Gigaset

Report for the 2nd Quarter 2014

OVERVIEW OF KEY FIGURES

EUR million	1/1 - 6/30/2014	1/1 - 6/30/2013
Consolidated revenues	147.0	187.4
Earnings before interest, taxes, depreciation and amortization (EBITDA)	2.6	8.9
Earnings before interest and taxes (EBIT)	-9.6	-3.1
Consolidated profit/loss	-10.9	-13.3
Free cash flow	-26.9	-35.5
Earnings per share (diluted in EUR)	-0.11	-0.26

EUR million	6/30/2014	12/31/2013
Total assets	237.2	267.1
Consolidated equity	23.0	38.7
Equity ratio (%)	9.7	14.5

Information on the Gigaset share	Q1 / 2014	Q1 / 2013
Closing rate in EUR (at the end of the period)	1.00	0.61
Peak price in EUR (in the period)	1.03	1.03
Lowest price in EUR (in the period)	0.97	0.58
Number of shares in circulation (at the end of the period)	96,446,813	50,014,911
Market capitalization in EUR million (at the end of the period)	96.254	30.509

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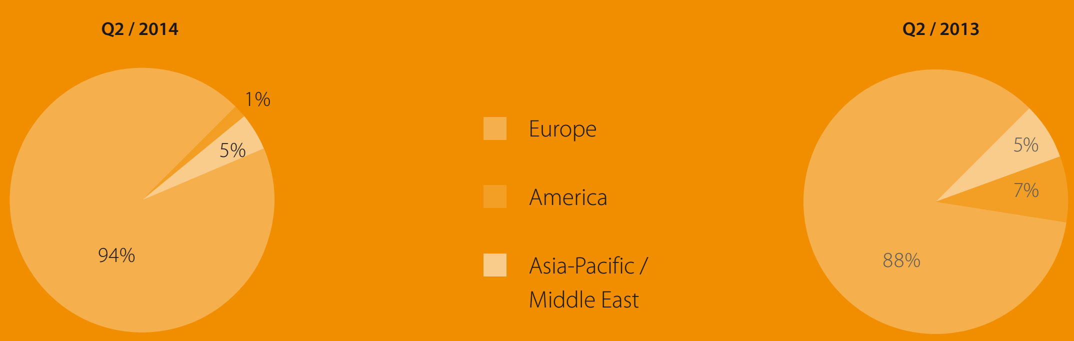
REVENUES BROKEN DOWN BY REGION



Dear shareholders,

Unfortunately, the first half of the year was again dominated by a rapidly contracting market in our core business involving cordless telephones. Even we, one of the leaders in this market, are not immune to this trend. To counter this development, it is essential that we modernize in many areas. We set off down this path in 2012 with the massive support of our entire workforce. Since then, Gigaset has been caught up in what is probably the biggest and most complex restructuring exercise in its corporate history. This comprehensive reorganization made necessary by the market conditions affecting the core business is, however, a marathon, not a sprint. Since starting, we have covered many miles. The pace is high. And we have not reached the finishing line yet. But it remains our permanent goal to return the company to profitable growth in the medium term.

A wide-ranging refinancing of the company, which we have achieved in a single period of twelve months, is a key step in this direction. Over these months, Gigaset has acquired a new strategic investor and successfully placed urgently required capital-raising measures. These moves have netted around EUR 82.4 million, crucially serving to stabilize Gigaset.

This total includes the capital-raising measures for 2014 announced on June 25 and already completed, the proceeds of which will be used primarily to repay the syndicated loan in full and turn Gigaset into a company that is free of bank debt. Not only will this save us around EUR 1.5 million in interest payments each year, it also opens up new prospects and possibilities for financing the future growth of Gigaset.

This is a good point to clearly underscore the necessity of this and past capital-raising measures.

Despite our best efforts to boost efficiency, we are not currently able to reduce our costs as quickly as our revenues are falling due to the accelerated contraction of the market. At the same time, additional capital is required to restructure the company to secure its future. The new product groups only rolled out in the second half of 2013 are still too young to offset the rapid decline in the core business. Moreover, it is essential to invest more in these new growth fields in order to expand the portfolio and internationalize the distribution of these products. For this reason, we are reliant upon the support of all our shareholders. Your willingness to lead the company into a successful future together with us is the key.

We are especially pleased to have found a strategic investor in the form of Singapore-based Goldin Fund Pte. Ltd. who will not only support us financially but also help implement in full the strategy of the Executive Board that was presented to you in 2012 and 2013. The deal with Goldin Fund Pte. Ltd. opens up access to new products and technologies for us. We are working with Goldin Fund Pte. Ltd. on a smartphone to be rolled out on the market as soon as we possibly can.

This reference to new products comes to the heart of the matter that makes this restructuring so important for Gigaset.

The sale of DECT telephones continues to dominate our business activities and will retain a key role into the future. Nonetheless, we need to recognize the rapid acceleration in technological change. The European economic and financial crisis of recent years, moreover, had a significant impact on consumers' purchase decisions. These days, they are increasingly choosing mobile phones over landline models. This trend is being reinforced by ever more powerful mobile networks.

Consequently, one of the key tasks facing us is to make the company fit for the future. We have achieved a large number of milestones in this regard in a very short space of time:

- We have successfully integrated the Android operating system into the landline world. Thus, our top model, the SL930A, was recently named Product of the Year in its category by the readers of the trade journal connect.

- We have rolled out our first system for a networked home in the form of "„Gigaset elements"". The starter kit comprises a DECT base station, a motion sensor, a door sensor, an intelligent cloud solution, and a smartphone app. „Gigaset elements" enables customers to check whether everything is alright at home. „Gigaset elements" represents our entry into the extremely promising growth market of the internet of things. We are constantly expanding the system. The readers of connect also voted „Gigaset elements" Product of the Year, an accolade of which we are particularly proud as we beat off competition from products marketed by big-name and far better funded DAX-listed firms.

- In addition, we have reorganized and further restructured the company with a view to becoming both more innovative and more efficient. We have systematically implemented the efficiency program that was announced in fiscal 2012, helping us to cut out costs of around EUR 30.0 million. In order to make it safely through the seasonally weak summer months, in May of this year we announced our intention of stepping up our efficiency drive. By September 2014, we hope to have exploited further cost potential of EUR 17.5 million.

- A restructuring of our organization served above all to strengthen our business customer activity. This business has expanded quickly since then, increasing its revenues a further 8% in the second quarter just completed. In this context, growth was driven primarily by our activities under the Gigaset pro brand, which expanded 19%.

- We closely examined our markets outside of Europe with profitability in mind. As a result, we decided to withdraw from a number of markets that were unprofitable for us or modified the sales model in order to be able to operate more profitably in those markets going forward.

- We have completed the switch from an equity investment firm to a pure-play telecommunications company. At the turn of the year, we sold the last corporate group that was not part of our core business, SM Electronic (SME), to Microelectronic NH GmbH. SME had been identified as a business operation to be discontinued.

Restructuring the company in terms of financing, technology, costs, and organization was, however, just one of the key tasks facing the management team. We are well aware that our company's share price has not performed well of late on account of market-related, economic performance indicators. Despite all this, we do, however, believe that it is one of the management team's key duties to successfully overcome this difficult phase and hence to maintain the core of the company, its jobs, and also its shareholders' investment.

We are confident that we have the most critical phase of our turnaround behind us. The cornerstones for further success have been laid. The company has been reorganized, the portfolio modernized and the financing placed on a new footing. The task ahead of us now is to systematically and successfully continue down the path that we have taken.

Best regards,

The Executive Board

Significant events in the second Quarter of 2014

Phoning in style: The Gigaset Dune connects people in style, while offering quality and comfort

Gigaset has launched the Dune, a new designer telephone that combines the quality and ergonomic comfort consumers have come to expect with an appealing, modern look. Based on the form of a sand dune, its subtle curving lines and shimmering mother-of-pearl finish are a perfect fit for the sophisticated living environments of design lovers. The Dune is an asset for everyone who values fresh, modern design as well as proven technology and standard functions.

Gigaset presents new app for simple transfer of contacts from smartphones to handsets

The new ContactsPush app from Gigaset enables simple transfer of contacts from smartphones to Gigaset handsets operated on IP base stations. The app is compatible with Android (4.x and above) and iOS devices (6.x and above) and can be obtained free of charge from the Google Play Store™ or Apple App Store™. The ContactsPush app is a further step towards Gigaset's own ecosystem, which was premiered at CeBIT 2014 under the title GigasetGo.

Pretty smart: „Gigaset elements" now also available from Tchibo

„Gigaset elements" is the solution for connected living for everyone. The pioneering system helps people to stay in touch with their homes and have everything under control at all times. It is now even easier for customers to get acquainted with „Gigaset elements", as Tchibo is offering an exclusive starter set consisting of sensors and an alarm in its online store.

connect 2014 reader poll puts „Gigaset elements" and Android-based Gigaset SL930A among the products of the year

At the annual presentation of connect's "Products, Networks & Services" awards, both „Gigaset elements", the innovative solution for the smart home, and the Android-based Gigaset SL930A cordless phone were chosen as the top products by connect's readership. Gigaset has thus once again left the competition in its wake in the field of cordless telephony and has shone for the first time in the smart home arena with „Gigaset elements", the intelligent solution for connected living.

Gigaset keeps on winning awards for excellence: Shower of prizes for product innovations

Numerous design awards in recent years are testimony to the fact that Gigaset has constantly led the way across sectors in this field. The high quality of its products and design is again bearing fruit this year. Gigaset has picked up nine awards so far in 2014 for its products. Gigaset remains true to its customary high standards. Design, finish, technology and user experience – all that is embodied in Gigaset's pledge of quality, which sets the bar for every new Gigaset product. The latest new products – the Gigaset C530 and Gigaset C430 – and the Gigaset Dune prove that the effort is worthwhile: All of them have captured the Plus X Award, and the innovative Gigaset Dune was even chosen as "Best Product of 2014" in the fixed-network telephony segment. Back in February of this year, the Gigaset A540 and the Gigaset Maxwell won Red Dot Design Awards. In addition, the Gigaset AS405, the Gigaset A415 and, yet again, the Gigaset Maxwell likewise picked up iF Product Design Awards.

Legal action against two resolutions adopte by the extraordinary general meeting

On January 21, 2014, the shareholder Ludic GmbH filed legal action against two resolutions adopted by the extraordinary general meeting on December 19, 2013. The action was raised against the resolutions adopted under agenda items 2 (Authorized capital) and 3 (Authorization of the Executive Board to issue warrant-linked bonds and/or convertible bonds, Contingent Capital 2013). The plaintiff has asked for the resolutions listed above to be declared partly, or alternatively fully, null and void. The action was filed on February 17, 2014 and is being handled by the Munich District Court I (Chamber for Commercial Matters) under file reference 5 HKO 1196/14. The Court has first ordered written preliminary proceedings. A date for the oral proceedings has not yet been set. Gigaset considers the legal action to be manifestly inadmissible and manifestly without merit, and consequently filed a release request pursuant to Section 246a AktG against Ludic GmbH on February 28, 2014. The Higher Regional Court of Munich upheld the release request by way of a non-appealable resolution dated April 2, 2014 and ruled that the legal action filed by the shareholder Ludic GmbH did not prevent the amendments to the Articles of Association approved by the general meeting being filed in the Commercial Register. Consequently, the legal action has no impact on any potential implementation in the meantime of the resolutions adopted by the general meeting, even if it should, contrary to expectations, be successful.

Gigaset decides to issue new shares and convertible bonds with subscription rights

On June 25, 2014, Gigaset AG decided to increase its share capital by way of a rights issue and to issue a further convertible bond.

To this end, the Executive Board of Gigaset AG decided, with the approval of the Supervisory Board, to increase the company's capital stock by EUR 25,051,279.00 by issuing 25,051,279 no par bearer shares against cash contributions, by making use of part of the approved capital increase, corresponding to around 26% of the current capital stock. The subscription price for each new share is EUR 1.00. Furthermore, the Executive Board of Gigaset AG decided, with the approval of the Supervisory Board, to issue convertible bonds. These mature in 2016 and are divided into 9,476,877 bearer bonds with equal rights. They each have a face value of EUR 1.00 and are convertible into no-par bearer shares of the company with an imputed share of the capital stock of EUR 1.00 per no par share.

Combined Management Report as of June 30, 2014

1 Business Model

Gigaset AG is a global operating group with activities in the field of telecommunications. Based in Munich, with a product center in Düsseldorf and its main production facility in Bocholt, the company is, based on total sales, the leading brand in western Europe with the cordless telephones based on the DEC standard that it develops and manufactures. Measured by base stations sold, Gigaset ranks in second place worldwide. The premium vendor has a market presence in some 70 countries and has around 1,400 employees.

The Group covers a broad market base across its various divisions: Consumer Products, Business Customers, Home Networks ("Gigaset elements"), and Mobile Products. The Gigaset brand stands for high quality, future-looking products for the telecommunications segment.

The Gigaset Group is divided globally into regional segments. Most of its revenues are generated in Europe, especially Germany and France. The vast majority of total revenues come from the Consumer Products division and hence the cordless voice business. Gigaset markets its products through both a direct and an indirect distribution structure.

1.1 Consumer Products

Gigaset is the European market, technology and innovation leader in DECT telephony. The abbreviation DECT 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 and technology leader for DECT telephony in Europe. A high level of market penetration 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. Most of its proprietary products are manufactured in the highly automated Bocholt plant, which has won several awards.

1.2 Business Customers

With the “Gigaset pro” product line (pro = professional), the Business Customers division has created an attractive range of corded phones, telephone systems (private branch exchanges (PBX)), professional DECT systems, and handsets for small and medium-sized enterprises. These telephone systems distributed by the company are based on the Session Initiation Protocol (SIP), a network protocol for creating, managing, and terminating a communication session. SIP is one of several possible internet protocols for voice transmission. The constantly growing portfolio of Gigaset pro products is geared to the needs of the SME segment. The pro series provides the kind of versatility and reliability that commercial users need in their day-to-day operations. These devices are designed to be easy to install and manage. Due to the level of advice required for commercial products, Gigaset only distributes the pro line through value-added resellers (VARs).

Gigaset has greatly expanded its product range with Gigaset pro, enabling it to tap new customer groups. The company now 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

In 2013, Gigaset launched a modular, sensor-based “connected living” system for private households. “Gigaset elements” enables the user to maintain a permanent connection to Gigaset modules in their home by smartphone. The starter kit makes it possible for the user to react immediately to unforeseen events. The portfolio of sensors is continually being expanded. A supplementary alarm and a window sensor are now also available with the starter kit. Additional applications for issues such as energy or assistance for the elderly are slated to follow.

1.4 Mobile Products

In addition, Gigaset successfully rolled out an initial portfolio of tablets on the market in December 2013. The current models, the QV830 and the QV1030, are based on Android, the most widely used operating system in the world. Furthermore, Gigaset is planning to roll out a portfolio of smartphones as soon as possible to round out the Mobile Products segment.

2 Market and Industry Environment

2.1 General Economic Environment

The German economy made a good start to 2014. The Federal Ministry of Finance believes that investment will pick up even more pace as the year wears on and the economic upturn will continue during the rest of the year. The reasons for this are the improved underlying conditions, including cheap finance options, better sales prospects and the strong profits being recorded by companies. The Ifo Institute also raised its forecast for German economic growth to 2% for the present year and 2.2% for 2015.

The GfK Consumer Climate Index remains at a high level, meaning that consumer confidence was much higher than in the equivalent quarter last year. Consumer confidence for July climbed again, to 8.9 points. So it came as some surprise that the Business Climate Index turned down in June, falling to 109.7 points, its lowest level of the year.[1]

The whole eurozone is also picking up momentum, according to the economic experts. Gross domestic product (GDP) is expected to have increased by 0.3% in the second quarter, after 0.2% at the start of the year, as the Munich-based Ifo Institute, France's Insee and Italy's Istat report in their forecast. Growth is predicted to remain at this level in the third and fourth quarters. Accelerating domestic demand is the main factor providing momentum, with private investment likely to pick up appreciably. In contrast, consumers are not expected to increase their spending.

In contrast, the US economy has suffered badly since the start of the year. Between January and March, economic output in the world's biggest economy declined by 2.9% on an annualized basis. There have, however, been signs of a strong rebound in the US economy since the spring. The economic data have proven better than expected,[2] with the labor market picking up more momentum. As service provider ADP reported, employment in the private sector rose by 281,000 in June of this year. This is the fastest growth since November 2012 and much more than bank economists had predicted. This is set against the fact that new orders to US industry fell in May.[3]

2.2 Telecommunications Market

2.2.1 Consumer Products market

The European market for cordless telephones continued to contract tangibly last year in terms of both revenues and units sold. The global financial and sovereign debt crisis dampened the consumer climate in southern and eastern Europe in particular. The ongoing preference of people to opt for smartphones over fixed-line phones, known as mobile replacement, further reinforced this trend, especially in the relatively saturated European markets. In terms of revenues, the total market for cordless telephones in Europe declined by nearly 13% in the period from April to June 2014 in the markets watched by Gigaset. This picture was repeated across almost all of the markets analyzed. At the same time, Gigaset succeeded in increasing its market share in Europe by 1% point year-on-year in terms of units sold.[4] The market trend in western Europe points toward further consolidation coupled with slowly declining prices overall. The largest European markets are found in Germany, France and the UK. Today, the three biggest competitors under

1. Equinet Bank AG Monthly Report, June 2014
2. dpa http://www.wn.de/Welt/Wirtschaft/1622302-Konjunktur-US-Wirtschaft-bricht-staerker-ein-als-erwartet
3. dpa-afx: http://www.finanztreff.de/news/dpa-afx-ueberblick-konjunktur-vom-02072014---1700-uhr/9869923
4. The data are taken from surveys of the retail panel for cordless telephones of GfK Retail and Technology GmbH in Belgium, Germany, France, the UK, Italy, the Netherlands, Austria, Poland, Switzerland, Spain, Russia, and Turkey. Survey period: January/April to March/June 2014; Basis GfK Panel Market.

the leadership of Gigaset already account for around two-thirds of the total volume. So-called B brands, which are located in lower price segments, cheap brands and local vendors are continuing to lose market share.[5]

2.2.2 Business Customers market

The European telecommunications market for business customers has declined significantly in the quarterly comparison of first quarter 2013 to first quarter 2014. The total number of new ports installed in Europe has dropped by around 4.6%. The number of on the Voice-over-Internet-protocol (VoIP) based connections installed in Europe has also dropped by 4.6% of approximately 1.8 million installed connections in the first quarter of the last year to about 1.7 million in the first quarter of 2014.[6]

2.2.3 Home Networks market

The market for smart home systems & services (SHSS) in western Europe is considered highly promising. The number of smart home households is predicted to rise from around 14 million at the start of 2014 to approximately 20 million by the end of 2014 and around 41 million by the end of 2018. Since the DECT ULE standard is being employed by an increasing number of western European vendors in the smart home sector, the market research institute Strategy Analytics expects revenues in this segment to increase more than fivefold in western Europe between 2015 and 2018.

Strategy Analytics[7] estimates that around 8% of households can now be described as "smart" at the end of 2013. Revenues in this segment are projected to rise from USD 4.5 billion in 2012 and USD 6.6 billion in 2013 to USD 14 billion in 2018. In Germany alone, the market is anticipated to expand from USD 1.6 billion in 2013 to USD 3.2 billion in 2018.[8] By 2018, 25% of German households are expected to have at least one type of smart home system installed.

The added value experienced by the resident and the gain in quality of life are important factors in the acceptance of devices and services for intelligent living. Key roles in this regard are played by plug-&-play capability, reliability and ease of operation.

Since new-build homes in Germany are practically non-existent compared with the stock of older properties, the market in Germany can be conquered with affordable, cable-free upgrade packages for existing buildings in particular. Consumer surveys indicate that additional spending on smart home solutions is certainly acceptable for around 15% of respondents.[9]

2.3 Mobile Products

Strategy Analytics expects to see growth of around 10% in the second quarter of 2014 compared with the equivalent quarter last year. The main reasons behind the ongoing consumer demand for tablets are ease of use, convenience and the wide range of possible uses. Tablets are also becoming increasingly popular in business settings on account of greater acceptance of the form factor and current trends like BYOD ("bring your own device").

With regard to the similarly important product feature of screen size, users are increasingly preferring 8" over 7" tablets and larger screen sizes.[10]

5. MZA Shipment Review 1H 2013 – published September 2013
6. MZA PBX/IP PBX - Quarterly Reporting - Q1 2014
7. Smart Home Systems and Service Forecast Western Europe, July 2013
8. Smart Home Systems and Service Forecast Germany, June 2013
9. electroboerse – smarthouse.de, July 16, 2013
10. Source: Strategy Analytics, July 2014

3 Business Performance

3.1 Consumer Products

The goals of Gigaset's sales strategy are to defend the price premium enjoyed by the Gigaset brand on the market and to increase market share in Europe. Gigaset once again defended its strong position against its competitors in its core markets in a difficult environment for retailers and operators overall. This success was aided in particular by participating in large-scale invitations to tender on the part of retailers and telecommunication providers. The company's performance varied depending on the region and country. All in all, Gigaset succeeded in maintaining its leading market position in Europe and Germany in terms of units sold.[11]

Numerous design awards in recent years are testimony to the fact that Gigaset has constantly led the way across sectors in this field. More than 20 products have captured iF Awards, Red Dots, Good Design Awards and other prestigious prizes for design since 2010. The high quality of its products and design is again bearing fruit in 2014, with Gigaset already picking up nine awards so far this year.

The new Gigaset C530 and Gigaset C430 products and the Gigaset Dune have captured Plus X Awards, and the innovative Dune has also been chosen as Best Product of 2014 in the fixed-network telephony segment. In addition, Gigaset has been named the "most innovative brand" overall.

Gigaset announced the GigasetGo application as a step on the way to forming Gigaset's own ecosystem, which is intended to connect Gigaset's entire hardware portfolio together via the cloud in future. The goal is to facilitate smooth, automatic data exchange between different Gigaset devices. The new ContactsPush app represents a first move in this direction. It enables the simple transfer of contacts from smartphone to landline handsets operated on IP base stations. The app is compatible with Android (4.x and above) and iOS devices (6.x and above) and has been available free of charge from the Google Play Store™ or Apple App Store™ since May.

To make its innovative products available to as broad a public as possible, Gigaset is constantly accessing new distribution channels. In one move, Gigaset is participating in the new "technical department store" concept being rolled out by DIY chain OBI. As part of the field trial, Gigaset cordless phones can now be obtained from five selected OBI stores. OBI is Germany's leading building and home-improvement chain and also one of the top names in this field in Europe.

3.2 Business Customers

The revenues of the Business Customers segment increased by 8% in the second quarter of 2014 compared with the equivalent quarter last year. For the most part, this can be attributed to activities involving the Gigaset pro brand, which expanded by 19%. On the product side, the DECT multi-cell system N720 IP Pro experienced strong growth, while operations involving customer-specific products remained constant. From a regional perspective, the business unit expanded mainly in the Netherlands, Italy, and the UK.

11. The data are taken from surveys of the retail panel for cordless telephones of GfK Retail and Technology GmbH in Belgium, Germany, France, the UK, Italy, the Netherlands, Austria, Poland, Switzerland, Spain, Russia, and Turkey. Survey period: January/April to March/June 2014; Basis GfK Panel Market.

The Maxwell, our flagship product based on the Android operating system which is scheduled to be rolled out in the middle of the year, has been certified for access to the Google Play Store™. This makes it especially easy and secure to install applications from third party providers, such as video applications or enhanced collaboration tools. Furthermore, Spain's Melco Business Club has named the Maxwell best product in the category "Telecoms and Accessory."

The Hybird 120 Gigaset Edition telephone system marketed jointly with the partner bintec elmeg has now also been rolled out in the Netherlands, Austria, Switzerland, Spain, Portugal and the UK following on from France, and is expected to help boost revenues.

More money was also invested in the expansion of the indirect distribution model for Gigaset pro. This included the launch of a campaign to acquire new distribution partners in the UK during the second quarter of the year. Gigaset expects that this will yield a further increase in the business volume in the medium term.

3.3 Home Networks

Gigaset started selling „Gigaset elements" starter kits through the German retail network and online in Germany in September 2013 and shortly thereafter also in France. Gigaset has a particularly dense sales network in France. The system has also been available in Switzerland, Austria, the Netherlands, and Sweden since April of this year.

In order to boost sales of „Gigaset elements" in Germany, the product was marketed for the first time exclusively through the Tchibo online store (www.tchibo.de) as part of Tchibo's "Mobile Technik 2014" campaign. The package encompassed a bundle comprising the starter kit together with the "siren" alarm that is normally sold separately. The special offer made „Gigaset elements" accessible to a broad customer group, as Tchibo's online distribution channel has one of the widest reaches of any such channel in Germany.

In May 2014, „Gigaset elements" was voted Product of the Year in the Smart Home category by the readers of Europe's biggest journal for the telecommunications trade, connect, as part of its Community Awards 2014.

The starter kit forms the foundation for the multifaceted possibilities of „Gigaset elements". It consists of two intelligent DECT ULE-based sensors – a door sensor and a motion detector – as well as a base station and an app for smartphones. „Gigaset elements" is supported by an intelligent, adaptable and secure cloud that acts as an interface between home and smartphone. The system can be expanded on a modular basis. An alarm is also available together with door and window sensors. A camera is to be rolled out shortly as a further element of the system.

Furthermore, the market launch of an intelligent socket and an intelligent smoke detector is also planned for the current year. The central software platform of the cloud will similarly be kitted out successively with new functionalities. To enable new segments to be addressed, Gigaset is relying in the cloud upon machine learning and open interfaces (APIs) that make it easier for partners to connect devices and services. This is intended to make „Gigaset elements" even more attractive overall.

3.4 Mobile Products

In December 2013, Gigaset entered the expanding market for tablets with two Android-based models in 8" and 10.1" format. This represented the next step in the implementation of the Gigaset 2015 strategy. The market roll-out focused first on Germany, although distribution of the tablets was also expanded successively to other European countries.

Gigaset entered into a media cooperation arrangement with Ferrero with a view to actively promoting sales of the QV830 and QV1030 tablet models several months after the product launch. In the "Kinder Schokolade" project, numerous new contact points were set up in popular media and on portals with a wide reach, serving to reinforce sales alongside the ongoing press promotions. Gigaset is currently working on the development of a smartphone portfolio to be created in collaboration with Goldin Fund Pte. Ltd., Singapore.

4 The Gigaset Share

The decision taken in June by the European Central Bank (ECB) to lower its benchmark rate to 0.15% dominated happenings on the stock markets in the second quarter of 2014. Moreover, the ECB introduced a negative interest rate for bank deposits for the first time. These decisions led to historical highs in the DAX, Dow Jones and S&P 500 indexes. For the first time ever, the DAX broke the magic barrier of 10,000 points. These highs can, however, be attributed primarily to the lack of alternative investments. Moreover, these decisions covered over the negative effects of the political hotspots in Ukraine, Iraq and Syria which had previously roiled the markets. Despite the nervous environment, the Gigaset share tended to move sideways above the mark of EUR 0.965 at the start of the second quarter. In May, price movements were more volatile, with the share breaking the EUR 1.00 barrier, at EUR 1.03, for the first time since the beginning of February. Starting May 19, the EUR 1.00 mark again acted as a real barrier that was not exceeded again until June 11. After this, the share once more took its cue from the 38-day line. Although the announcement of the planned issue of new shares and a convertible bond on June 25 sparked the highest daily Xetra volume in June, the share price barely moved at all, remaining stuck at EUR 1.00. In a generally bear market, the Gigaset share was inconsistent during the last trading days of the quarter, although the closing price of EUR 1.00 did still represent a premium of 0.91%[12] on a month-on-month basis.

12. Equinet Bank AG Monthly Report, June 2014

5 Financial Performance, Cash Flows and Financial Position

5.1 Financial Performance

The Gigaset Group generated **sales revenue** in the amount of EUR 147.0 million (previous year: EUR 187.4 million) in the first six months of fiscal year 2014. After the sale of the SM Electronic Group in December 2013, no more sales revenue can be attributed to discontinued operations (previous year: EUR 3.8 million). Sales revenues from continuing operations result from the core Gigaset segment and are subject to the typical seasonal fluctuations in the consumer business. The results as of June 30, 2013, were not repeated in the first half of 2014. The 21.6% year-on-year decrease in sales revenue can be explained in particular by the declining market in the core business Consumer Products. Sales revenue in Europe fell by 13.9% to EUR 138.5 million compared to the first half of 2013 due to the declining market. The decrease in sales revenue in the Americas was due in particular to restrictive import regulations and the negative exchange rate trend in Argentina as well as the change in the distribution model in the USA, Brazil, and Argentina. Sales revenue in the Asia-Pacific/Middle East region also declined. In particular, the change in the distribution model in the United Arab Emirates and the political unrest in the Middle East are responsible for this development.

The results can be broken down as follows:

Sales revenue in € millions	Q2 2014	Q2 2013	Change
Europe	138.5	160.9	-13.9%
America	1.9	12.5	-84.8%
Asia-Pacific / Middle East	6.6	10.2	-35.3%
Gigaset Total	147.0	183.6	-19.9%
Other	0.0	3.8	-100.0%
Total	**147.0**	**187.4**	**-21.6%**
of which continuing operations	147.0	183.6	19.9%
of which discontinued operations	0.0	3.8	-100.0%

Other own work capitalized in the amount of EUR 5.7 million (previous year: EUR 10.9 million) mainly includes costs related to the development of innovative products. The investments decreased by nearly 50% year-on-year, in some cases due to postponements that will be made up in the course of 2014 due to delays in planned projects.

Other operating income amounts to EUR 7.6 million and is thus EUR 6.5 million lower than in the second quarter of 2013. The main items include exchange rate gains in the amount of EUR 2.4 million (previous year: EUR 4.1 million), income from the reversal of other value adjustments and the derecognition of liabilities in the amount of EUR 2.3 million (previous year: EUR 4.1 million), income from derivative financial instruments in the amount of EUR 0.7 million (previous year: EUR 0.7 million), and income from the release of provisions in the amount of EUR 0.4 million (previous year: EUR 3.4 million).

The **cost of materials** for raw materials, merchandise, finished goods and purchased services was EUR 68.8 million – a decrease of EUR 17.9 million from EUR 86.7 million in the previous year. The cost of materials rate fell from 50.8% to 47.2%, including changes in inventories. This can be attributed mainly to the decrease in sales revenue and the USD exchange rate trend.

Personnel expenses for wages, salaries, social security contributions and old age pensions were EUR 49.7 million and were thus down 6.9% from the previous year's amount of EUR 53.3 million for the second quarter. The decrease reflects in particular the restructuring program that was initiated in fiscal year 2012 and continued in stages in fiscal year 2013. These positive effects were partially weakened by higher expenses for variable remuneration payments and by severance payments in connection with the further reduction in staff.

Other operating expenses in the amount of EUR 38.6 million were incurred in the reporting period (previous year: EUR 55.0 million). This includes marketing costs, general administrative expenses, and exchange rate losses (EUR 4.0 million; previous year: EUR 5.4 million) as well as transport costs and advisory fees. The successfully executed cost-savings program is reflected in lower Other operating expenses.

EBITDA as of June 30, 2014, amounts to EUR 2.6 million (previous year: EUR 8.9 million).

The results can be broken down as follows:

EBITDA in € millions	Q2 2014	Q2 2013	Change
Europe	8.0	12.6	-36.5%
America	-0.9	0.9	-200.0%
Asia-Pacific / Middle East	0.1	-1.7	105.9%
Gigaset Total	7.2	11.8	-39.0%
Holding	-4.6	-0.8	-475.0%
Other	0.0	-2.1	100.0%
Total	**2.6**	**8.9**	**-70.8%**
of which continuing operations	2.6	11.0	-76.4%
of which discontinued operations	0.0	-2.1	-100.0%

Depreciation and amortization in the current reporting period amounted to EUR 12.2 million (previous year: EUR 13.5 million) and result entirely from continuing operations. The previous year's impairment losses amounting to EUR 1.5 million represent impairment reversals on assets held for sale at SM Electronic GmbH that resulted from the measurement at net realizable value less costs to sell the disposal group as well as the disposal group's associated liabilities.

EBIT can be broken down as follows:

EBIT in € millions	Q2 2014	Q2 2013	Change
Europe	-4.2	-0.9	-366.7%
America	-0.9	0.9	-200.0%
Asia-Pacific / Middle East	0.1	-1.7	105.9%
Gigaset Total	-5.0	-1.7	-194.1%
Holding	-4.6	-0.8	-475.0%
Other	0.0	-0.6	100.0%
Total	**-9.6**	**-3.1**	**-209.7%**
of which continuing operations	-9.6	-2.5	-284.0%
of which discontinued operations	0.0	-0.6	100.0%

Compared to the previous year, **net financial income** decreased from EUR -1.3 million to EUR -1.6 million. In addition to interest and similar expenses for the syndicated loan and the factoring, which only improved marginally from EUR -1.3 million to EUR -1.4 million compared to the first half of 2013, a result from financial assets measured based on the equity method was recognized in the amount of EUR -0.3 million (previous year: EUR 0 million). These financial assets represent ownership interest in Gigaset Mobile Pte.Ltd., Singapore, which is now included in the Gigaset Group using equity method accounting due to a shift in controlling interests in the first quarter of 2014.

The **consolidated net loss for the fiscal year** after non-controlling interests amounts to EUR 10.9 million as of June 30, 2014, and can be mainly attributed to the negative EBIT in the amount of EUR 9.6 million, which was also impacted by the net loss with respect to the financial result amounting to EUR 1.6 million. This was partially offset by positive income taxes in the amount of EUR 0.3 million. In the second quarter of 2013, a consolidated net loss after non-controlling interests was generated in the amount of EUR 13.3 million.

This results in **earnings per share** of EUR -0.11 (previous year: EUR -0.26).

5.2 Cash Flows

Cash flows in € million	Q2 2014	Q2 2013
Cash flow from operating activities	-7.4	-31.4
Cash flow from investing activities	-19.5	-4.1
Free cash flow	-26.9	-35.5
Cash flow from financing activities	-2.3	0.1

In the previous fiscal year, the Gigaset Group recorded a **cash outflow from continuing operations** of EUR -7.4 million (previous year: EUR -31.4 million). The cash outflow typical for the first half of the year is characterized by the seasonal business. The decrease in cash resources is greatest in the first quarter due to the repayment of liabilities to suppliers resulting from the Christmas shopping season, whereas cash requirements are lower in the second quarter. Net cash inflows are traditionally generated in the second half of the year during the Christmas shopping season. The outflow of cash resources from continuing operations, which is considerably lower than in the first half of the previous year, can be explained in particular by the higher cash inflow from trade receivables and other assets as well as by the lower cash outflow from trade payables and other provisions.

Cash outflow from investing activities amounts to EUR -19.5 million and thus clearly exceeds the previous year's level of EUR -4.1 million. Whereas all cash payments in the second quarter of the previous year were utilized for investments in non-current assets, cash payments for non-current assets in the current fiscal period decreased to EUR 1.4 million. The majority of the cash outflow from investing activities comprises the cash resources disbursed on the part of Gigaset Mobile Pte. Ltd., Singapore, in the amount of EUR 18.0 million in connection with the transitional consolidation to equity method accounting.

Thus, **free cash flow** amounted to EUR -26.9 million compared to EUR -35.5 million in the second quarter of 2013.

The **cash inflow from financing activities** amounts to EUR -2.3 million as of June 30, 2014 (previous year: EUR 0.1 million). The cash inflow from the capital measures announced on June 25 and executed in July 2014 will be reflected in the cash flow statement in the third quarter of 2014.

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

The cash flow attributable to discontinued operations amounted to EUR 0.0 million (previous year: EUR 0.9 million) and is presented in detail in the notes. Furthermore, the cash flow includes changes in exchange rates in the amount of EUR -0.4 million (previous year: EUR -0.4 million).

Cash and cash equivalents amounted to EUR 27.4 million as of June 30, 2014 (previous year: EUR 18.9 million).

5.3 Financial Position

The Gigaset Group's **total assets** as of June 30, 2014, amounted to around EUR 237.2 million and thus decreased by approximately 11.2% compared to December 31, 2013.

Non-current assets increased slightly by EUR 16.0 million to EUR 117.8 million compared to December 31, 2013. The increase can be attributed mainly to the addition of equity interest in the amount of EUR 17.9 million (previous year: EUR 0.0 million) accounted for using the equity method that was classified as a consolidated subsidiary as of

December 31, 2013. Due to the loss of control in the first quarter of 2014, the investment in Gigaset Mobile Pte. Ltd., Singapore, was deconsolidated and included in the consolidated financial statements using equity method accounting as a result of the significant influence. Depreciation and the disposals from property, plant and equipment exceeded the investments in property, plant and equipment; as a result, property, plant and equipment decreased by a total of EUR 3.1 million to EUR 36.5 million. A decrease of EUR 2.1 million to EUR 43.4 million was also recorded for intangible assets.

Current assets account for 50.3% of total assets. Compared to the 2013 annual financial statements, they fell by EUR 46.0 million and now amount to EUR 119.4 million. The Company has adapted to the lower overall market by means of active working capital management with a decrease in inventories from EUR 27.5 million to EUR 24.5 million. Trade receivables decreased by EUR 6.3 million to EUR 43.9 million, which can be attributed mainly to the lower sales revenue in the second quarter and a round of factoring that was postponed at the beginning of the year due to the Christmas holidays. A considerable decrease was also recorded for other assets as well as cash and cash equivalents. The decrease in other assets amounts to EUR 6.6 million and results in particular from a EUR 8.4 million decrease in factoring receivables and an increase in receivables from associated companies in the amount of EUR 1.9 million. The portfolio of cash and cash equivalents has decreased since the beginning of the year from EUR 57.0 million to EUR 27.4 million. A detailed development of cash and cash equivalents is presented in the statement of cash flows in the notes.

Total liabilities amount to EUR 214.2 million, 56.8% of which are current. The Group's total debt was reduced by an additional EUR 14.2 million in the current fiscal year following the significant reduction of debt in the preceding fiscal years.

The Gigaset Group's **equity** amounted to around EUR 23.0 million as of June 30, 2014, and is EUR 15.7 million lower than at the beginning of the year. Correspondingly, equity as a percentage of assets amounts to 9.7% compared to 14.5% as of December 31, 2013. This is reflected in particular in the net loss for the fiscal year of EUR 10.9 million and the remeasurement effects from defined benefit plans in the amount of EUR 4.4 million. The statement of changes in consolidated equity includes a detailed presentation of the development of consolidated equity.

Non-current liabilities mainly include pension deferred tax liabilities, pension obligations, deferred tax liabilities, and long-term provisions for personnel expenses as well as provisions for guarantees. The EUR 8.3 million increase in non-current liabilities resulted mainly from the increase in pension provisions, which increased correspondingly due to a decrease in the discount rate from 3.40% as of December 31, 2013, to 2.95% as of June 30, 2014

At EUR 134.8 million, **current liabilities** are around 14.3% lower than reported in the annual financial statements as of December 31, 2013. Current provisions decreased by EUR 1.4 million to EUR 30.1 million mainly due to the utilization of restructuring provisions in the amount of EUR 1.3 million. Current financial liabilities decreased by EUR 2.3 million and result primarily from the partial repayment of the syndicated loan in the amount of EUR 10.0 million while simultaneously raising a loan in the amount of EUR 8.0 million from the associated company Gigaset Mobile Pte. Ltd., Singapore. The excess redemption amount of EUR 2.0 million was generated from Gigaset's operating cash flow. Trade payables decreased seasonally from EUR 71.5 million to EUR 52.7 million.

6 Opportunities and Risk Report as of June 30, 2014

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

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

Potential impact on earnings based on expected values	Risk assesment
< EUR 1.0 million	*
> EUR 1,0 million ≤ EUR 5.0 million	**
> EUR 5.0 million	***

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

Category / Sub-Category	Risk assesment
Market related risks	
Economic development | Industry | competition	***
Products | patents | certifikates	**
Legal framework	*
Customers	**
Financial risks	
Liquidity	***
Tax risks	***
Contingent liabilities	
Guarantees | contingent liabilities	**
Legal disputes	**

6.1 Market-related risk

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

Industry risks are risks that affect a certain market or a certain manufacturing sector. As a result of the concentration on the area of telecommunications and accessories, there is a special dependency on the development in this industry, whereby Gigaset is exposed to intense competition. Generally, there are also dependencies here on the development of commodities prices and the risk of the entry of new, aggressive competitors. Furthermore Gigaset is subject to the influence of a change in consumer behavior in the area of telecommunications and information. More and more landlines are being replaced by cell phone connections, depending on the rate plans offered by network operators. The increased use of multifunctional smartphones is also leading to a change in consumer behavior. With the Company's entry in the tablet business, Gigaset is committing to marketing a new product group. This market entry is fraught with risks, as Gigaset is a new competitor on an existing market.

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 entry into the segment for tablets is fraught with the same risks that are always associated with entry into a new market. In particular, there is a risk that the new products will not achieve the desired level of acceptance on the market, that the new market participant is no match for the competitive pressure of established market participants, or that the existing sales organization is either not capable of launching the product on the market or not capable of doing so as expected.

Due to the declining market trend of DECT telephones in some target markets, there is a basic risk of general price decline for the product range as well as decreasing market volume. This is being countered with consistent cost management and an innovative product portfolio in a repeatedly 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.

Due to potential import restrictions as well as inflation and exchange rate risks, Gigaset is reviewing its market development strategies in overseas countries and is undertaking corresponding preparations.

6.2 Entrepreneurial opportunities

The Company sees entrepreneurial opportunities in the new Mobile Products segment. Gigaset began marketing the first devices in the previous fiscal year and also plans to launch additional new products on the market in the future. The high brand awareness and trust in the brand name as well as distribution access to the most important target markets are a good starting position. The tablet market will continue to grow at double-digit percentage rates on the basis of unit volume over the next few years.[13] The solid presence in local markets can help Gigaset take over a permanent share of the market.

13. Strategy Analytics, May 2014

From the Company's point of view, there are additional entrepreneurial opportunities in the Business Customers segment and Gigaset pro product portfolio. In addition to the traditional consumer segment, the Company is addressing an additional customer segment, "Small Offices and Home Offices" (in short: SOHO), with Gigaset pro and is developing the corresponding sales potential. The corresponding organizational adjustments have already been implemented. In the meantime, Gigaset pro is becoming an increasingly important pillar of the Gigaset Group.

With its new Home Networks segment, Gigaset introduced a modular, intelligent system named "Gigaset elements" to the market. The products and services initially cover the area of security solutions in private homes and is to be expanded later to energy management and other areas.

In addition, the Company sees further opportunities in the better development of regional markets using the established Gigaset brand and existing worldwide distribution network. Gigaset has the corresponding know-how to meet the market's increasing technical requirements in the area of research & development and launch product innovations in the market.

The targeted expansion of the market presence by offering new products and solutions is a central requirement for participating in future growth potential. The Group conducted a comprehensive analysis of the market opportunities in the first half of fiscal year 2014 and has already implemented corresponding measures targeted to bolster 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.

6.3 Company-specific risk

6.3.1 Information systems and reporting structure

Reliable and consistent information systems and reporting structures capable of providing useful information are necessary in order to monitor and manage the Group and the development of subsidiaries. Gigaset has a professional bookkeeping, controlling, information, and risk management system at its disposal and has established a company-wide, regular subsidiary controlling and risk management system. 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, it cannot be ruled out that the information system can fail in individual cases or that it may not be operated correctly by the relevant employees and therefore negative economic developments in a region are not reported promptly.

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

6.3.2 Other company-specific risk

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

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

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

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

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

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

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

There is a risk of default for existing receivables on the part of individual Gigaset companies from Group companies if the debtor company cannot repay the debt. With the exception of important facts and circumstances listed under "Risks from contingent liabilities and legal disputes" in Section 6, there are no identifiable facts or circumstances that could lead to Gigaset AG having to pay for liabilities on the part of subsidiaries.

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

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

6.4 Financial risk

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

6.4.1 Liquidity of the Gigaset Group

Operations are financed both through own funds as well as through working capital lines of credit under a syndicated loan agreement.

As a result of the capital measures executed in October 2013, the Company's liquidity requirements have relaxed for a short time. Since the original syndicated loan agreement provided the lending banks with the right to call in the loan if a shareholder holds or executes more than 30% of the voting rights of the Company or can control the Gigaset Group's corporate policies by other means, there was a special right to call in the loan due to the shareholding of Goldin Fund Pte. Ltd., Singapore. The lending banks exercised this right on December 20, 2013. In connection with the subscription rights issue in October 2013 and conversion of convertible bonds, the Company notified the lending banks on November 19, 2013, of a change in control as defined in the syndicated loan agreement as a result of the investment made by Goldin Fund Pte. Ltd., Singapore. On December 29, 2013, the syndicating banks each subsequently notified the Company that the individual tranches would be called in as of April 30, 2014, without terminating the agreement. Repayment was initially deferred until May 30, 2014. The Company repaid EUR 10.0 million of the syndicated loan on May 30, 2014. The associated company Gigaset Mobile Pte. Ltd., Singapore, extended a loan in the amount of EUR 8.0 million to Gigaset AG to finance the partial repayment. Gigaset Communications GmbH was able to generate an additional EUR 2.0 million from its operating cash flow and use it for the repayment.

The repayment was subsequently deferred until July 31, 2014, with the further requirement that an additional EUR 3.0 million be repaid on July 7, 2014, after which there would be a need to fund the EUR 17.2 million owed to the syndicating banks as of July 31, 2014. In addition, the Company has a loan commitment to the associated company Gigaset Mobile Pte. Ltd., Singapore, in the amount of EUR 8.0 million. The Company intends to repay the syndicated loan and the loan commitment by issuing new shares and a convertible bond with subscription rights.

Please refer to our comments under "Events after the reporting date" in Section 7 and in the notes to the financial statements regarding related developments that took place after the reporting date June 30, 2014.

The Group could be jeopardized as a going concern if additional liquidity cannot be procured or measures intended to cover liquidity cannot be implemented as planned, in particular in an evolving economic environment.

The factoring of trade receivables begun on October 1, 2008, will continue to be used as a short-term financing instrument and has been expanded to additional countries.

6.4.2 Debt and liquidity of Gigaset AG

The syndicated loan raised in January 2012 was largely used to finance the Gigaset Group's working capital needs. As a result of the implementation of actions taken to repay the syndicated loan described in Section 6.4.1 "Liquidity of the Gigaset Group", Gigaset AG will be free from liabilities to banks.

6.4.3 Interest rate, currency, and liquidity risks

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

In the Gigaset Group, income arises and expenses are also incurred in foreign currencies, e.g. for the procurement of numerous components for production that are paid for in U.S. dollars. As a rule, the associated currency risk is hedged by financing international activities in matching currencies or in individual cases 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 is financially dependent on the currently available terms and conditions.

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

6.5 Tax risk

6.5.1 Tax risk in Gigaset AG

Gigaset AG receives tax advice on an ongoing basis in order to identify any risks in advance.

The following topics in particular are currently being discussed with the tax authorities at Gigaset AG 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.

As a result of the change in control (change of control clause) due to the investment made by Goldin Fund Pte. Ltd., Singapore, the tax loss on the part of Gigaset AG – and thus the possibility of offsetting future profits with losses – was completely forfeited. Thus, the full amount of Gigaset AG's future taxable profits will lead to a tax expense.

6.5.2 Other risks in the Gigaset Group

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

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

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

6.6 Risks from contingent liabilities and legal disputes

6.6.1 Guarantees on the part of the parent company

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

6.6.2 Legal disputes involving Gigaset AG

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

Cartel cases involving SKW:

In its decision handed down on January 23, 2014, the European court of first instance (European General Court) partially upheld the action brought by Gigaset AG (formerly: ARQUES Industries AG) against the fine imposed by the European Commission in the cartel case involving SKW and reduced Gigaset AG's administrative fine by EUR 1.0 million. The action was otherwise dismissed.

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

Gigaset AG provisionally paid an amount of EUR 6.65 million to the European Commission toward the fine in the years 2009 to 2010 (i.e. for the duration of the appeal) while simultaneously defending itself against the fine by filing a suit. The court of first instance has given a final judgment in respect of this action. The action brought by SKW was refused, i.e. the administrative fine imposed on it was not reduced. SKW has filed an appeal against this judgment. Based on a preliminary legal assessment, Gigaset AG expects a portion of the fine that has already been paid to be reimbursed as a result of the judgment.

Parallel to the legal dispute that has been decided, Gigaset AG filed a suit against SKW in a civil court on the grounds that SKW alone should bear the administrative fine as the originator of the cartel and consequently should reimburse Gigaset AG for the administrative fine it has already paid on a pro rata basis. Gigaset continues to hold the view that, as a direct participant in the cartel, SKW alone should bear the cost of the fine internally.

Evonik in the matter of Oxxynova:

Evonik Degussa GmbH demanded that the Company pay a purchase price adjustment of EUR 12.0 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 a written statement of the case as well as in the oral proceedings in June 2013, Evonik Degussa GmbH took 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. The shareholding increased in value as a result, which is why a purchase price adjustment of EUR 12.0 million is to be paid, for which the Company as guarantor is joint and severally liable.

The court of arbitration dismissed the action for a purchase price adjustment from 2007 in a decision handed down on November 30, 2013, but ordered Gigaset AG to pay Evonik a contractual penalty of EUR 3.5 million due to the final closing of the plant in 2010.

After a careful examination of the award, Gigaset AG decided in February 2014 to seek to have it set aside by the responsible higher regional court (OLG) due to an obvious lack of due process of law. A first hearing is expected to take place before the higher regional court in the fourth quarter of 2014, while a decision is not expected before mid-2015.

Provisions in the amount of EUR 3.6 million were already set aside in this matter in the previous year. Since Gigaset AG was ordered to continue paying interest from the main proceedings, which currently amount to approximately EUR 1.0 million, additional provisions were recognized in the amount of around EUR 1.0 million. However, Gigaset will not make any payments to Evonik as long as the proceedings to set aside the award are still undecided.

Sommer Road Cargo Solutions GmbH & Co. KG:

The insolvency administrator of Sommer Road Cargo Solutions GmbH & Co. KG ("Sommer") had 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 demanded that the defendant pay EUR 3.0 million on a joint and severally liable basis. The plaintiff alleged 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's assets on December 31, 2009.

After extensively weighing the risks and opportunities, Gigaset AG effected a compromise with Sommer's insolvency administrator in October 2013 according to which Gigaset AG had to pay an amount of EUR 0.8 million in installments by January 31, 2014. Gigaset paid this amount on time and in full in accordance with the payment plan by means of installments totaling EUR 0.2 million by December 31, 2013, and a final installment of EUR 0.6 million on January 31, 2014. The proceedings were completed when the settlement was paid in full.

6.7 Report on opportunities and risks with respect to discontinued operations

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

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

6.8 Overall statement regarding the report on opportunities and risks

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

The main risk arises from securing liquidity through alternative sources of financing. Furthermore, the declining sales trend in the current core business represents a risk if the expected sales growth in the segments with potential for growth cannot offset the decline in sales in the core business. In addition, risks can result from past and future tax issues.

7 Events after the Reporting Date

Gigaset received around EUR 33.9 million from the successful placement of its capital increase and convertible bond

Under the offer for subscription of Gigaset AG (ISIN DE0005156004), which ended as planned on July 14, 2014, 3.5% of the subscription rights were issued to shares and 1.5% to convertible bonds. Goldin Fund Pte. Ltd. will purchase the 24,178,308 new shares and 9,337,935 convertible bonds that were not subscribed based on the issue of subscription rights at a subscription price of EUR 1.00 for each new share and/or convertible bond. Therefore, the Company received the planned net proceeds from the issue totaling EUR 33.9 million from the issue of new shares and convertible bonds.

The total number of shares issued has been increased to 121,498,092 with the entry of the executed capital increase in the commercial register on July 22, 2014. This includes 46,828 shares that were issued from contingent capital since January 1, 2014, as a consequence of conversion rights exercised based on the 2013 convertible bond and have not yet been entered in the commercial register.

The new shares are delivered on July 22, 2014. On this date, the new shares are also included in the existing quotation in the regulated market (Prime Standard) of the Frankfurt Stock Exchange. The convertible bonds were also delivered on July 22, 2014.

Gigaset reduces its financial liabilities

On July 24, 2014, Gigaset AG reduced all of its financial liabilities, including all interest not yet paid, totaling EUR 25.0 million after the requirement to repay an additional EUR 3.0 million on July 7, 2014, was fulfilled. This was made possible as a result of the proceeds from the recent successfully placed capital measures. Gigaset received a net amount of EUR 33.9 million in proceeds.

CFO Dr. Alexander Blum leaves Gigaset at the end of the year

Gigaset's Chief Financial Officer, Dr. Alexander Blum, informed the Executive Board that his employment contract will end when it expires on December 31, 2014. Dr. Blum will continue to discharge all of his duties until the end of the year so that a successor can be appointed and acquainted with the responsibilities, thus ensuring a smooth transition. "After six extremely exciting years with Gigaset, this is a logical time for me to seek new challenges starting in 2015", says Dr. Blum, explaining his decision.

8 Outlook

8.1 Industry developments

Cordless telephones market[14]

According to experts, the global market for cordless telephony will shrink at an annual rate of -5.5% as a result of increasing competition from smartphones and cell phones in the years 2013 to 2018. Within this market, the DECT standard is playing an increasingly important role, while the analog standard and other digital standards are decreasing in significance. The DECT standard had a share of approximately 70% of the worldwide installed basis in 2012, whereas this number is expected to reach 90% by 2018.

According to experts, Western Europe will remain the most important market with a share of 35% in 2018, followed by North America with 24% and the Asia-Pacific region with 18%. The sharpest decrease is expected in North America in the years from 2013 to 2018 with an annual rate of -8.6%.

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

Market for business customers[15]

Demand for hybrid IP systems already constitutes just under 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 18% by 2018, 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 home networks

According to current studies, the Smart Home market will grow robustly over the next 10 years with affordable and compatible intuitively operated and personalized applications that facilitate comfort, security, energy efficiency, and self-determination for the elderly. According to a calculation by the audit firm Deloitte, this market will grow to over EUR 4.1 billion by 2017 in Europe. This corresponds to an annual increase of 20%, for Smart Home solutions will no longer be limited to the luxury and premium segment in the future, but instead will also gradually take over a volume market. According to a study by VDI/VDE Innovation + Technik GmbH, the cumulative sales revenue from Smart Home alone in the German market will reach EUR 19 billion by 2025. The average value added by German suppliers is estimated to be EUR 11.4 billion, whereby the German industry scores in the global growth markets, among other things, with expertise in the areas of system integration and embedded systems.

Market for tablets and smartphones

The global smartphone market grew once again in 2013, as high-end smartphones, tablets, and subsidies on the part of mobile network operators drove the market to new heights. Since the unit volumes will continue to rise over the next five years based on these forecasts, worldwide sales revenues will also continue to increase. However, the growth rate of the sales volume will slow starting in 2015 and settle in the lower single-digits, because the

14. MZA World - Consumer Cordless Telephony market – 2013 Forecast Edition (published October 2013)
15.MZA PBX/IP PBX market – 2013 Forecast Edition (published October 2013

falling prices and growing volume largely compensate each other. The main reason for the persistent decrease in average sales prices is the development toward robust smartphone volumes in the lower price categories. Strategy Analytics assumes that the smartphone market will grow to over 1.5 billion smartphones worldwide by 2018.[16] The Android and Apple iOS operating systems will continue to dominate the global smartphone market as they have in prior years. These two operating systems accounted for approximately 94% of global smartphone sales in 2013, whereby Android served around 78% of the smartphone market.[17]

8.2 Expected development of sales revenue and earnings

The market as a whole for cordless telephones in Europe declined by around 14% in 2013 measured on sales. This trend also continued in the market in the first half of 2014, whereby the decrease in sales revenue for continuing operations lies within the communicated expectations. In order to compensate the loss in sales in the core business in the medium and long term, Gigaset continued to consistently implement its "Gigaset 2015" strategy and began to expand the business into new product categories in the second half of 2013. In the third quarter of 2013, "Gigaset elements" was successfully introduced to the solutions market for networked living, which according to observers is growing robustly. Last December, Gigaset launched its first tablets on the market. However, the new categories were not yet able to compensate the loss in sales in the core business in the previous fiscal year.

Further development in fiscal year 2014 will depend significantly on the looming and further forecasted decline of the classic telecommunications market, but also on the successful expansion of the Business Customers, Home Networks, and Mobile Products segments. The experts are assuming that the market for cordless telephony will continue to decline. Gigaset will not be able to avoid this trend, even if it continues to expand its share of the market. However, the goal is to stabilize the cordless telephone business in the next few years and to secure it as an important source of sales revenue. The product variance in the core business, with product types varying based on customer segment and functionality, is an important factor for success. Gigaset intends to address the identifiable consumer needs through specific product offerings. This will express itself, for example, in product designs that are oriented to current lifestyle factors. Gigaset will also continue to focus in fiscal year 2014 on the further development of a proprietary ecosystem with which it should be possible to integrate as many Gigaset products and services as possible.

At the same time, the plan is to further expand the Business Customers segment with the Gigaset pro brand, which has grown continuously in the past two years. Distribution and in particular distribution partnerships are to be further developed. An intensification of activities is planned in particular for the regions United Kingdom, Austria and Italy, whereby addressing local needs will play an increasingly more important role. The focus lies on the distribution of complete solutions. This will lead to an increase in the sales of desktop, PBX and base stations. The introduction of the product "Maxwell", an innovative full touch video IP telephone that was presented at the CeBIT in March 2014, is expected to result in additional stimulus for sales revenue. Gigaset pro is starting a new product portfolio with this telephone and is creating its own platform for professional desktop phone products.

The solutions in the Smart Home area are also gaining in significance. According to a current study by Fittkau & Maß Consulting, 78% of consumers in Germany alone are interested in a Smart Home solution. According to surveys by Strategy Analytics, international consumer interest is just as strong. A market potential of around USD 14 billion

16. /17. Strategy Analytics: Global smartphone Sales Forecast by Operating systems for 88 Countries: 2007 to 2018

is expected for fiscal year 2014 in Western Europe alone.[18] In this dynamic environment, "Gigaset elements" – Gigaset's new solution for networked living – has been available in German retail stores since September 2013 and French stores since October. The new sensor and cloud-based system connects people with their home. Additional benefits arise as a result of the collaboration with partners, such as the leading security service provider Securitas. Users have been able to take advantage of the premium service "Gigaset elements" monitored by Securitas" since the beginning of 2014 thanks to a development partnership that has united Gigaset and Securitas since the development phase of "Gigaset elements". Securitas intends to ensure that no alarm goes unanswered through the computer-aided handling of alarms. These types of solutions are to be further developed, both functionally as well as through additional partnerships.

Following the introduction of the first two models in the rapidly expanding tablet market, Gigaset also intends to continue expanding the portfolio in the future. With its market expertise and strong brands in this category, Gigaset considers itself to be in a good position to enter into this market and thereby continue to meet its standard of offering first-class communications tools for networked living. Additional devices in the mobile environment are to follow. Additional price points and therefore also additional target groups are to be addressed with an expanded product range.

In light of this, Gigaset expects a further decline in sales revenue in continuing operations for the current fiscal year (excluding Mobile Products). Additional sales revenue from the Mobile Products business are expected for the Gigaset Group. However, the expansion of the joint business with Goldin Fund Pte. Ltd., Singapore, is still in its start-up phase; consequently, specific predictions are difficult to make.

Thanks to the cost-savings program announced and consistently implemented in fiscal year 2012, the operating result (EBITDA) was also improved considerably in the first half of the current fiscal year. The planned and also realized annual savings of EUR 30.0 million will take full effect in 2014. As a result of invoices issued primarily in U.S. dollars on the procurement markets, a strong U.S. dollar could have a negative impact on the Group's profitability.

This forecast is based on the described general economic and industry-specific trends. The forecast is not based on inorganic growth through acquisitions. In addition, the forecast is based on a USD/EUR exchange rate of 1.31.

8.3 Expected development of cash flow, capital expenditures and liquidity

The Company currently finances itself in particular through the syndicated credit line extended at the beginning of 2012 as well as through factoring.

As a result of the change in control of the Company due to the investment on the part of Goldin Fund Pte. Ltd., Singapore, the syndicating banks demanded the repayment of all amounts drawn down in a volume of up to EUR 32.9 million of the extended credit line as expected and in accordance with the agreement. Thanks to the executed capital measures and the investment made by Goldin Fund Pte. Ltd., Singapore, the Gigaset Group's financing prospects have improved considerably. The Executive Board succeeded in replacing the syndicated loan with equity at the end of July 2014.

18. Strategy Analytics, Smart Home systems and Services Forecast: Western Europe, July 2013

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 should permanently secure the Company's existence and competitiveness.

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

The necessary measures for long-term growth were initiated in 2012. However, in order to counter the persistently difficult development of our core market, we must continue to invest in the development of new and promising segments and product groups. In fiscal year 2014, the new segments will make additional contributions to sales, which however will not yet suffice to compensate the decline in our core business. Therefore, Gigaset expects the following for the current fiscal year in continuing operations (excluding Mobile Products):

- further decreasing revenue in the core business in the high single-digit to lower double-digit percentage range
- a once again improved, positive EBITDA and EBITDA margin compared to the previous year in the upper single-digit percentage range due to the expected positive impact of the efficiency program
- a negative free cash flow in the lower to middle double-digit millions as a result of necessary investments

In addition, the Gigaset Group expects additional sales revenues from the tablet and smartphone business (Mobile Products), which however are difficult to forecast as a result of the early phase in which the expansion of the business with Goldin Fund Pte. Ltd., Singapore, remains.

Munich, August 4, 2014

Gigaset AG
The Executive Board

Interim financial statements

Income statement for the period from January 1 to June 30, 2014

	01/01 – 06/30/2014		
EUR'000	Continuing operations	Discontinued operations	Total
Revenues	146,989	0	146,989
Change in inventories of finished and unfinished goods	-592	0	-592
Other internal production capitalized	5,729	0	5,729
Other operating income	7,600	0	7,600
Purchased goods and services	-68,771	0	-68,771
Personnel expenses	-49,687	0	-49,687
Other operating expenses	-38,624	0	-38,624
EBITDA	**2,644**	**0**	**2,644**
Depreciation and amortization	-12,228	0	-12,228
Impairment losses	0	0	0
EBIT	**-9,584**	**0**	**-9,584**
At equity valuation result	-310	0	-310
Impairment of financial assets	0	0	0
Other interest and similar income	30	0	30
Interest and similar expenses	-1,327	0	-1,327
Net financial expenses	**-1,607**	**0**	**-1,607**
Income from ordinary activities	**-11,191**	**0**	**-11,191**
Income taxes	260	0	260
Consolidated loss for the year	**-10,931**	**0**	**-10,931**
Share of consolidated loss attributable to shareholders of Gigaset AG	-10,931	0	-10,931
Earnings per common share			
- Basic earnings per share, in EUR	-0.11	0.00	-0.11
- Diluted earnings per share, in EUR	-0.11	0.00	-0.11

Income statement for the period from January 1 to June 30, 2014

01/01 – 06/30/2013 Continuing operations	Discontinued operations	Total	EUR'000
183,536	3,848	187,384	Revenues
-8,512	0	-8,512	Change in inventories of finished and unfinished goods
10,872	0	10,872	Other internal production capitalized
13,010	1,133	14,143	Other operating income
-84,535	-2,178	-86,713	Purchased goods and services
-52,277	-1,068	-53,345	Personnel expenses
-51,121	-3,856	-54,977	Other operating expenses
10,973	**-2,121**	**8,852**	**EBITDA**
-13,508	0	-13,508	Depreciation and amortization
0	1,523	1,523	Impairment losses
-2,535	**-598**	**-3,133**	**EBIT**
0	0	0	At equity valuation result
-56	0	-56	Impairment of financial assets
118	0	118	Other interest and similar income
-1,360	-24	-1,384	Interest and similar expenses
-1,298	**-24**	**-1,322**	**Net financial expenses**
-3,833	**-622**	**-4,455**	**Income from ordinary activities**
-8,848	43	-8,805	Income taxes
-12,681	**-579**	**-13,260**	**Consolidated loss for the year**
-12,681	-579	-13,260	Share of consolidated loss attributable to shareholders of Gigaset AG
			Earnings per common share
-0.25	-0.01	-0.26	- Basic earnings per share, in EUR
-0.25	-0.01	-0.26	- Diluted earnings per share, in EUR

Income statement for the period from April 1 to June 30, 2014

	04/01 – 06/30/2014		
EUR'000	**Continuing operations**	**Discontinued operations**	**Total**
Revenues	82,024	0	82,024
Change in inventories of finished and unfinished goods	-1,253	0	-1,253
Other internal production capitalized	3,583	0	3,583
Other operating income	5,426	0	5,426
Purchased goods and services	-37,569	0	-37,569
Personnel expenses	-24,793	0	-24,793
Other operating expenses	-17,150	0	-17,150
EBITDA	**10,268**	**0**	**10,268**
Depreciation and amortization	-5,994	0	-5,994
Impairment losses	0	0	0
EBIT	**4,274**	**0**	**4,274**
At equity valuation result	-278	0	-278
Impairment of financial assets	11	0	11
Other interest and similar income	15	0	15
Interest and similar expenses	-629	0	-629
Net financial expenses	**-881**	**0**	**-881**
Income from ordinary activities	**3,393**	**0**	**3,393**
Income taxes	-2,090	0	-2,090
Consolidated income/ loss for the year	**1,303**	**0**	**1,303**
Share of consolidated income/ loss attributable to shareholders of Gigaset AG	1,303	0	1,303
Earnings per common share			
- Basic earnings per share, in EUR	0.01	0.00	0.01
- Diluted earnings per share, in EUR	0.01	0.00	0.01

Income statement for the period from April 1 to June 30, 2014

04/01 – 06/30/2013			
Continuing operations	**Discontinued operations**	**Total**	**EUR'000**
96,792	1,499	98,291	Revenues
-6,385	0	-6,385	Change in inventories of finished and unfinished goods
5,558	0	5,558	Other internal production capitalized
5,829	39	5,868	Other operating income
-42,551	-1,071	-43,622	Purchased goods and services
-26,962	-482	-27,444	Personnel expenses
-25,924	-1,352	-27,276	Other operating expenses
6,357	-1,367	4,990	EBITDA
-6,861	0	-6,861	Depreciation and amortization
0	798	798	Impairment losses
-504	-569	-1,073	EBIT
0	0	0	At equity valuation result
-28	0	-28	Impairment of financial assets
-12	0	-12	Other interest and similar income
-817	-9	-826	Interest and similar expenses
-857	-9	-866	Net financial expenses
-1,361	-578	-1,939	Income from ordinary activities
-8,069	1	-8,068	Income taxes
-9,430	**-577**	**-10,007**	**Consolidated income/ loss for the year**
-9,430	-577	-10,007	Share of consolidated income/ loss attributable to shareholders of Gigaset AG
			Earnings per common share
-0.18	-0.01	-0.19	- Basic earnings per share, in EUR
-0.18	-0.01	-0.19	- Diluted earnings per share, in EUR

Statement of Comprehensive Income for the Period from January 1 to June 30, 2014

	01/01 – 06/30/2014		
EUR'000	Continuing operations	Discontinued operations	Total
Consolidated loss for the year	-10,931	0	-10,931
Items that may be reclassified subsequently to net income/loss			
Currency translation differences	-550	0	-550
Recognized income taxes for this item	0	0	0
Items that will not be reclassified to net income/loss			
Revaluation effects, net debt from defined benefit plans	-6,356	0	-6,356
Foreign currency effects of entities included based on the equity method	151	0	151
Recognized income taxes for this item	1,977	0	1,977
Total changes not recognized in the income statement	-4,778	0	-4,778
Total comprehensive income and expenses	-15,709	0	-15,709
thereof attributable to minority interests	0	0	0
thereof attributable to shareholders of Gigaset AG	-15,709	0	-15,709

Statement of Comprehensive Income for the Period from January 1 to June 30, 2014

01/01 – 06/30/2013			
Continuing operations	Discontinued operations	Total	EUR'000
-12,681	-579	-13,260	Consolidated loss for the year
			Items that may be reclassified subsequently to net income/loss
-78	2	-76	Currency translation differences
0	0	0	Recognized income taxes for this item
			Items that will not be reclassified to net income/loss
0	0	0	Revaluation effects, net debt from defined benefit plans
0	0	0	Foreign currency effects of entities included based on the equity method
0	0	0	Recognized income taxes for this item
-78	2	-76	Total changes not recognized in the income statement
-12,759	-577	-13,336	Total comprehensive income and expenses
0	0	0	thereof attributable to minority interests
-12,759	-577	-13,336	thereof attributable to shareholders of Gigaset AG

Statement of Comprehensive Income for the Period from April 1 to June 30, 2014

	04/01 – 06/30/2014		
EUR'000	Continuing operations	Discontinued operations	Total
Consolidated loss for the year	**1,303**	**0**	**1,303**
Items that may be reclassified subsequently to net income/loss			
Currency translation differences	-541	0	-541
Recognized income taxes for this item	0	0	0
Items that will not be reclassified to net income/loss			
Revaluation effects, net debt from defined benefit plans	-3,751	0	-3,751
Foreign currency effects of entities included based on the equity method	151	0	151
Recognized income taxes for this item	1,167	0	1,167
Total changes not recognized in the income statement	**-2,974**	**0**	**-2,974**
Total comprehensive income and expenses	**-1,671**	**0**	**-1,671**
thereof attributable to minority interests	0	0	0
thereof attributable to shareholders of Gigaset AG	-1,671	0	-1,671

Statement of Comprehensive Income for the Period from April 1 to June 30, 2014

04/01 – 06/30/2013			
Continuing operations	Discontinued operations	Total	EUR'000
-9,430	-577	-10,007	Consolidated loss for the year
			Items that may be reclassified subsequently to net income/loss
18	-5	13	Currency translation differences
0	0	0	Recognized income taxes for this item
			Items that will not be reclassified to net income/loss
0	0	0	Revaluation effects, net debt from defined benefit plans
0	0	0	Foreign currency effects of entities included based on the equity method
0	0	0	Recognized income taxes for this item
18	-5	13	Total changes not recognized in the income statement
-9,412	-582	-9,994	Total comprehensive income and expenses
0	0	0	thereof attributable to minority interests
-9,412	-582	-9,994	thereof attributable to shareholders of Gigaset AG

Consolidated statement of financial position as of June 30, 2014

EUR'000	6/30/2014	12/31/2013
ASSETS		
Non-current assets		
Intangible assets	43,414	45,470
Property, plant and equipment	36,539	39,636
Financial assets accounted for by the equity method	17,894	0
Deferred tax assets	19,952	16,645
Total non-current assets	**117,799**	**101,751**
Current assets		
Inventories	24,457	27,504
Trade receivables	43,921	50,200
Other assets	21,891	28,519
Current tax assets	1,686	2,099
Cash and cash equivalents	27,403	56,987
Total current assets	**119,358**	**165,309**
Total assets	**237,157**	**267,060**

Consolidated statement of financial position as of June 30, 2014

EUR'000	6/30/2014	12/31/2013
EQUITY AND LIABILITIES		
Equity		
Subscribed capital	97,928	97,928
Additional paid-in capital	87,042	87,042
Retained earnings	68,979	68,979
Accumulated other comprehensive income	-230,981	-215,272
Total equity	22,968	38,677
Non-current liabilities		
Convertible bond	0	76
Pension obligations	51,693	44,587
Provisions	11,247	11,043
Other liabilities	148	184
Deferred tax liabilities	16,302	15,232
Total non-current liabilities	79,390	71,122
Current liabilities		
Convertible bond	64	0
Provisions	30,090	31,506
Financial liabilities	27,935	30,201
Trade payables	52,732	71,476
Current tax liabilities	1,701	2,589
Other liabilities	22,277	21,489
Total current liabilities	134,799	157,261
Total equity and liabilities	**237,157**	**267,060**

Change in consolidated equity as of June 30, 2014

	EUR'000	Subscribed capital	Share premium	Revenue reserves
	January 1, 2013	**50,015**	**87,981**	**68,979**
1	Capital increase	0	0	0
2	Appropriation to retained earnings	0	0	0
3	Changes in non-controlling interests	0	0	0
4	Total transactions with shareholders	0	0	0
5	Consolidated loss 2013	0	0	0
6	Minority interests	0	0	0
7	Consolidated loss after minority interests	0	0	0
8	Currency translation differences	0	0	0
9	Equity-accounted changes not recognized in the income statement	0	0	0
10	Actuarial effects IAS 19	0	0	0
11	Total changes not recognized in the income statement	0	0	0
12	Total net income (7+11)	0	0	0
	June 30, 2013	**50,015**	**87,981**	**68,979**
	January 1, 2014	**97,928**	**87,042**	**68,979**
1	Capital increase	0	0	0
2	Appropriation to retained earnings	0	0	0
3	Changes in non-controlling interests	0	0	0
4	Total transactions with shareholders	0	0	0
5	Consolidated loss 2014	0	0	0
6	Minority interests	0	0	0
7	Consolidated loss after minority interests	0	0	0
8	Currency translation differences	0	0	0
9	Equity-accounted changes not recognized in the income statement	0	0	0
10	Actuarial effects IAS 19	0	0	0
11	Total changes not recognized in the income statement	0	0	0
12	Total net income (7+11)	0	0	0
	June 30, 2014	**97,928**	**87,042**	**68,979**

Change in consolidated equity as of June 30, 2014

Accumulated other comprehensive income	Adjusting items for non-controlling interests	Consolidated equity		
-182,627	**0**	**24,348**	**January 1, 2013**	
0	0	0	Capital increase	1
0	0	0	Appropriation to retained earnings	2
0	0	0	Changes in non-controlling interests	3
0	0	0	Total transactions with shareholders	4
-13,260	0	-13,260	Consolidated loss 2013	5
0	0	0	Minority interests	6
-13,260	0	-13,260	Consolidated loss after minority interests	7
-76	0	-76	Currency translation differences	8
0	0	0	Equity-accounted changes not recognized in the income statement	9
0	0	0	Actuarial effects IAS 19	10
-76	0	-76	Total changes not recognized in the income statement	11
-13,336	0	-13,336	Total net income (7+11)	12
-195,963	**0**	**11,012**	**June 30, 2013**	
-215,272	**0**	**38,677**	**January 1, 2014**	
0	0	0	Capital increase	1
0	0	0	Appropriation to retained earnings	2
0	0	0	Changes in non-controlling interests	3
0	0	0	Total transactions with shareholders	4
-10,931	0	-10,931	Consolidated loss 2014	5
0	0	0	Minority interests	6
-10,931	0	-10,931	Consolidated loss after minority interests	7
-550	0	-550	Currency translation differences	8
151	0	151	Equity-accounted changes not recognized in the income statement	9
-4,379	0	-4,379	Actuarial effects IAS 19	10
-4,778	0	-4,778	Total changes not recognized in the income statement	11
-15,709	0	-15,709	Total net income (7+11)	12
-230,981	**0**	**22,968**	**June 30, 2014**	

Consolidated statement of cash flows for the period from January 1 - June 30, 2014

EUR'000	Jan. 1 - Jun 30, 2014	Jan. 1 - Jun 30, 2013
Result from ordinary activities before taxes on income (EBT)	-11,191	-4,455
Depreciation of property, plant and equipment and amortization of intangible assets	12,228	13,508
Impairment losses	0	-1,523
Addition (+)/decrease (-) in pension provisions	749	770
Gain (-)/loss (+) from the sale of non-current assets	14	-2
Gain (-)/loss (+) from deconsolidations	453	0
Gain (-)/loss (+) from currency translation	1,795	1,366
At equity valuation result	310	0
Other non-cash items	-5,729	-10,872
Net interest income	1,297	1,266
Interest received	12	30
Interest paid	-1,550	-776
Income taxes paid	-790	-3,083
Impairment on financial assets	0	56
Increase (-)/decrease (+) in inventories	3,047	6,617
Increase (-)/decrease (+) in trade receivables and other receivables	12,764	-1,807
Increase (+)/decrease (-) in trade payables, other liabilities and other provisions	-19,125	-32,975
Increase (+)/decrease (-) in other balance sheet items	-1,710	459
Cash inflow (+)/outflow (-) from continuing operations (net cash flow)	-7,426	-31,421
Payments concerning an at equity investment, as part of the transitional consolidation	-18,000	0
Cash transferred with the sale of shares in companies	-130	0
Proceeds from the sale of non-current assets	0	2
Payments for investments in non-current assets	-1,360	-4,074
Cash inflow (+)/outflow (-) from investing activities	-19,490	-4,072
Free cash flow	**-26,916**	**-35,493**

Consolidated statement of cash flows for the period from January 1 - June 30, 2014

EUR'000	Jan. 1 - Jun 30, 2014	Jan. 1 - Jun 30, 2013
Cash flows from the borrowing (+)/ repayment (-) of current financial liabilities	-2,266	83
Convertible bond	-12	0
Cash inflow (+)/ outflow (-) from financing activities	**-2,278**	**83**
Net funds at beginning of period	53,935	53,460
Changes due to exchange rate differences	-390	-425
Net funds at beginning of period, measured at prior-year exchange rate	54,325	53,885
Increase (-)/ decrease (+) in restricted cash	-698	-939
Change in cash and cash equivalents	-29,194	-35,410
Net funds at end of period	**24,043**	**17,111**
Restricted cash	3,360	2,736
Cash and cash equivalents	**27,403**	**19,847**
Cash presented within the balance sheet item of "assets held for sale"	0	942
Cash and cash equivalents presented in the balance sheet	**27,403**	**18,905**

Notes to the Interim Financial Statements as of June 30, 2014

1. General information regarding accounting policies

The preparation of Gigaset AG's consolidated financial statements as of June 30, 2014, and the presentation of comparative figures from the prior year was carried out in compliance with the International Accounting Standards (IASs) and International Financial Reporting Standards (IFRSs) adopted and published by the International Accounting Standards Board (IASB) and their interpretation by the Standard Interpretations Committee (SIC) and International Financial Reporting Standards Interpretations Committee (IFRIC) as they apply in the EU. Accordingly, this unaudited and unreviewed Interim Financial Report as of June 30, 2014, was prepared in accordance with IAS 34. All Standards applicable as of June 30, 2014, whose application is mandatory were taken into account and provide a true and fair view of the Gigaset Group's financial position, financial performance and cash flows.

The notes to the 2014 consolidated financial statements apply accordingly in particular with respect to the significant accounting policies adopted. The consolidated financial statements are prepared under the premise that the Company will continue as a going concern.

Corresponding to the provisions in IAS 8.28, the disclosures regarding the adjustment of amounts from prior periods resulting from the new provisions under IAS 19, Employee Benefits, which had to be applied retroactively beginning January 1, 2013, are not repeated in the financial statements for subsequent periods.

In addition, the following standards and interpretations, which were amended or newly issued by the IASB, had to be applied beginning with the 2014 fiscal year:

› IFRS 10, Consolidated Financial Statements

  The new standard IFRS 10, Consolidated Financial Statements, replaces previously applicable IAS 27, Consolidated and Separate Financial Statements, and SIC-12, Consolidation. IFRS 10 specifies the control of investees by the parent entity as the basis for consolidation. In accordance with IFRS 10, an investor controls an investee when the following three conditions are cumulatively met: (a) power over the investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. In addition, an exception for investment companies and their investees was introduced. As a result of the new conception in IFRS 10 with respect to the obligation to consolidate investees, the status of existing equity interests had to be reviewed with respect to the obligation to consolidate and/or the method of consolidation. The new provisions apply for fiscal years beginning on or after January 1, 2014. The amendments had no effect on the consolidated financial statements.

› IFRS 11, Joint Arrangements

The new standard IFRS 11, Joint Arrangements, replaces the previously applicable rules of IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities—Non-Monetary Contributions by Venturers. The standard governs the principles for the accounting of companies that participate in arrangements that are jointly managed. Joint arrangements are defined as arrangements in which the parties are bound by a contractual arrangement and the contractual arrangement gives two or more of those parties joint control of the arrangement. The arrangement can involve joint operations or a joint venture. A joint operator must recognize the following line items in connection with its interest: (a) its assets, including its share of any assets held jointly, (b) its liabilities, including its share of any liabilities incurred jointly, (c) its revenue from the sale of its share of the output arising from the joint operation, (d) its share of the revenue from the sale of the output by the joint operation, and (e) its expenses, including its share of any expenses incurred jointly. Proportionate consolidation of assets and liabilities and/or profit or loss is no longer permitted. Interests in joint ventures must now be recognized based on equity method accounting in accordance with IAS 28, Investments in Associates and Joint Ventures. The new provisions apply for fiscal years beginning on or after January 1, 2014. The amendments had no effect on the consolidated financial statements.

› IFRS 12, Disclosure of Interests in Other Entities

The new standard IFRS 12, Disclosure of Interests in Other Entities, replaces the disclosure requirements of the previously applicable standards IAS 27, Consolidated and Separate Financial Statements, IAS 28, Investments in Associates, and IAS 31, Interests in Joint Ventures. The new standard applies for entities that have interests in an investee, a joint arrangement, an associate, or an unconsolidated structured entity. In addition to information regarding significant discretionary decisions and assumptions and/or the status of investment companies, the disclosure requirements for entities that fall under the scope of application are specified. The new provisions apply for fiscal years beginning on or after January 1, 2014. The additional disclosures required will be taken into account in the Company's financial statements as of December 31, 2014.

› Amendments to IAS 27, Separate Financial Statements

The revised standard IAS 27, Separate Financial Statements, now governs the accounting treatment and disclosure requirements for interests in subsidiaries, joint ventures, and associates if an entity prepares separate financial statements. The amendments apply for fiscal years beginning on or after January 1, 2014. The amendments had no effect on the consolidated financial statements.

› Amendments to IAS 28, Investments in Associates and Joint Ventures

The amendments to IAS 28, Investments in Associates and Joint Ventures, now specify that interests in joint ventures must be recognized using equity method accounting. The amendments apply for fiscal years beginning on or after January 1, 2014. The amendments had no effect on the consolidated financial statements.

- Amendments to IAS 32, Offsetting Financial Assets and Financial Liabilities

  The amendments to IAS 32 regarding the offsetting of financial assets and financial liabilities include clarifications regarding the offsetting of financial instruments. The significance of the current legally enforceable right to set off amounts as of the balance sheet date is explained. Furthermore, which gross settlement systems can be regarded as equivalent to net settlement as defined under the standard are explained. As a result, information required in the notes in accordance with IFRS 7, Financial Instruments: Disclosures, was subsequently adjusted. The amendments apply for fiscal years beginning on or after January 1, 2014. The amendments had no effect on the consolidated financial statements.

- Amendments to IAS 39, Amendments to Novation of Derivatives and Continuation of Hedge Accounting

  The amendments to IAS 39 regarding the novation of derivatives and continuation of hedge accounting also clarify that the novation of a hedging instrument with a central counterparty as a consequence of legal or regulatory requirements does not lead to the discontinuance of hedge accounting under certain circumstances. The amendments apply for fiscal years beginning on or after January 1, 2014. The amendments had no effect on the consolidated financial statements.

Application of the following standards and interpretations already adopted, revised, or newly issued by the IASB is not yet mandatory in fiscal year 2014:

Standards		**Application requirement for Gigaset starting**	**Adopted by EU Commission**
IAS 19	Employee Benefits – Defined Benefit Plans: Employee Contributions	1/1/2015	No
Various	Annual Improvements to IFRSs 2010–2012 Cycle	1/1/2015	No
Various	Annual Improvements to IFRSs 2011–2013 Cycle	1/1/2015	No
IFRS 14	Regulatory Deferral Accounts	1/1/2016	No
IFRS 11	IFRS 11, Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations	1/1/2016	No
IAS 16 / IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)	1/1/2016	No
IAS 16 / IAS 41	Recognition of certain biological assets based on IAS 41 Agriculture in accordance with provisions set forth under IAS 16 Property, Plant and Equipment	1/1/2016	No
IFRS 15	Revenue from Contracts with Customers	1/1/2017	No
IFRS 9	Financial Instruments	1/1/2018	No
IFRS 9 / IFRS 7	Amendments to Mandatory Effective Date and Transition Disclosures	1/1/2018	No
Interpretationen			
IFRIC 21	Levies	1/1/2015	Yes

IFRS 15 Revenue from Contracts with Customers was issued in May 2014. The Company is currently reviewing the effects of this new standard on the consolidated financial statements. However, the analysis was yet completed when this report was published. The effects of the first-time application of the other revised or newly issued standards and interpretations cannot be reliably estimated at this time. The Company assumes that these standards and interpretations will not have a material impact.

2. Seasonal effects

The core business of Gigaset Communications GmbH is subject to distinct seasonal fluctuations due to regularly varying consumer behavior over the course of a calendar year. The highest sales are realized during the Christmas shopping season, which is why the fourth quarter is traditionally very strong. In contrast, the first quarter serves the restocking of warehouses following the Christmas business and in our experience fluctuates around the same level as the third quarter. Sales for the Christmas season are already affecting inventory levels in the warehouses of distributors and retailers beginning in the third quarter; however, July and August count among the weak summer months with a typically low propensity to spend on the part of consumers. In light of this, the third quarter is normally weaker than the fourth. The second quarter is already characterized by seasonal consumer restraint in the early summer months of May and June; at the same time, distributors and retailers are adjusting their inventory levels to the weak summer months. Therefore, the second quarter is traditionally the weakest sales quarter of the entire fiscal year.

In addition to the traditional general seasonal fluctuations, there are country and region-specific seasonalities, such as sales promotions related to specific trade fairs (e.g. CEBIT, IFA), back-to-school activities, or the Chinese New Year.

3. Restructuring

The restructuring begun in the fourth quarter of 2012 was continued as planned. In the first quarter of 2014, there was a cash outflow of EUR 1.3 million as a result of these restructuring measures.

4. Financial assets and Liabilities

The fair values of financial assets and liabilities as of June 30, 2014 essentially correspond to the carrying amounts. There were no significant changes in non-current financial assets and liabilities compared to December 31 of the prior year; as a result, the fair values of these items was essentially the same as their carrying amounts, as was the case at the end of the year. The carrying amounts of the current financial assets and liabilities also correspond essentially to their fair values. Since the convertible bond matures in April 2015, the liability from the convertible bond is no longer shown separately in the table due to its current nature. There were no changes with respect to the measurement and fair value hierarchy of the financial assets and liabilities compared to the end of the year.

The following tables present the fair values determined for the financial assets and liabilities based on hierarchy levels for the reporting date as well as the first quarter of the previous year:

6/30/2014	Level			
€ (000)	**1**	**2**	**3**	**Total**
Financial assets				
Derivative financial instruments	0	246	0	246
Financial liabilities				
Financial liabilities (non-current)	0	0	0	0
Derivative financial instruments	0	161	0	161

12/31/2013	Level			
€ (000)	**1**	**2**	**3**	**Total**
Financial assets				
Derivative financial instruments	0	384	0	384
Financial liabilities				
Financial liabilities (non-current)	0	77	0	77
Derivative financial instruments	0	423	0	423

Other assets include derivative financial assets in the amount of EUR 246 thousand (December 31, 2013: EUR 384 thousand). Other liabilities include current derivative liabilities in the amount of EUR 13 thousand (December 31, 2013: EUR 251 thousand) as well as non-current derivative liabilities in the amount of EUR 148 thousand (December 31, 2013: EUR 172 thousand).

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

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

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

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

5. 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 if they can be sold in their current condition and the sale is more likely than not. For classification as "held for sale", the corresponding assets are recognized at fair value less costs to sell if this is lower than their carrying amount. Directly related liabilities are presented separately under liabilities as "held for sale" according to their classification.

The SM Electronic Group classified in the previous year as held for sale was sold on December 23, 2013. Since the disposed companies were already classified as held for sale before the disposal, all assets and liabilities were presented under the line items "Assets held for sale" or "Liabilities related to assets held for sale" in the statement of financial position. As a result of the deconsolidation as of December 23, 2013, these line items showed a value of EUR 0 thousand in the consolidated financial statements as of June 31, 2014.

The SM Electronic Group's objectives included the trading and distribution of receiver technology and accessories.

The assets and liabilities of the disposal group SM Electronic ("Other" segment) each amounted to EUR 0 thousand as of June 30, 2014; however, they comprised the following items as of June 30, 2013:

€ (000)	Amount prior to impairment 6/30/2013	Impairment under IFRS 5 2013	Amount after impairment 6/30/2013
Assets			
Deferred tax assets	3,247	-412	2,835
Inventories	2,669	0	2,669
Current receivables and other assets	10,466	0	10,466
Cash and cash equivalents	942	0	942
Total	17,324	-412	16,912
Liabilities			
Deferred tax liabilities	3,431		3,431
Provisions	240		240
Other liabilities	13,241		13,241
Total	16,912	0	16,912

The impairment recognized as of December 31, 2012, amounted to EUR 1,935 thousand and was reduced in the first half of 2013 by EUR 1,523 thousand to a total of EUR 412 thousand. The reduction of the recognized impairment is reported as a positive amount in the income statement item "Impairment write-downs" under discontinued operations.

Cash flows attributable to discontinued operations in the first quarter of 2013 can be broken down as follows:

€ (000)	1/1 - 6/30/2013
Cash inflow (+)/outflow (-) from operating activities	-635
Cash inflow (+)/outflow (-) from investing activities	-4
Cash inflow (+)/outflow (-) from financing activities	**550**
Change in cash and cash equivalents	**-89**

6. Changes in the consolidated group

In addition to the parent company, 29 group companies were consolidated and included in Gigaset's consolidated financial statements as of June 30, 2014; 8 of which domestic and 21 of which foreign companies.

One company ceased to exist as a result of accrual to Gigaset AG (Gigaset Asset GmbH & Co. KG) and another company merged with Gigaset AG (Gigaset Beteiligungsverwaltungs GmbH). Gigaset Beteiligungsverwaltungs GmbH transferred its assets in their entirety to Gigaset AG – its sole shareholder – with all rights and obligations by way of merger without being liquidated in accordance with sections 2 et seqq., section 46 et seqq., and section 60 et seqq. of the German Transformation Act (Umwandlungsgesetz, UmwG) under a merger agreement dated January 29, 2014. The merger agreement was based on the transferring entity's closing statement of financial position as of June 30, 2013. The acquisition of the transferring legal entity's assets by the acquiring legal entity was carried out internally effective as of the expiry of June 30, 2013, at midnight. The entry in the commercial register on February 4, 2014, led to both the retirement of the general partner and the extinction of Gigaset Asset GmbH & Co. KG as well as to the accrual of the limited partnership's assets to Gigaset AG in accordance with section 738 of the German Civil Code (Bürgerlichesgesetzbuch, BGB).

In addition, there was another change in the consolidated group compared to December 31, 2013. Gigaset Mobile Pte. Ltd., which had previously been consolidated based on the shareholding of 100% of the equity interest, was no longer consolidated beginning January 16, 2014, as a result of the investment on the part of Goldin Digital Pte. Ltd., Singapore, but instead included in the consolidated financial statements using equity method accounting as a result of the new share of voting rights. In connection with the deconsolidation, the disposed assets amounted to EUR 18,000 thousand (EUR 18,000 thousand of which cash and cash equivalents) while the liabilities amounted to EUR 4,408 thousand. Taking consolidation effects, recovered receivables from and liabilities to Gigaset Mobile Pte. Ltd. into account, as well as other expenses related to the transaction, the deconsolidation l amounts to EUR 235 thousand and is presented under other operating expenses. The fair value of the remaining interest determined at the time of deconsolidation amounted to EUR 18,053 thousand, which subsequently represented the initial carrying amount for recognition based on equity method accounting.

The disposed assets and liabilities from the perspective of the Group comprise the following:

€ (000)	
Assets	
Current assets	18,000
Total	18,000
Liabilities	
Liabilities	4,408
Total	4,408

AT Operations 1 GmbH, Munich, and AT Operations 2 GmbH, Munich, as well as the wholly owned subsidiary of AT Operations 2 – Arques Beta Beteiligungs GmbH i.L., Vienna/Austria – was sold to an investor on May 26, 2014. The negative purchase price amounted to EUR -130 thousand. The disposed assets amount to EUR 144 thousand, including EUR 0 thousand in cash and cash equivalents, whereas the liabilities amounted to EUR 134 thousand. The deconsolidation loss amounts to EUR 218 thousand under consideration of consolidation effects and other expenses related to the transaction and is presented under Other operating expenses.

7. Financial assets measured based on equity method accounting

Gigaset Mobile Pte. Ltd., Singapore, which had previously been consolidated based on the shareholding of 100% of the equity interest, was no longer consolidated beginning January 16, 2014, as a result of the investment on the part of Goldin Digital Pte. Ltd., Singapore, but instead included in the consolidated financial statements using equity method accounting as a result of the new share of voting rights. The Shareholders Agreement between Gigaset and Goldin Digital Pte. Ltd., governs the companies' contractual relationships with one another. The Company is to develop, produce, and distribute tablets, smartphones, or other mobile communications devices and associated accessories. The profit or loss attributable based on the equity method is included in the consolidated financial statements of Gigaset AG with a share of 32.43%, given a 37.50% share of voting rights, taking into account potential voting rights. Financial assets measured based on equity method accounting changed as follows:

€ (000)	2014
Balance January 1	0
Additions	18,053
Profit or loss attributable based on the equity method	-159
Balance on June 30	17,894

The financial information of Gigaset Mobile Pte. Ltd. for the reporting period and/or as of the reporting date on the basis of the translation rates applied in the consolidated financial statements for the company's functional currency – the US dollar – comprises the following (amounts presented based on 100% and not on the basis of ownership interest):

€ (000)	6/30/2014
Current assets	50,233
of which cash and cash equivalents	26,947
Non-current assets	0
Current liabilities	2,560
of which financial liabilities (excluding trade payables, other liabilities, and provisions)	0
Non-current liabilities	0

€ (000)	1/1 - 6/30/2014
Sales revenues	1,230
Depreciation and amortization	0
Interest income	35
Interest expense	0
Income tax expense	-15
Profit from continuing operations	-957
Other comprehensive income	466
Total comprehensive income	-491

No dividends were distributed by Gigaset Mobile Pte. Ltd. to the shareholders in the reporting period. Nor were there any discontinued operations.

8. Segment reporting

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.

In the prior year, the "Other" segment comprised the SM Electronic Group, which was held for sale and was sold in December 2013.

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

January 1 to June 30, 2014	Europe	Americas	Asia-Pacific/ Middle East	Gigaset total
Revenues				
External revenues	138,534	1,879	6,576	146,989
Continuing operations	138,534	1,879	6,576	146,989
Discontinued operations	*0*	*0*	*0*	*0*
Internal revenues	0	0	0	0
Continuing operations	0	0	0	0
Discontinued operations	*0*	*0*	*0*	*0*
Total revenues	138,534	1,879	6,576	146,989
Continuing operations	138,534	1,879	6,576	146,989
Discontinued operations	*0*	*0*	*0*	*0*
Segment EBITDA	7,997	-879	126	7,244
Continuing operations	7,997	-879	126	7,244
Discontinued operations	*0*	*0*	*0*	*0*
Depreciation and amortization	-12,220	-2	-5	-12,227
Continuing operations	-12,220	-2	-5	-12,227
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	-4,223	-881	121	-4,983
Continuing operations	-4,223	-881	121	-4,983
Discontinued operations	*0*	*0*	*0*	*0*
At equity valuation result				
Value adjustment on financial assets				
Net interest income/expenses				
Income/expenses from ordinary activities				
Income taxes				
Consolidated net income/loss				
Non-controlling interests				
Consolidated net income/loss attributable to shareholders of Gigaset AG				

Holding company	Other	Eliminations	Consolidated	January 1 to June 30, 2014
				Revenues
0	0	0	146,989	External revenues
0	0	0	146,989	Continuing operations
0	*0*	*0*	*0*	*Discontinued operations*
0	0	0	0	Internal revenues
0	0	0	0	Continuing operations
0	*0*	*0*	*0*	*Discontinued operations*
0	0	0	146,989	Total revenues
0	0	0	146,989	Continuing operations
0	*0*	*0*	*0*	*Discontinued operations*
-4,600	0	0	2,644	Segment EBITDA
-4,600	0	0	2,644	Continuing operations
0	*0*	*0*	*0*	*Discontinued operations*
-1	0	0	-12,228	Depreciation and amortization
-1	0	0	-12,228	Continuing operations
0	*0*	*0*	*0*	*Discontinued operations*
0	0	0	0	Impairments
0	0	0	0	Continuing operations
0	*0*	*0*	*0*	*Discontinued operations*
-4,601	0	0	-9,584	Segment EBIT
-4,601	0	0	-9,584	Continuing operations
0	*0*	*0*	*0*	*Discontinued operations*
			-310	At equity valuation result
			0	Value adjustment on financial assets
			-1,297	Net interest income/expenses
			-11,191	Income/expenses from ordinary activities
			260	Income taxes
			-10,931	**Consolidated net income/loss**
			0	Non-controlling interests
			-10,931	Consolidated net income/loss attributable to shareholders of Gigaset AG

January 1 to June 30, 2013	Europe	Americas	Asia-Pacific/ Middle East	Gigaset total
Revenues				
External revenues	160,853	12,470	10,213	183,536
Continuing operations	160,853	12,470	10,213	183,536
Discontinued operations	*0*	*0*	*0*	*0*
Internal revenues	0	0	0	0
Continuing operations	0	0	0	0
Discontinued operations	*0*	*0*	*0*	*0*
Total revenues	160,853	12,470	10,213	183,536
Continuing operations	160,853	12,470	10,213	183,536
Discontinued operations	*0*	*0*	*0*	*0*
Segment EBITDA	12,623	897	-1,705	11,815
Continuing operations	12,623	897	-1,705	11,815
Discontinued operations	*0*	*0*	*0*	*0*
Depreciation and amortization	-13,491	-7	-9	-13,507
Continuing operations	-13,491	-7	-9	-13,507
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	-868	890	-1,714	-1,692
Continuing operations	-868	890	-1,714	-1,692
Discontinued operations	*0*	*0*	*0*	*0*
At equity valuation result				
Value adjustment on financial assets				
Net interest income/expenses				
Income/expenses from ordinary activities				
Income taxes				
Consolidated net income/loss				
Non-controlling interests				
Consolidated net income/loss attributable to shareholders of Gigaset AG				

Holding company	Other	Eliminations	Consolidated	January 1 to June 30, 2013
				Revenues
0	3,848	0	187,384	External revenues
0	0	0	183,536	Continuing operations
0	*3,848*	*0*	*3,848*	*Discontinued operations*
0	48	-48	0	Internal revenues
0	0	0	0	Continuing operations
0	*48*	*-48*	*0*	*Discontinued operations*
0	3,896	-48	187,384	Total revenues
0	0	0	183,536	Continuing operations
0	*3,896*	*-48*	*3,848*	*Discontinued operations*
-842	-2,121	0	8,852	Segment EBITDA
-842	0	0	10,973	Continuing operations
0	*-2,121*	*0*	*-2,121*	*Discontinued operations*
-1	0	0	-13,508	Depreciation and amortization
-1	0	0	-13,508	Continuing operations
0	*0*	*0*	*0*	*Discontinued operations*
0	1,523	0	1,523	Impairments
0	0	0	0	Continuing operations
0	*1,523*	*0*	*1,523*	*Discontinued operations*
-843	-598	0	-3,133	Segment EBIT
-843	0	0	-2,535	Continuing operations
0	*-598*	*0*	*-598*	*Discontinued operations*
			0	At equity valuation result
			-56	Value adjustment on financial assets
			-1,266	Net interest income/expenses
			-4,455	Income/expenses from ordinary activities
			-8,805	Income taxes
			-13,260	**Consolidated net income/loss**
			0	Non-controlling interests
			-13,260	Consolidated net income/loss attributable to shareholders of Gigaset AG

9. Related party disclosures

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

€ (000)	Expenses 1/1 - 6/30/2014	Sales revenues/ income 1/1 - 6/30/2014	Receivables 6/30/2014	Liabilities 6/30/2014
Gigaset	1,265	483	1,886	15,332
Gigaset Mobile Pte. Ltd.	483	1,265	15,332	1,886

No value adjustments or expenses for uncollectible or doubtful receivables were recognized for existing receivables in the reporting period. Nor was there any collateral for the respective receivables.

There were no significant transactions between the Group and its related parties other than the facts and circumstances described.

10. Significant events after the reporting period

Under the offer for subscription of Gigaset AG (ISIN DE0005156004), which ended as planned on July 14, 2014, 3.5% of the subscription rights were issued to shares and 1.5% to convertible bonds. Goldin Fund Pte. Ltd. will purchase the 24,178,308 new shares and 9,337,935 convertible bonds that were not subscribed based on the issue of subscription rights at a subscription price of EUR 1.00 for each new share and/or convertible bond. Therefore, the Company received the planned net proceeds from the issue totaling EUR 33.9 million from the issue of new shares and convertible bonds.

The total number of shares issued has been increased to 121,498,092 with the entry of the executed capital increase in the commercial register on July 22, 2014. This includes 46,828 shares that were issued from contingent capital since January 1, 2014, as a consequence of conversion rights exercised based on the 2013 convertible bond and have not yet been entered in the commercial register.

The new shares are delivered on July 22, 2014. On this date, the new shares are also included in the existing quotation in the regulated market (Prime Standard) of the Frankfurt Stock Exchange. The convertible bonds were also delivered on July 22, 2014.

On July 24, 2014, Gigaset AG reduced all of its financial liabilities, including all interest not yet paid, totaling EUR 25.0 million after the requirement to repay an additional EUR 3.0 million on July 7, 2014, was fulfilled. This was made possible as a result of the proceeds from the recent successfully placed capital measures. Gigaset received a net amount of EUR 33.9 million in proceeds.

Gigaset's Chief Financial Officer, Dr. Alexander Blum, informed the Executive Board that his employment contract will end when it expires on December 31, 2014. Dr. Blum will continue to discharge all of his duties until the end of the year so that a successor can be appointed and acquainted with the responsibilities, thus ensuring a smooth transition. "After six extremely exciting years with Gigaset, this is a logical time for me to seek new challenges starting in 2015", says Dr. Blum, explaining his decision.

11. Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the interim consolidated financial statements give a true and fair view of the financial position, financial performance and cash flows of the Group, and the group interim management report provides a true and fair view of the development of the business, including the results of operations and the position of the Group as well as a description of the significant opportunities and risks associated with the expected development of the Group for the remaining months of the financial year."

Munich, August 4, 2014
The Executive Board of Gigaset AG

Charles Fränkl | Dr. Alexander Blum | Maik Brockmann

Financial Calendar

August 12, 2014

- Annual General Meeting in Munich, Germany

November 11, 2014

- 3rd quarterly report for the fiscal year 2014

Imprint

Publisher
Gigaset AG
Hofmannstrasse 61
81379 Munich

Telephone:: +49 (0) 89 / 444456-928
Telefax: +49 (0) 89 / 444456-930
info@gigaset.com, www. gigaset.ag

Editorial
Gigaset AG
Investor Relations and Corporate Communications

Concept, Layout, Production
The Growth Group AG
Telephone:: +49 (0) 89 / 21557680-0
Telefax: +49 (0) 89 / 21557680-9
info@growth-group.com

Gigaset

Report for the 2nd Quarter 2014

Gigaset AG • Hofmannstraße 61, 81379 München
Tel.: +49.89.444456.928 • Fax: +49.89.444456.930 • info@gigaset.com • www.gigaset.ag