544
Continuing operations	9,657	-6,466	1,353	4,544
Discontinued operations	*0*	*0*	*0*	*0*
Depreciation and amortization	-24,741	-21	-79	-24,841
Continuing operations	-24,741	-21	-79	-24,841
Discontinued operations	*0*	*0*	*0*	*0*
Impairments	0	0	0	0
Continuing operations	0	0	0	0
Discontinued operations	*0*	*0*	*0*	*0*
Segment EBIT	-15,084	-6,487	1,274	-20,297
Continuing operations	-15,084	-6,487	1,274	-20,297
Discontinued operations	*0*	*0*	*0*	*0*
Impairment on financial assets				
Net interest income/expenses				
Income/expenses from ordinary activities				
Income taxes				
Consolidated net income				
Non-controlling interests				
Consolidated net income attributable to shareholders of Gigaset AG				

Holding	Other	Eliminations	Consolidated	January 1 to December 31, 2012
				Revenues
46	17,687	0	437,244	External revenues
46	0	0	419,557	Continuing operations
0	*17,687*	*0*	*17,687*	*Discontinued operations*
591	0	-6,468	0	Internal revenues
591	0	-6,468	0	Continuing operations
0	*0*	*0*	*0*	*Discontinued operations*
637	17,687	-6,468	437,244	Total revenues
637	0	-6,468	419,557	Continuing operations
0	*17,687*	*0*	*17,687*	*Discontinued operations*
-10,377	-861	0	-6,694	Segment EBITDA
-10,377	0	0	-5,833	Continuing operations
0	*-861*	*0*	*-861*	*Discontinued operations*
-3	0	0	-24,844	Depreciation and amortization
-3	0	0	-24,844	Continuing operations
0	*0*	*0*	*0*	*Discontinued operations*
0	-1,935	0	-1,935	Impairments
0	0	0	0	Continuing operations
0	*-1,935*	*0*	*-1,935*	*Discontinued operations*
-10,380	-2,796	0	-33,473	Segment EBIT
-10,380	0	0	-30,677	Continuing operations
0	*-2,796*	*0*	*-2,796*	*Discontinued operations*
			-2,471	Impairment on financial assets
			-1,393	Net interest income/expenses
			-37,337	Income/expenses from ordinary activities
			6,645	Income taxes
			-30,692	**Consolidated net income**
			0	Non-controlling interests
			-30,692	Consolidated net income attributable to shareholders of Gigaset AG

January 1 to December 31, 2011	Europe	Americas	Asia-Pacific/ Middle East	Gigaset Total
Revenues				
External revenues	386,102	40,236	32,097	458,435
Continuing operations	386,102	40,236	32,097	458,435
Discontinued operations	*0*	*0*	*0*	*0*
Internal revenues	4,213	0	0	4,213
Continuing operations	4,213	0	0	4,213
Discontinued operations	*0*	*0*	*0*	*0*
Total revenues	390,315	40,236	32,097	462,648
Continuing operations	390,315	40,236	32,097	462,648
Discontinued operations	*0*	*0*	*0*	*0*
Segment EBITDA	58,882	-704	1,602	59,780
Continuing operations	58,882	-704	1,602	59,780
Discontinued operations	*0*	*0*	*0*	*0*
Depreciation and amortization	-26,410	-25	-111	-26,546
Continuing operations	-26,410	-25	-111	-26,546
Discontinued operations	*0*	*0*	*0*	*0*
Impairments	-25	-6	0	-31
Continuing operations	-25	-6	0	-31
Discontinued operations	*0*	*0*	*0*	*0*
Segment EBIT	32,447	-735	1,491	33,203
Continuing operations	32,447	-735	1,491	33,203
Discontinued operations	*0*	*0*	*0*	*0*
VImpairment on financial assets				
Net interest income/expenses				
Income/expenses from ordinary activities				
Income taxes				
Consolidated net income				
Non-controlling interests				
Consolidated net income attributable to shareholders of Gigaset AG				

Holding	Other	Eliminations	Consolidated	January 1 to December 31, 2011
				Revenues
134	61,982	0	520,551	External revenues
134	0	0	458,569	Continuing operations
0	*61,982*	*0*	*61,982*	*Discontinued operations*
637	2,776	-7,626	0	Internal revenues
637	0	-4,850	0	Continuing operations
0	*2,776*	*-2,776*	*0*	*Discontinued operations*
771	64,758	-7,626	520,551	Total revenues
771	0	-4,850	458,569	Continuing operations
0	*64,758*	*-2,776*	*61,982*	*Discontinued operations*
-8,325	-596	0	50,859	Segment EBITDA
-8,325	0	0	51,455	Continuing operations
0	*-596*	*0*	*-596*	*Discontinued operations*
-32	-201	0	-26,779	Depreciation and amortization
-32	0	0	-26,578	Continuing operations
0	*-201*	*0*	*-201*	*Discontinued operations*
0	-2,050	0	-2,081	Impairments
0	0	0	-31	Continuing operations
0	*-2,050*	*0*	*-2,050*	*Discontinued operations*
-8,357	-2,847	0	21,999	Segment EBIT
-8,357	0	0	24,846	Continuing operations
0	*-2,847*	*0*	*-2,847*	*Discontinued operations*
			0	Impairment on financial assets
			-2,762	Net interest income/expenses
			19,237	Income/expenses from ordinary activities
			-1,696	Income taxes
			17,541	**Consolidated net income**
			126	Non-controlling interests
			17,415	Consolidated net income attributable to shareholders of Gigaset AG

The profit or loss effects of deconsolidations and the income from reversal of negative goodwill have been assigned to the respective segments.

In the table below, the revenues generated in fiscal year 2012 and in the comparison year 2011 are broken down by the region of the receiving entities:

	2012			2011		
EUR'000	**Continuing operations**	**Discon-tinued operations**	**Total**	**Continuing operations**	**Discon-tinued operations**	**Total**
Germany	156,063	16,295	172,358	174,157	48,147	222,304
Europe: EU (excluding Germany)	167,518	621	168,139	168,039	12,179	180,218
Europe: Other	30,537	204	30,741	16,419	413	16,832
Rest of world	65,439	567	66,006	99,954	1,243	101,197
Total	**419,557**	**17,687**	**437,244**	**458,569**	**61,982**	**520,551**

In 2012, the operating revenues of the continuing segments break down essentially into operating revenues from the Cordless Voice segment in the amount of EUR 390,181 thousand (PY: EUR 429,727 thousand) and the Gigaset Pro segment in the amount of EUR 29,376 thousand (PY: EUR 28,842 thousand).

In accordance with IFRS 8.33 b), non-current assets were divided among the following regions in financial year 2012 and the comparison year 2011:

EUR'000	**12/31/2012**	**12/31/2011**
Non-current assets		
Germany	87,712	87,307
Europe: E (excluding Germany)	547	815
Europe: Other	5	6
Rest of world	110	214
Total	**88,374**	**88,342**

34. Cash flow statement

The cash flow statement presents the changes in net funds of the Gigaset Group in the reporting year and in the prior year. Net funds are defined as cash and cash equivalents, less restricted cash. As a general rule, items denominated in foreign currencies are translated at average exchange rates for the year. By way of exception, cash and cash equivalents are translated at the exchange rate on the reporting date. The effect of exchange rate changes on net funds is presented separately.

In accordance with IAS 7, cash flows are classified as cash flow from operating activities, investing activities and financing activities.

EUR'000	12/31/2012	12/31/2011
Cash inflow (+)/ outflow (-) from operating activities	-24,124	31,986
Cash inflow (+)/ outflow (-) from investing activities	-8,824	-9,520
Free cash flow	**-32,948**	**22,466**
Cash inflow (+)/ outflow (-) from financing activities	26,223	1,930
Change in cash and cash equivalents	**-6,725**	**24,396**

The cash flow statement has been prepared in accordance with the indirect method. The changes in items of the statement of financial position considered for this purpose have been adjusted for the effects of changes in the consolidation group, so that only those cash flows attributable to the group are presented in the cash flow statement. Cash flows resulting from changes in non-current assets held for sale and liabilities related to non-current assets held for sale have been assigned to those areas of the cash flow statement in which they gave rise to cash outflows or inflows. For these reasons, the changes in items of the statement of financial position presented in the cash flow statement cannot be reconciled with the statement of financial position.

Impairments are presented in a separate line item of cash flow from operating activities.

The item of other non-cash income and expenses was mainly composed of internal production capitalized, waivers of receivables, and income from the reversal of valuation allowances charged against receivables.

No investments in companies were acquired in financial year 2012. Cash outflows of EUR 650 thousand pertained to the acquisition of investments in companies in financial year 2011. This amount is offset by acquired cash and cash equivalents in the amount of EUR 1,626 thousand.

The net funds at December 31, 2012 amounted to EUR 53,885 thousand (PY: EUR 59,876 thousand). This item comprises immediately available cash in banks, checks and cash on hand. Restricted cash, which has been pledged as security for liabilities and currency hedging transactions, amounted to EUR 1,797 thousand at December 31, 2012 (PY: EUR 3,280 thousand). Thus, the total amount of cash and cash equivalents amounted to EUR 55,682 thousand (PY: EUR 63,156 thousand). Of this total, an amount of EUR 1,031 thousand (PY: EUR 894 thousand) was presented as assets held for sale and an amount of EUR 54,651 thousand (PY: EUR 62,262 thousand) was presented as cash and cash equivalents.

35. Other financial commitments

The other financial commitments at the reporting date of December 31, 2012 resulted from rental, lease and service agreements which cannot be terminated prior to expiry and have been entered into by the Group and its subsidiaries in the ordinary course of business. In the table below, the total future payments to be made under these agreements are broken down by due dates, as follows:

2012 in EUR'000	Up to 1 year	1-5 years	More than 5 years	Total
Rental and lease commitments	2,949	2,315	8	5,272
Other commitments	2,535	734	0	3,269
Total	**5,484**	**3,049**	**8**	**8,541**

2011 in EUR'000	Up to 1 year	1-5 years	More than 5 years	Total
Rental and lease commitments	2,824	3,843	2,933	9,600
Other commitments	1,723	3,418	0	5,141
Total	**4,547**	**7,261**	**2,933**	**14,741**

The total rental and lease commitments amounted to EUR 5,272 thousand (PY: EUR 9,600 thousand). Of this amount, rental and lease agreements for land and buildings accounted for EUR 3,390 thousand (PY: EUR 7,685 thousand), rental and lease agreements for other equipment, operational and office equipment accounted for EUR 1,703 thousand (PY: EUR 1,409 thousand) and operating leases for machinery and equipment accounted for EUR 179 thousand (PY: EUR 506 thousand).

The other financial commitments in the amount of EUR 3,269 thousand (PY: EUR 5,141 thousand) resulted from maintenance and service agreements for machinery and equipment, software and other operational and office equipment.

The Group was subject to a firm capital expenditure order in the amount of EUR 6,136 thousand at the reporting date of December 31, 2012 (PY: EUR 2,002 thousand).

36. Contingent liabilities

The contingent liabilities at the reporting date of December 31, 2012 were related to the following companies and matters:

Through Dessarrollos Enterprise Line S. L., a subsidiary of Arques Iberia S. A., Arques Industries Aktiengesellschaft acquired the shares in the automobile component supplier Calibrados de Precisión S.A. (Capresa) under a share purchase agreement dated April 18, 2007. The previous owners (a consortium centered on the company LAUC S. L.) granted various real property collateral to some of Capresa's creditors for Capresa's liabilities. Arques Industries Aktiengesellschaft agreed to provide coverage to LAUC in the amount of 50 %, but to a maximum of EUR 2.0 million if the real property collateral would have to be liquidated. After the real property collateral had been liquidated, LAUC demanded reimbursement from Gigaset AG by letter dated August 3, 2012, in an initial amount of EUR 0.4 million from the coverage agreement. Among other reasons, Gigaset considers this demand to be unjustified because the collateral was not liquidated; instead, LAUC S. L. voluntarily paid in order to avert foreclosure. In order to avoid litigation, Gigaset AG agreed in a settlement agreement dated December 28, 2012, to pay an amount initially of EUR 90 thousand to LAUC; the liability for any further defaults at Capresa was reduced from the original EUR 2.0 million to the current EUR 295 thousand.

In connection with the sale of the Jahnel-Kestermann Group, a seller liability (guarantee for corporate relationships) was assumed in the amount of EUR 18.5 million, limited in time until April 11, 2018. The probability of occurrence is considered to be low.

In connection with the sale of the Teutonia Group, a seller liability of EUR 3 million was assumed within the framework of the purchase contract warranty. The probability of occurrence is considered to be very low.

In connection with the sale of Oxiris Chemicals S.A., Spain, an environmental guarantee by the sellers is still in effect to the benefit of the purchasing company. It is limited in time until December 31, 2013, and is limited to the amount of up to EUR 6.0 million. Gigaset is responsible for this guarantee in the context of a contractual guarantor plan. In the fifth year after the sale, the guarantee has been reduced to 15 % of the primary risk; the buyers would have to bear 85 %. The probability of occurrence of the primary risk is considered to be very low.

In connection with the sales of the Rohé Group and the Sommer Group in 2009, guarantees for the corporate relationships of the sold companies are still in effect, in the amount of EUR 500 thousand. These guarantees expire at various times; the last responsibilities expire on March 31, 2015. The probability of occurrence is considered very low.

In connection with the sale of the subsidiary Fritz Berger, the customary seller guarantees were issued, also for corporate relationships, among other matters. This liability is limited in time until April 21, 2015 and is currently limited to an amount of EUR 650 thousand. A liability for tax matters was agreed for up to 90 % of any supplementary tax liabilities. The duration of this liability is determined with reference to the administrative finality of the respective assessments of the tax authorities. There are no indications of possible utilization and therefore the risk is considered to be low.

In connection with the sale of Golf House, a liability of up to EUR 1.7 million was assumed for various matters. With the exception of the liability for the substantive value of loan receivables and for corporate relationships, the liability expired on January 8, 2012, in all other cases on July 8, 2013. The liability period for tax liability is longer, depending on the administrative finality of the respective tax assessments. There are no indications of possible utilization and therefore the risk is considered to be low.

In connection with the sale of the Anvis Group, Gigaset AG assumed a liability for the compliance with corporate law and the adequacy of the separate financial statements of the companies of the Anvis Group at December 31, 2009. The liability is limited to EUR 10.0 million and will expire on December 2, 2014. The company also assumed a liability for tax matters. The liability under this guarantee will expire six months after presentation of respective, administratively final tax assessments. The probability of occurrence is considered to be extremely low.

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

In connection with the sales of other subsidiaries in the years 2009, 2010 and 2011, the company issued guarantees for the corporate relationships of these subsidiaries. The probability of occurrence of these guarantees is considered to be very low.

In addition, there were contingent liabilities in the amount of EUR 300 thousand (PY: EUR 0 thousand) resulting from guarantees in connection with the subsidiaries' operations.

37. Disclosures pursuant to Section 264b HGB

The following domestic subsidiaries organized as unincorporated partnerships within the meaning of Section 264a of the German Commercial Code (HGB) have in some cases exercised the exemption options permitted by Section 264b HGB:

- Gigaset Communications Licensing and Leasing GmbH & Co. KG
- Gigaset Asset GmbH & Co. KG
- Hortensienweg Grundstücksverwaltung GmbH & Co. KG

38. Executive Board and Supervisory Board of Gigaset AG

The following persons served on the Executive Board in fiscal year 2012 and in the time until the preparation of the annual financial statements:

- Charles Fränkl, businessman, Meerbusch (Executive Board Chairman, in charge of Marketing, Product Development, Supply Chain, M&A, Innovation & Strategy since January 1, 2012)
- Dr. Alexander Blum, businessman, Munich (in charge of Finance, IT, Legal, Human Resources and Investor Relations)
- Maik Brockmann, businessman, Hanover (in charge of Sales)

The other executive activities of the Executive Board members consisted mainly of serving on the supervisory boards and executive boards and chief executive positions of affiliated companies and subsidiaries of Gigaset AG.

Specifically, the Executive Board members who served on the board in 2012 and in the time until the preparation of the annual financial statements held the following seats on supervisory bodies (starting date and ending date indicated when those dates fall within the reporting period or in the time until the preparation of the annual financial statements):

Dr. Alexander Blum

Company	Board	Starting date	Ending date
Inside the Group			
Gigaset Communications (Shanghai) Ltd.	Chairman of the Board	11/8/2012	

Maik Brockmann

Company	Board	Starting date	Ending date
Inside the Group			
Gigaset Communications GmbH	Supervisory Board		1/8/2012
Outside the Group			
Planervilla AG, Hanover	Supervisory Board		

Charles Fränkl (Executive Board member since 1/1/2012)

The Executive Board member Charles Fränkl did not hold seats on supervisory bodies in 2012 and in the time until the preparation of the annual financial statements.

Since the Annual Shareholders' Meeting on June 10, 2011, the Supervisory Board of the Company consists of the following individuals:

- Rudi Lamprecht (Chairman) until March 25, 2013
- Prof. Dr. Michael Judis (Vice Chairman)
- Dr. Dr. Peter Löw
- Susanne Klöß-Braekler
- David Hersh
- Bernhard Riedel
- Barbara Münch, née Thätig from March 26, 2013

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

Rudi Lamprecht, Chairman of the Supervisory Board since June 10, 2011, businessman, Munich

- Member of the Supervisory Board of Gigaset Communications GmbH
- Member of the Supervisory Board of Fujitsu Technology Solutions GmbH
- Managing partner of EWC East-West-Connect GmbH

Prof. Dr. Michael Judis, Vice Chairman, lawyer, Munich

- Alternate member of the Supervisory Board of Your Family Entertainment AG, Munich

Dr. Dr. Peter Löw, Chairman of the Supervisory Board until June 10, 2011, businessman, Munich.

- HQTA AG (formerly dapd media holding AG): Chairman of the Supervisory Board
- xStudy SE: Chairman of the Supervisory Board
- •brownB AG: Chairman of the Supervisory Board

Susanne Klöß-Braekler, Diplom-Kauffrau, Munich

- Member of the Board of Directors, EUREX Frankfurt AG
- Member of the Supervisory Board, DB Bauspar AG

David Hersh, Managing Partner Mantra Americas LLC, New York, USA

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

Bernhard Riedel, lawyer, Munich

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

39. Compensation of Executive Board and Supervisory Board members

The Compensation Report (pursuant to Section 4.2.5. of the German Corporate Governance Code) explains the principles applied in setting the compensation of Executive Board members and indicates the amount and structure of Executive Board compensation. It also describes the principles applied in setting the compensation of the Supervisory Board members and the amount of that compensation, and discloses the shareholdings of Executive Board and Supervisory Board members.

Compensation of Executive Board members

The responsibilities and contributions of each Executive Board member are taken into account for purposes of setting the compensation. The compensation granted in financial year 2012 consisted of a fixed annual salary, plus various success-dependent components. The variable components consist of bonus arrangements for all members who served on the Executive Board in the past financial year, which are dependent on the performance of a virtual share portfolio (reflecting the company's success) and on the achievement of certain targets adopted in the respective board member's area of responsibility (reflecting the success of his division).

Specifically, the Executive Board compensation is composed of the following elements:

- The fixed compensation is paid in the form of a monthly salary.

- The variable compensation consists in part of a special bonus, the amount of which is determined on the basis of the performance of a "virtual share portfolio," and in part of an individual bonus agreement for each member who served on the Executive Board in the past financial year.

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

The virtual share portfolio of Dr. Blum comprises 150,000 shares at each delivery date. The valuation date of all shares are or were August 31, 2011, August 31, 2012 and January 31, 2013. The grant date was February 7, 2011.

At the reporting date, the fair value of the virtual share portfolio for Dr. Blum amounted to EUR 854.51 for the third tranche of 150,000 shares, payable on January 31, 2013 (with a vested proportion of 95.8 % according to IFRS). At the grant date, the fair value of the granted stock options amounted to EUR 253,500.00 for the first tranche (expired in 2011), EUR 184,500.00 for the second tranche (expired in 2012) and EUR 205,500.00 for the third tranche.

The virtual share portfolio of Mr. Charles Fränkl comprises 150,000 shares at each delivery date. The valuation dates are or were December 31, 2012, December 31, 2013 and December 31, 2014. The grant date was January 1, 2012.

At the reporting date, the fair value of the virtual share portfolio for Mr. Fränkl amounted to EUR 15,595.82 for the second tranche of 150,000 shares, payable on December 31, 2013 (with a vested proportion of 50.0 % according to IFRS), and EUR 10,731.21 for the third tranche of 150,000 shares, payable on December 31, 2014 (with a vested proportion of 33.3 % according to IFRS. The disbursement with regard to the individual tranches is limited to EUR 300,000.00 per tranche. At the grant date, the fair value of the granted stock options amounted to EUR 97,500.00 for the first tranche (expired in 2012), EUR 88,500.00 for the second tranche, and EUR 138,000.00 for the third tranche.

The virtual share portfolio of Mr. Maik Brockmann comprises 110,000 shares at each delivery date. The valuation dates are March 31, 2013, March 31, 2014 and March 31, 2015. The grant date was September 28, 2012.

At the reporting date, the fair value of the virtual share portfolio for Mr. Brockmann amounted to EUR 0.35 for the first tranche of 110,000 shares, payable on March 31, 2013 (with a vested proportion of 75.0 % according to IFRS), EUR 9,169.53 for the second tranche of 110,000 shares, payable on March 31, 2014 (with a vested proportion of 37.5 % according to IFRS), and EUR 6,736.68 for the third tranche of 110,000 shares, payable on March 31, 2015 (with a vested proportion of 25.0 % according to IFRS. The disbursement with regard to the individual tranches is limited to EUR 220,000.00 per tranche. At the grant date, the fair value of the granted stock options amounted to EUR 1,100.00 for the first tranche, EUR 29,700.00 for the second tranche, and EUR 33,000.00 for the third tranche.

Virtual share portfolios/stock options, in units	**Dr. Alexander Blum**	**Charles Fränkl**	**Maik Brockmann**
Outstanding at 1/1/2012	300,000	0	200,000
Granted in 2012	0	450,000	330,000
Forfeited in 2012	0	0	0
Exercised in 2012	0	0	0
Average share price on exercise date, in EUR	Less than exercise price	Less than exercise price	Less than exercise price
Expired in 2012	150,000	150,000	200,000
Outstanding at 12/31/2011	150,000	300,000	330,000
Thereof exercisable	0	0	0
Range of exercise prices	1.38	1.04	2.94
Income (+)/ expenses (-) recognized in the reporting period as per IFRS, in EUR	48,813.66	-6,905.98	22,760.11

At the balance sheet date december 31, 2012 the share price amount to EUR 0.97. The intrinsic value of the options is EUR 0.00. In addition, individual bonus agreements were concluded with all members who served on the Executive Board in the reporting period.

Mr. Brockmann receives variable compensation for the successful fulfillment of his duties, measured with reference to the degree of attainment of the established indicator for the success of the Gigaset Group (revenues and EBITDA according to IFRS). The targets to be attained are discussed and agreed between the Chairman of the Supervisory Board of the Company and Mr. Brockmann at the beginning of every financial year and then adopted by the Supervisory Board.

The variable compensation of Dr. Blum is measured with reference to the degree of attainment of the established indicator for the success of Gigaset Communications GmbH in the given financial year. The indicator applied for that purpose is the EBITDA of Gigaset Communications GmbH. The target to be attained is discussed and agreed between the shareholders of Gigaset Communications GmbH and Dr. Blum at the beginning of every financial year. For financial year 2012, it was agreed in deviation from this system that the relevant indicators for the variable compensation are the EBITDA and revenues of the Gigaset Group according to IFRS.

Mr. Fränkl receives variable compensation for the successful fulfillment of his duties, measured with reference to the degree of attainment of the established indicator for the success of the Gigaset Group (revenues and EBITDA according to IFRS). The targets to be attained are discussed and agreed between the Chairman of the Supervisory Board of the Company and Mr. Fränkl at the beginning of every financial year and then adopted by the Supervisory Board.

The total compensation of the members of the Executive Board for financial year 2012 is shown below.

Figures in EUR	**Compensation**		**In-kind benefit**		**Success bonus**		**Stock options**[1]		**Total**	
Fiscal year	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Dr. Alexander Blum	250,000	121,950	8,402	6,300	0	56,250	0	0	258,402	184,500
Maik Brockmann	249,000	156,000	7,350	17,197	0	25,000	0	149,800	256,350	347,997
Charles Fränkl (since Jan. 1, 2012)	400,000	0	8,402	0	0	0	0	0	408,402	0

1) The stock options covers the amounts which were payed out

The Executive Board member Dr. Alexander Blum has not entered into a separate Executive Board employment contract with the company. Instead, he receives his compensation on the basis of the managing director employment contract concluded between him and Gigaset Communications GmbH. This compensation also encompasses the compensation for his activity on the Executive Board; Gigaset Communications GmbH charges the company for the work performed by Dr. Blum for Gigaset AG. Beyond the foregoing, no further compensation was granted to the Executive Board members for their work in subsidiaries or affiliated companies.

The total personal expenses for the members of the Executive Board for financial year 2012 amounts to EUR 858 thousand (Py: EUR 481 thousand)

Compensation of the Supervisory Board

The compensation system adopted by the Annual Shareholders' Meeting on June 10, 2011, also applied in financial year 2012 and reads as follows: "Every member of the Supervisory Board shall receive a fixed compensation of EUR 1,000.00 per started month of the term of office and a meeting fee of EUR 1,000.00 for every meeting of the Supervisory Board or one of its committees in which the member will have participated. The Chairman of the Supervisory Board shall receive a fixed compensation in the amount of EUR 1,500.00 per started month of the term of office and a meeting fee of EUR 1,500.00 for every meeting of the Supervisory Board or one of its committees in which the Chairman will have participated. The compensation shall be due and payable at the close of the annual shareholders' meeting that resolves to ratify the actions of the Supervisory Board in the preceding fiscal year."

The compensation granted to members of the Supervisory Board of Gigaset Aktiengesellschaft in financial year 2012 is presented in the table below:

EUR	Settled	Set aside in provisions	Total expenses
Rudi Lamprecht (Chairman)	15,000	13,500	28,500
Prof. Dr. Michael Judis	10,000	10,000	20,000
Susanne Klöß	0	19,000	19,000
Dr. Dr. Peter Löw	9,000	6,000	15,000
Bernhard Riedel	11,000	11,000	22,000
David Hersh	11,000	11,000	22,000
Total	**56,000**	**70,500**	**126,500**

The compensation granted to members of the Supervisory Board of Gigaset AG in financial year 2011 is presented in the table below:

EUR	Settled	Set aside in provisions	Total expenses
Rudi Lamprecht (Chairman)	0	13,500	13,500
Prof. Dr. Michael Judis	9,000	11,000	20,000
Susanne Klöß	0	11,000	11,000
Dr. Dr. Peter Löw (former Chairman)	13,500	11,000	24,500
Bernhard Riedel	10,000	9,000	19,000
David Hersh	8,000	11,000	19,000
Hubertus Prinz zu Hohenlohe-Langenburg	9,000	0	9,000
Dr. Rudolf Falter	9,000	0	9,000
Total	**58,500**	**66,500**	**125,000**

Accordingly, the total compensation granted to the Supervisory Board amounted to EUR 126,500.00 (PY: EUR 125,000.00).

No further commitments have been made in the event of termination of Supervisory Board mandates. No loans or advances were extended to members of the Executive Boards or Supervisory Boards of Gigaset AG. No contingent liabilities have been assumed in favor of these persons.

40. Shareholdings of Executive Board and Supervisory Board members

According to their statements, the members of the Executive Board together held 34,348 shares of Gigaset AG at the reporting date, representing 0.07 % of the total shares outstanding.

According to their statements, the members of the Supervisory Board together held 1,824,038 shares of Gigaset AG at the reporting date, representing 3.65 % of the total shares outstanding.

The shareholdings of Executive Board and Supervisory Board members were divided among the individual members as follows:

	Number of shares at 12/31/2012 or at the resignation date	Number of shares at the date of preparation of the financial statements	Number of options at 12/31/2012 or at the resignation date	Number of options at the date of preparation of the financial statements
Executive Board				
Charles Fränkl	0	0	0	0
Dr. Alexander Blum	34,348	34,348	0	0
Maik Brockmann	0	0	0	0
Supervisory Board				
Rudi Lamprecht	300	300	0	0
Prof. Dr. Michael Judis	10,604	10,604	0	0
Dr. Dr. Peter Löw	1,811,833	1,811,833	0	0
Susanne Klöß	0	0	0	0
Bernhard Riedel	1,301	1,301	0	0
David Hersh	0	0	0	0

Disclosures concerning stock option rights and similar incentives

Any stock options of Supervisory Board and Executive Board members presented in the table above are stock options that can be purchased in the open market. Gigaset AG did not grant stock options to the members of the Supervisory Board, nor to members of the Executive Board. Please refer to the comments in the Compensation Report for additional information on the virtual share portfolios of Executive Board members.

41. Disclosures concerning dealings with related parties

In accordance with IAS 24, related parties are defined as persons or companies who can influence or be influenced by the reporting entity.

No significant transactions were conducted between the Group and related parties in the reporting period.

The group of related parties has expanded compared to the group of related parties at year-end 2011 to include relevantec GmbH, Berlin, on the basis of the business relationships between a member of the Supervisory Board of Gigaset AG and this company. The expenses absorbed by the company amounted to EUR 54 thousand in 2012. There were no longer any liabilities outstanding at the reporting date.

Please refer to Section 43 for information on the compensation of the Executive Board and Supervisory Board that must be disclosed in accordance with IAS 24 No.17.

42. Professional fees for the independent auditor

Professional fees in the total amount of EUR 1,715 thousand (PY: EUR 371 thousand) were incurred for the services of the independent auditor within the meaning of Section 318 HGB in fiscal year 2012.

EUR'000	2012	2011
Audit services for the annual financial statements	388	362
Other certification services	247	0
Tax advisory services	0	0
Other services	1,080	9
Total	**1,715**	**371**

43. Employees

The Gigaset Group had an average of 1,799 employees in financial year 2012 (PY: 1,910 employees). The total number of employees at the reporting date of December 31, 2012, was 1,743 (PY: 1,875 employees).

	Reporting Date		Average	
EUR'000	2012	2011	2012	2011
Wage-earning employees	18	8	20	29
Salaried employees	1,665	1,801	1,718	1,822
Apprentice-trainees	60	66	61	59
Total	**1,743**	**1,875**	**1,799**	**1,910**

44. Declaration of Conformity with the German Corporate Governance Code

In March 2013, the Executive Board and Supervisory Board of Gigaset AG issued the Declaration of Conformity with the German Corporate Governance Code in its version of May 15, 2012, as required by Section 161 of the Stock Corporations Act (AktG), and made it permanently available to shareholders at the company's website (www.gigaset.com). In this declaration, the Executive Board and Supervisory Board of Gigaset AG state that the Company was in compliance with the behavioral recommendations of the Code Commission on corporate management and monitoring published in the electronic Federal Gazette with an effective date of May 15, 2012, with a few exceptions, and will comply with them in the future. The Declaration of Conformity itself and the statements on the exceptions are reproduced verbatim at the specified location.

45. Shareholder structure

We received no notifications as per Section 21 or Section 26 of the German Securities Trading Act (WpHG) in 2012. We assume that the following notifications continue to be valid.

On November 3, 2010, Dr. Dr. Peter Löw notified us in accordance with Section 21 (1) WpHG that his total voting rights share exceeded the threshold of 3 % on October 29, 2010. On this date, he held 1,811,833 voting rights, corresponding to a voting rights share of 3.62 %.

1a) On July 15, 2011, Mr. Antoine Drean, France, notified us in accordance with Sections 21 (1); 22 (1) (1) (1) WpHG that the voting rights share of Mr. Antoine Drean in Gigaset AG, Munich, ISIN DE 0005156004, WKN 515600, exceeded the threshold of 5 % on July 12, 2011 and has amounted to 5.19 % of the voting rights (2,596,206 voting rights) since that time. Of this amount, 5.19 % of the voting rights (2,596,206 voting rights) are attributable to Mr. Antoine Drean in accordance with Section 22 (1) (1) (1) WpHG. The voting rights attributable to Mr. Antoine Drean are held by the following companies controlled by Mr. Antoine Drean:

- Elevon Invest SARL
- Mantra Gestion SAS
- Mantra Investissement SCA

1b) On July 18, 2011, Elevon Invest SARL, Paris, France (formerly Mantra Holdings SARL) notified us in accordance with Sections 21 (1); 22 (1) (1) (1) WpHG that the voting rights share of Elevon Invest SARL in Gigaset AG, Munich, ISIN DE 0005156004, WKN 515600, crossed the threshold of 5 % on July 12, 2011 and has amounted to 5.19 % of the voting rights (2,596,206 voting rights) since that time.

Of this amount, 5.19 % of the voting rights (2,596,206 voting rights) are attributable to Elevon Invest SARL in accordance with Section 22 (1) (1) (1) WpHG. The voting rights attributable to Elevon Invest SARL are held by the following companies controlled by Elevon Invest SARL:

- Mantra Gestion SAS
- Mantra Investissement SCA

1c) On July 15, 2011, Mantra Gestion SAS, Paris, France, notified us in accordance with Sections 21 (1); 22 (1) (1) (1) WpHG that the voting rights share of Mantra Gestion SAS in Gigaset AG, Munich, ISIN DE 0005156004, WKN 515600, crossed the threshold of 5 % on July 12, 2011 and has amounted to 5.19 % of the voting rights (2,596,206 voting rights) since that time.

Of that amount, 5.19 % of the voting rights (2,596,206 voting rights) are attributable to Mantra Gestion SAS in accordance with Section 22 (1) (1) (1) WpHG. The voting rights attributable to Mantra Gestion SAS are held by the following companies controlled by Mantra Gestion SAS:

- Mantra Investissement SCA

1d) On July 15, 2011, Mantra Investissement SCA, Paris, France, notified us in accordance with Section 21 (1) WpHG that the voting rights share of Mantra Investissement SCA, in Gigaset AG, Munich, ISIN DE 0005156004, WKN 515600, crossed the threshold of 5 % on July 12, 2011 and has amounted to 5.19 % of voting rights (2 596 206 voting rights) since that time.

46. Legal disputes and claims for damages

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

In July 2009, the European Commission imposed a total fine of EUR 61.1 million on various European companies in the calcium carbide sector in the context of an anti-trust law investigation. In this context, a fine totaling EUR 13.3 million was imposed jointly and severally on SKW Stahl-Metallurgie Holding AG as well as its subsidiary SKW Stahl-Metallurgie GmbH as direct cartel participants. The European Commission held the current Gigaset AG, as the Group parent company at that time, jointly and severally liable on the basis of the assumption that, as the Group parent company, it formed a "corporate unit" with the direct cartel participants. The portion of the fine attributable to Gigaset, in the amount of EUR 6.65 million, including interest, was paid in full, subject to reservation of appeal (EUR 1.0 million in 2009, the remainder including accrued interest in 2010). However, Gigaset also filed an appeal against the assessment of the Commission as well as a lawsuit against its former subsidiary for a possible reimbursement of the fine paid by Gigaset. The lawsuit between the Company and SKW Stahl-Metallurgie Holding AG together with SKW Stahl-Metallurgie GmbH has not yet produced any clarity regarding the legally accurate distribution of the total fine obligation between SKW Stahl-Metallurgie Holding AG and SKW Stahl-Metallurgie GmbH as the direct cartel participants on the one hand and the Company as the former group parent company that would merely be co-liable, on the other. The legal issue is currently before the German Federal Court of Justice for review on appeal. Until resolution of this legal issue on appeal, there is at least an abstract risk that a lower court will assign liability in internal relations to the detriment of the Company; this could lead to a circumstance where the Company would be obligated to reimburse fines that were imposed on SKW Stahl-Metallurgie Holding AG and SKW Stahl-Metallurgie GmbH.

Evonik Degussa GmbH is demanding payment of a contractual penalty of EUR 12 million against the company under a share purchase agreement dated September 8, 2006. On April 30, 2012, Evonik Degussa GmbH filed a corresponding arbitration complaint against the Company with Deutsche Institution für Schiedsgerichtsbarkeit e. V. In the context of the share purchase agreement, Oxy Holding GmbH acquired all shares in Oxxynova GmbH (formerly Oxxynova Holding GmbH) from Evonik Degussa GmbH (formerly Degussa AG) and issued various buyer warranties and guarantees. They also included a guarantee to continue to operate the production locations of Oxxynova GmbH in Lülsdorf and Steyerberg for at least an additional five years beyond completion of the share transfer (October 12, 2006). The current Gigaset AG agreed as the guarantor along with Oxy Holding GmbH to be responsible for specific obligations of Oxy Holding GmbH, also including the location guarantee. In its arbitration complaint, Evonik Degussa is arguing that Oxy Holding violated its obligations arising from the location guarantee, which was provided with a penalty for breach of contract, because the subsidiary Oxxynova GmbH closed the location in Lülsdorf in 2007. Therefore, a contractual penalty in the amount of EUR 12.0 would have been forfeited, for which the Company would be jointly and severally liable as a guarantor. The Company requested dismissal of the complaint in a brief dated September 28, 2012. The Company considers the complaint to be insufficient because not all of the foundations for the asserted claim have been presented, and furthermore unfounded because the contractual requirements for forfeiting the contractual penalty have not been satisfied. In the response to the complaint, the Company particularly argues that Oxxynova GmbH had lost significant customers and the world market for Oxxynova's product had developed in an extraordinarily negative manner, so that Oxxynova was entitled to close the location according to the wording of the contract. In the Company's opinion, furthermore, Evonik Degussa GmbH would have been obligated to consent to the closing of the Lülsdorf location. However, Evonik Degussa GmbH refused to enter into negotiations with the Company on waiver of the contractual penalty, in violation of the contract. Moreover, the closure of the Lülsdorf location had not been decided until March 23, 2010 (and implemented on June 30, 2010), for which reason the contractual penalty would amount to a maximum of EUR 7.0 million even if one were to agree with the arguments of Evonik Degussa GmbH. Due to the existing uncertainty and the threatened lawsuit, Gigaset AG created provisions in the amount of EUR 3.6 million. The first oral arguments will take place at the end of June 2013.

In a lawsuit that has been pending before the Lübeck Regional Court since November 2009, SME Holding GmbH is demanding payment of damages in the amount of USD 10.1 million, among other things, from Thomson Sales Europe S. A. ("Thomson") with registered offices in France. SME Holding GmbH believes that Thomson had violated guarantees arising from a purchase and assignment contract dated November 28, 2007. In this contract, SME Holding GmbH (operating under ARQUES Equity Management GmbH at the time, and already a wholly-owned subsidiary of the Company at the time) acquired all of the shares in SM Electronic GmbH. The context of the claims for damage is that SM Electronic GmbH found itself subject to claims for damage from the U.S. patent exploitation company MPEG LA, LLC ("MPEG LA") after performance of the transaction agreed upon in the purchase and assignment contract. MPEG LA grants sub-licenses to numerous patents belonging to various companies involved in what is known as MPEG-2 video decoding and encoding. It asserted a violation of the patents it exploits by SM Electronic GmbH that occurred in the past and is still ongoing. SM Electronic GmbH saw and continues to see the asserted claims as justified in principle. To avert them, it therefore agreed with MPEG LA in a settlement agreement dated May 2009 and a patent licensing agreement concluded in October 2009 and retroactive to June 1, 1994, to retroactive payment of licensing fees in the amount of about USD 10.1 million for the past use of patented inventions through December 31, 2007, among other things. SME Holding GmbH is basing its claims for damage against Thomson asserted before the Lübeck Regional Court in the amount of about USD 10.1 million above all on a guarantee in the purchase and assignment contract of November 28, 2007 on the orderliness of the financial statements of SM Electronic GmbH, on allegedly missing provisions for license claims by MPEG LA, among others, and on the assertion that a different company of the Thomson Group would have known or had to have known of the threat of such claims prior to conclusion of the purchase and assignment contract. Thomson has petitioned for dismissal of the suit, based inter alia on the view that no relevant contractual or legal basis exists for the claim asserted, and particularly that the purchase and assignment contract of November 28, 2007, contains practically no guarantees regarding rights for the protection of intellectual property. Furthermore, SME Holding GmbH has argued not to have suffered any damage capable of reimbursement. The proceeding has not moved forward significantly since the reply by SME Holding GmbH of November 16, 2010, due among other things to necessary translations, numerous third-party notices and interventions by third parties, as well as the related deliveries abroad. Given the context of the dispute before the Regional Court, which is known to MPEG LA, and the inability of SM Electronic GmbH to pay the entire outstanding retroactive license fee, which it has asserted multiple times, MPEG LA initially granted deferment of its license claim against SM Electronic GmbH in multiple letters. Finally, both parties and SME Holding GmbH agreed on August 8, 2012, that SM Electronic GmbH will perform its obligation to pay retroactive licensing fees still existing at that time in the amount of about USD 9.8 million in such a way that it will pay a slightly increased licensing fee for every product sold under the patent licensing agreement from October 2009 after August 8, 2012, in addition to the agreed upon licensing fee until the outstanding licensing obligation is satisfied. Under certain circumstances, however, the deferred claim would become due in the full amount, for instance if SM Electronic GmbH terminates its operating activities or no longer sells any MPEG-2 products. If Thomson should be sentenced to make payment to SME Holding GmbH in the lawsuit before the Regional Court, then the promised amount is to be paid to MPEG LA to reduce any licensing obligation that may then still be outstanding.

In a criminal proceeding, the Munich Public Prosecutor's Office has accused two former Executive Board members of breach of fiduciary duty or accessory to breach of fiduciary duty committed in 2009. One former member of the Executive Board is accused of having granted disbursements in violation of the equity preservation regulations of Section 30 of the Limited Liability Companies Act (GmbHG) in his parallel function as managing director of Gigaset Communications GmbH; the other Executive Board member is alleged to have cooperated in this action. The charges have been filed but not yet admitted. The Company has joined the proceeding as a co-participant. The Company denies criminal responsibility for the actions of its directors and officers, both on factual and legal grounds. It is attempting to achieve inadmissibility of the charges, or alternatively a stay of the proceedings, against payment of a fine.

47. Significant events after the reporting date

The insolvency administrator of Sommer Road Cargo Solutions GmbH & Co. KG ("Sommer") filed suit against Gigaset AG and its former Executive Board member Dr. Martin Vorderwülbecke at the end of 2012. Sommer was an investee company of ARQUES Industries AG from October 2005 to March 2009. The plaintiff is demanding joint and several payment of EUR 3.0 million from the defendant. The plaintiff alleges that ARQUES Industries AG, as the group parent of the Sommer Group in 2007, had impermissibly demanded repayment of a loan from Sommer or carried out hidden distributions of profits from the assets of the Sommer Group in the form of contract terms not customary among third parties, and thus violated the equity preservation regulations applicable at the time, among other things. This is alleged to have caused Sommer damage in at least the amount of the sum demanded in the suit, for which today's Gigaset would have to be responsible together with the managing director and Executive Board member at the time, Dr. Vorderwülbecke. Insolvency proceedings were commenced against Sommer on December 31, 2009. Gigaset AG considers the circumstances alleged therein to be presented incompletely and inaccurately, and thus considers the suit to be unfounded. Moreover, the claims asserted have become barred by lapse of time and any insolvency contestation deadlines have passed, since the core of the accusations goes back to 2007. Gigaset AG will therefore defend itself against this suit.

In a criminal proceeding, the Munich Public Prosecutor's Office accused two former Executive Board members of breach of fiduciary duty or accessory to breach of fiduciary duty committed in 2009. One former member of the Executive Board is accused of having granted disbursements in violation of the equity preservation regulations of Section 30 of the Limited Liability Companies Act (GmbHG) in his parallel function as managing director of Gigaset Communications GmbH; the other Executive Board member is alleged to have cooperated in this action. The Company has joined the proceeding as a co-participant. In a ruling dated January 29, 2013, Gigaset AG was sentenced as a co-participant to a fine in the amount of TEUR 350. This ruling has brought a lawsuit that has lasted for years to a close. The Company had created a provision in the corresponding amount in previous years, so that the earnings in financial year 2013 will not be affected.

Rudi Lamprecht, Member of the Gigaset AG Supervisory Board since June 10, 2011 and Chairman of the Supervisory Board, resigns his position as Chairman of the Supervisory Board with notice dated March 11, 2013 for purely personal and private reasons and left the Supervisory Board. As the elected substitute member of the Gigaset AG Supervisory Board; Ms Barbara Münch, née Thätig will succeed Mr. Lamprecht. The Supervisory Board elects Bernhard Riedel as new chairman at their regular meeting on March 22, 2013.

48. Release for publication of the consolidated financial statements

The Executive Board released the present consolidated financial statements of Gigaset AG for publication on March 18, 2013. The company's shareholders will have the right and the opportunity to amend the consolidated financial statements at the annual shareholders' meeting.

Munich, March 27, 2013

The Executive Board of Gigaset AG

Charles Fränkl   Dr. Alexander Blum   Maik Brockmann

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Report of the Executive Board

The Executive Board of Gigaset AG is responsible for the information contained in the consolidated financial statements and the combined management report. This information has been reported in accordance with the accounting regulations of the International Accounting Standards Committee. The combined management report was drafted in accordance with the provisions of the German Commercial Code.

By means of implementing uniform Group wide guidelines, using reliable software, selecting and training qualified personnel and continually optimizing the processes of the acquired companies, we are able to present a true and fair view of the company's business performance, its current situation and the opportunities and risks of the Group. To the necessary extent, appropriate and objective estimates were applied.

In accordance with the resolution of the annual shareholders' meeting, the Supervisory Board has engaged PricewaterhouseCoopers AG, Wirtschaftsprüfungsgesellschaft, Düsseldorf, to audit the consolidated financial statements of the Group in the capacity of independent auditors. The Supervisory Board discussed the consolidated financial statements and the consolidated management report with the auditors in the financial statements review meeting. The results of their review are presented in the Report of the Supervisory Board.

Responsibility statement

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

Munich, March 27, 2013

The Executive Board of Gigaset AG

Auditor's Report*

We have audited the consolidated financial statements prepared by Gigaset AG, Munich, comprising the balance sheet, income statement, statement of comprehensive income, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the Group management report of Gigaset AG, which is combined with the management report of the parent company, for the business year from January 1 to December 31, 2012. The preparation of the consolidated financial statements and the combined management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315a (1) HGB („Handelsgesetzbuch" - German Commercial Code) are the responsibility of the parent company's Executive Board. Our responsibility is to express an opinion on the consolidated financial statements and the combined management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB and german generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting related

internal control system and the evidence supporting the disclosures in the consolidated financial statements and the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in consolidation, the determination of the companies to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the company's Executive Board, as well as evaluating the overall presentation of the consolidated financial statements and the combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with the IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to Section 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these provisions. The combined management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

We are obligated to note that there are risks threatening the Company's ability to continue as a going concern which are presented under Section 12.3.2 Cash flows of the consolidated management report. This section explains that maintaining the Group's solvency depends on reaching our sales and liquidity goals as well as on the planned procurement of additional liquidity and the measures already implemented to secure existing liquidity. The financing concept is based on the maintenance of existing credit lines; additional restructuring measures are required".

Munich, March 27, 2013

Verena Heineke	Rainer Kroker
Wirtschaftsprüferin (German Public Auditor)	Wirtschaftsprüfer (German Public Auditor)

* Translation of the auditor's report issued in German on the annual/consolidated financial statements prepared in German by the management of Gigaset AG.

Financial Calendar

March 28, 2013

- Audited Financial Statements for the fiscal year 2012

- Year-End press conference

May 15, 2013

- 1st quarterly report for the fiscal year 2013

June 13, 2013

- Annual General Meeting in Munich, Germany

August 7, 2013

- 2nd quarterly report for the fiscal year 2013

November 11, 2013

- 3rd quarterly report for the fiscal year 2013

Imprint

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Gigaset List of Shareholdings

	Location		Equity share direct	Equity share indirect
Gigaset AG	Munich	Germany		
CFR Holding GmbH	Munich	Germany	100%	
GOH Holding GmbH	Munich	Germany	100%	
Gigaset Industries GmbH	Vienna	Österreich	100%	
Gigaset Asset Invest GmbH	Vienna	Österreich		100%
Gigaset Commercial GmbH	Vienna	Österreich		100%
IVMP AG	Baar	Switzerland		100%
Hottinger Holding GmbH	Vienna	Österreich		100%
ARQUES Capital GmbH i.L.	Vienna	Österreich		100%
ARQUES Süd Beteiligungs GmbH	Vienna	Österreich		100%
Gigaset Malta Limited	St. Julians	Malta	100%	
Gigaset Finance Limited	St. Julians	Malta		100%
Gigaset Beteiligungsverwaltungs GmbH	Munich	Germany	100%	
Gigaset Asset GmbH & Co. KG	Munich	Germany	100%	
SM Electronic GmbH	Stapelfeld/Braak	Germany		100%
Emanon GmbH	Stapelfeld/Braak	Germany		100%
Skymaster Electronic HK Limited	Hong Kong	PR China		100%
GIG Holding GmbH	Munich	Germany	94%	6%
Gigaset Communications GmbH	Düsseldorf	Germany		100%
Gigaset International Sales & Services GmbH; (prev. G. Com. Management GmbH)	Munich	Germany		100%
Gigaset Communications Schweiz GmbH	Solothurn	Switzerland		100%
Gigaset Communications FZ-LLC	Dubai	VAE		100%
Gigaset Communications Polska Sp. z o.o.	Warsaw	Poland		100%
Gigaset Communications UK Limited	Chester	Great Britan		100%
Gigaset İletişim Cihazlari A.Ş.	Istanbul	Turkey		100%
Gigaset Communications Argentina S.R.L.	Buenos Aires	Argentina		100%
OOO Gigaset Communications	Moscow	Russia		100%
Gigaset Communications Austria GmbH	Vienna	Austria		100%
Gigaset Equipamentos de Comunicação Ltda	Sao Paulo	Brazil		100%

Currency ´000[1]	Local Equity 2012	Local profit/loss 2012	Average no. of employ-ees 2012	
EUR	202.389	-7.966	18	Gigaset AG
EUR	-7	-1	0	CFR Holding GmbH
EUR	313	-11	0	GOH Holding GmbH
EUR	-1.144*	-310*	0	Gigaset Industries GmbH
EUR	3.937*	-9*	0	Gigaset Asset Invest GmbH
EUR	-448*	37*	0	Gigaset Commercial GmbH
CHF	12.348*	161**	0	IVMP AG
EUR	-2.015*	11*	0	Hottinger Holding GmbH
EUR	-833*	-29*	0	ARQUES Capital GmbH i.L.
EUR	-3	-3*	0	ARQUES Süd Beteiligungs GmbH
EUR	717	-545	0	Gigaset Malta Limited
EUR	566	-569	1	Gigaset Finance Limited
EUR	11.020	1	0	Gigaset Beteiligungsverwaltungs GmbH
EUR	210.991	-8	0	Gigaset Asset GmbH & Co. KG
EUR	-13.983*	-7.572*	46	SM Electronic GmbH
EUR	3	-2	0	Emanon GmbH
HKD	3.231	1.775	6	Skymaster Electronic HK Limited
EUR	42.612	-1	0	GIG Holding GmbH
EUR	53.143	-17.255	1.367	Gigaset Communications GmbH
EUR	1.515	10	0	Gigaset International Sales & Services GmbH; (prev. G. Com. Management GmbH)
CHF	240	-3	4	Gigaset Communications Schweiz GmbH
AED	6.723	635	15	Gigaset Communications FZ-LLC
PLN	4.791*	3.071*	136	Gigaset Communications Polska Sp. z o.o.
GBP	268*	146*	7	Gigaset Communications UK Limited
TRL	3.033*	-976*	4	Gigaset İletişim Cihazlari A.Ş.
ARS	5.671*	-782*	8	Gigaset Communications Argentina S.R.L.
RUR	19.521*	-17.875*	14	OOO Gigaset Communications
EUR	-138*	-676*	13	Gigaset Communications Austria GmbH
BRL	1*	-1.771*	22	Gigaset Equipamentos de Comunicação Ltda

*Hier brauchen wir noch die Übersetzung

	Location		Equity share direct	Equity share indirect
Gigaset Communications (Shanghai) Limited	Shanghai	PR China		100%
Gigaset Communications France SAS	Courbevoie	France		100%
Gigaset Communications Italia S.R.L.	Milan	Italy		100%
Gigaset Communications Nederland B.V.	Zoetermeer	Netherlands		100%
Gigaset Communications Iberia S.L.	Madrid	Spain		100%
Gigaset Communications Sweden AB	Stockholm	Sweden		100%
Gigaset Communications Inc.	Dallas	USA		100%
Gigaset elements GmbH; (prev. Newdial GmbH)	Düsseldorf	Germany		100%
Gigaset Communications Licensing & Leasing GmbH & Co. KG	Munich	Germany		100%
Gigaset Malta GmbH	Munich	Germany	100%	
Hortensienweg Verwaltungs GmbH	Munich	Germany	100%	
Hortensienweg Grundstücksverwaltungs GmbH & Co. KG	Munich	Germany		100%
Hortensienweg Management GmbH	Munich	Germany	100%	
AT Operations 1 GmbH	Munich	Germany	100%	
AT Operations 2 GmbH	Munich	Germany	8%	92%
Arques Beta Beteiligungs GmbH i.L.	Vienna	Austria		100%
SME Holding GmbH	Munich	Germany	100%	
Non-consolidated companies				
SM Electronic GmbH	Hamburg	Germany		100%
Sommer Immobilien GmbH & Co. KG	Laucha an der Unstrut	Germany	6%	
OXY Holding GmbH	Steyerberg	Germany		10%

Currency ´000[1]	Local Equity 2012	Local profit/loss 2012	Average no. of employees 2012	
CNY	19.047*	10.047*	63	Gigaset Communications (Shanghai) Limited
EUR	2.701*	589*	19	Gigaset Communications France SAS
EUR	893*	249*	16	Gigaset Communications Italia S.R.L.
EUR	-469*	119*	12	Gigaset Communications Nederland B.V.
EUR	387*	249*	14	Gigaset Communications Iberia S.L.
SEK	10.016*	735*	8	Gigaset Communications Sweden AB
USD	2.674	-2.890	5	Gigaset Communications Inc.
EUR	23	-1	0	Gigaset elements GmbH; (prev. Newdial GmbH)
EUR	-1	0	0	Gigaset Communications Licensing & Leasing GmbH & Co. KG
EUR	21	0	0	Gigaset Malta GmbH
EUR	-14	-7	0	Hortensienweg Verwaltungs GmbH
EUR	3.455	-55	0	Hortensienweg Grundstücksverwaltungs GmbH & Co. KG
EUR	2.915	-109	0	Hortensienweg Management GmbH
EUR	132	4	0	AT Operations 1 GmbH
EUR	-7.142	-31	0	AT Operations 2 GmbH
EUR	-9.240*	-227*	0	Arques Beta Beteiligungs GmbH i.L.
EUR	-275	-4	0	SME Holding GmbH
				Non-consolidated companies
EUR	-	-	-	SM Electronic GmbH
EUR	-	-	-	Sommer Immobilien GmbH & Co. KG
EUR	-	-	-	OXY Holding GmbH

*Hier brauchen wir noch die Übersetzung

2012

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