

Gigaset

2011

ANNUAL REPORT



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# GIGASET AG 2011 ANNUAL REPORT

## Milestones in 2011

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### January

- Gigaset AG sells its interest in Carl Froh to the management

### February

- 100% of the shares of SM Electronic GmbH are taken over
- The Company's new name, Gigaset AG, is recorded in the commercial register
- Gigaset AG sells its interest in Oxxinova

### March

- Dr. Alexander Blum is appointed to the Executive Board as CFO
- Gigaset enters the enterprise customer market with telephone systems from the Gigaset pro series.
- Inclusion of Gigaset AG in the TecDAX

### April

- World's first in fixed-line telephony. Gigaset launches handsfree clip for complete freedom of movement.

### June

- The annual shareholders' meeting of Gigaset AG elects Rudi Lamprecht and Susanne Klöß as two new members of the Supervisory Board
- Rudi Lamprecht is voted Chairman of the Supervisory Board
- Prof. Dr. Michael Judis is voted Vice Chairman of the Supervisory Board
- Gigaset AG sells the confectionery manufacturer van Netten
- The convertible bond issued in November 2010 is converted on June 30, 2011.

### August

- Gigaset presents first full touch display phone for the home

### November

- Gigaset AG's Supervisory Board appoints Charles Fränkl effective January 1, 2012, as the new Chairman of the Executive Board.

## Multi-Year Overview

▶ EURm	2007	2008	2009	2010	2011
Consolidated revenues	2,102.3	5,505.0	3,492.0	1,009.5	520.6
Earnings before interest, taxes, depreciation and amortization (EBITDA)	202.7	111.5	17.7	0.0	50.9
Earnings before interest and taxes (EBIT)	140.5	-115.5	-139.8	-86.8	22.0
Consolidated net income/net loss for the financial year	114.7	-145.7	-153.0	-100.6	17.5
Free cash flow	-24.8	180.9	-68.9	-41.6	22.5
Earnings per share (diluted) in EUR	4.43	-5.09	-5.51	-3.35	-0.35
Earnings per share in continuing operations	2.43	-5.34	-2.35	-0.25	-0.41
Total assets	1,834.1	1,719.0	658.0	345.6	311.4
Consolidated equity	401.0	266.4	121.5	35.0	76.2
Equity ratio (in %)	21.9	15.5	18.5	10.1	24.5
Employees	12,319	13,455	5,049	2,333	1,875



Dr. Alexander Blum  
Maik Brockmann  
Charles Fränkl (l. to r.)

# „ GIGASET AG EXECUTIVE BOARD INTERVIEW

**?** **Mr. Fränkl, you took over as CEO of Gigaset AG on January 1, 2012. What appealed to you most about the position at Gigaset?**

*Fränkl:* I have long been aware of Gigaset as a strong brand and an innovative company. A Gigaset unit has stood in my home for many years now and I was a loyal customer long before the opportunity arose to take over the reins here. For me, it is essential to be convinced by a company and its products if I'm going to accept such a responsible task. Gigaset has convinced me like this from the product side and also appeals to me greatly from the strategic viewpoint because it has outstanding development prospects.

I come from the wireless industry and have been dealing with standardized wireless interfaces like DECT for some time now. These represent very good product platforms for innovation. I see plenty of strategic opportunities to develop the DECT concept plus the excellent Gigaset brand into promising new lines of business.

**?** **Dr. Blum, you have been CFO of Gigaset AG since the spring of 2011. What have been your main areas of activity to date?**

*Blum:* We have adapted our structures to consistently reflect the needs of the "new" Gigaset AG. This was the most important task not just for implementing the new business model with a focus on telecommunications on paper but also for living it together with the workforce. One simple but illuminating example: the employees of Gigaset Communications GmbH now help to cover any and all topics involving the umbrella company Gigaset AG. We are now a company without a bureau-

cratic superstructure. You could almost say that the subsidiary has taken over the parent.

The second important factor is and will remain transparent capital market communications. We have revamped the Investor Relations department and invested a lot of time in communicating with investors. It is important for us to reinforce confidence in Gigaset on the capital market. Last year, for instance, several prestigious banks produced analyst reports about the Gigaset share and we are now increasingly being seen as a desirable stock. Intensive dialogs with investors at roadshows and capital market conferences helped the realignment of our business model to be understood on the capital market and appraised accordingly. The confidence of the capital market and our investors is a major asset for us.

**?** **Mr. Brockmann, you assumed responsibility for Gigaset's global sales activities at the start of the year. How do you view the market and the competition?**

*Brockmann:* The sovereign debt crisis is depressing every market and weakening purchasing power in numerous countries. Nonetheless, we can point to stable market shares. We have a strong setup as market leader in Europe and one of the top three companies in this industry worldwide.

Our USP is quite simple: we are a technically highly innovative company with first class products. This is a very good fit with the global trend for consumers to increasingly buy high-end and premium products. We have been able to ride this trend wonderfully with the Gigaset brand and our products "Made in Germany" that impress with their design and their quality.



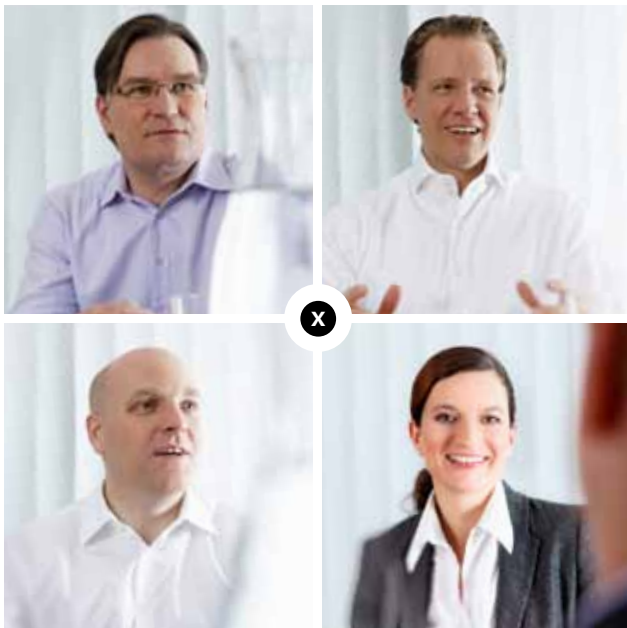
**? Apart from this, what were the main focal points and key events in the past fiscal year?**

*Brockmann:* I have already mentioned the sovereign debt crisis and declining purchasing power in numerous countries. The willingness of customers to buy DECT telephony products has fallen markedly in the affected regions. Demand in southern Europe has declined by up to 25 percent in some cases. We have been able to defend our strong position in these regions, albeit at the cost of plenty of energy and naturally also sales.

*Blum:* What is pleasing, though, is that we succeeded in regaining the confidence of banks last year despite this difficult macro-economic environment. Right at the start of the new year, we managed to conclude a syndicated loan with a volume of 35 million euros. This gives the Gigaset Group the flexibility it needs to act.

**? How did you succeed in boosting profitability so sharply last year?**

*Blum:* We greatly reduced our administrative expenses by cutting costs for external consultants such as lawyers. Employees of Gigaset Communications have assumed many tasks, enabling us to tap significant synergies and hence realize further savings throughout the CFO organization. This also holds true for Gigaset Communications itself, where additional savings have been



Kerstin Diebenbusch (b.r.) Investor Relations, interviewing the Board members Charles Fränkl (t.l.), Dr. Alexander Blum (t.r.), Maik Brockmann (b.l.)

gleaned by implementing a new pay settlement and centralizing administrative functions from the local companies abroad, for instance.

The impact of the measures we've taken and the ensuing results last year demonstrate that our new business model is both viable and profitable. The decision in favor of the new business model championed by the Chairman of the Supervisory Board at that time, Dr. Dr. Peter Löw, was correct.

**? Mr. Fränkl, what are going to be most important topics for you looking ahead?**

*Fränkl:* Looking ahead, I can see two major topics. First, there is Voice over IP, or VoIP, also known as internet telephony. This is a highly promising technology for the business customer market, where Gigaset has already taken the first steps with its "pro" line. I'm certain that we can systematically advance this segment with innovations and new products. But there is also a large private market emerging here: the displacement of classical telephony by internet telephony in highly developed markets and countries. This offers us a big new growth field in our existing Cordless Voice and Gigaset pro segments. We will invest systematically in this.

I would use the umbrella term "home networks" to summarize the second major topic. This is an area where we can deploy our wireless technology in order to provide an internet-based platform for automating various functions around the home and creating a number of convenient applications. Gigaset has a key advantage in this field: the fixed-line telephone is the only household device that is always switched on, even when no one is home. This makes it ideal for things like security functions that need to be constantly active.

We see highly lucrative opportunities for growth in both these fields. To exploit this will of course demand the kind of ability to innovate that we can bring to bear on the basis of our thorough technical competence. Our DECT standard represents an outstanding technical platform for this. And we have access to an installed base of over 75 million households. That is unique. So we bring a whole host of competitive advantages to the table.

**? And in the medium term, what will Gigaset be focusing on over the next two to three years?**

*Fränkl:* For one thing, we aim to progress in the field of internet telephony. This holds true for the business customer market covered by Gigaset pro as well the private customer segment represented by our Cordless Voice division. At the same time, we will seek to expand our home network activities, as mentioned earlier. This vision also means constantly refining Gigaset AG. The methods employed by our product development people, from idea through to finished innovation, will change to match. Up until now, we have developed proprietary product platforms and innovations. In addition, we will have to consider how to increase the compatibility of our systems with other applications and systems in the future. Android is a good example of this. Android is a free software and the most popular operating system for mobile devices. I can well imagine us participating in the wide world of Android apps in the future. This quite simply makes sense for us and our customers. But we will also continue to prioritize developing such new products ourselves. This will enable us to secure both our outstanding quality and an appropriate cost base. This is something we should leverage to create as much value as possible.

Alongside the growth stimulated by further product applications, I see an opportunity for us to greatly increase our market penetration in geographical terms as well. We already have a presence in a number of emerging markets. But we will also accelerate the regionalization of our activities in terms of both new business fields and existing operations in order to gain a greater share of the markets we have targeted.

**? Which specific markets are you looking at?**

*Fränkl:* Essentially, countries and regions with fast-growing middle classes are attractive for Gigaset. We're keeping a close eye on these markets. In some of these, however, greater involvement is not a matter of course. Individual conditions, like protective tariffs or inadequate infrastructures, make it necessary for us to always consider whether we can foresee sustainable potential for profitability. So we're taking an approach that is both consistent and differentiated at one and the same time.

**? What do you believe are the key factors for Gigaset to be successful in these countries?**

*Fränkl:* The innovations with which we aim to exceed the high expectations of our customers are crucial. Another major factor is our proximity to our customers. We are well aware of their needs from our constant dialog with them. Furthermore, it is important to work with the right partners in the core markets in particular. This also holds true for our innovation partners, and is just as critical on the distribution side as well.

**? How do you respond to the fears that the mobile phone will displace the fixed-line phone at some point?**

*Brockmann:* We're absolutely convinced that fixed-line telephony will play an important role for the foreseeable future, even if mobile telephony is the predominant topic in the communications industry at present. Usage patterns by our target groups clearly show us that the fixed-line unit is quite simply superior when it comes to convenience. And this will continue to be the case when, at some point, access is by Voice over IP instead of ISDN across the board. What's more, the range of applications supported by Gigaset's units will increase. Mr. Fränkl has already mentioned that we aim to roll out innovative products in the field of home networking that go far beyond traditional telephony.

*Fränkl:* We believe that very many customer segments have strong demand for our products. All the market research we have done points uniformly in this direction. Mobile coverage in many markets is not as good as in Germany, and internet-based or classical systems are preferred for critical processes and calls. That said, we realize that the fixed-line market is not growing and the market for cordless phones is consolidating. As one of the top players in this market, we have an active role to play in the process of consolidation. At the same time, we are also relying on our growth areas: Voice over IP in our traditional business, plus home networks as a further potential pillar.

**? What concrete measures have you planned for 2012?**

*Fränkl:* Our industry has been, is and will continue to be one of the most dynamic there is. The only constant is permanent change. Our aspiration is to have a constant presence on new technology platforms with new concepts, new ideas and new products. It hardly needs saying that this is the case again this



year. The main drivers in the market include internet-based services and standard technology platforms for devices. Growth in our DECT market will tend to be driven by volume rather than value, and herein lies the essential challenge for Gigaset. As number three in the market, Gigaset is well positioned here as a premium brand. Companies with strong technological capabilities will shape this development – especially with a view to value added.

We will again focus on markets outside of western Europe with our innovative products in the current year. We aim to rapidly increase our market share in countries with a strong and growing middle class over the short to medium term. At the same time, we will also position a number of premium products for our customers who feel most comfortable in what has been called the hybrid world. Moreover, we intend to expand our product range for business customers above all this year.

#### **? What will the Gigaset revenue mix look like in 2015?**

*Fränkl:* We have a very clear plan going forward. There are a number of things that need to be done to develop the new growth fields we've identified. I have a fairly good idea of what the next three to five years will look like. Our revenues will come from selling not only products but also a combination of products and services. We are currently in the process of organizing ourselves to do this.

#### **? So Gigaset into the future as well?**


*Fränkl:* Of course. I believe that the term fixed-line telephony is often not used properly: we like to distinguish between what we consider obsolete technology from the 1960s and 1970s, ISDN and analog technology, and what we call internet telephony. Our model is to offer the right devices, sensors, platform components with applications and services for this looking ahead. This mix may well change in the future, but we will retain our vertical integration. The Gigaset brand is ideally suited to this. We have the confidence of the consumer. We have been part and parcel of the daily lives of our private and business customers for a long time now. And we will continue to be so going forward.

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**Innovation:** The L410 brings telephoning at home to a new level of flexibility. The clip is attached to one's clothing and with the touch of a button, hands-free talking in perfect sound quality can be enjoyed. In addition, the Gigaset L410's ECO DECT features make it an environmentally friendly, saving energy and reducing radiation.



 Yvonne Oberg  
Munich  
Editor, *ELLE Lifestyle*

# ” INTERVIEW WITH YVONNE OBERG

Editor, ELLE Lifestyle

## ? Ms. Oberg, you are the editor at the lifestyle magazine Elle.

### What does a typical day look like for you?

I don't have a classic day-to-day routine. Every day brings numerous surprises. However, I definitely devote a large part of my time to finding and researching topics for the new issue and the layout of product and styling pages. Composing running text and writing fashion editorials and product pages also demands quite a bit of my time.

I spend the rest of my time maintaining client and partner relationships or conducting interviews with designers. And last but not least of course, my duties also include visiting trade fairs and fashion shows and organizing press conferences.

## ? What are the most important criteria for success as a lifestyle editor?

I have to be well-informed, know about everything, and need a good feel for quickly recognizing the significance of new trends. Important personal abilities definitely include creativity, innovativeness, a good sense of style, enjoying interacting with other people, and journalistic know-how.

## ? What do you like most about your occupation?

Definitely the variety. This job covers an enormous range of topics. On the one hand because the contents of the issues change from month to month. After all, our customers expect new lifestyle highlights in every issue. On the other hand even the many small tasks provide new challenges every day.

## ? How do you use the telephone and how important is it for your occupation?

I use the telephone regularly throughout my business day. After all, I always have to be informed about the latest topics and report on them. The fastest way is with an uncomplicated telephone call. Furthermore, a quick call allows me to easily

maintain contact with customers – with a telephone call and some small talk I am once again on the PR manager's radar and know all about product innovations or new trends. The same goes for organizing appointments, which are also best managed over the phone. A lot happens between the lines; that is why it is so important to maintain verbal contact. Interviews are also sometimes conducted over the telephone – that saves time and money. We use the telephone internally mainly to put the issue together and coordinate – in particular with other departments.

## ? How do you use the telephone privately?

Since I am on the go a lot, I often call between appointments from my cell phone. But honestly, in the evenings after work I am happy when I don't have any more calls to make. It's also nice to enjoy some peace and quiet. However, I often have long conversations on my land line over the weekend.

## ? Why do you have a DECT telephone at home in addition to your cell phone/smartphone?

Because it's simply more comfortable than a cell phone. Moreover, the connection and audio quality are significantly better with my cordless phone than with my cell phone – and not just because of the poor reception in my apartment. On the other hand, telephone calls are cheaper from land line to land line than from cell phone to land line or cell phone to cell phone.

## ? What was important to you when choosing your telephone? Or: which functions are important to you on your telephone?

For me, a telephone has to fulfill three basic requirements: ISDN compatibility, an attractive design, and lastly menu navigation must be as logical and intuitive as possible. Then I am satisfied!

“



Christian Irmeler

Managing Director, *ITK Fabrik GmbH*  
at the customer, *Sunseeker*

# ” INTERVIEW WITH CHRISTIAN IRMLER

Managing Director, ITK Fabrik

**1. Mr. Irmeler, you are the managing director of ITK Fabrik GmbH, a value added reseller (VAR). How does a VAR work and what services are offered by ITK Fabrik?**

A value added reseller is a specialized dealer who plays an important role in the sales chain of technically versatile products. In addition to the products they sell, VARs offer value added services; for instance, training, technical support, or installation services.

ITK Fabrik GmbH offers innovative, future-oriented products for all needs related to networks, cloud-based services, wireless and Internet, as well as telephony and video security solutions.

**Can you describe a little more precisely how you work/ what your specific customer process is?**

The dialogue with the customer is the starting point for our planning – to which we devote a great deal of time. Only perfect planning in advance enables an equally perfect and cost-effective implementation. It has to work the first time – not after the second or third improvement.

The next step is a review together with the customer. Once the project is implemented entirely according to their wishes, we provide the customer with technical documentation and conduct training or an introductory course on how to use the product, depending on the technology installed – a point that is often overlooked, which then means that many of the newly available functions cannot be used to the customer's advantage or to increase the company's efficiency.

Continuous monitoring of the customer's IT and communication infrastructure rounds out our range of services for business

operations. In addition, we also offer individual remote maintenance and short-notice on-site service as needed.

**What do your customers value above all?**

Die Customers value in particular custom solutions that can be implemented immediately. We excel in particular at listening to our customers. We want to first completely understand what their needs are and approach a solution through corresponding suggestions in dialogue. For this we implement the best technologies, which we are constantly monitoring and modernizing.

**To what extent does Gigaset meet these requirements with the new pro line?**

With its pro line, Gigaset has succeeded in making the exciting market of VoIP offerings accessible for small and medium-sized enterprises (SMEs). The familiar excellent design and simple and easy to use devices and telephone systems enable customers to quickly understand the advantages of ISDN and VoIP telecommunications systems. The utility and cost-savings usually convince customers immediately after the systems are put into use.

**Can you give us examples of customers for whom you have already installed the new Gigaset pro line? How were your experiences?**

Ein One example is the relocation of GSK Stockmann + Kollegen in Stuttgart. Here we had overall technical responsibility for the installation of the new Gigaset pro telephone system as well as a secure WLAN infrastructure.

A relocation and new communications systems represent a special challenge for companies. Unfamiliar surroundings



and navigating new systems entail increased training and considerably greater need for consultation. Gigaset's support during the implementation was a great help to us during the transition.

Another example is the servicing of Sunseeking Germany AG's entire IT and communications infrastructure (network, telephony with Gigaset pro, WLAN, server, e-mail, calendar, customer administration) at all their European locations.



The Sunseeker expo team's first contact with a Gigaset pro system was at the "boot 2012" in Düsseldorf where we were able to introduce Gigaset pro. Thanks to its simple configuration, the Gigaset pro system was quickly up and running at the trade show booth. The web interface made it possible for staff members to call the right contact person for VIP guests and visitors quicker than ever before. The link-up of the systems in Mallorca and Hamburg via VoIP saves money, and HD telephony gives

co-workers the feeling of being in the same office. This makes internal communication much more fun than it was in the past over analogue lines. Other European branch offices will follow this year.

Our recent projects also include the realization of telephony (Gigaset pro) and guest WLAN for the newly constructed Sansibar WINE, Mallorca.

Both a local connection to the Spanish telephone network as well as a cost-effective solution for communicating with other locations such as the East Hotel in Hamburg encourage a decision in favor of a Gigaset pro system. Thus, there is nothing left to prevent the official opening in April.

#### **? What future trends/developments do you see for the SME market?**

More than ever before, companies have to get their communications costs under control. The ability to be reached and the use of the latest technologies are playing an increasingly larger role in this. When properly implemented, Voice over IP is fully capable; company-wide implementation of VoIP is one of today's modern forms of communication.

The trend of companies always being available for their customers, but nevertheless being able to prioritize incoming calls and thus maintain an overview is a challenge that we are meeting with newer and newer solutions.

The integration of various means of communications in an easily operated overall concept without neglecting a customer's needs is driving us to find new ideas and innovations.

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**Gigaset pro.** DECT IP base for mobile communication in small and medium sized businesses.

The N510 IP PRO DECT IP base station gives you a top-performing mobility solution. Up to six handsets can be registered on the DECT IP base station. You can select from a wide range of compatible Gigaset handsets. The DECT IP base station supports up to six different VoIP accounts and phone numbers – great for multiple users or several lines. Up to four calls can be performed in parallel.





**Abdulla Al Gurg**  
Group General Manager  
of Easa Saleh Al Gurg  
Group of Companies, UAE



# ” INTERVIEW WITH ABDULLA AL GURG

Group General Manager,  
Easa Saleh Al Gurg Group of Companies, UAE

## ? Mr. Gurg, can you give us an overview on Better Life's business?

Better Life is an enterprise of Easa Saleh Al Gurg Group. It is a specialist home appliance company representing world leading brands such as Gigaset, Siemens, Smeg, Zanussi, Terim, Fisher & Paykel, Wolf Power, Vestfrost, Forbes and Grundig.

We believe the products developed by these world class brands through years of research and refinement not only improve the quality of life by providing convenience and ease-of-use but also satisfy individual aspirations for design and ergonomics.

The UAE is a hub of nationalities from across the world, making it a challenging market for the retail industry to devise an informed marketing strategy. Better Life has had a successful journey of eight years by adapting various innovative marketing schemes targeting different categories of consumers. As a result of this dynamic approach, the retail business of our Group has grown remarkably over the years.

## ? What are your thoughts on association with Gigaset?

We have been the distributor for Gigaset in the UAE since the inception of the brand, even in its former version as Siemens Gigaset.

Better Life possesses the expertise to distribute and service a brand like Gigaset, known for its high-quality German engineering. The brand's multi-dimensional product portfolio in the corded and cordless phone segment further accelerates demand in a growing market like UAE.

## ? What would you say about Gigaset's performance?

Better Life and Gigaset share a very positive synergy, working together towards obtaining a greater share in the market. The growth of the industry in general has been sluggish; however Gigaset regularly introduces new innovative models for this region, providing consumers with a wider choice.

Gigaset's continued focus on the UAE business operations has resulted in a growth of over 30 percent in spite of the recession and regional uncertainties. We are targeting a growth of 30 percent in this fiscal year as well.

## ? How does Better Life contribute to Gigaset's market share?

Gigaset works very closely with us on retail and market development as well as product support. Better Life ably supports the brand with a dedicated team and experienced merchandisers who are well versed on the brand and its potential. Regular in-house training sessions assist the team to understand and function based on the changing needs of target consumers as well as the evolving product line-up. We also participate in select marketing activities, which involve shop floor staff and in regular co-promotion activities with selected retail channel partners.

Better Life has also been awarded as the Best Distributor in 2010 and Distributor with Excellence in 2011.



### ? How does Gigaset stand out from the other cordless phone brands?

Gigaset represents German Engineering which translates to superior quality products that understand the pulse of the customer.

Each and every model has a unique selling point and therefore adheres to various customers' requirements and aspirations. The range has the ability to reach out to both technologically savvy and general customers.

Cordless telephony still remains an important mode of communication within homes. Gigaset provides customers with products that have superior voice quality, are easy to use as well as being reliable and convenient. The gadget is even available in a pocket-size range offering unlimited flexibility and mobility within the home environment.




### ? How does the future forecast for Gigaset look?

The telecom industry in the region is witnessing rapid changes with the Telecom Regulatory Authorities planning to liberalize VoIP Technology. Gigaset, which is a major player in the global VoIP Phones market, is ready to unveil their range that will match the needs of the changing market dynamics within the region, once relevant authorities approve the required access and bandwidth.

VoIP phones for internet and landline-calls are the future of home telephony. Gigaset is well-placed to offer the perfect amalgam of technology, innovation and design which will boost the brand's presence in the region.

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 **DECT telephony.** The SL910A is Gigaset's first-ever touch-screen phone. The large, 3.2" capacitive touch-screen displays all the functions one may need on its full-touch user interface, designed for easy navigation. These functions are organised within three home screens – for dialling, messaging and customizable information.



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# ! TO OUR SHAREHOLDERS

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## Capital Market and Share

Capital markets around the globe are looking back at a turbulent year characterized by extraordinarily high volatility on the stock markets. The trends of share price indices worldwide were driven primarily by the natural disaster in Japan and its consequences and in particular by the euro zone debt crisis, which dominated all else.

The German benchmark index DAX began 2011 on an upbeat note. Positive earnings reports and encouraging economic data, especially from the U.S., fueled optimism among investors at the start of the year. The bond auctions needed to refinance Spain and Italy were successful, and even the initial placement of EUR 5 billion by the European Financial Stability Facility (EFSF) was oversubscribed many times over. The Ifo Business Climate Index reached its highest level since German reunification.

The unrest that flared up in the Arab world, especially in the key oil-exporting nation of Libya, drove commodity prices to record levels in February and fed fears of rising inflation. The credit rating downgrades of Greece, Spain, and Portugal further dampened the mood. Finally, the devastating natural disaster in Japan triggered massive losses on stock markets around the world.

The Gigaset AG stock also began the year on an impressive note. Buoyed by the preliminary results for 2010, which exceeded our expectations, the share price outperformed the market as a whole. By March 4 the share price reached its highest level of the year at EUR 4.81. The Gigaset stock could not escape the overall market trend in the wake of the events in Japan, though our share price did manage to counter strong losses with an equally strong and rapid recovery. Now, following our inclusion in the TecDAX index on March 21, our position among Germany's premier technology companies is reflected on the capital market as well.

The market as a whole also recovered, a trend accompanied by favorable earnings reports and an unwaveringly positive assessment of the economy by the economic research institutions. But volatility also increased. After the end of the annual report season, Greece's sovereign debt and worries about the creditworthiness of Spain and Italy made the debt crisis in the euro zone the decisive factor, with far-reaching consequences. Following the earlier downgrades of European countries, Standard & Poor's now also downgraded the United States to AA+. Capital markets responded with the sharpest declines since 2008. In the MSCI index alone, over USD 2.5 trillion in market capitalization was erased in a single week. On August 8, the DAX index posted its sharpest single-day loss in three years, falling 5.82% to below the 5,000 mark.

On June 30, 2011 – the earliest possible date – the Executive Board implemented the conversion of the convertible bonds issued in November 2010. Each bond gave the bearer 0.8696 bearer shares with an accounting value of EUR 1.00 per share in the total capital stock of the Company. This increased the total number of shares issued by Gigaset AG to 50,014,911.

The stock market slump also increased pressure on Gigaset's stock. The share price declined steadily, though not as rapidly as the overall market, reaching its lowest level of the year on August 5 at EUR 2.13. The second-quarter figures published in August, which confirmed an uninterrupted positive trend in core business and reaffirmed the earnings forecasts for 2011, helped the share price regain ground.

The market as a whole also recovered amid continued, extremely high volatility. The DAX index responded to the European consensus to fund the EFSF at a trillion euros with an 11% uptick, its best-ever performance within a single month. But the losses were nearly as severe as soon as a solution to the debt crisis began to recede again and the focus turned to other countries, especially Italy. After a year of extreme fluctuations and a great deal of tension on the markets, the stock market ended the year at 5,898.35 points, down 14.70%.

The uneasiness of the overall market also made itself felt in the share price of Gigaset AG. Once the stock had rebounded from its lows, our share price showed continued back-and-forth volatility and ended the 2011 trading year at EUR 2.46.

## Dividend

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The annual shareholders' meeting on June 10, 2011, decided to carry forward the retained earnings from fiscal 2010 to new account.

## Over 90 % Free float

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According to the definition used by Deutsche Börse AG, 95% of the shares in Gigaset AG were free float at the end of the fiscal year. The Company is not aware of any shareholder holding more than 10% of the voting rights. The shares are held primarily by institutional investors from the United States, the United Kingdom, France, Switzerland, and Germany, and by private investors primarily from Germany.

The following investors have reported their Gigaset shareholdings to us:

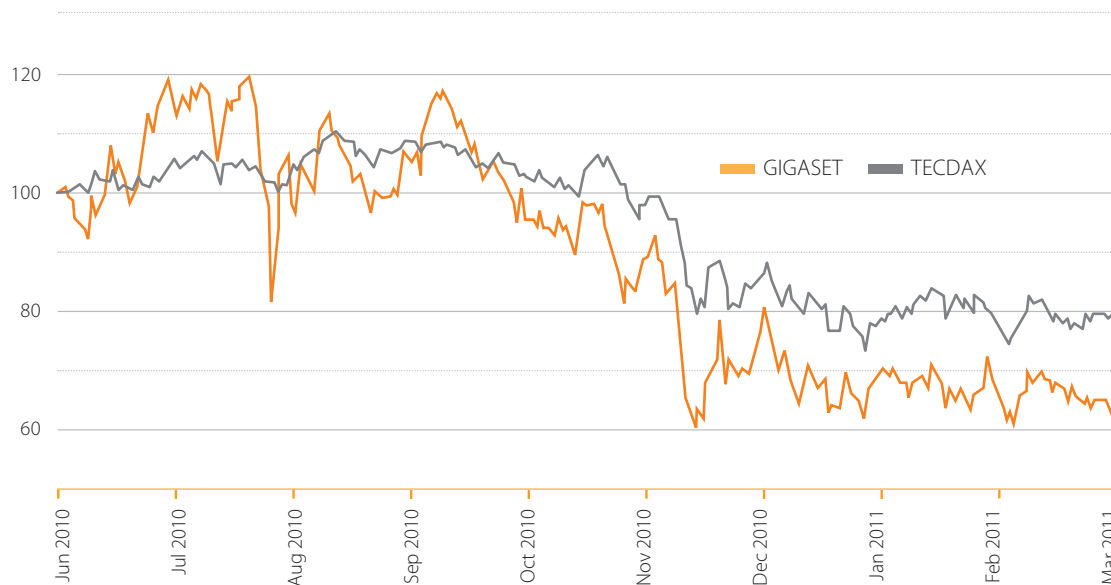
Name	Shares in %
Mantra	5.19
Dr. Dr. Peter Löw	3.62

Compliant with the German Securities Trading Act (Wertpapierhandelsgesetz), transactions conducted by executives of Gigaset AG subject to mandatory disclosure are published on the Company's website. The Corporate Governance section of this Annual Report, page 33, contains more detailed information about shares and options held by members of the Executive Board and the Supervisory Board as well as securities transactions conducted by members of the Executive Board and the Supervisory Board subject to mandatory disclosure.

### Information on the share (as of mid-March 2011)

WKN	515600
ISIN	DE0005156004
Stock market code	GGS
Reuters Xetra code	GGS.DE
Bloomberg Xetra code	GGS:GR
Stock type	No-par bearer shares
Share price indices	Prime Standard, TecDAX

Share indicators	2011	2010
Number of shares in issue on December 31	50,014,911	39,666,670
Capital stock (EUR)	50,014,911	39,666,670
Closing price on December 31 (EUR)	2.46	3.42
Market capitalization on December 31 (EUR millions)	123.2	135.7
Average daily trading volume (shares)	417,000	208,000
52-week high (EUR)	4.81	4.22
52-week low (EUR)	2.13	0.86
Earnings per share at year-end (diluted, EUR)	0.35	-3.35
Dividend	0.00	0.00



## Investor relations work stepped up in 2011

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Gigaset AG considers it very important to remain in close contact with institutional and private investors, financial analysts, and journalists. We view the provision of comprehensive, transparent, and prompt information to all capital market participants as one of the key tasks of the Executive Board and the corporate Investor Relations Department. That's why we have kept our commitment to step up the Company's investor relations activities in the past year. The Executive Board took the opportunity to conduct in-depth personal meetings with more than 100 institutional investors on 13 road show days, in one-on-one meetings, and at capital market events such as the German Equity Forum in Frankfurt. In so doing, we devoted a great attention to our task of engaging in an intensive dialog with the capital market. Our management, including our new CEO Charles Fränkl, will continue to report to investors in Germany and around the world in 2012 on the Company's operating performance, the trends on the telecommunications market, and the Company's potential.

Within the framework of our investor relations work, we inform our shareholders about the Company's performance in interim, half-yearly, and annual reports. A call to analysts and investors was introduced to coincide with the presentation of the interim and half-yearly earnings reports. This elicited a strong response and will continue to serve as a targeted channel of communication in the future. All financial reports, ad hoc and press releases, the financial calendar, annual shareholders' meeting documents, and a wide range of current information about the Company are also made available promptly in the Investor Relations section of the Company's website ([www.gigaset.ag](http://www.gigaset.ag)).

## Analysts

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In addition to VISCARDI AG (current target price: EUR 5.60; recommendation: "buy"), the financial analysts Hauck & Aufhäuser began covering Gigaset AG in the past year. Their investment recommendation for the Gigaset share is "buy" and their current target price EUR 5.50 per share. There followed Bankhaus Lampe (currently EUR 7, buy) and DZ Bank (EUR 4.50, buy).

The Executive Board of Gigaset AG assumes that more analysts will begin covering the Gigaset share in the current year. All the latest analyst assessments and recommendations can be tracked on our website.

## Contact

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You can contact the Investor Relations Department at Gigaset AG at:

Gigaset AG  
Kerstin Diebenbusch  
Hofmannstraße 61  
81379 Munich

Phone: +49 (0) 444456 - 937

Fax: +49 (0) 444456 - 930

E-mail: [kerstin.diebenbusch@gigaset.com](mailto:kerstin.diebenbusch@gigaset.com)

## Corporate Governance Report

With only a few exceptions, Gigaset AG corresponds to the recommendations of the German Corporate Governance Code (the "Code"), which was issued in 2002 and recently expanded on May 26, 2010. Gigaset AG understands corporate governance to be a process that is continuously developed and improved.

The Executive Board and Supervisory Board of Gigaset AG have submitted the declaration of conformity with the German Corporate Governance Code required under Section 161 of the German Stock Corporation Act (Aktien-gesetz, AktG) in the version dated May 26, 2010, and has also made the declaration permanently available to its shareholders on its homepage ([www.gigaset.ag](http://www.gigaset.ag)). The deviations from the German Corporate Governance Code are documented accordingly.

### Management and control structure – Supervisory Board

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As a German stock corporation, Gigaset AG is subject to German laws governing stock corporations and thus has a dual management and control structure.

The Supervisory Board appoints the members of the Executive Board and determines the allocation of responsibilities. It monitors the Executive Board and advises it with respect to managing the business. The Supervisory Board discusses the planning and business development as well as the strategy and its implementation. Important executive decisions are bound to its approval. In addition to dealing with the quarterly reports, the Gigaset AG's single-entity and consolidated financial statements are discussed and approved under special consideration of the auditors' long-form reports and the results of the review conducted by the Audit Committee formed by the Supervisory Board for this purpose.

### Management and control structure – Executive Board

---

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

## Stock transactions involving members of the Executive Board and Supervisory Board requiring disclosure

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The members of the Executive Board and Supervisory Board are legally obligated under Section 15a of the German Securities Trading Act (Wertpapierhandelsgesetz, WpHG) to disclose the acquisition or sale of shares of Gigaset AG or financing instruments related to the Company's shares if the value of the transactions entered into by a board member or their related parties equals or exceeds EUR 5,000.00 within one calendar year ("directors dealings").

The Company did not receive any notifications required under Section 15a WpHG in fiscal year 2011, nor has it received any in fiscal 2012 up to the date on which the balance sheet was prepared.

## Declaration of conformity

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The Statement of Compliance with the German Corporate Governance Code pursuant to Section 161 AktG has been made permanently available to the shareholders: "The Executive Board and Supervisory Board of Gigaset AG stated and will state their compliance with the recommendations of the German Commission on corporate management and supervision as amended on May 26, 2010, and published in the electronic version of the Federal Gazette (Bundesanzeiger), with the exception of the points outlined below. The deviations are explained in the following statement.

### D&O insurance for members of the Supervisory Board

Contrary to Section 3.8, no deductible of at least 10% of the damage was agreed when the D&O insurance policy was concluded for members of the Supervisory Board.

The Company believes that the members of the Supervisory Board of Gigaset AG perform their duties with the necessary care and attention, even without the agreement of a corresponding deductible.

### Composition of the Executive Board

Contrary to Section 4.2.1, the Executive Board comprised only one member in the period from September 1, 2010, until March 29, 2011.

This reflected the sale of various subsidiaries together with the realignment of the business model and the focus on the telecommunications segment. In the period from March 30, 2011, to December 31, 2011, the Executive Board comprised two members.

### Compensation paid to members of the Executive Board

Contrary to Section 4.2.3, the variable elements of compensation paid to the board members Dr. Alexander Blum and Maik Brockmann are not based on a multi-year assessment.

Mr. Brockmann's Executive Board contract and Dr. Blum's Managing Director contract each have a term of only two years; as a result, the Company does not believe that a multi-year assessment base would offer any additional protection or value.

Contrary to Section 4.2.3, the subsequent modification of the performance targets or the benchmark parameters is not excluded.

Dr. Blum's variable compensation is pegged to the degree of performance of the parameters established for Gigaset Communications GmbH's success. The specification of targets at the beginning of every fiscal year enables Gigaset Communications GmbH to react flexibly to changes in parameters.

With regard to the payment of a bonus to Mr. Brockmann, a contractual agreement is in place stating that the Supervisory Board will decide on whether such a bonus will be paid, and also the amount and timing of such a payment. In the opinion of the Company, this makes it possible to flexibly and optimally reflect a positive or negative development of the Company.

Contrary to Section 4.2.3, the variable elements of compensation paid to the board members Maik Brockmann and Dr. Alexander Blum do not specify a cap.

However, in the case of the board member Brockmann, the Company's Supervisory Board decides both whether a bonus will be paid as well as how much and when. When determining the amount involved, any disbursement relating to an increase in the value of the virtual share portfolio is to be taken into account accordingly. The Company believes that due to the correlation between bonus payments and disbursements on account of increases in the value of the virtual share portfolio, the Supervisory Board may take account of a high payment due to a higher share price by reducing the size of, or refraining from making, the bonus payment, and that the short contractual term already provides for adequate protection against excessive variable compensation being paid to the board member Brockmann.

In the case of the board member Dr. Blum, the variable compensation payable only amounts to €30,000.00 if he achieves 100% of the goal. In addition, the Company believes that the short contractual period of two years also provides sufficient protection from paying unreasonably high variable compensation to the board member Dr. Blum.

Contrary to Section 4.2.3 a severance payment cap has not been agreed with the board members Maik Brockmann and Dr. Alexander Blum.

The Company believes that the short contractual term of just two years already provides adequate protection against inappropriate severance payments.

### **Succession planning**

Contrary to Section 5.1.2, no age limit has been specified for the members of the Executive Board. There has not yet been any succession planning.

The Company believes that an age limit per se does not represent a useful/proper exclusion criterion for exercising a function on the Executive Board, not least as this could be construed as discrimination. An appointment to the

Company's Executive Board is based primarily on the knowledge, skills and professional experience of the candidate in question.

Considering the term of the Executive Board contracts and the number of board members, succession planning does not yet seem appropriate at this time.

### **Supervisory Board by-laws**

Contrary to Section 5.1.3, the Supervisory Board did not establish any by-laws for itself in the current term of office.

Due to the good cooperation and close coordination between members of the Supervisory Board in the past, Gigaset AG does not currently see the absolute need for by-laws.

### **Age limit for members of the Supervisory Board**

Contrary to Section 5.4.1, no age limit has been specified for the members of the Supervisory Board.

The Company believes that an age limit per se does not represent a useful/proper exclusion criterion for exercising a function on the Supervisory Board, not least as this could be construed as discrimination. Candidates are proposed at the annual shareholders' meeting for election primarily on the basis of the knowledge, skills and professional experience of the candidate in question.

### **Supervisory Board compensation**

Contrary to Section 5.4.6 of the Code, the members of the Supervisory Board are paid a fixed salary. The compensation does not include a performance-related element.

The Company believes that the fixed salary reinforces the independence of the members of the Supervisory Board, prevents potential conflicts of interest, and yet enables the obligations of the Supervisory Board to be guaranteed in full.

### **Supervisory Board committees**

Contrary to Sections 5.3.1 and 5.3.3, the Supervisory Board has not established any committees with the exception of the Audit Committee. Section 5.3.1 of the Code recommends establishing committees of sufficient expertise with the goal of increasing the efficiency of the Supervisory Board's work.

The present composition of the Supervisory Board with its manageable size of six board members and the almost monthly board meetings ensure efficient work and in-depth discussion of strategic topics as well as detailed issues. In addition, the size of the Supervisory Board means that setting up committees could not be expected to increase efficiency any further. A nomination committee has not been set up as only representatives of the shareholders sit on the Supervisory Board.

### **Composition and goals of the Supervisory Board**

Contrary to Section 5.4.1, the Supervisory Board has not set any concrete goals for its composition.

The Supervisory Board is elected by the annual shareholders' meeting. Gigaset AG believes that it is up to the shareholders of the Company alone to decide upon the suitability of candidates."

## Principles of the compensation system for executives of Gigaset AG

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### Compensation paid to members of the Executive Board

Each board member's responsibilities and contribution are taken into account when determining compensation. The compensation granted in fiscal 2011 consisted of a fixed annual salary and performance-related components. The variable components consist of bonus agreements for all active members of the Executive Board during the reporting period which are tied to the capital appreciation of a virtual share portfolio (and thus dependent on the company's performance) and to the fulfillment of certain goals established for each Executive Board division (and thus dependent on the performance of that division).

Specifically, the Executive Board compensation is composed of the following elements:

- The fixed compensation is paid in the form of a monthly salary
- The variable compensation consists in part of a special bonus, the amount of which is determined with reference to the capital appreciation of a "virtual share portfolio," and in part of an individual bonus agreement for all active members of the Executive Board during the reporting period.

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

### Compensation paid to members of the Supervisory Board

The annual shareholders' meeting held on June 10, 2011, adopted a new compensation system for the Supervisory Board as follows: "Each member of the Supervisory Board receives a fixed salary of EUR 1,000.00 for each month or partial month of their term of office as well as a meeting fee of EUR 1,000.00 for each Supervisory Board meeting or committee meeting attended. The Chairman of the Supervisory Board receives a fixed salary of EUR 1,500.00 for each month and partial month of their term of office as well as a meeting fee of EUR 1,500.00 for each Supervisory Board meeting or committee meeting attended.

The compensation is due at the end of the annual shareholders' meeting adopting a resolution to approve the actions of the Supervisory Board for the previous fiscal year."

## Share ownership of members of the Executive Board and Supervisory Board

The members of the Executive Board held 34,348 shares of Gigaset AG as of the reporting date. The members of the Supervisory Board together held 1,824,038 shares of Gigaset AG as of the reporting date. This corresponds to 3.65% of the issued shares. Share ownership of members of the Executive Board and Supervisory Board can be broken down to the individual board members as follows:

	Number of shares	Dec. 31, 2011, or on the date of retirement	as of the date the balance sheet was prepared
<b>Executive Board</b>			
Charles Fränkl, (Chairman of the Executive Board, board member since January 1, 2012)		0	0
Dr. Alexander Blum, (member of the Executive Board since March 30, 2011)		34,348	34,348
Maik Brockmann		0	0
<b>Supervisory Board</b>			
Rudi Lamprecht (Chairman, member of the Supervisory Board since June 10, 2011)		300	300
Prof. Dr. Michael Judis (Vice Chairman)		10,604	10,604
Dr. Dr. Peter Maria Löw (Chairman until June 10, 2011)		1,811,833	1,811,833
Susanne Klöß (member of the Supervisory Board since June 10, 2011)		0	0
Bernhard Riedel		1,301	1,301
David Hersh		0	0
Hubertus Prinz zu Hohenlohe-Langenburg (member of the Supervisory Board until June 10, 2011)		1,565	
Dr. Rudolf Falter (member of the Supervisory Board until June 10, 2011)		1,038	

## Information on stock options and similar incentive systems

Please refer to the comments in the remuneration report for information regarding the board members' virtual stock portfolio.

## Further information on the Gigaset AG's corporate governance

More detailed information on the activity of the Supervisory Board as well as the collaboration between the Supervisory Board and the Executive Board can be found in the Report of the Supervisory Board in this annual report.

Current developments and important information such as ad hoc and press releases, annual and interim reports, and the financial calendar with important dates for Gigaset AG, as well as securities transactions requiring disclosure ("directors dealings") and information on the annual shareholders' meeting are always promptly made available on our homepage [www.gigaset.ag](http://www.gigaset.ag).

## Report of the Supervisory Board

Gigaset AG continued down its successful realignment path in fiscal 2011. The Supervisory Board closely accompanied the Company and its Executive Board, which is reflected by a number of time-consuming meetings.

### Collaboration with the Executive Board

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The Supervisory Board performed all duties required under law and under the Articles of Association and monitored the work of the Executive Board, supporting it with advice. In particular, it accompanied the focus on the telecommunications segment and attracted a new Chairman of the Executive Board with Charles Fränkl, who asserted himself over a number of highly-qualified competitors in an intense selection process. The Executive Board informed the Supervisory Board periodically, comprehensively, and in a timely manner in writing or verbally over all relevant issues of the Company's development, the course of business, and the position of the Group, in particular over the development of the business situation and cash flows, possible acquisitions or sales of subsidiaries or portions thereof. Additional topics of discussion included changes in personnel, the risk situation and risk management, and changes in liquidity and the budget as well as fundamental questions of corporate policy and strategy.

### Activity of the Supervisory Board

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The Supervisory Board concerned itself with the Executive Board reports normally submitted on a monthly basis on fundamental issues of corporate planning (in particular financial, investment, and personnel planning) as well as with transactions that could be of considerable importance for the profitability or liquidity of the Company.

In its meetings, the Supervisory Board questioned the management about the submitted reports, in particular regarding current developments, possible acquisitions and sales projects, as well as about upcoming decisions. Necessary authorizations were given after a thorough review of the documents presented by the Executive Board.

Furthermore, the Chairman of the Supervisory Board held regular discussions with the members of the Executive Board. During these dialogues, the management was questioned about current developments, upcoming decisions were thoroughly discussed, and Supervisory Board resolutions were prepared.

The Supervisory Board also dealt with the investigation and elimination of risks from the past.

## Meetings and resolutions of the Supervisory Board in 2011

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The Supervisory Board convened for a total of eight meetings in fiscal year 2011.

Three meetings took place in the period prior to the annual general meeting and five meetings were held in the subsequent period. The Supervisory Board thoroughly discussed the reports of the Executive Board; among other things, the economic development of subsidiaries. The members of the Executive Board were also normally present at these meetings unless the topics discussed pertained directly to the Executive Board. In addition, the Supervisory Board adopted resolutions in writing via circulation of the documents in two rounds.

The Company's auditor, PricewaterhouseCoopers AG, also participated in the meeting to adopt the annual financial statements for the 2011 fiscal year held on March 26, 2012.

In the past reporting period, the Supervisory Board observed the ongoing development of the business and the implementation of the corporate strategy as closely as the Company's strategic development, in particular with respect to the focus on the telecommunications and accessories segment. Special attention was given to the Company's liquidity situation and the nature and scope of contingent liabilities.

## Activity of the Audit Committee

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An Audit Committee was established in order to perform the duties incumbent under law and the Articles of Association as efficiently as possible. This committee was made up of a total of three members in fiscal year 2011 and met unless its duties were discharged by plenary meetings. It was kept informed by the Executive Board and auditor.

## Corporate Governance

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The Supervisory Board concerns itself regularly with the application and further development of the applicable standards of excellent and responsible corporate management under the German Corporate Governance Code. The Executive Board and Supervisory Board submitted an updated declaration of conformity, as required under Section 161 AktG and made it permanently available to the shareholders on the Company's webpage.

In accordance with the Code's recommendations, the Supervisory Board obtained a statement by the auditor on May 27, 2011, regarding which professional, financial, or other relationships existing between the auditor and the Company that could justify doubts about their independence (statement of independence). The statement also covers the scope of other audit services rendered for the Company in the fiscal year just ended.

## Risk management

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The Supervisory Board dealt in detail with the issue of risk in 2011, in particular with the risk management system. The Executive Board reported in detail on the risk situation and larger individual risks. The structure and function of Gigaset AG's risk management system was reviewed and confirmed by the auditor.

## Personnel matters of the Executive Board

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The Supervisory Board focused intensely on appointing qualified members to the Executive Board in the reporting period. Effective March 30, 2011, Dr. Alexander Blum, was hired as the Company's CFO. Charles Fränkl, an extraordinarily experienced CEO, was found in the second half of the year after a long and intense selection process and appointed effective January 1, 2012.

## Personnel matters of the Supervisory Board

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The Supervisory Board comprised the following members in the reporting period:

- Rudi Lamprecht starting June 10, 2011 (Chairman since June 10, 2011)
- Prof. Dr. Michael Judis (Vice Chairman of the Supervisory Board)
- Dr. Dr. Peter Löw (Chairman until June 10, 2011)
- Susanne Klöß starting June 10, 2011
- Bernhard Riedel
- David Hersh
- Dr. jur. Rudolf Falter until June 10, 2011
- Hubertus Prinz zu Hohenlohe-Langenburg until June 10, 2011

## Audit of the annual financial statements

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The annual financial statements and the consolidated financial statements for the period ended December 31, 2011, as well as the combined management report, including the bookkeeping system, were audited by the appointed auditor, PricewaterhouseCoopers AG, Wirtschaftsprüfungsgesellschaft (audit firm), Munich, which issued an unqualified auditors' report. All documents related to the financial statements and the long-form audit report were promptly presented to all members of the Supervisory Board before its meeting to adopt the financial statements. These documents were carefully reviewed by the entire Supervisory Board. In its meeting held on March 26, 2012, the Audit Committee of the Supervisory Board was informed by the auditor about the main aspects of the audit procedures and individual audit findings and discussed the annual financial statements in detail in the presence of the auditor, who it questioned during this meeting.

In addition, the Executive Board's recommendation on the appropriation of the unappropriated surplus was reviewed in the meeting held on March 26, 2012. The Supervisory Board agrees with the Executive Board's recommendation on the appropriation of the unappropriated surplus.

## Comments on the management report

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Please refer to the disclosures in the management report regarding Sections 289 (4), 315 (4) of the German Commercial Code (Handelsgesetzbuch, HGB) for more information about the comments on the management report in accordance with Section 171 AktG. Information related to the Company's subscribed capital, provisions governing the appointment and removal of members of the Executive Board, amendments of the Articles of Association, and resolutions by the Executive Board, as well as shares to be issued or bought back can be found in the Company's combined management report.

Munich, March 2012

On behalf of the Supervisory Board

Rudi Lamprecht  
Chairman



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# ! MANAGEMENT REPORT

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# 1 Business model

Gigaset AG is a global enterprise with activities in the field of telecommunications and related accessories. Based in Munich and with its main production facility in Bocholt, the company is one of the world's leading manufacturers of cordless telephones and market leader for DECT telephones in Europe. The premium vendor ranks in second place in the DECT segment and third place in the cordless phones category in the world, employing some 1,900 people and enjoying a market presence in more than 70 countries.

For purposes of internal management, the Gigaset Group is divided globally into regional segments. In this context, the Europe segment represents comfortably the largest share of total business activity. Within Europe, Germany is by far the largest individual market, served by separate sales units in the Cordless Voice Telecommunications and Accessories divisions.

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

While the core activities in Europe currently account for around 84% of total business, the regional segments of the Americas and Asia-Pacific / Middle East contribute approximately 9% and 7% respectively. The decision to run the two overseas regions as separate regional segments reflects the planned growth.

The Group covers a broad market base across its two divisions: Cordless Voice Telecommunications and Gigaset pro and Accessories. Gigaset is renowned for its high quality, future-looking products for the fixed-line telephony segment.

## 1.1 Cordless voice telecommunications

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Gigaset is the European market leader, technology leader and price leader in DECT, which stands for Digital Enhanced Cordless Telecommunications, the most successful telecommunications standard for cordless telephones in the world. Gigaset helped to shape the DECT standard in the 1990s, since when the company has maintained its position as the market, technology, and price leader for DECT telephony in Europe. Market coverage is a key factor behind the company's success: a Gigaset phone is found in one in every four homes in Europe and one in every two in Germany. Gigaset enjoys a brand awareness level of over 90% in Germany. All of its proprietary products are manufactured predominantly in the highly automated Bocholt plant, which has won several awards.

## 1.2 Gigaset pro

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

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

## 2 General economic climate and industry environment

### 2.1 General economic climate

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Fiscal 2011 was dominated by the effects of the European sovereign debt crisis and its consequences for the global financial markets coupled with the general development of the worldwide economy. Above all else, the weaker demand for goods from the particularly debt-ridden states concerned had a negative impact. At the same time, global economic expansion was slowed by lost production in the wake of the tsunami in Japan and more restrictive monetary policies implemented by developing and emerging countries in response to first signs of overheating economies. In its World Economic Outlook dated September 2011, the International Monetary Fund (IMF) forecasted growth of just 3.8% in global real gross domestic product (GDP) in 2011 compared with 5.2% in 2010, with the emerging and developing countries (6.42% after 7.3%), notably in Asia (7.9% after 9.5%), remaining the main drivers. Growth in the United States is expected to decline from 3.0% to 1.8%, while GDP growth in the euro area is expected to weaken to 1.6% (2010: 1.9%), with Germany (3%) and France (1.6%) leading the way. In Latin America, the economic growth rate of 4.6% was also considerably weaker than the growth rate of 6.1% registered in the preceding year. By contrast, the Russian economy continued to be robust, with a growth rate of 4.1% (2010: 4%).

Following on from a strong first quarter of 2011, the economy across the euro area weakened continually over the rest of the year. On January 11, 2012, the "Euro-zone Economic Outlook" collaboration project (Ifo Institute, Munich, INSEE, Paris, and ISTAT, Rome) stated that real GDP had even declined by 0.3% compared quarter-on-quarter in the fourth quarter of 2011, which had made itself apparent in a rapidly worsening mood among companies and consumers alike toward the end of the year. Compared with last year, the economy benefited from rises in capital spending (+1.8%) and private consumption (+0.2%), although the latter was depressed practically throughout the year by a very high unemployment rate (>10%), with youth unemployment representing a serious problem at over 20%.

According to the initial figures released by the Wiesbaden-based Federal Statistical Office, the German economy expanded strongly in 2011, benefiting notably from the positive development of private consumption (+1.5%) and sustained strong demand for investment (+6.5%). Thus, Germany's role as the economic engine of Europe, particularly also with respect to consumer spending, was reaffirmed in 2011.

The propensity of consumers in the euro area to spend declined in line with the gradual deterioration in the general economic climate. Thus the regular consumer survey conducted by the GfK Group at year-end only recorded a positive attitude toward spending in Germany and Austria. At the same time, the indicator determined by GfK for the European Union as a whole pointed to a strong reluctance to spend across the board.

Most of our European export markets contracted during the reporting period accordingly, and the underlying conditions in the German information and telecommunications market also deteriorated markedly as the year wore on. Whereas in March 2011 the industry association BITKOM still forecast growth of 4.4% in the market for telecommunications terminals over the year as a whole, this figure had been reduced to just 0.2% by November 2011.

## 2.2 Telecommunications market

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### 2.2.1 Cordless Voice market

The market for cordless phones was characterized by counter-running trends at times last year. In terms of units shipped, volumes rose somewhat in Europe, although the value of the goods sold fell slightly. Market growth (in terms of units shipped) was driven primarily by the positive trend in Russia, Turkey, and Belgium. In Germany, the biggest European market, sales volumes remained stable at a high level. In other European markets including Switzerland, Poland, France, Italy, Spain, the UK, and the Netherlands, recent economic developments led to changed patterns of consumer behavior overall, resulting in much lower volumes being recorded in some of these countries. Market prices declined slightly year-on-year.

### 2.2.2 Gigaset pro market

The Gigaset pro is designed to serve the growing demand for Internet-based telephone solutions. According to various market studies, the European market for telephone systems is clearly moving in the direction of IP telephony. The number of IP terminals in Europe is expected to grow by 50% in the time until 2016, while the market for all terminals in Europe will contract slightly over the same time period. Furthermore, a shift is expected to occur within the IP telephony market. Thus, the number of installed lines for Hosted PBX will increase dramatically (87%) and those for IP Centrex even more dramatically (230%). Terminal prices will fall over the coming years (at an average rate of 5% per year). The market for installed lines in Eastern Europe will grow from a smaller base, while the number of installed lines in Western Europe will remain on a high level.

## 3 Significant events in fiscal 2011

### 3.1 Performance of the Gigaset Share

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Gigaset AG now also finds itself on the capital market in the top tier of technology companies in Germany with its inclusion in the TecDAX on March 21, 2011. Shares of Gigaset AG showed an impressive start in the new year. The share performed better than the market as a whole, supported by the preliminary results for 2010, which were higher than planned. For example, the price reached its annual high of EUR 4.81 already on March 4, 2011. Although not even the Gigaset share was able to avoid the performance of the market as a whole as a consequence of events in Japan and the sustained European debt crisis. However, the Gigaset share was able to counter the significant price losses with an equally sharp as well as prompt recovery. At the end of the year, the share was quoted at around EUR 2.46.

## 3.2 Sale and purchase of equity interests

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Gigaset AG's realignment was consistently advanced. The three interests not belonging to the core business – Carl Froh Group, Oxxynova Group, and van Netten Group – were sold in the first half of the year. The contributions of the disposed companies to sales revenue and earnings were only of minor importance for the 2011 consolidated financial statements. For instance, the Oxxynova Group contributed EUR 19.9 million to sales revenue and an EBITDA of EUR 4.2 million. The van Netten Group contributed EUR 20.5 million to sales revenue and an EBITDA of EUR -0.1 million to the consolidated financial statements. The Carl Froh Group contributed neither to sales revenue nor to the EBITDA of the 2011 consolidated financial statements, since it was deconsolidated as of January 1, 2011.

In fiscal year 2011, Gigaset AG acquired the remaining 50.1% interest in SM Holding GmbH and increased its shareholding to 100%. Since the SM Electronic Group no longer belonged to the strategic core business at the end of the year, the SM Electronic Group's assets and liabilities were reclassified in the line item "assets held for sale" as of the reporting date.

## 3.3 Changes in the Executive Board of Gigaset AG

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Dr. Alexander Blum was appointed as the new Financial Director and CFO of Gigaset AG at the Supervisory Board meeting held on March 30, 2011. Dr. Blum decisively expedited the restructuring of Gigaset Communications GmbH and made a significant contribution to the successful turnaround with his engagement.

In addition, Gigaset AG's Supervisory Board appointed Charles Fränkl as the new Chairman of the Executive Board effective January 1, 2012, at its meeting held on November 8, 2011. The 53-year old Swiss is an experienced and well-known expert in the international telecommunications and information technology business.

## 3.4 Changes in the Supervisory Board of Gigaset AG

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Two new Supervisory Board members were elected at the annual general meeting held on June 10, 2011. With Rudi Lamprecht, the Company was able to attract a high-caliber telecommunications expert with many years of industry experience as the new Chairman of the Supervisory Board. In addition, Susanne Klöß, who has many years of capital market expertise, was also appointed as a member of the Supervisory Board.

## 3.5 Conversion of the bonds

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The conversion of the convertible bond was realized effective June 30, 2011. For every bond, the holder received 0.8696 no-par value shares with a notional value of EUR 1.00 per share in the Company's total subscribed capital. Thus, the total number of shares issued by Gigaset AG increased to 50,014,911 shares. The bond's interest rate of 9% p.a. starting January 1, 2011, was also due with the conversion and was paid on July 1, 2011.

### 3.6 Roadshow activities

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Gigaset AG's Executive Board held discussions with institutional investors at multiple events as part of the 2011 Roadshow. Current and potential new shareholders of the Company were fully informed of the Company's current performance in numerous one-on-one meetings. The investors showed great interest and the basis for a future collaboration was formed.

## 4 Business performance of the Gigaset Group

### 4.1 Cordless voice telecommunications

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The Gigaset Group again sharply increased its profitability in 2011 compared with the prior year, despite the difficult market conditions. By realigning the business object and building its structures around strict cost management, Gigaset has positioned itself as a globally active, mid-sized company with a strong foundation for international markets. Consistently focusing on its core competencies enabled Gigaset to further improve its operating profit during the reporting period. The consolidated EBITDA of the continuing operations of the Gigaset Group totaled EUR 51.5 million at December 31, 2011, an increase over the figure recorded for the extremely strong reporting period last year. Nevertheless, on account of the underlying conditions outlined above, it proved impossible to fully match the exceptionally strong revenues reported last year.

Complications relating to the SL910 series had a negative impact on earnings. Problems with the lithium-ion batteries depressed sales of the full-touch telephone. Battery overheating occurred in a total of three devices in 2011. The product warning for certain batches of memory cells sourced from a supplier in Asia resulted in bottlenecks in the supply of new batteries.

Gigaset has implemented ongoing systematic cost management to counter the difficult market conditions that served to reduce revenues in local sales markets. Processes centering on sustainable profitability helped to maintain the high quality of the company's margins. Gigaset continued to assert its No. 1 market position in Europe, with a clear lead over its competitors.

Although market prices declined somewhat in this core market year-on-year, Gigaset was able to keep the decrease lower than the market. Gigaset continues to achieve much higher average sales prices than its competitors, enabling it to successfully defend its premium position.

### 4.2 Gigaset pro

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Following its launch in 2011, the professional line for small and medium-sized enterprises (SMEs) has been expanded constantly with new products. Distribution contracts have now been concluded with numerous sales partners in countries including Germany, Austria, France, the Netherlands, Italy, and the UK. Negotiations in further countries and with further distributors have begun.

The multi-level sales concept for Gigaset pro that is geared to the specific demands of the B2B target group calls for the involvement of value added resellers (VARs). Gigaset has received more than a thousand inquiries from VARs and professional customers regarding potential collaboration during the reporting period. The necessary first product training courses have already been conducted.

Gigaset has responded to the strong demand from the distribution side by expanding its sales structures further. The international Gigaset pro team has again been reinforced and competencies added to this division.

The warm welcome received by Gigaset pro from business customers in various European countries suggests that this step can help Europe's market leader for cordless telephony to profit from growing market demand for IP telephone systems. Gigaset can and will leverage its core competencies and experience from the consumer electronics segment in this new market segment.

### 4.3 The Gigaset brand

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Last year, Gigaset enhanced the profile of the brand and has no longer used the additional designation Siemens on its products since the relevant licensing agreement expired on September 30, 2011. This means that, precisely three years after being sold by Siemens AG, the company has completed the gradual transition from the "Siemens Gigaset" brand to "Gigaset." The Gigaset name contains a brand promise of pure telephony 'Made in Germany' with a claim to top quality. Gigaset and its brand are built upon a long tradition and experience in telephony. An offshoot of Siemens AG, which established telephony 160 years ago and invented the DECT standard, Gigaset has continued to pursue this tradition of research and development competence coupled with technical expertise.

Various marketing communication campaigns have been rolled out to bolster sales and support the brand transition. The overarching marketing campaign "For conversations that touch new heights" was launched in October 2011, both to support the market introduction of the flagship product Gigaset SL910 and to promote Gigaset's complete cordless voice portfolio. As the first to be conducted under the sole name "Gigaset," this worldwide campaign has strengthened the mono-brand in effect since October 2011. Aside from brand-supporting measures, Gigaset also employs attention-grabbing promotional campaigns to bolster sales.

### 4.4 Sales and distribution

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Gigaset only sells its cordless voice products indirectly to retailers, telecommunications companies and distributors. These distribution partners offer Gigaset products both in stationary stores and increasingly also via online channels. Large-scale customers are served by key account managers; depending on the country-specific distribution model, regional sales employees provide additional support in implementing the distribution sales and strategy. Gigaset's sales team comprises a total of 137 employees. The Gigaset pro segment also sells its products only on an indirect basis via distributors, value-added resellers and other manufacturers of terminal devices (such as Teldat, for example), as well as network operators.

The objectives of Gigaset's distribution strategy are to further press the price advantage of the Gigaset brand in the market, to secure and further expand the company's market shares in Europe and to sustainably increase the company's market shares in Latin America and China, as well as Central Eastern Europe, including Russia in particular. At the present time, the company is in the process of partially converting its sales and distribution model to include direct deliveries to retailers. Above all, Gigaset will strive to systematically exploit the market potential arising from the discontinuation of B-level and C-level brands in the market, which do not live up to customers' quality expectations.

Amid a generally difficult retail and operator environment, Gigaset successfully defended its strong position against competitors in key markets. This success was aided in particular by undertaking regional expansion measures and by participating in large-scale tenders of retailers and telecommunications providers. The company's performance was mixed, depending on the region and country.

In Russia, the company signed an agreement with the retail chain M-Video and expanded its business geographically into the regions surrounding Moscow. Faster expansion was impeded, however, by the aggressive behavior of competitors.

In the Europe region, Gigaset entered into a multi-year agreement with Deutsche Telekom. In Great Britain, the renewed entry into retail stores was influenced by price cuts and the purchasing restraint of consumers.

Carrefour terminated its cooperation with Gigaset in France and Spain. In Spain, Gigaset converted its business model to direct retail sales, in order to better manage the sales channel mix. After sustaining interim losses in the transitional phase, Gigaset regained market shares and significantly improved its profit margin position in Spain. For similar reasons, Gigaset has begun to convert its distribution model to direct retail sales in Turkey as well.

Gigaset also devoted considerable efforts to expanding its market position in China and Latin America. In China, Gigaset expanded its business geographically to the 63 biggest cities. Gigaset also defended its market leadership position in the segment of cordless telephones. In Brazil, the company's growth strategy was hindered by the aggressive campaigns of competitors and high import duties. By contrast, the company achieved positive gains in Argentina. Gigaset signed an agreement with Telecom Argentina. Earnings were influenced by unfavorable exchange rate developments in South America.

## 4.5 Research and development

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The Gigaset Group continued to pursue extensive research and development activities in fiscal year 2011. Particular emphasis is placed on the DECT segment, where the company has set innovation standards in the past years. Another product highlight is "ECO DECT." For years already, Gigaset DECT mobile telephones have featured an automatic adjustment of transmission power, as a result of which they use about 60% less energy than conventional mobile telephones. By making a contribution to environmental protection and addressing the needs of the market in this way, Gigaset has met with strong interest among consumers. With regard to Voice-over-IP technology, Gigaset is striving to develop new standards. Technological advances in this area can entail large research and development (R&D) expenditures. Gigaset manages this challenge proactively by setting appropriate priorities for its R&D program. This focus is a success factor for the Gigaset Group, which has laid the foundation for success amid a competitive market environment.

## 4.6 Innovations

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Gigaset, the European DECT market leader, unveiled several innovations in 2001, including the world-exclusive Gigaset SL910 (full-touch telephone) and Gigaset L410 (hands-free clip). This novel clip combines full mobility with top voice quality. This innovation, presented to the public in the spring with a successful online campaign and press events, has received broad acclaim in the international press. This completely new kind of product allows full freedom of movement while leaving the user's hands free when making a call. The 30-gram L410 hands-free clip has sold very well over the course of the year, with volumes running well ahead of expectations.

Gigaset presented a further world first in the fall: the Gigaset SL910, a new premium model featuring full-touch technology. It is the first phone for home use that is easy to operate with one finger on its high-capacity full-touch screen. This means that Gigaset is the first manufacturer to transfer the operating philosophy common in tablet computers and mobile phones to landline cordless telephones.

Key features of the Gigaset SL910 include the large, precise-control touch screen with high-resolution display of the content, the user-friendly navigation and a large-volume loudspeaker for excellent sound quality. The intuitive user interface and the typical iconography for Gigaset set the high-end phone clearly apart from the products of other manufacturers. Furthermore, the cradle and charger made of polished real metal lend the Gigaset SL910 the touch of class that customers expect from a premium model.

The European leader in the DECT telephone market thus rolled out the latest product in the premium class after the Gigaset SL400 and Gigaset SL780 (both cordless DECT telephones with real metal cradle). Gigaset is the clear global market leader in this category covering devices costing over 100 euros. Around half of all units in this category sold in Europe come from Gigaset as well as around 40% in the middle price segment (50 to 100 euros).

In the summer, Gigaset rolled out the new Gigaset E310 in the best-ager telephone segment. This large-key phone impresses with premium ergonomics and appearance. A high-contrast display, clear sound and easy operation make it ideal for the older generation. Findings from hearing research were incorporated when designing the acoustics. While developing the new Gigaset E310 large-key phone, Gigaset paid close attention to ensuring that it would meet the needs of all family members, no matter what their age.

Prior to that, the telephone manufacturer had introduced a practical all-rounder for the whole family in the form of the Gigaset A510. This model blends reliable telephone technology with award-winning design. The Gigaset A510 combines an elegant appearance with proven technology to create a user-friendly, all-round phone for all the family. The Gigaset A510 recently won the red dot Design Award 2011 for its stylish, ergonomic housing in the popular Gigaset design. One special feature of the Gigaset A510 is the ability to alter the color of the background illumination of the large graphical display to personal taste. All new products rolled out by Gigaset Communications GmbH feature the ECO DECT functions and are manufactured to the very highest quality and environmental standards.

Following the roll-out of the new Gigaset L410 and Gigaset SL910, the company is planning to unveil further innovations for private customers in particular over the coming year, focusing mainly on the mid-price segment.

## 4.7 Environment

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Gigaset's products are manufactured according to the highest environmental protection and quality standards in the production facility in Bocholt. Gigaset obtained the DIN ISO 14001 certification for its environmental management system in 2010. In this connection, the company defined its environmental policy and converted the Gigaset portfolio of cordless telephones to ECO-DECT, as an important contribution to environmental and climate protection. These products are especially energy-saving and allow for a variable reduction of transmission power. As an additional benefit, these measures also lead to a general reduction in power consumption.

## 4.8 Employees

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Highly qualified employees in all areas, from development to production, are the foundation for Gigaset's success as a company. Gigaset engages in structured, process-oriented employee development measures to identify and promote individual talents and potentials. That enables the company to quickly appoint successors to key positions and choose from a wider pool of candidates when filling challenging new positions. The loyalty of employees to the Gigaset Group is very high. The employee turnover rate resulting from voluntary resignations was only 2.2% in 2011. The Group's employee development program is focused on possible imbalances between responsibility and compensation and on promoting a dialog between managers and employees, which reinforces employees' identification with the company.

Gigaset is positioned in the market today as a leading global technology and products company. The technology leadership status and the pronounced international orientation of all its locations create a competitive advantage for Gigaset when it comes to attracting the best workers. Furthermore, Gigaset has managed to maintain the number of technical and commercial apprentice-trainees on a high level in the past few years (about 50 technical and 12 commercial apprentice-trainees).

By reason of the company's vertical depth, spanning development, marketing and distribution, as well as production and logistics, Gigaset requires a wide range of skill sets, which are provided in part by its own employees (key talents, apprentice-trainees) and also by means of recruitment in the external market (college graduates, interns, job exchanges). For its highly automated production process, Gigaset needs highly qualified employees in technical fields; it satisfies that need in large part through its own apprentice-trainee program. The company also relies on temporary workers primarily for semi-skilled activities to provide the necessary flexibility in times of high production and low production.

The Gigaset Group had an average of 1,910 employees (PY: 4,988) in fiscal year 2011. At the reporting date of December 31, 2011, the Gigaset Group had 1,875 employees (PY: 2,333).

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

Key figures of Gigaset AG	2011	2010
Non-current assets	EUR 226.0m	EUR 216.5m
Current assets	EUR 6.2m	EUR 9.5m
Equity	EUR 210.4m	EUR 181.3m
Current liabilities	EUR 21.8m	EUR 20.9m
Debt/Equity ratio	90.6%	80.2%
Return on equity	2.4%	77.9%
Return on capital employed	2.2%	62.5%

### 5.1 Financial performance

**Sales revenues** in the amount of EUR 0.8 million (prior year: EUR 1.7 million) comprise almost exclusively advisory services rendered to associated and/or formerly associated companies in Germany.

**Other operating income** decreased from EUR 188.6 million to EUR 4.3 million. The main items are income from the reversal of impairment losses on receivables in the amount of EUR 2.8 million (prior year: EUR 0.7 million) and payments in the amount of EUR 0.3 million (prior year: EUR 0.0 million) on receivables that had been written off. In the prior year in particular income from the "quoad sortem" contribution of GIG Holding was attributed to a subsidiary.

The **cost of purchased services** is presented in the amount of EUR 0.4 million (prior year: EUR 2.0 million) and relates to costs for external consultants.

**Personnel expenses** in the amount of EUR 1.0 million (prior year: EUR 3.6 million) include salaries in the amount of EUR 0.9 million (prior year: EUR 3.4 million) as well as expenses from social security contributions in the amount of EUR 0.1 million (prior year: EUR 0.2 million). The decrease can be attributed to the Group parent company's continuous reduction in personnel.

**Impairment write-downs** on current assets in the amount of EUR 4.6 million (prior year: EUR 10.6 million), insofar as they exceed the corporation's typical write-downs, include the extraordinary write-downs on loan receivables from the van Netten Group.

**Other operating expenses** were incurred in fiscal 2011 in the amount of EUR 11.2 million (prior year: EUR 15.8 million). These include in particular expenses for legal disputes, official proceedings and guarantees in the amount of EUR 4.7 million (prior year: EUR 1.4 million), losses from the disposal of securities presented as current assets in the amount of EUR 2.3 million (prior year: EUR 0.8 million losses from the disposal of non-current financial assets), and legal and advisory costs in the amount of EUR 1.0 million (prior year: EUR 4.1 million).

**Investment income** in the amount of EUR 10.0 million (prior year: EUR 0.0 million) includes a dividend in kind (loan receivables) from Gigaset Malta Limited.

**Taxes on income** (EUR 8.0 million, prior year: EUR 0.0 million) include tax income from the recognition of deferred tax assets in the amount of EUR 9.4 million (prior year: EUR 0.0 million) as well as the allocation to tax provisions in the amount of EUR 1.4 million (prior year: EUR 0.0 million).

**Net profit for the fiscal year** ended December 31, 2011, amounts to EUR 5.1 million (prior year: EUR 141.2 million).

## 5.2 Cash flows and financing

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Gigaset AG financed itself in fiscal year 2011 through the advisory services rendered and the assumption of financial liabilities in the amount of EUR 4.0 million. The Company's future liquidity position is ensured by the syndicated loan agreement signed on January 9, 2012. The credit facility has a volume of EUR 35 million and a term of 4 years.

## 5.3 Net assets

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Gigaset AG's **total assets** amount to EUR 232.2 million as of December 31, 2011 (prior year: EUR 226.0 million), and thus increased approximately 2.7% year-on-year. The increase resulted mainly from the recognition of deferred tax assets.

At EUR 226.0 million, **non-current assets** remained nearly constant (prior year: EUR 216.5 million) and represent 97.3% of total assets. These include mainly financial assets and the recognized deferred tax assets. The equity interest in the Carl Froh Group and the Oxyynova Group was sold in fiscal year 2011.

**Current assets** represent 2.7% of total assets. These decreased by EUR 3.3 million year-on-year and now amount to EUR 6.2 million. The decrease can be mainly attributed to the sale of the interest in VAN Holding GmbH, which had been recognized in the prior year at EUR 2.75 million.

Gigaset AG's **equity** was increased by EUR 29.1 million and now amounts to EUR 210.4 million. The debt/equity ratio improved from 80.2% to 90.6%. In addition to the capital increase in connection with the conversion of bonds, the positive net profit for the fiscal year of EUR 5.1 million also contributed to further improving the equity position.

The line item "**Contributions made for the acquisition of mandatory convertible bonds**" decreased corresponding to the increase in the capital base resulting from the conversion of bonds.

**Current provisions** include provisions for taxes in the amount of EUR 1.4 million (prior year: EUR 0.0 million) and other provisions in the amount of EUR 9.5 million (prior year: 7.4 million). The other provisions were recognized in particular for legal disputes, guarantee claims and claims asserted for losses as well as for bank guarantees and outstanding purchase invoices.

In the fiscal year just ended, we were able to decrease Gigaset AG's **current liabilities** by EUR 2.6 million to EUR 10.9 million (prior year: EUR 13.5 million). Liabilities to associated companies in the amount of EUR 5.3 million (prior year: EUR 10.5 million) represent the majority of current liabilities.

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

### 6.1 Financial performance

#### Sales revenues

The Gigaset Group generated a total of EUR 520.6 million (prior year: EUR 1,009.5 million) in **sales revenues** in the 2011 financial year just ended, despite the difficult economic environment, EUR 458.6 million (prior year: EUR 503.7 million) of which can be attributed to the core business. The revenues of continuing operations can be attributed almost solely to the core segment Gigaset and are subject to the usual seasonal fluctuations in the consumer business. The sales figures reflect the consumer restraint as a result of the persistent euro crisis. Corresponding increases in revenues in Latin America were only partially able to compensate the decrease in revenues in Southern Europe and in the U.S.A.

The revenues can be broken down as follows:

Revenues in EURm	2011	2010	Change
▶ Europe	386.2	433.2	-10.85%
America	40.2	37.7	6.63%
Asia-Pacific / Mid-East	32.1	32.8	-2.13%
Gigaset total	458.5	503.7	-8.97%
Holding	0.1	0.0	-
Other	62.0	505.8	-87.74%
<b>Total</b>	<b>520.6</b>	<b>1,009.5</b>	<b>-48.42%</b>
Continuing operations	458.6	503.7	-8.94%
Discontinued operations	62.0	505.8	-87.75%

**Other own work capitalized** in the amount of EUR 17.8 million (prior year: EUR 20.5 million) mainly includes costs related to the development of new products. Own work capitalized from continuing operations remained constant compared to the prior year.

**Other operating income** fell from EUR 53.4 million to EUR 40.0 million. The main items include income from the reversal of provisions in the amount of EUR 13.1 million (prior year: EUR 10.1 million) and exchange rate gains in the amount of EUR 8.5 million (prior year: EUR 18.6 million). The deconsolidation gain from the sale of the Oxxynova Group presented under other operating income amounts to EUR 2.6 million (prior year: EUR 0.9 million).

The **cost of materials** for raw materials, merchandise, finished goods and purchased services was EUR 267.2 million – less than half of the prior year's amount of EUR 611.6 million. The material usage rate fell from 60.6% to 51.3%.

**Personnel expenses** for wages, salaries, social security and pension expenses amounted to EUR 118.3 million, down 48.3% year-on-year from EUR 229.0 million. This can be attributed particularly to the Group's focus on the telecommunications sector.

**Other operating expenses** in the reporting period amounted to EUR 139.1 million (prior year: EUR 245.2 million). This figure includes in particular marketing costs (EUR 40.7 million, PY: EUR 33.3 million), general administrative expenses (EUR 20.8 million, PY: EUR 39.9 million), transport costs (EUR 14.6 million, PY: EUR 27.6 million) and exchange rate losses (EUR 12.6 million, prior year: EUR 22.4 million). Thus, the cost-savings measures implemented consistently in the continuing operations showed their effect.

We succeeded in increasing the **EBITDA** from EUR 0.0 million in the prior year to currently EUR 50.9 million. This change in EBITDA indicates Gigaset AG's successful turnaround. The ratio of EBITDA to sales revenues is 9.8%.

The results can be broken down as follows:

<b>EBITDA in EURm</b>	<b>2011</b>	<b>2010</b>	<b>Change</b>
Europe	58.9	50.1	17.56%
America	-0.7	-4.3	83.72%
Asia-Pacific / Mid-East	1.6	1.9	-15.79%
Gigaset total	59.8	47.7	25.36%
Holding	-8.3	-12.8	35.16%
Other	-0.6	-34.9	98.28%
<b>Total</b>	<b>50.9</b>	<b>0.0</b>	<b>&gt;100.00%</b>
Continuing operations	51.5	34.9	47.56%
Discontinued operations	-0.6	-34.9	98.28%

Depreciation and amortization amount to EUR 26.8 million (prior year: EUR 57.9 million) and can be attributed almost solely to continuing operations. (Extraordinary) impairment write-downs amount to EUR 2.1 million (prior year: EUR 28.9 million). EUR 1.9 million of these relate to write-downs associated with the completed restructuring of the SM Electronic Group. Additional write-downs of EUR 0.2 million were necessary during the financial year due to the performance of discontinued operations.

The EBIT can be broken down as follows:

EBIT in EURm	2011	2010	Change
▶ Europe	32.4	15.5	109.0%
America	-0.7	-4.4	84.09%
Asia-Pacific / Mid-East	1.5	1.9	-21.05%
Gigaset total	33.2	13.0	155.38%
Holding	-8.4	-12.9	34.88%
Other	-2.8	-86.9	103.22%
<b>Total</b>	<b>22.0</b>	<b>-86.8</b>	<b>125.35%</b>
Continuing operations	24.8	0.1	>500.00%
Discontinued operations	-2.8	-86.9	103.22%

**Net financial income** increased EUR 5.0 million year-on-year to EUR -2.8 million. This results mainly from the Group's strict reduction in debt.

**Consolidated net profit for the financial year** after non-controlling interests was EUR 17.4 million, compared to a consolidated net loss of EUR -99.3 million in the prior year and clearly shows the Group's successful realignment.

Based on this result, **earnings per share** are EUR 0.35 (basic/diluted) (prior year: EUR 3.35 (basic/diluted)).

## 6.2 Cash Flows

### Cash flows

Cash flows can be broken down as follows:

EURm	2011	2010
▶ Cash flow from operating activities	32.0	-36.9
Cash flow from investing activities	-9.5	-4.7
Free cash flow	22.5	-41.6
Cash flow from financing activities	1.9	4.9

In financial year 2011, the Gigaset Group generated a positive **cash inflow from continuing operations** in the amount of EUR 32.0 million (compared to a cash outflow of EUR -36.9 million in the prior year), whereby in particular the successful activities of continuing operations had a positive effect on cash inflows.

**Cash outflow from investing activities** was EUR 9.5 million (prior year: EUR 4.7 million) and, in addition to non-recurring effects from changes in the portfolio, primarily reflects investments in intangible assets.

**Free cash flow** was thus EUR 22.5 million compared to EUR -41,6 million in the prior year.

**Cash inflow from financing activities** was EUR 1.9 million (prior year: cash inflow of EUR 4.9 million) and results from the raising of current financial liabilities.

Cash outflow attributable to discontinued operations was EUR 1.2 million and is presented in detail in the notes to the annual financial statements. Furthermore, changes in exchange rates amounting to EUR 13 thousand are included in cash flow.

Cash and cash equivalents increased year-on-year by EUR 25.7 million to EUR 62.3 million.

### 6.3 Financial Position

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The Gigaset Group's **total assets** amount to around EUR 311.4 million as of December 31, 2011, and thus decreased by approximately 9.9% compared to the prior year. This is due primarily to continued portfolio streamlining and the associated deconsolidations.

**Non-current assets** increased to EUR 102.9 million. The increase resulted mainly from the higher deferred tax assets in the amount of EUR 8.3 million. They resulted mainly from existing tax loss carryforwards that can be used in the future (EUR +6.8 million) and a lower netting amount in 2011. Deferred taxes were recognized also in consideration of a profit/loss transfer agreement within the Gigaset Group, which is planned for January 1, 2013. The decrease of EUR 2.8 million in property, plant and equipment was more than compensated by additional investments in intangible assets.

**Current assets** represent 66.9% of total assets. They decreased year-on-year by EUR 46.2 million and now amount to EUR 208.4 million. The decrease can be mainly explained by the sale of the three equity investments that were no longer part of the core business and had been presented under "assets held for sale." The "assets held for sale" as of the reporting date are the SM Electronic Group's assets, which were reclassified as "assets held for sale." Inventories, which rose over the course of the year, fell once again to the prior year's level after the Christmas shopping season. The EUR 23.6 million decrease in trade receivables was offset by a EUR 25.6 million increase in cash and cash equivalents. Please refer to the statement of cash flows for the detailed development of cash and cash equivalents. The change in other assets from EUR 33.6 million to EUR 27.2 million was mainly driven by two opposing effects. On the one hand, tax claims fell by EUR 13.1 million, while on the other hand, factoring receivables increased by EUR 6.3 million as a result of the expansion of factoring in the Gigaset Group.

**Total liabilities** amount to EUR 235.1 million, 85.7% of which are current liabilities. After a significant reduction in debt in the prior financial year, the Group's total liabilities were reduced by an additional EUR 75.4 million in financial year 2011.

The Gigaset Group's **Equity** amounts to around EUR 76.2 million as of the reporting date. At 24.5%, the equity ratio more than doubled year-on-year. In addition to the capital increase within the framework of converting the bonds (EUR 23.6 million), the consolidated net profit (EUR 17.5 million) in particular had a positive effect on equity.

There was a decrease in **non-current liabilities** corresponding to the increase in equity as a result of the conversion of the bonds. The purchase price liability to Siemens AG presented under other non-current liabilities in the prior year was reclassified to other current liabilities based on its maturity. According to the overall agreement with Siemens AG, the Company assumes that this purchase price liability will be waived at the beginning of 2013.

At EUR 201.5 million, **current liabilities** are considerably lower than were reported in the financial statements as of December 31, 2010. **Current provisions** decreased from EUR 37.2 million to EUR 27.2 million in particular as a result of the reduction in the restructuring provision, the provision for guarantee obligations, and the provision for expected losses from executory contracts. **Financial liabilities** rose slightly from EUR 4.7 million to EUR 6.1 million and are exclusively current liabilities. Trade payables increased by EUR 6.4 million due to the reporting (cut-off) date. The increase in tax liabilities of EUR 4.5 million to EUR 7.8 million can be explained by the higher annual profits earned by the main operating Group companies. The EUR 3.5 million decrease in **other liabilities** was driven mainly by two opposing trends. On the one hand, customs debts and personnel liabilities fell by a total of EUR 14.8 million. On the other hand, the purchase price liability to Siemens AG due December 31, 2012, was reclassified from non-current liabilities to other current liabilities and increased this line item by EUR 9.4 million year-on-year. The liabilities related to **assets held for sale** include the SM Electronic Group's liabilities.

## 6.4 General assessment of the Group's economic situation

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Despite the adverse market conditions, the Gigaset Group again increased the profitability of its continuing operations considerably over the prior year in 2011. Thanks to the realignment of its business object and the implementation of structures designed for strict cost management, Gigaset is well positioned for the international markets as a globally active medium-sized enterprise. The lingering European debt crisis and the associated reluctance of consumers to spend effectively lowered the sales revenues generated in the Gigaset Group's core business of telecommunications. The Group responded to these developments by implementing cost-saving measures in all areas, making it possible to generate a positive EBITDA of EUR 50.9 million for the full year. Despite the difficult conditions, the Group nearly achieved the forecast communicated at the beginning of the fiscal year, for earnings per share of EUR 0.36 (diluted).

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

	2011	2010
▶ Equity ratio	24.5%	10.1%
Non-current asset intensity	28.4%	25.2%
Debt capital structure	85.7%	78.7%
Gross profit margin	4.2%	negative
Return on equity	23.0%	negative
Return on capital employed	5.6%	negative

## 6.6 Description and elucidation of the management system

The Executive Board analyzes and manages the Group's business performance on a monthly basis with reference to various key indicators. The operating business is monitored largely through the close observation of revenues and profit margins and the development of EBITDA on a region-by-region basis. Operating costs are analyzed and managed on a detailed basis, broken down by cost types and cost-incurring departments. Significant effects are analyzed and measured with reference to budget values as part of the monthly reporting process. An integrated financial planning system (income statement, statement of financial position, cash flow plan) has been implemented throughout the Group to assure the reliable analysis of the liquidity situation. In addition, risk management represents an integral aspect of business processes and business decisions.

## 6.7 Non-financial performance indicators

The main non-financial performance indicators for Gigaset are the following:

- Research and development
- Innovation
- Environment
- Employees

Due to the high priority of these factors for the Gigaset Group, they are described in detail in Sections 4.4 to 4.8.

## 7 Report on opportunities and risks in 2011

Risk is a fundamental component of all business activity. It comprises the danger that corporate objectives will not be achieved as a result of external or internal events, actions or decisions, and in extreme cases that the continued existence of the company is in jeopardy.

### 7.1 Market risk

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The general economic climate in Germany, the European Union and worldwide influences the operating performance of the Company in a number of ways.

Industry risk is a risk that affects a specific market or sector. Given the concentration on the field of telecommunications and related accessories, the Company is especially dependent on the performance of this sector. Basically all industries are exposed to changes in commodity prices and the risk of new, aggressive competitors entering the market.

The products of the Gigaset Group are widely used and appreciated by customers in the retail distribution sector on account of the Company's strong brand name and its innovative product portfolio. In the final analysis, the very good market positioning reflects this high level of product acceptance. Because the Company normally cooperates with such customers on the basis of steady, long-standing partnerships, the dependence on individual retailers and distributors is generally minor. When entering into new markets, however, the Company may be subject to greater dependence on individual companies at first.

The transition from the Siemens Gigaset brand to the (standalone) Gigaset brand was completed successfully on September 30, 2011. The Company has engaged in targeted PR and marketing activities aimed at boosting awareness of the Gigaset brand, thereby protecting its market position. Nonetheless, it is not possible to completely exclude the risk to sales resulting from the discontinued use of the Siemens name.

As a general rule, the company is subject to the risk of general price erosion for the product range and the risk that its market volume will sink in the medium term on account of consolidation in target markets. This was countered by applying consistent cost management and an innovative product portfolio featuring a uniform corporate design.

### 7.2 Business opportunities

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The Company sees business opportunities in the Gigaset pro project. Alongside the traditional customer segment of consumers, the Company is exploiting a new customer segment – "SOHO" (Small Offices and Home Offices) customers – and to leverage the related potential for revenue growth with Gigaset pro. Appropriate organizational changes have already been approved and partially implemented. Gigaset pro is intended to evolve into a second pillar for the Gigaset Group. Furthermore, the Company is aiming to exploit further opportunities by tapping regional growth markets (e.g. Russia, Asia and South America) using the established Gigaset brand and the existing global distribution network. Gigaset has the expertise required in the field of research and development to meet the rising technical demands of the market and to roll out product innovations itself.

Reinforcing regional market positions is a key prerequisite for benefiting from the future growth potential. At the same time, the targeted growth is geared to a very price-sensitive segment. The Group closely analyzed the market

determinants during the year under review and has already initiated measures aimed at reinforcing and expanding its market position. Should it prove impossible to strengthen the market presence and acceptance to the extent envisaged, weaker sales figures would present a risk to earnings.

The Group perceives a profit potential for fiscal 2013 in the waiver of the final purchase price installment, including accrued interest, which Siemens AG has offered as part of the comprehensive agreement.

Gigaset AG sees opportunities particularly in the development of its most important subsidiary, Gigaset Communications GmbH. Furthermore, the operating business can also be expanded by acquiring companies that offer the right "strategic fit." Top priority will be given to taking an especially responsible approach to acquisitions, particularly when they involve the use of approved capital, which could potentially dilute the company's shares.

## 7.3 Company-related risk

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### 7.3.1 Information systems and reporting structure

Reliable, consistent and meaningful information systems and reporting structures are required to monitor and manage the corporate group and its subsidiaries. Gigaset possesses professional accounting, controlling, information and risk management systems and has established a regular system of subsidiary controlling and risk management throughout the company. Appropriate IT support is provided to ensure that the systems operate properly. The Executive Board is kept informed about sustainable developments in the countries and regions promptly and at regular intervals.

Nevertheless, it is not inconceivable that the information system could fail at some specific point, or would not be operated properly by the employees concerned, and negative economic developments in a region would therefore not be flagged promptly.

### 7.3.2 Other company-related risk

Proactive management of R&D programs will help to cut costs and simultaneously accelerate technological progress in future-looking segments like voice-over-IP telephony (VoIP).

For its sourcing of raw materials and supplies, the Company generally works with at least two suppliers. Gigaset has established a supplier management center in Shanghai to manage and control its suppliers in Asia. The company attempts to avoid becoming dependent upon individual suppliers with regard to prices, volumes and innovations by cultivating a broad supplier base.

There is a latent risk associated with the fact that the company's production activities are concentrated at a single production facility in Bocholt.

The Company counters the risk of losses on receivables by carrying trade credit insurance and applying strict receivables management and a systematic reminder system. Based on historical data, the risk of losses on receivables is considered low.

With regard to receivables of some Gigaset companies from other Group companies, the Group would be exposed to default risk if the company owing such obligations were unable to meet them. With the exception of the signifi-

cant items listed in the section "Report on opportunities and risks at December 31, 2011" under "Risk arising from contingent liabilities and legal disputes", there are no discernible facts that would compel Gigaset AG to stand for the liabilities of the subsidiaries.

## 7.4 Financial risk

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In general, liquidity risk is managed, and the liquidity planning and financing structures are reviewed, by the corporate Finance and Controlling Department locally, in consultation with the subsidiaries.

### 7.4.1 Liquidity of the Gigaset Group

The business activities are financed largely by equity capital. The cash flow from operating activities covers the short-term demand for finance. The factoring of trade receivables that was commenced on October 1, 2008 was expanded during the reporting period and again used as a short-term financing instrument. The Group is almost free of bank debt.

The Group is exposed to relatively high seasonal liquidity fluctuations, which are typical of the retail business. It has enough liquid funds, current receivables and assets to cover its current liabilities. As of the reporting date, the Group was largely free of financial liabilities payable to third parties.

### 7.4.2 Debt and liquidity of Gigaset AG

At year-end, Gigaset AG had negotiated a syndicated loan that enables it to repay bilateral working capital facilities and that secures the Group's demand for working capital and investment funds into the future. Furthermore, Gigaset AG now has additional financial leeway that will allow it to finance future acquisitions.

### 7.4.3 Interest rate, currency and liquidity risk

The Group continually optimizes its corporate financing system and limits its financing risk in order to preserve the Group's financial independence. Financial risk is covered by the risk management system and is additionally monitored closely as part of liquidity management.

The Gigaset Group generates earnings denominated in foreign currency and incurs similar expenses by procuring a range of components for production in the dollar area. The associated foreign currency risk is generally hedged by financing the international activities in matching currencies or by means of derivative currency hedging instruments. For information on the scope and design of currency hedging instruments, please refer to our comments in Section C "Notes on financial instruments" in the notes to the consolidated financial statements..

Changes in capital market rates could lead to changes in the market value of fixed-income securities and unsecured receivables, and in the plan assets used to fund pension obligations. Gigaset conducts customary banking transactions to hedge its interest rate risk on a case-by-case basis.

To hedge its cash flow risk and protect the Group's liquidity, the Group employs various instruments to fund and protect its receivables, including factoring and credit default insurance.

Interest rate, currency and liquidity risk is generally managed centrally by the Finance and Controlling Department, after consultation.

## 7.5 Tax risk

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Like all other operating risks, tax risk is isolated at the level of the individual companies and is not aggregated at holding company level by way of intercompany tax relationships or Group-level taxation, for instance. By exploiting tax loss carryforwards that have not yet been capitalized, the Company succeeds in obtaining below-average rates of taxation. After closely examining the relevant provision of corporate tax law, the Company has realized income from the sale of subsidiaries tax-free in the past years; the losses incurred in connection with (emergency) sales were largely neutralized for tax purposes; the relevant years are, however, still subject to a possible follow-up audit. Beginning with the 2008 tax assessment period, Gigaset AG began to claim input tax credits only proportionally, based on the calculation of an economically sensible key; in the preceding years, input tax amounts were claimed in the full amount. In the currently ongoing tax audits of the years 2002 to 2004 and 2006 to 2008, the above-mentioned topic areas in particular are being discussed with the tax authority. The Group constantly obtains expert advice on tax issues in order to detect any possible risks at an early stage.

In order to limit any possible tax risk arising from intra-Group offsetting involving the international subsidiaries, a tax consultancy draws up a transfer price report every year. Further potential tax risk results from the acquisition of the Gigaset Communications Group in 2008.

## 7.6 Risk arising from contingent liabilities and legal disputes

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### 7.6.1 Guarantees of the parent company

Gigaset AG issued various guarantees as part of corporate acquisitions and disposals in the past. Furthermore, the parent company issued financial guarantees for subsidiaries in the past. The latent risks arising from these guarantees could be further reduced during fiscal 2011, not least due to expiry of the limitation period. The Executive Board considers it unlikely that such guarantees will be utilized.

In one of the few remaining possible guarantee cases, however, the following developments have occurred:

Evonik Degussa GmbH has asserted a claim of EUR 12 million against Gigaset AG under a contractual agreement from the year 2006 and most recently demanded payment of this claim by letter of February 14, 2012. The company considers the claim to be unfounded for reasons of fact and law, but proposed an out-of-court settlement in February 2012 involving payments amounting to EUR 3.6 million, in order to avoid a time-intensive and costly arbitration tribunal proceeding. In consideration of the existing uncertainties and the threatened legal dispute, the company formed provisions in the amount of EUR 3.6 million at December 31, 2011. The out-of-court settlement negotiations have not yet been completed. Evonik Degussa GmbH has not yet responded to the settlement offer. Therefore, it cannot be said at this time whether and in what amount an out-of-court settlement can be reached. It is unclear at the present time whether Evonik Degussa GmbH will file an arbitration complaint, as it has threatened to do, despite the settlement offer.

### 7.6.2 Legal disputes involving Gigaset AG

In connection with its ordinary activities, Gigaset AG is involved in, or may in the future be involved in, various legal disputes, notably lawsuits and arbitration proceedings, and judicial administrative proceedings, or such proceedings may be initiated or pursued in the future. Although the outcome of the individual proceedings cannot be

predicted with any certainty, given the imponderability always associated with legal disputes, it is believed, based on current assessments, that these proceedings will not have a seriously adverse effect on the Group's earnings performance, beyond the risks accounted for as liabilities or provisions in the present financial statements. In particular, the Group is engaged in employment-law disputes with former employees and civil-law disputes with suppliers and service providers to the customary extent, all of which involving relatively insignificant amounts.

Additionally, but without qualification, the Executive Board wishes to report the following development of facts:

On December 10, 2010, Gigaset AG reached a comprehensive out-of-court settlement in the arbitration tribunal proceeding with Siemens AG. This arbitration proceeding ended officially with an arbitration award in the first quarter of 2011, after the parties reached a comprehensive out-of-court settlement.

In July 2009, the European Commission imposed total fines of EUR 61.1 million in connection with its anti-trust investigations of various European companies operating in the calcium carbide sector. In this connection, a total fine of EUR 13.3 million was levied against SKW Stahl-Metallurgie Holding AG and SKW Stahl-Metallurgie GmbH, with each of them bearing joint and several liability as the direct cartel participants. The Commission also imposed joint and several liability on the Group parent company at the time, Arques Industries AG, based on the assumption that it formed a "corporate unit" with the direct cartel participants. At the reporting date of December 31, 2011, the fine of EUR 6.65 million apportioned to Gigaset had been paid in full, including interest. Gigaset has, however, appealed against the ruling of the Commission, which has not yet been decided. In this context, it is possible that Gigaset would be reimbursed the fine already paid, in full or in part. Furthermore, Gigaset filed suit against SKW Stahl-Metallurgie GmbH and SKW Stahl-Metallurgie Holding AG in 2010 essentially demanding the reimbursement of the entire fine imposed on Gigaset, complete with interest, by the cartel participants. This appeal was rejected by way of a ruling of the Munich Regional Court dated July 13, 2011 and a ruling of the Munich Higher Regional Court dated of February 9, 2012. The company considers this ruling to be incorrect for legal and factual reasons, and will therefore file an appeal against the ruling of the Munich Higher Regional Court that was handed down on February 9, 2012. The company believes that the appeal has good chances for success, but in consideration of the two negative rulings of the prior-instance courts, it must be prepared for the possibility that it will not completely win the appeal before the Federal Court of Justice.

Lauc, S. L., a company organized under Spanish law, has announced that it intends to seek recourse from the company under a contractual guarantee agreement from the year 2007 in the amount of approximately EUR 0.7 million in connection with the acquisition of the now insolvent company Capresa. The company disputes the grounds, amount and due date of the claim, but has proposed an out-of-court settlement involving payments of EUR 75,000, for the sake of avoiding a time-intensive and costly court proceeding. Lauc, S.L. has not yet responded to the settlement offer.

In addition, a former managing director of a former subsidiary of Gigaset AG, has filed a lawsuit against the new owners of the company, and alternatively against Gigaset AG, due to the alleged violation of his alleged preemptive right to the former subsidiary. Gigaset AG considers the lawsuit to be inadmissible and otherwise unfounded.

In a criminal proceeding, the Munich Public Prosecutor's Office has accused the former Executive Board of embezzling from Gigaset Communications GmbH in 2009. In the meantime, the Munich Public Prosecutor's Office has told the company that it should join the proceeding as a co-participant. In this case, the company denies criminal responsibility for the actions of its directors and officers, both on factual and legal grounds.

## 7.7 Report on the opportunities and risks of discontinued operations

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### 7.7.1 Report on the opportunities and risks of the held-for-sale interest in SM Electronic Group

The SM Electronic Group has a relatively broad customer base and supplies large specialist outlets, department stores and retail chains in Germany and the rest of Europe. The company is thus exposed to the general fluctuations in consumer purchasing patterns. The company has long-term contracts with major customers. The SM Electronic Group is constantly adding new lines and segments to its business activities with a view to further developing the existing product and customer portfolio. The German consumer electronics market is characterized by a large number of participants and strong downward pressure on prices. Purchasing is exposed to fluctuations in the US dollar exchange rate. The company is essentially financed by means of intra-Group loans. A factoring agreement has been concluded with Coface with a view to tapping an external source of finance. Further risks exist in connection with the measures taken to overcome underfunding. Some SM Electronic Group companies are subject to substantial claims for damages asserted by third parties due to the alleged violation of intellectual property rights that result from the time prior to the acquisition by Gigaset and that are the subject of a legal dispute with the seller of that time. The liability and legal risks arising from this matter are monitored constantly by the internal risk management system of Gigaset AG.

There are large fluctuations in new orders received. SM Electronic is looking to exploit major business opportunities by optimizing its product portfolio and reorganizing its international operations. SM Electronic has been able to greatly enhance its cost structure sustainably by optimizing its internal processes, modernizing its IT systems and centralizing the services it provides.

### 7.7.2 Subsidiaries already sold

The opportunities and risks associated with the subsidiaries that have been sold up until their deconsolidation are reflected in the present consolidated financial statements. The opportunities and risks associated with the commercial operations of the subsidiaries that have been sold were fully eliminated by the disposal in each case. With the exception of the significant items arising from the disposal of the sold subsidiaries as listed in the notes to the financial statements under "Risk arising from contingent liabilities and legal disputes," there are no legal grounds on which Gigaset could be compelled to stand for the liabilities of the subsidiaries.

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

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

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The internal control system of the Gigaset Group encompasses all the principles, procedures and measures implemented with a view to guaranteeing the efficiency, regularity and effectiveness of the accounting system employed and securing compliance with all legal provisions.

As the Group's parent company, it is especially important for Gigaset to monitor and manage the development of risk in the individual subsidiaries promptly and consistently. This takes the form of a regular planning and reporting process built around a uniform, Group-wide accounting guideline (Gigaset Accounting Manual).

The timely availability of reliable, consistent information is essential for this to happen. The finance and controlling units of the holding company and the individual subsidiaries are responsible for providing the requisite data resources. Appropriate processes and process-integrated and process-neutral monitoring activities are implemented in line with the respective company situation and industry. This process ensures rapid access to the information required for the Group management process.

The preparation and analysis of the information from the subsidiaries are essentially performed at Gigaset by the Subsidiary Controlling, Financial Accounting and Reporting, Liquidity Management and Risk Control units of the Corporate Finance department. The completeness and correctness of the accounting data are verified on a regular basis. The independent auditors and other audit bodies are integrated in the control environment of the Gigaset Group by means of process-neutral audit activities. In particular, the audit of the consolidated financial statements by the independent auditors and the audit of the separate financial statements of the Group companies that are consolidated form the main process-neutral monitoring measures with regard to the consolidated accounting process.

The Supervisory Board of Gigaset AG, represented notably by the Audit Committee, is also integrated in the internal monitoring system of Gigaset with process-neutral audit activities.

The bookkeeping and accounting processes are clearly defined by the following measures, among others, within the framework of the annual and quarterly financial statements in particular:

## 8.2 Structural information

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- Accounting at the Gigaset Group is carried out both locally in the respective subsidiaries and centrally, in the so-called Shared Service Center in Bocholt. The separate financial statements are prepared in accordance with the local accounting provisions and adjusted to match the provisions of the International Financial Reporting Standards (IFRS) as applicable in the EU for the purposes of consolidated accounting and the provisions of commercial law in accordance with Section 315a (1) HGB.
- Uniform accounting and valuation methods throughout the corporate group are assured by the Gigaset Accounting Manual, on the one hand, and by the partially centralized accounting and financial reporting department, on the other hand.
- Accounting events are recorded in individually selected professional accounting systems that have been adapted to meet local requirements, such as SAP and DATEV.

## 8.3 Process and control information

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- Central and local tasks and responsibilities are defined.
- Control mechanisms, such as the principle of dual control, computerized validation, manual controls and change notices, are implemented.
- Schedules and process plans for separate and consolidated financial statements are drawn up and distributed or made generally available.
- The reporting packages submitted by the Group companies are analyzed and, where necessary, corrected.
- Technical plausibility checks are carried out at Group level.
- There is a single-stage consolidation process involving a professional consolidation system.
- Standardized, complete sets of forms are used.
- Experienced, skilled staff are deployed.
- The independent auditors perform a control function as a process-neutral instrument within the framework of their statutory audit assignment.

When required, special reports and ad hoc analyses are created promptly. Furthermore, the Executive Board always has the option of directly approaching employees from the controlling and finance departments or the respective local management team.

The Gigaset planning and reporting process is based on a professional, standardized consolidation and reporting system, in which the data is entered manually or using automatic interfaces. Qualitative analysis and monitoring functions are ensured by internal reports and a user-friendly interface.

## 8.4 Group-wide systematic risk management

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Risk management at Gigaset forms an integral part of company management and planning. The purpose of risk management is to achieve the goals set as part of the business strategy by systematically and promptly identifying, recording, reporting upon and managing risk at all levels and in all units. This makes it possible to avoid developments that might jeopardize the Company's continued existence and to make best use of the available business opportunities.

In this context, the risk profile and the risk management process are defined, coordinated and monitored at corporate level and implemented in the holding company and the individual operating units. The risk are identified, systematically recorded and assessed, and measures defined, wherever the greatest expertise and assessment capability exist.

Uniform standards for risk recording, documentation and monitoring exist throughout the corporate group, as documented in the Gigaset Risk Management Manual. The corporate risk manager monitors compliance with the provisions it contains.

Gigaset employs a systematic, web-based risk management system known as R2C\_risk to chance to record all risks throughout the corporate group and to show the risks separately for each company or in consolidated form from the corporate viewpoint. This system makes it possible to already control and manage the individual risks at the company level and at the same time to provide a current, complete picture of the risk situation in the Group. The outcome is the best possible way of ensuring compliance with, and monitoring of, the risk strategy defined by the Executive Board.

The corporate risk manager is tasked with constantly refining and improving the system, monitoring and coordinating the Group-wide risk management system, and reporting to company management.

Alongside training courses and seminars, checklists and what is known as the Risk Atlas are provided to assist in the systematic identification of risk. The Risk Atlas shows the areas to which risks can typically be allocated at Gigaset, in accordance with the following structure:

- Market risk (economy/industry/competition, products/patents/certificates, legal environment, customers)
- Company/process risk (research/development, procurement, production, sales/marketing, delivery/after-sales, accounting/finance/controlling, organization/internal audit/IT, HR, insurance, special events, acquisition/operations/exit)
- Financial risk (earnings, liquidity, debt/financing, equity, taxes, other financial risks)
- Contingent liabilities (guarantees/contingent liabilities, other financial commitments, legal disputes, liability for executive bodies)

A 4x4 matrix is used to assess risk on a quantitative basis for the factors of probability of occurrence and extent of loss or damage. This relates to the possible impact on earnings of a negative event over a time horizon of 12 months. Appropriate risk-mitigation or risk-avoidance measures and the name of the risk manager are recorded for each individual risk alongside the rationale for the evaluation. The extent of the damage or loss is assessed after implemented measures but before planned measures. The results of the classification are correlated in a risk map or visualized in a portfolio.

Reports on the current situation of all the main Group companies are submitted to the Executive Board on a regular basis.

The risk situation is fully updated on a quarterly basis. Furthermore, the emergence of substantial new risks or the materialization of substantial existing risks are documented and reported immediately to the Executive Board, regardless of the normal reporting schedule. The Executive Board, in turn, informs the Company's Supervisory Board about the risk situation and risk management at regular intervals.

The business responsibility for the risk management process lies with the operating units at the level of the subsidiaries. The operational risk management system is based in these units accordingly. Moreover, every employee is responsible for identifying and managing risk within his or her immediate area of responsibility. The management of every subsidiary is responsible for coordinating and tracking risk. All risks and information deemed to be significant on the basis of risk management criteria must be reported immediately to the management as well as the Executive Board of the corporate group.

Other risk management activities include personal visits by members of the Executive Board to the subsidiaries on a regular basis in order to obtain a first-hand impression of their current development and the integration of risk considerations in the annual planning rounds.

In parallel to the risk management process, the Subsidiary Controlling department carries out monthly actual vs. planned comparisons, adjusting the ongoing forecast promptly, where required. Weekly periods are reviewed with regard to liquidity management. The timely provision of information to the Executive Board makes it possible to draw up and implement necessary counter-measures at short notice.

## 8.5 Qualifying comments

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The internal control and risk management system makes it possible to fully track, collate and assess company-related issues and present them in the consolidated financial statements. It is, however, fundamentally impossible to completely exclude the possibility of personal discretionary decisions, defective controls, human error or other circumstances, any or all of which may serve to reduce the effectiveness of the control and risk management system employed.

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

### Number 1:

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Gigaset AG's subscribed capital amounts to EUR 50,014,911 as of December 31, 2011, and is divided into 50,014,911 no-par bearer shares, each with a notional value of EUR 1.00 per share. Each share conveys the same rights and one vote.

### Number 2:

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Generally speaking, the Company's shares are freely transferable within the limits of the relevant laws and regulations. Certain restrictions on voting rights may arise from the provisions of the German Stock Corporation Act (Aktengesetz, AktG) and other laws. For example, shareholders may be subject to a voting prohibition under certain conditions (Section 136 AktG). Furthermore, the Company derives no rights and therefore no voting rights from its holdings in treasury shares (Section 71b AktG). The Executive Board is not aware of any restrictions on the voting rights or transferability of the Company's shares. However, please note that the members of the Executive Board, other employees and other persons who have access to insider information are subject to the restrictions set forth in the Company's insider trading guidelines.

### Number 3:

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As of the reporting date, the Company has not been notified of any shareholdings in its capital exceeding 10% of the voting rights.

### Number 4:

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As of the reporting date, there were no shares endowed with special features that would confer rights of control.

### Number 5:

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There are no arrangements pertaining to a coordinated exercise of the voting rights held by employees who hold shares in the Company.

## Number 6:

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The rules governing the appointment and dismissal of Executive Board members are conformant with Sections 84 et seq. AktG. In accordance with Article 5 (1) of the Company's Articles of Incorporation, the Supervisory Board only determines the exact number of Executive Board members. The rules governing the responsibility and requirements for amending the Articles of Incorporation are conformant with Sections 179-181 AktG. More extensive or specific rules within the Company's Articles of Incorporation are not deemed necessary at this time. The other applicable laws and regulations are set forth in the German Stock Corporation Act (AktG), while the applicable provisions of the Articles of Incorporation are set forth in Section II (Executive Board), Section III (Supervisory Board) and Article 16 of the Articles of Incorporation.

## Number 7:

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### Conditional Capital 2008/I

For the purpose of introducing a "Stock Option Plan 2008," the possibility of granting subscription rights ("options") for new bearer shares to members of the Executive Board, selected employees of the Company, and members of the management of affiliated companies was created by resolution of Gigaset AG's annual shareholders' meeting held on July 3, 2008. The Stock Option Plan 2008 and Contingent Capital 2008/1 resolved in connection with the plan were canceled and replaced by a new authorization by resolution of the annual shareholders' meeting held on June 10, 2011 (see below).

### Conditional Capital 2011

For the purpose of introducing a "Stock Option Plan 2011," the possibility of granting subscription rights ("options") for new bearer shares to members of the Executive Board, selected employees of the Company, and members of the management of affiliated companies was created by resolution of Gigaset AG's annual shareholders' meeting held on June 10, 2011. The shares to be issued when the options are exercised can be provided from the Conditional Capital. In addition, the Company is authorized to grant a cash settlement for the purpose of fulfilling its obligations under the options. Furthermore, the Company was also authorized to serve options exercised with treasury shares.

Specifically, the annual shareholders' meeting held on June 10, 2011, resolved the following:

- (a) The Company's share capital will be increased conditionally by a nominal amount of up to EUR 1,300,000 by issuing up to 1,300,000 new bearer shares ("Conditional Capital 2011"). The conditional capital increase only serves the granting of subscription rights ("options") to members of the Company's Executive Board and selected employees of the Company as well as members of the management and selected employees of affiliated companies ("beneficiaries") under Gigaset AG's Stock Option Plan 2011 ("Stock Option Plan") that are issued in accordance with the resolution of the annual shareholders' meeting held on June 10, 2011. The conditional capital increase shall be carried out only to the extent that options are granted in connection with the Stock Option Plan, the beneficiaries make use of such options, and the Company does not issue any treasury shares or grant a cash settlement for the purpose of fulfilling the options. The new shares shall qualify for dividends from the beginning of the fiscal year in which they are created by way of issuance. The Supervisory Board is authorized to issue options to members of the Company's Executive Board under the Stock Option Plan until December 31, 2014.

The Executive Board is authorized to issue options to the other beneficiaries under the Stock Option Plan with the approval of the Supervisory Board until December 31, 2014. This will be done in coordination with the executive bodies responsible for compensating members of management and employees of affiliated companies to the extent that options are issued to these beneficiaries.

(b) The Stock Option plan entails the following key points:

1. Contents of options

Every option entitles the holder to purchase one share of Gigaset AG ("Gigaset share").

2. Group of beneficiaries

Beneficiaries include members of the Company's Executive Board and selected employees of the Company as well as members of management and selected employees of affiliated companies. A total of up to 1,300,000 options ("total volume") can be issued to all groups in the time until December 31, 2014. The options shall be divided among the individual groups of beneficiaries as follows:

- (a) no more than 600,000 options (representing up to approx. 46%) for members of the Executive Board,
- (b) no more than 500,000 options (representing up to approx. 38.5%) for selected employees of the Company or employees at an affiliated company,
- (c) no more than 200,000 options (representing up to 15.5%) for members of the management of affiliated companies.

3. Purchase periods

The options may be distributed on one occasion or in several tranches within 45 (forty five) days of the date of announcement of the results of the past fiscal year, or within 45 (forty five) days of the date of announcement of the results of the first, second, or third quarter of a current fiscal year, but no later than two weeks before the end of the respective quarter.

The date of allotment of the options ("allotment date") shall be uniform for the tranches. Insofar as members of the Executive Board are concerned, the allotment dates shall be set by the Supervisory Board, and otherwise by the Executive Board.

4. Option period, restricted periods

The options shall have a total life of seven years from the allotment date and can be exercised for the first time after expiration of a vesting period. The vesting period is at least four years starting on the allotment date. Any options that are not exercised before the end of their period shall expire without replacement or compensation. No options may be exercised in the period between the beginning of the 15th calendar day before the end of every quarter and/or the fiscal year and the end of the first trading day after the publication of the quarterly results or annual results ("restricted periods").

Otherwise, the beneficiaries shall be bound to observe the restrictions arising from general laws and regulations, such as the German Securities Trading Act (Wertpapierhandelsgesetz, WpHG) (insider trading).

5. Performance targets and strike price

(a) Performance targets

The determining factor for setting the performance targets shall be the unweighted opening price of the Gigaset share in the XETRA trading system (or comparable successor system) of the Frankfurt Stock Exchange on the option exercise date or, in the case of the relative performance target, additionally the status of the MDAX (or comparable successor index) on the allotment date and on the option exercise date.

The options can only be exercised

- if the opening price of the Gigaset share in the XETRA trading system (or comparable successor system) on the Frankfurt Stock Exchange on the option exercise date is at least 15% higher than the strike price ("absolute performance target"), and
- if the price of the Gigaset share in the XETRA trading system (or comparable successor system) on the Frankfurt Stock Exchange performs better than the MDAX (or comparable successor index) during the period from the allotment date to the option exercise date ("relative performance target").

If both the absolute and relative performance targets are met, any option can be exercised within its period in accordance with the specifications of Gigaset AG's Stock Option Plan 2011.

(b) Strike price

The strike price for a Gigaset share when an option is exercised shall be equal to the unweighted average of the opening price of the Gigaset share on the Frankfurt Stock Exchange in the XETRA trading system (or comparable successor system) on the 10 (ten) trading days of the Frankfurt Stock Exchange prior to the respective allotment date for the option. At a minimum, the lowest issue amount as defined under Section 9 (1) AktG shall be paid as the strike price.

6. Capital and structural measures, anti-dilution provisions

If the Company increases its share capital during the option period while granting a direct or indirect subscription right to the shareholders, the strike price shall be reduced in accordance with the option terms. The strike price shall not be reduced if the beneficiary is given a direct or indirect subscription right to the new shares that would put him in a position as though he had already exercised the options under the Stock Option Plan. The option terms may stipulate adjustment rules for such cases of capital, structural or comparable measures. Section 9 AktG remains unaffected.

The option terms must specify an appropriate upper limit for gains on options for extraordinary developments. This also applies if the option gains were to lead to an inappropriate overall remuneration of the individual beneficiary.

7. Non-transferability

The options are not transferable, and as a rule can only be exercised by the beneficiaries. However, the options can be inherited. The option terms may stipulate that the beneficiary's heir or heirs must exercise the options within three months of the inheritance, but not before expiration of the vesting period.

8. Fulfillment of the options

At the Company's discretion, the beneficiaries may be offered the chance to purchase treasury shares or receive a cash settlement in lieu of having Gigaset shares issued to them from the Conditional Capital 2011 created for this purpose.

The decision as to which alternative will be offered to the beneficiaries in individual cases shall be made by the Supervisory Board if the beneficiaries are members of the Company's Executive Board; otherwise, the Executive Board will decide. In making this decision, the Executive Board and Supervisory Board shall be guided by no other considerations than the interests of the shareholders and the Company. The option terms shall be formulated in such a way as to create this option for the Company.

The cash settlement shall be equal to the difference between the strike price and the opening price of the Gigaset share in the XETRA trading system (or comparable successor system) on the option exercise date.

#### 9. Other rules and regulations

The other detailed rules applicable to the granting and fulfillment of options and the other exercise terms shall be determined by the Supervisory Board if members of the Company's Executive Board are concerned. The Executive Board will make this determination for other beneficiaries – in coordination with the executive bodies responsible for the compensation of these beneficiaries as far as members of management and employees of affiliated companies are concerned.

The other rules and regulations include in particular:

- (a) the determination of the number of options granted to individual beneficiaries or groups of beneficiaries,
- (b) the establishment of provisions governing the execution of the Stock Option Plan,
- (c) the procedures for granting and exercising the options,
- (d) the determination of vesting periods beyond the minimum vesting period of four years, including the determination of staggered vesting periods for specific sub-sets of options and the modification of vesting periods as required by law in special cases, such as a change of control over the Company,
- (e) the rules regarding the treatment and exercise of options in special cases, for instance if the beneficiary leaves the services of the Company, there is a change of control over the Company, or a "squeeze-out" process is carried out.

#### 10. Taxation

All taxes payable in connection with the allotment or exercise of the options or the sale of Gigaset shares by the beneficiaries shall be borne by the beneficiaries.

#### 11. Reporting obligation

The Executive Board and Supervisory Board shall report on the utilization of the Stock Option Plan and the options granted to the beneficiaries every year in the annual report.

## Conditional Capital 2009

The annual shareholders' meeting of August 5, 2009, adopted a resolution permitting the issue of warrant bonds and/or convertible bonds.

The resolution specifically states:

Authorization of the Executive Board to issue warrant bonds and/or convertible bonds

#### a) Authorization period, par value, number of shares

Subject to the consent of the Supervisory Board, the Executive Board is authorized to do the following one or more times until August 4, 2014:

- issue warrant bonds and/or convertible bonds in an aggregate amount of up to EUR 100,000,000 ("bonds") via the Company or companies in which the Company holds a majority interest directly or indirectly ("subordinate group companies"), and
- take over the guarantee for such bonds issued by group companies subordinate to the Company, and
- issue warrant rights or conversion rights to the bond holders totaling up to 11,925,000 registered no-par value shares in the Company with a proportionate amount in the share capital of up to EUR 11,925,000 as defined in more detail in the relevant bond terms.

Each of the issues may be divided into partial debentures of equal rank.

In the event of issuance of convertible bonds, the conversion ratio is derived from the division of the par value of a partial debenture by the fixed conversion price for one registered no-par value share in the Company. The conversion ratio is rounded to four decimal places. The bond terms may establish an additional payment to be made in cash and provide that unconvertible fractional amounts are pooled and/or compensated in cash. Furthermore, the bond terms may also specify an obligation of conversion.

b) Subscription rights, exclusion of subscription rights

The shareholders are basically entitled to a subscription right to the bonds; the bonds can also be transferred to a bank or banking syndicate with instructions to offer them for subscription to the shareholders. However, the Executive Board is authorized – subject to the consent of the Supervisory Board – to exclude the shareholders' subscription right to the bonds

- if they are issued for cash contribution and the issue price is not significantly below the theoretical market value of the bonds calculated based on acknowledged methods of financial mathematics, which is only applicable, however, to the extent that the shares issued to service the warrant rights and/or conversion rights thereby constituted will not in the aggregate exceed 10% of the share capital by any of either the effective date or the time of exercising this authorization. The proportionate amount of the share capital allocable to shares issued or sold from August 5, 2009, until the end of the term of this authorization with the exclusion of the subscription right applying Section 186 (3) sentence 4 AktG directly or accordingly shall be deducted from this amount of 10% of the share capital. Furthermore, the proportionate amount of the share capital allocable to the shares issued or yet to be issued to service conversion rights or warrant rights or obligations of conversion shall be deducted from the said amount, provided that the underlying bonds were issued during the term of this authorization with the exclusion of the subscription right pursuant to Section 186 (3) sentence 4 AktG; or
- in order to except fractional amounts created on the basis of the subscription ratio from the shareholders' subscription right to the bonds.

c) Exercise or conversion price, anti-dilution provisions

The strike price or conversion price shall be calculated on the following bases:

- aa) Where the bonds do not establish any obligation of conversion, the exercise price or conversion price is equivalent to 150% of the arithmetic mean of the closing price of the Company's shares in the Xetra trading system at the Frankfurt Stock Exchange (or a similar successor system) on the last five trading days prior to the date the issue amount of the bonds is determined. This arithmetic mean of the closing prices is further referred to as "reference price."
- bb) If bonds are issued establishing an obligation of conversion, the conversion price will be equivalent to the following amount:
- 100% of the reference price, provided that the arithmetic mean of the closing prices of the Company's shares in the Xetra trading system at the Frankfurt Stock Exchange (or a similar successor system) is less than or equal to the reference price on the twenty trading days ending on the third day prior to the date of conversion;

- 115% of the reference price, provided that the arithmetic mean of the closing prices of the Company's shares in the Xetra trading system at the Frankfurt Stock Exchange (or a similar successor system) is higher than or equal to 115% of the reference price on the twenty trading days ending on the third trading day prior to the date of conversion;
- the arithmetic mean of the closing prices of the Company's shares in the Xetra trading system at the Frankfurt Stock Exchange (or a similar successor system) on the twenty trading days ending on the third trading day prior to the date of conversion, provided that such value exceeds the reference price and is lower than 115% of the reference price;
- notwithstanding the provisions above, 150% of the reference price, provided that the holders of the bonds exercise an existing conversion right prior to the occurrence of the obligation of conversion.

cc) Notwithstanding Section 9 (1) AktG, the strike price and/or conversion price can be reduced on the basis of anti-dilution provisions as defined in more detail in the bond terms if the Company increases the share capital before the expiration of the exercise period and/or conversion period granting a subscription right to its shareholders or issues or guarantees additional bonds and, in doing so, does not grant any subscription rights to the holders of warrant rights or the creditors of convertible bonds. The terms may also specify a value-preserving adjustment of the strike price and/or conversion price for other measures that could lead to the dilution of the value of the warrant rights and/or conversion rights.

dd) In any case, the proportionate amount in the share capital of the shares to be subscribed per bond must not exceed the bond's par value.

Sections 9 (1) and 199 AktG remain unaffected.

#### d) Other configuration options

The Executive Board is authorized – with the consent of the Supervisory Board and taking into account the above requirements – to determine the further details of the issue and features of the bonds and their terms individually or in consultation with the bodies of the subordinate group company issuing the bonds, in particular the interest rate, issue price, term and division of shares, creation of an obligation of conversion, determination of additional cash payment, compensation or pooling of fractional amounts, cash payment in lieu of delivery of shares, delivery of existing shares instead of issuing new shares, and protection against dilution as well as the exercise period and/or conversion period.

### **Conditional capital increase**

The Executive Board had been authorized by resolution of the annual shareholders' meeting of August 5, 2009 to increase the company's share capital on a conditional basis by up to EUR 11,925,000 by issuing up to 11,925,000 new registered no-par value shares with profit participation from the beginning of the financial year when they are issued.

The Executive Board took advantage of this option with a resolution dated November 11, 2010, and issued convertible bonds bearing interest of 9% p.a. divided in up to 11,900,001 partial debentures with the consent of the Supervisory Board. These bonds were fully subscribed. The Executive Board resolved on February 10, 2011, with the consent of the Supervisory Board to convert these convertible bonds on June 30, 2011, in accordance with the bond conditions.

Of that number, 10,348,241 warrants were exercised in fiscal 2011, thereby converting Conditional Capital into share capital. The share capital now amounts to EUR 50,014,911. An amount of EUR 1,576,759 still remains within the Conditional Capital 2009.

## Authorized capital

### Authorized Capital 2010

With regard to the issuance of new shares, the Executive Board is authorized in accordance with Article 4 (5) of the Company's Articles of Incorporation to increase the share capital with the consent of the Supervisory Board by a total of up to EUR 19,833,335 by issuing new bearer shares entitled to a share of net income from the start of the year of issue in exchange for cash or contributions in kind on one or more occasions until December 20, 2015 (Authorized Capital 2010). The existing shareholders are generally entitled to a subscription right.

The new shares may also be taken over by one or more credit institution(s) with instructions to offer them to the shareholders for subscription (indirect subscription right).

The Executive Board is authorized to stipulate the share rights and terms of issuance with the consent of the Supervisory Board and to determine the details governing the execution of the capital increase.

The Executive Board shall also be authorized to exclude the subscription rights of existing shareholders with the consent of the Supervisory Board in the following cases:

- a) if capital increases are carried out in exchange for cash contributions, if the issue price of the new shares is not significantly less than the listed price of the exchange-traded shares at the time of final determination of the issue price and the proportion of the share capital represented by the new shares issued in exchange for cash contributions under letter a) of the present authorization excluding subscription rights does not exceed 10% of the share capital, either at the effective date or at the exercise date of this authorization. The proportionate amount of the share capital allocable to the shares is to be deducted from this amount of 10% of the share capital
  - (i) issued or sold from December 20, 2010, until the term of this authorization with the exclusion of subscription rights applying Section 186 (3) 4 AktG directly or accordingly, or
  - (ii) issued or yet to be issued to service conversion or option rights or conversion obligations, provided the underlying bonds were issued during the term of this authorization with the exclusion of the subscription right pursuant to Section 186 (3) 4 AktG, or
  - (iii) sold by the Company (treasury shares), provided the disposal took place on account of an authorization with the exclusion of the subscription right applicable when the authorized capital was exercised;
- b) insofar as the exclusion of the subscription right is necessary to grant a subscription right to the holders of convertible bonds or warrants issued by the Company or subordinated subsidiaries, in the necessary amount that will allow them to exercise their warrant or conversion rights or fulfill the conversion obligation;
- c) insofar as the capital increase in exchange for contributions in kind serves the purpose of either acquiring companies (including indirectly), parts of companies, investments in companies, or other assets;
- d) to remove fractional amounts from the subscription right.

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

### Share buyback authorization

The share buyback authorization granted by resolution of the annual shareholders' meeting of July 3, 2008 expired on January 3, 2010.

## Number 8:

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A loan agreed to by Gigaset AG includes a "change of control" provision. Under this loan agreement, Gigaset AG is obligated to report shareholder changes that exceed a specified threshold, whereby the bank has the right to terminate the loan effective immediately if the change in the shareholder structure leads to a change in control of the Company from the bank's point of view or has a significant permanent effect on Gigaset's course of business, its outlook, or financial position.

## Number 9:

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No agreements exist between the Company and the members of its Executive Board or its employees that would call for compensation in the event of a takeover offer.

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

Corporate governance is an issue that Gigaset AG takes very seriously. In the reporting period, the Executive Board and the Supervisory Board dealt with issues relating to compliance with the German Corporate Governance Code's rules (the "Code"), notably including the new recommendations added to the Code in the revised version dated May 26, 2010. Gigaset AG complies with the recommendations of the Code issued in 2002 and most recently amended on May 26, 2010, with only a few exceptions. Gigaset AG views corporate governance as a process that is constantly being developed and improved.

The Executive Board and Supervisory Board of Gigaset AG have issued the declaration of conformity with the revised version of German Corporate Governance Code dated May 26, 2010, required under Section 161 of the German Stock Corporation Act (Aktiengesetz, AktG). In addition, the declaration of conformity has been made permanently available to the shareholders on the Company's homepage ([www.gigaset.ag](http://www.gigaset.ag)). The deviations from the German Corporate Governance Code are documented accordingly.

## 10.1 Statement on corporate governance at Gigaset AG

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### 10.1.1 Declaration of conformity

The declaration of conformity with the German Corporate Governance Code pursuant to Section 161 AktG has been made permanently available to the shareholders:

"The Executive Board and Supervisory Board of Gigaset AG state their compliance with the recommendations of the German Commission on corporate management and supervision as amended on May 26, 2010, and published in the electronic version of the Federal Gazette (Bundesanzeiger), with the exception of the points outlined below. The deviations are explained in the following statement."

#### 10.1.1.1 D&O insurance for members of the Supervisory Board

Contrary to Section 3.8, no deductible of at least 10% of the loss was agreed when the D&O insurance policy was concluded for members of the Supervisory Board.

The company is of the opinion that the members of the Supervisory Board of Gigaset AG exercise their duties with the requisite level of care even without such a deductible.

#### 10.1.1.2 Composition of the Executive Board

Contrary to Section 4.2.1, the Executive Board comprised only one member in the period from September 1, 2010, to March 29, 2011.

This circumstance was appropriate in consideration of the sale of various subsidiaries and the realignment of the business model and the focus on the telecommunications sector. In the time from March 30, 2011 to December 31, 2011, the Executive Board was composed of two members.

#### 10.1.1.3 Compensation paid to members of the Executive Board

Contrary to Section 4.2.3, the variable elements of compensation paid to the board members Dr. Alexander Blum and Maik Brockmann are not based on a multi-year assessment.

The Executive Board employment contract with Mr. Brockmann and the managing director employment contract with Dr. Blum both have terms of only two years, so that stipulating a multi-year assessment basis would not offer any additional protection or other advantages, in the opinion of the company.

Contrary to Section 4.2.3, subsequent modification of the performance targets or the benchmark parameters is not excluded.

The variable compensation of Dr. Blum is tied to the degree of achievement of the indicator established for the business success of Gigaset Communications GmbH. Setting the respective target at the beginning of every fiscal year enables Gigaset Communications GmbH to respond to changed parameters in a flexible manner.

With regard to the payment of a bonus to Mr. Brockmann, it has been contractually agreed that the Supervisory Board decides both on "whether" such a payment will be made and on the amount and timing of such a payment. In the opinion of the company, such an arrangement enables the company to respond to any positive or negative development of the company in an optimal and flexible manner.

Contrary to Section 4.2.3, the variable elements of compensation paid to the board members Maik Brockmann and Dr. Alexander Blum do not specify a cap.

In the case of the Executive Board member Brockmann, however, the Supervisory Board decides both on “whether” a bonus will be paid and on the amount and timing of such a payment. In setting the amount of such a payment, moreover, appropriate consideration is given to any payment made on the basis of the capital appreciation of a virtual stock portfolio. The company is of the opinion that the interplay between bonus payments and payments based on the capital appreciation of a virtual stock portfolio (the Supervisory Board is entitled to pay a smaller bonus or no bonus at all to account for any large payment resulting from the higher share price) and the brief terms of the corresponding employment contracts already offer adequate protection against any inappropriately high variable compensation of the Executive Board member Brockmann.

In the case of the Executive Board member Dr. Blum, the variable compensation payable upon 100% target achievement is only € 30,000.00 before taxes. In the opinion of the company, moreover, the brief contract term of two years offers adequate protection against any inappropriately high variable compensation of the Executive Board member Dr. Blum.

Contrary to Section 4.2.3, no severance payment cap has been agreed with the board members Maik Brockmann and Dr. Alexander Blum.

The company is of the opinion that the brief contract term of only two years already offers adequate protection against any inappropriately high severance payments.

#### **10.1.1.4 Succession planning**

Contrary to Section 5.1.2, no age limit has been specified for the members of the Executive Board. No succession planning has yet been conducted.

The company is of the opinion that an age limit in itself is not a sensible or appropriate criterion for excluding someone from holding the office of an Executive Board member, particularly in consideration of the fact that such an age limit could be interpreted as a kind of discrimination. The primary qualifications for appointment to the company's Executive Board are the knowledge, ability and professional experience of the respective candidate.

Given the term of Executive Board employment contracts and the number of members serving on the Executive Board, succession planning does not seem to be necessary at the present time.

#### **10.1.1.5 By-laws of the Supervisory Board**

Contrary to Section 5.1.3, the Supervisory Board has not established any by-laws for itself in the current term of office.

Given the positive cooperation and close coordination among Supervisory Board members in the past, Gigaset AG does not perceive a compelling necessity to establish by-laws at the present time.

#### **10.1.1.6 Age limit for members of the Supervisory Board**

Contrary to Section 5.4.1, no age limit has been specified for the members of the Supervisory Board.

The company is of the opinion that an age limit in itself is not a sensible or appropriate criterion for excluding someone from holding the office of a Supervisory Board member, particularly in consideration of the fact that such an age limit could be interpreted as a kind of discrimination. The election proposals submitted to the annual shareholders' meeting are based primarily on the knowledge, ability and professional experience of the respective candidates.

#### **10.1.1.7 Supervisory Board compensation**

Contrary to Section 5.4.6 of the Code, the members of the Supervisory Board are paid a fixed salary. The compensation does not include a performance-related element.

The company is of the opinion that payment of a fixed salary reinforces the independence of Supervisory Board members and prevents potential conflicts of interest, while ensuring that the Supervisory Board performs its duties to the full extent.

#### **10.1.1.8 Supervisory Board committees**

Contrary to Sections 5.3.1 and 5.3.3, the Supervisory Board has not established any committees with the exception of the Audit Committee. Section 5.3.1 of the Code recommends the establishment of professionally qualified committees with the goal of enhancing the efficiency of the work of the Supervisory Board.

The current composition of the Supervisory Board and the manageable size of only six members, as well as the practice of holding meetings almost every month, ensure the efficient work of the Supervisory Board and the intensive discussion of strategic issues and detailed questions. Given the size of the Supervisory Board, moreover, the establishment of committees is not expected to enhance the board's efficiency any further. A Nominating Committee has not been established because only shareholder representatives serve on the Supervisory Board.

#### **10.1.1.9 Composition and goals of the Supervisory Board**

Contrary to Section 5.4.1, the Supervisory Board has not adopted concrete goals regarding its composition.

The Supervisory Board is elected by the annual shareholders' meeting. Gigaset AG is of the opinion that the suitability of candidates is decided solely by the company's shareholders."

### **10.1.2 Report on corporate governance**

#### **10.1.2.1 Functioning of the Executive Board**

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

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

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

#### **10.1.2.2 Supervisory Board: guidance and supervision**

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

#### **10.1.2.3 Supervisory Board committees**

**Audit Committee:** Since the annual shareholders' meeting held on June 10, 2011, the Audit Committee consists of three members of the Supervisory Board, namely, Dr. Dr. Löw, Mr. Riedel, and Mr. Hersh. Until the annual shareholders' meeting, the Audit Committee consisted of the Supervisory Board members Dr. Rudolf Falter, Mr. Hubertus Prinz zu Hohenlohe-Langenburg, and Mr. Hersh. The members of the Supervisory Board sitting on the Audit Committee in the reporting period – Dr. Rudolf Falter and Mr. Hubertus Prinz zu Hohenlohe-Langenburg and/or Dr. Dr. Peter Löw and Mr. Riedel – meet the statutory requirements of independence and expertise in the area of accounting necessary for a member of the Supervisory Board and Audit Committee.

Among other things, the Audit Committee's duties include reviewing the company's accounts, the annual and consolidated financial statements prepared by the Executive Board, the combined management report, the proposal for the utilization of the unappropriated net profit of Gigaset AG, and the quarterly reports and interim management reports of the Gigaset Group. The Audit Committee draws up proposals for the approval of the annual financial statements by the Supervisory Board on the basis of the independent auditors' report on the audit of the annual financial statements of Gigaset AG and the consolidated financial statements of the Gigaset Group, and the combined management report. The Audit Committee is also responsible for the company's relations with the independent auditors. The committee submits a proposal regarding the election of the independent auditors to the Supervisory Board, prepares the assignment of the audit engagement for the independent auditors elected by the annual shareholders' meeting, suggests focal points for the audit and sets the fees payable to the independent auditors. Furthermore, the committee monitors the independence, qualification, rotation and efficiency of the inde-

pendent auditors. In addition, the Audit Committee looks at the company's internal control system, the procedures used to record, control and manage risk, and the internal audit system. The Audit Committee is also responsible for compliance issues and dealing with any new developments in this field.

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

#### **10.1.2.4 Stock transactions involving members of the Executive Board and Supervisory Board**

Under Section 15a of the German Securities Trading Act (Wertpapierhandelsgesetz, WpHG), members of the Executive Board and the Supervisory Board, together with related parties, are obligated to disclose the purchase or sale of shares of Gigaset AG if the total value of such transactions reaches or exceeds EUR 5,000 in a given calendar year. Gigaset publishes information regarding such transactions immediately on its homepage and notifies the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht, BaFin) in writing accordingly; the information is submitted to the Commercial Register for archiving. Gigaset AG was not notified of any such transactions in fiscal 2011.

#### **10.1.2.5 Corporate compliance**

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

#### **10.1.2.6 Detailed reporting**

In order to ensure a high level of transparency, we notify our shareholders, financial analysts, media and other interested parties at regular intervals about the state of the company and key commercial developments. Gigaset informs its shareholders four times a year about the course of business and the company's financial position, financial performance and cash flows together with the associated risks. In accordance with the statutory obligation, the members of the company's Executive Board confirm that, to the best of their knowledge, the annual financial statements, the consolidated financial statements, and the combined management report provide a true and fair view of the company. The annual financial statements of Gigaset AG, the consolidated financial statements of the Gigaset Group, and the combined management report will be published within 90 days of the end of the respective fiscal year. Shareholders and third parties are also informed during the course of the year through the half-yearly financial report and quarterly financial reports after the end of the first and third quarters. In addition, Gigaset releases information in press and analyst conferences. Gigaset also uses the Internet as a means of publishing current information. This provides access to timetables for the key publications and events, including the annual reports, quarterly financial reports, and the annual shareholders' meeting. In line with the principle of fair disclosure, we treat all shareholders and key target groups alike when providing information. We use appropriate media channels to make information about important new circumstances available to a broad public without delay. Besides the regular reporting cycle, we release ad hoc notifications about circumstances that are not publicly known that could significantly affect the price of the Gigaset share were they to be disclosed.

## 10.2 Principles of the compensation system for executives of Gigaset AG

### 10.2.1 Compensation paid to members of the Executive Board

The compensation paid by the company to the members of its Executive Board reflects the responsibilities and contribution of each respective board member. The compensation granted in fiscal 2011 consisted of a fixed annual salary and performance-related components. The variable components consist of bonus agreements for all active members of the Executive Board during the reporting period which are tied to the increase in value of a virtual share portfolio (dependent on the company's performance) as well as to the fulfillment of certain goals established for the area respectively assigned to the board member (dependent on the success of that area).

Dr. Alexander Blum has not signed a separate employment contract for his services on the Executive Board. Moreover, he is compensated based on the managing director employment contract concluded between him and Gigaset Communications GmbH. This compensation includes the compensation for his Executive Board activity; Gigaset Communications GmbH bills the company separately for Dr. Blum's services.

Specifically, the Executive Board compensation is composed of the following elements:

- The fixed compensation is paid in the form of a monthly salary.
- The variable compensation consists in part of a special bonus, the amount of which is determined with reference to the increase in value of a virtual stock portfolio, and in part of an individual bonus agreement

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

In accordance with Dr. Blum's employment contract with Gigaset Communications GmbH, he receives an annual bonus if the goals established at the beginning of the respective fiscal year are fulfilled; the goals in turn are tied to Gigaset Communications GmbH's performance.

The Executive Board contract with Mr. Brockmann contains an individual bonus agreement under which he may receive variable compensation set at the discretion of the Supervisory Board for successfully carrying out his duties.

### 10.2.2 Compensation paid to members of the Supervisory Board

The annual shareholders' meeting held on June 10, 2011, adopted a new system of compensation system for the Supervisory Board as follows: "Each member of the Supervisory Board receives a fixed fee of EUR 1,000 for each month or partial month of their term in office as well as a meeting fee of EUR 1,000 for each Supervisory Board meeting or committee meeting attended. The Chairman of the Supervisory Board receives a fixed fee of EUR 1,500 for each month or partial month of their term in office as well as a meeting fee of EUR 1,500 for each Supervisory Board meeting or committee meeting attended.

The fees are due after the end of the annual shareholders' meeting adopting a resolution to approve the actions of the Supervisory Board for the previous fiscal year.

## 11 Significant events after the balance sheet date

Charles Fränkl took up his duties as the new Chairman of the Executive Board of Gigaset AG on January 1, 2012. The 53 year old Swiss is an experienced and recognized expert in the international business of telecommunications and information technology.

On January 3, 2012, a rechargeable battery from the product series SL910 overheated for the fourth time. This renewed incident made it clear that the measures initiated so far in the battery production process and subsequent x-ray screening were not sufficient to completely rule out the possibility of overheating. A repeated recall was not necessary as a result of this incident, but the renewed efforts for locating and solving the problem delayed the restart of production.

Gigaset AG and Gigaset Communications GmbH signed a long-term loan agreement with a banking syndicate on January 9, 2012. The syndicated loan with a volume of EUR 35 million should give the Gigaset Group the necessary flexibility in the planned business acquisitions and in financing its working capital and capital expenditure needs.

Evonik Degussa GmbH has asserted a claim of EUR 12 million against Gigaset AG under a contractual agreement from the year 2006 and demanded payment of this amount from Gigaset AG by letter of February 14, 2012. The company considers the claim to be unfounded for reasons of fact and law, but proposed an out-of-court settlement by letter of February 24, 2012, involving payments amounting to EUR 3.6 million, in order to avoid a time-intensive and costly arbitration proceeding. The out-of-court settlement negotiations have not yet been completed. It is also unclear whether Evonik Degussa GmbH will file an arbitration complaint, as it has threatened to do, despite the settlement offer.

## 12 Forecast report and outlook

### 12.1 General economic development

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The experts expect a slight rise in global gross domestic product (GDP) for both coming tax years, whereby the GDP of emerging markets is expected to grow quicker than that of industrial nations. The United Nations expects world-wide economic growth of 3.3% in its outlook for 2012, while growth of 3.9% is forecast for 2013.

Persistently high and low wage growth in the United States will further slow overall economic demand in the USA. Growth will continue to slow in the eurozone in 2012 and the sovereign debt crisis of individual member states, which has still not been overcome, will have a negative impact on consumers and companies all over Europe. Another global recession is possible due to the sustained turbulence in the financial sector and the further expansion of sovereign debt in individual EU countries.

Developing and emerging markets are expected to stimulate the motor of the global economy. These countries are expected to grow by an average of 5.4% in 2012 and 5.8% in 2013. The most important developing countries include in particular China and India. GDP growth in China is estimated to be 8% for each of the next two years. India's economy is expected to expand by more than 7% in the same period.

### 12.2 Development of the industry

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Whereas strong growth rates are recorded in the market for IP telephone systems for small and medium-sized enterprises, the global market for cordless telephones exhibits slight growth in unit sales in some regions and a slight to moderate decrease in other regions.

In particular Eastern Europe, South America, and the Middle East are proving to be market drivers in the classic market for cordless telephones. In contrast, the trend in the US market and some European markets is decreasing.

A percentage decrease in the mid-single digits is expected for the telecommunications market in 2012 and 2013 due to the persistently weak economic environment, whereby the decrease will subside in subsequent periods according to the current forecast. The market based on the DECT standard will remain nearly constant, while the analogue standard and other digital standards will decrease in importance worldwide. The European market will remain stable measured in units in the coming years, whereby slight growth is forecast for Eastern Europe. However, a single-digit decline in prices is expected in both regions in the coming two years.

A weak market decrease in unit sales compared to prior years is expected in the North American market starting in 2012. The North American market is expected to stabilize more and more in the coming years as a result of the price per unit sold, which will continue to remain relative constant.

The markets in the Middle East, Africa, Asia and South America represent further potential areas of growth. With respect to units sold, we continue to expect the Asia-Pacific area to be a growth market as in previous years based on units sold in the digital standards and in particular in the DECT area. Further growth impulses are also expected according to forecasts for the market in South America, in particular for digital technologies. In addition to general growth in cordless fixed-line phones, the segment for DECT telephones will expand at an above-average rate due to technology substitution. Unit growth in the area of cordless fixed-line phones is also anticipated for the markets in the Middle East and Africa over the next few years. In the MEA Region, the segment for DECT telephones will grow at a higher rate than analogue and other digital technologies.

## 12.3 Development of the Gigaset Group

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The forecast below is based only on continuing operations.

### 12.3.1 Financial performance

The Group fell short of its sales forecast of EUR 540 – 580 million for 2011 as a result of the difficult economic environment in Europe. However, the earnings forecast for 2011 was reached due to strict cost management. The Gigaset Group will continue its course of strategic development introduced in 2011. In addition to the targeted expansion of regional markets and the development and sale of new innovations, the Company is focusing on expanding Gigaset pro to a fundamental pillar. The Group's financial situation should be improved and greater strategic room for maneuver to secure the future should be achieved with a holistic concept of portfolio optimization, change management, and permanent orientation on profitability by increasing efficiency.

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

However, business development in fiscal years 2012 and 2013 will also be significantly driven by the possible effects of the financial crisis on the main sales market of Europe. The scope and influence of the financial crisis on the consumer climate cannot be reliably estimated at this time. This uncertain operating environment makes a reliable outlook considerably more difficult. The highly volatile trend on the foreign exchange markets also has an effect. Invoices are issued primarily in US dollars on Gigaset's procurement markets, whereby a stronger US dollar has a negative effect on the Group's profitability. In light of this, we expect that sales in 2012 will be on the previous year's level if there are no major disruptions on the sales markets. Earnings (EBITDA) are not expected to reach the previous year's level, since the positive effects from the realignment and the strict cost management will be overcompensated by the current sales market trends, a strong US dollar, and necessary investments in innovations and future product portfolios. In particular, the company sees good opportunities in the business of Internet-borne

voice/video communication for residential and commercial customers in the SOHO segment. The company will tap a new product segment of home networking based on cloud platforms and Android-based platforms. That will enable the company to extend existing partnerships, establish new partnerships and tap new market segments. Sales and earnings are expected to improve again for 2013 compared to 2012 due to these additional investments and the economic recovery.

This forecast is based on the described general economic and industry-specific trends. The forecast also does not reflect any anorganic growth as a result of purchases. In addition, the forecast is based on a USD/EUR exchange rate of 1.38.

The earnings forecast presented for the Group also applies mainly for the individual segments. The largest segment Europe will continue to be influenced by economic risks in individual markets. However, we expect to succeed in holding overall sales right at the previous year's level. The results of the segment are mainly influenced by the aforementioned sales market trends as well as the strong US dollar with simultaneous additional investments in innovations and future portfolios. As a result of these effects, we expect earnings for Europe to be down year-on-year.

Sales in the Asia-Pacific/Middle Eastern segment are expected to be at the previous year's level, while positive developments in APAC will be compensated by cautious estimates in MEA. The result in APAC/MEA is expected to be stable, similar to the development of sales revenues. In the medium-term future, the company sees additional potential in this region, when the telecommunication infrastructure is upgraded.

Stable sales development is forecasted for the US segment with a slight improvement in earnings due to a more favorable exchange rate.

### 12.3.2 Cash flows

Despite the difficulties on the European financial markets and the resulting complex operating environment, Gigaset's financing and liquidity are secure in fiscal years 2012 and 2013. The syndicated loan for EUR 35 million raised at the beginning of 2012 and the factoring agreement, which was not terminated, are contributing significantly to this.

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 maintain the Group's operational and strategic flexibility.

As part of investment planning, we will continue to invest in established markets to secure market share and competitive advantages. Additional investments will also be made in new product categories that will permanently secure Gigaset's existence and competitiveness.

Despite increased macroeconomic challenges on the sales, procurement, and financial markets, as well as in light of the necessary additional investments, we expect the Group to generate at least a balanced free cash flow in 2012 and 2013. Given a moderate market environment, the Group expects to be able to generate positive cash inflows from continuing operations.

## 12.4 Development of Gigaset AG

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### 12.4.1 Financial performance

Gigaset AG does not realize any noteworthy sales revenues. Thus, Gigaset AG's net income is determined by personnel costs for members of the Executive Board and from expenses for business, tax, and legal consultation. These costs are decreasing. As a holding company, Gigaset AG's performance is heavily influenced by the development of its subsidiaries, particularly the operating Gigaset Communications Group. Considering the outlook for the Group and the expected non-recurrence of one-time charges related to portfolio streamlining measures, moderate earnings improvements are expected in 2012. Furthermore, the company's financial performance can be expected to benefit from the conclusion of a profit/loss transfer agreement in 2013. Sales revenues will remain on a negligible level in both 2012 and 2013.

### 12.4.2 Cash flows

The holding's financial resources appear to be secured as a result of the conclusion of the syndicated loan agreement at the beginning of 2012, which can also be availed at the level of the holding, as well as due to the available authorized capital.

## 12.5 Overall statement regarding expected development

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We have begun implementing strategic measures to ensure sustained growth. Ensuring the future security of the Group and the holding company is among the Executive Board's most urgent duties. Therefore, portfolio and product optimization is a continuous process.

Our sales and earnings targets for 2012 and 2013 at the Group and Company level are associated with opportunities and risks. Only a few months ago, it hardly seemed likely that the European sovereign debt crisis and the financial market turbulence would spread to the real economy. In the meantime, economic forecasts are being more clearly retracted. The high degree of uncertainty does not currently permit a reliable forecast for the fiscal year just begun. We are continuing to focus on strict cost discipline with unchanged high investments in the product portfolio and will further optimize net working capital.

The current fiscal year entails some challenges for the Group that must be mastered. We will further advance our concept of focusing on interesting growth markets, in particular within Europe, complete the adjustments to our product portfolio, and further improve our financial position in order to create the basis for sustained growth.

In addition, takeovers in the area of telecommunications are possible at the level of Gigaset AG. Takeovers should contribute in particular to Gigaset's further strategic development and facilitate new product innovations. A potential takeover target's "strategic fit" in the Gigaset Group is a strict requirement for takeover.

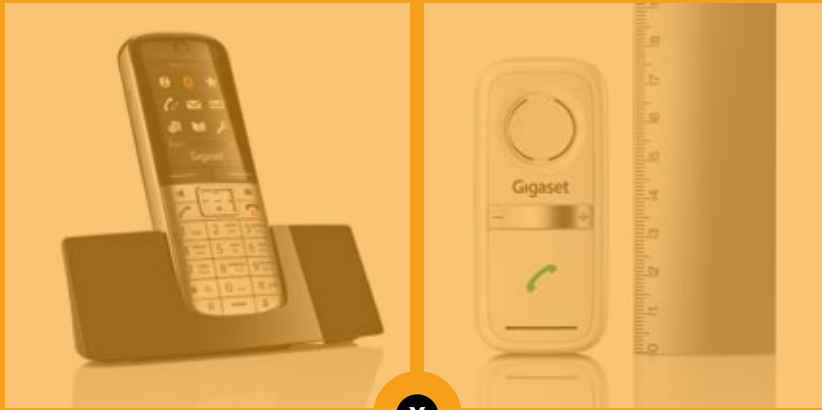
Significant effects from portfolio measures as well as from legal and regulatory areas are exempt from this forecast. The described market and industry conditions are a requirement for the forecast. Gigaset's actual development can differ positively as well as negatively from our forecast due to the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

Development in the first three months of the current fiscal year corresponds to the Executive Board's expectations.

Munich, March 20, 2012

Gigaset AG

The Executive Board



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## Consolidated Income Statement for the period from January 1 to December 31, 2011

▶ EUR'000	Note	01/01 – 12/31/2011		Total
		Continuing operations	Discontinued operations	
Revenues	1	458,569	61,982	520,551
Change in inventories of finished and unfinished goods		-1,068	-1,725	-2,793
Other internal production capitalized	2	17,761	0	17,761
Other operating income	3	30,029	9,955	39,984
Purchased goods and services	4	-229,081	-38,093	-267,174
Personnel expenses	5	-107,742	-10,602	-118,344
Other operating expenses	6	-117,013	-22,113	-139,126
<b>EBITDA</b>		<b>51,455</b>	<b>-596</b>	<b>50,859</b>
Depreciation and amortization		-26,578	-201	-26,779
Impairment losses	7	-31	-2,050	-2,081
<b>EBIT</b>		<b>24,846</b>	<b>-2,847</b>	<b>21,999</b>
Income/expenses from non-current financial assets accounted for by the equity method	8	0	0	0
Other interest and similar income	9	1,002	12	1,014
Interest and similar expenses	9	-3,507	-269	-3,776
<b>Net financial expenses</b>		<b>-2,505</b>	<b>-257</b>	<b>-2,762</b>
<b>Income from ordinary activities</b>		<b>22,341</b>	<b>-3,104</b>	<b>19,237</b>
Income taxes	10	-1,804	108	-1,696
<b>Consolidated profit/loss for the year</b>		<b>20,537</b>	<b>-2,996</b>	<b>17,541</b>
Share of consolidated profit/loss attributable to minority interests	11	0	126	126
Share of consolidated profit/loss attributable to shareholders of GIGASET AG	11	20,537	-3,122	17,415
<b>Earnings per common share</b>	<b>12</b>			
- Basic earnings per share, in EUR		0,41	-0,06	0,35
- Diluted earnings per share, in EUR		0,41	-0,06	0,35

## Consolidated Income Statement for the period from January 1 to December 31, 2011

01/01. – 12/31/2010					
Continuing operations	Discontinued operations	Total	Note		EUR'000
503,650	505,812	1,009,462	1		Revenues
-4,295	6,826	2,531			Change in inventories of finished and unfinished goods
17,859	2,631	20,490	2		Other internal production capitalized
33,975	19,398	53,373	3		Other operating income
-253,805	-357,825	-611,630	4		Purchased goods and services
-130,113	-98,933	-229,046	5		Personnel expenses
-132,362	-112,835	-245,197	6		Other operating expenses
<b>34,909</b>	<b>-34,926</b>	<b>-17</b>			<b>EBITDA</b>
-34,800	-23,059	-57,859			Depreciation and amortization
0	-28,932	-28,932	7		Impairment losses
<b>109</b>	<b>-86,917</b>	<b>-86,808</b>			<b>EBIT</b>
0	149	149	8		Income/expenses from non-current financial assets accounted for by the equity method
349	240	589	9		Other interest and similar income
-4,827	-3,704	-8,531	9		Interest and similar expenses
<b>-4,478</b>	<b>-3,315</b>	<b>-7,793</b>			<b>Net financial expenses</b>
<b>-4,369</b>	<b>-90,232</b>	<b>-94,601</b>			<b>Income from ordinary activities</b>
-3,054	-2,916	-5,970	10		Income taxes
<b>-7,423</b>	<b>-93,148</b>	<b>-100,571</b>			<b>Consolidated profit/loss for the year</b>
0	-1,326	-1,326	11		Share of consolidated profit/loss attributable to minority interests
-7,423	-91,822	-99,245	11		Share of consolidated profit/loss attributable to shareholders of GIGASET AG
			<b>12</b>		<b>Earnings per common share</b>
-0,25	-3,10	-3,35			- Basic earnings per share, in EUR
-0,25	-3,10	-3,35			- Diluted earnings per share, in EUR

## Consolidated Statement of Financial Position at December 31, 2011

EUR'000	Note	12/31/2011	12/31/2010
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	14	42,431	38,322
Property, plant and equipment	15	45,911	48,680
Non-current financial assets accounted for by the equity method	16	0	0
Financial assets	17	2,334	0
Deferred tax assets	30	12,240	3,985
<b>Total non-current assets</b>		<b>102,916</b>	<b>90,987</b>
<b>Current assets</b>			
Inventories	18	35,804	36,498
Trade receivables	19	59,723	83,355
Other assets	20	27,163	33,631
Current tax assets	21	3,076	1,495
Cash and cash equivalents	22	62,262	36,608
		<b>188,028</b>	<b>191,587</b>
Available-for-sale assets	23	20,416	62,989
<b>Total current assets</b>		<b>208,444</b>	<b>254,576</b>
<b>Total assets</b>		<b>311,360</b>	<b>345,563</b>

## Consolidated Statement of Financial Position at December 31, 2011

EUR'000	Note	12/31/2011	12/31/2010
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>	24		
Subscribed capital		50.015	39.629
Additional paid-in capital		87.981	74.606
Retained earnings		22.858	20.290
Accumulated other comprehensive income		-84.621	-99.580
		76.233	34.945
Minority interests		0	95
<b>Total equity</b>		<b>76.233</b>	<b>35.040</b>
<b>Non-current liabilities</b>			
Convertible bonds	25	0	23.092
Pension obligations	26	10.258	8.188
Provisions	27	7.392	10.439
Liabilities under finance leases	28	0	8
Other liabilities	29	35	10.120
Deferred tax liabilities	30	15.958	14.142
<b>Total non-current liabilities</b>		<b>33.643</b>	<b>65.989</b>
<b>Current liabilities</b>			
Provisions	27	27.222	37.147
Financial liabilities	31	6.083	4.726
Liabilities under finance leases	28	0	50
Trade payables	32	96.239	89.798
Current tax liabilities	33	7.790	3.268
Other liabilities	34	41.568	45.072
		178.902	180.061
Liabilities related to assets held for sale	23	22.582	64.473
<b>Total current liabilities</b>		<b>201.484</b>	<b>244.534</b>
<b>Total equity and liabilities</b>		<b>311.360</b>	<b>345.563</b>

## Consolidated Statement of Changes in Equity at December 31, 2011

▶ EUR'000	Subscribed capital	Additional paid-in capital	Retained earnings
December 31, 2009	26,402	73,580	20,290
1 Capital increase	13,217	1,002	0
2 Appropriation to retained earnings	0	0	0
3 Stock option program	0	0	0
4 Changes in minority interests	0	0	0
5 Other changes	0	0	0
<b>6 Total transactions with shareholders</b>	<b>0</b>	<b>0</b>	<b>0</b>
7 Consolidated loss 2010	0	0	0
8 Minority interests	0	0	0
9 Consolidated loss after minority interests	0	0	0
10 Currency translation differences	0	0	0
11 Total changes not recognized in the income statement	0	0	0
<b>12 Total net income (9+11)</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>13 Treasury shares</b>	<b>10</b>	<b>24</b>	<b>0</b>
December 31, 2010	39,629	74,606	20,290
1 Capital increase	10,348	13,268	0
2 Appropriation to retained earnings	0	0	2,568
3 Withdrawal from additional paid-in capital	0	0	0
4 Stock option program	0	0	0
5 Changes in minority interests	0	0	0
6 Other changes	0	0	0
<b>7 Total transactions with shareholders</b>	<b>0</b>	<b>0</b>	<b>0</b>
8 Consolidated profit 2011	0	0	0
9 Minority interests	0	0	0
10 Consolidated loss after minority interests	0	0	0
11 Currency translation differences	0	0	0
12 Total changes not recognized in the income statement	0	0	0
<b>13 Total net income (10+12)</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>14 Treasury shares</b>	<b>38</b>	<b>107</b>	<b>0</b>
December 31, 2011	50,015	87,981	22,858

## Consolidated Statement of Changes in Equity at December 31, 2011

Accumulated other comprehensive income	Adjustment items for minority interests	Consolidated equity		
-1,920	3,109	121,461	December 31, 2009	◀
0	0	14,219	Capital increase	1
0	0	0	Appropriation to retained earnings	2
32	0	32	Stock option program	3
0	-1,688	-1,688	Changes in minority interests	4
0	0	0	Other changes	5
32	-1,688	-1,656	<b>Total transactions with shareholders</b>	<b>6</b>
-99,245	0	-99,245	Consolidated loss 2010	7
0	-1,326	-1,326	Minority interests	8
-99,245	-1,326	-100,571	Consolidated loss after minority interests	9
1,553	0	1,553	Currency translation differences	10
1,553	0	1,553	Total changes not recognized in the income statement	11
-97,692	-1,326	-99,018	<b>Total net income (9+11)</b>	<b>12</b>
0	0	34	Treasury shares	13
-99,580	95	35,040	December 31, 2010	
0	0	23,616	Capital increase	1
-2,568	0	0	Appropriation to retained earnings	2
0	0	0	Withdrawal from additional paid-in capital	3
9	0	9	Stock option program	4
0	-221	-221	Changes in minority interests	5
0	0	0	Other changes	6
9	-221	-212	<b>Total transactions with shareholders</b>	<b>7</b>
17,415	0	17,415	Consolidated profit 2011	8
0	126	126	Minority interests	9
17,415	126	17,541	Consolidated loss after minority interests	10
103	0	103	Currency translation differences	11
103	0	103	Total changes not recognized in the income statement	12
17,518	126	17,644	<b>Total net income (10+12)</b>	<b>13</b>
0	0	145	Treasury shares	14
-84,621	0	76,233	December 31, 2011	

## Consolidated Cash Flow Statement for the Period from January 1 to December 31, 2011

▶ EUR'000	01/01 – 12/31/2011	01/01 – 12/31/2010
<b>Earnings before taxes (EBT)</b>	<b>19,237</b>	<b>-94,601</b>
Reversal of negative goodwill	-1,888	0
Depreciation and amortization of property, plant and equipment and intangible assets	26,779	57,859
Impairment losses	2,081	28,932
Increase (+)/decrease (-) in pension provisions	2,070	2,224
Gain (-)/loss (+) on the sale of non-current assets	-508	397
Gain (-)/loss (+) on deconsolidation	-2,580	38,395
Gain (-)/loss (+) on currency translation	4,101	3,769
Issuance of stock options	9	32
At-equity valuation result	0	-149
Other non-cash income and expenses	-20,095	-20,467
Net interest income	2,762	11,441
Interest received	264	413
Interest paid	-2,465	-5,977
Income taxes paid	-4,021	-2,722
Increase (-)/ decrease (+) in inventories	601	890
Increase (-)/ decrease (+) in trade receivables and other receivables	32,465	13,044
Increase (+)/ decrease (-) in trade payables, other liabilities and other provisions	-21,855	-70,686
Increase (+)/ decrease (-) in other balance sheet items	-4,971	283
<b>Cash inflow (+)/ outflow (-) from operating activities (net cash flow)</b>	<b>31,986</b>	<b>-36,923</b>
Payments for shares in companies	-650	0
Cash acquired with the acquisition of shares in companies	1,626	0
Proceeds from the sale of shares in companies	305	17,165
Cash transferred with the sale of shares in companies	-1,079	-15,805
Proceeds from the sale of non-current assets	579	7,469
Payments for investments in non-current assets	-10,301	-13,522
<b>Cash inflow (+)/ outflow (-) from investing activities</b>	<b>-9,520</b>	<b>-4,693</b>

## Consolidated Cash Flow Statement for the Period from January 1 to December 31, 2011

EUR'000	01/01 – 12/31/2011	01/01 – 12/31/2010
<b>Free cash flow</b>	<b>22,466</b>	<b>-41,616</b>
Cash flows from the borrowing (+)/ repayment (-) of current financial liabilities	1,843	-12,753
Cash flows from the borrowing of non-current financial liabilities	0	24,064
Repayment of non-current financial liabilities	0	-18,395
Payments related to liabilities under finance leases	-58	-1,156
Capital increase	0	14,062
Sale of treasury shares	145	34
Payments to minority interests	0	-981
<b>Cash inflow (+)/ outflow (-) from financing activities</b>	<b>1,930</b>	<b>4,875</b>
Net funds at beginning of period	29,800	61,359
Changes due to exchange rate differences	13	-2,010
Net funds at beginning of period, measured at prior-year exchange rate	29,787	63,369
Increase (-)/ decrease (+) in restricted cash	5,680	5,169
Change in cash and cash equivalents	24,396	-36,741
<b>Net funds at end of period</b>	<b>59,876</b>	<b>29,787</b>
Restricted cash	3,280	8,960
<b>Cash and cash equivalents</b>	<b>63,156</b>	<b>38,747</b>
Cash presented within the balance sheet item of "assets held for sale"	894	2,139
<b>Cash and cash equivalents presented in the balance sheet</b>	<b>62,262</b>	<b>36,608</b>

## Statement of Comprehensive Income

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

## Statement of Comprehensive Income

01/01 – 12/31/2010			
Continuing operations	Discontinued operations	Total	EUR'000
-7,423	-93,148	-100,571	Consolidated loss for the year
3,084	-1,531	1,553	Currency translation differences
3,084	-1,531	1,553	Total changes not recognized in the income statement
-4,339	-94,679	-99,018	Total comprehensive income and expenses
0	-1,326	-1,326	Thereof attributable to minority interests
-4,339	-93,353	-97,692	thereof attributable to shareholders of GIGASET AG

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### A. General Information and Presentation of the Consolidated Financial Statements

#### Renaming to GIGASET AG

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Gigaset AG (or the "company") is a joint stock corporation under German law, has its head office and principal place of business in Munich as per its Articles of Incorporation, and is filed in the Commercial Register with Munich District Court under entry no. HRB 146911. The company's offices are located at Hofmannstrasse 61 in 81379 Munich. At the extraordinary shareholder's meeting on December 20, 2010 in Munich, the shareholders of ARQUES Industries AG adopted a resolution to change the business activity and rename the company to Gigaset AG. This change in the company's name was entered in the Commercial Register on February 17, 2011.

#### Business activities

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The new business model of Gigaset AG provides for a concentration on the telecommunications industry and thus for the investment in Gigaset Communications GmbH. Gigaset Communications GmbH is a profitable SME global player, the European market and technology leader, and the price leader in DECT telephony. In Germany, the Gigaset Group has a 90% level of brand recognition as a premium provider. Represented in more than 70 countries with 1900 employees, the company is in second place in its industry segment worldwide.

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

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

#### Presentation of the consolidated financial statements

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

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

The consolidated statement of financial position is organized in accordance with the maturity structure of the constituent items. Assets and liabilities are considered current if they are payable within one year. Accordingly, assets and liabilities are considered non-current if they remain within the Group for more than one year. Trade payables, trade receivables, and inventories are presented as current items as they are all payable within one year. Deferred

tax assets and liabilities are presented as non-current items. Non-controlling interests held by shareholders outside the Group are presented as a separate item within shareholders' equity.

In accordance with IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations), a distinction is made between continuing and discontinued operations, and non-current assets held for sale. Continuing and discontinued operations are shown separately in the statement of comprehensive income for the reporting period and the prior year. In addition, a combined presentation is made in the income statement and cash flow statement, where the individual items for both continuing and discontinued operations are shown. For information regarding the composition of the continuing and discontinued operations, please refer to Note 35, Segment reporting.

The consolidated financial statements of Gigaset are prepared on the assumption of a going concern.

Hereinafter, "Gigaset" always refers to the entire corporate group. The name "Gigaset Group" always refers to the continuing operations of the corresponding segment. It is explicitly stated in the text when the separate financial statements of "Gigaset AG" are intended.

## Accounting principles

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The consolidated financial statements of Gigaset for fiscal 2011 and the prior-year figures presented have been prepared in accordance with the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) adopted and published by the International Accounting Standards Board (IASB) and the interpretations of the Standard Interpretations Committee (SIC) and the International Financial Reporting Standards Interpretations Committee (IFRS IC), as applicable in the European Union.

Furthermore, the German commercial regulations to be applied additionally in accordance with Section 315a (1) of the German Commercial Code (HGB) were observed. All the standards in effect and applicable to fiscal 2011 have been observed. They help to provide a true and fair view of the financial position, cash flows, and financial performance of Gigaset.

Application of the following standards and interpretations revised and newly issued by the IASB was obligatory starting from fiscal 2011:

- Amendments to IFRS 1 (First-time Adoption of International Financial Reporting Standards)
- Amendments to IAS 24 (Related Party Disclosures)
- Amendments to IAS 32 (Financial Instruments: Presentation)
- Amendments to IFRIC 14 (IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction)
- Amendments to IFRIC 19 (Extinguishing Financial Liabilities with Equity Instruments)
- Collective standard "Improvements to IFRS" (2010)

The amendment to IFRS 1 relating to the amendment to IFRS 7 relieves first-time adopters of IFRS from the requirement to make certain disclosures introduced in IFRS 7. The amendment to IFRS 1 now grants entities that are first-time adopters of IFRS optional relief from the requirement to restate comparative disclosures for fair value measurements and liquidity risk of the comparative periods ending before December 31, 2009. The aim of the amendment is to ensure that first-time adopters of IFRS benefit from the transitional provisions for the application of the amended IFRS 7. Application of the amendments to IFRS 1 and IFRS 7 was obligatory for reporting periods beginning on or after June 30, 2010. The amendments had no effect on the consolidated financial statements.

The amendments to IAS 24 were issued in November 2009. The amendments regarding entities that are controlled or significantly influenced by a government do not have any effect on the presentation of the financial information. Furthermore, the changes to IAS 24 have simplified the definition of a related party. Application of the amended standard is mandatory for reporting periods beginning on or after January 1, 2011. Earlier application is permitted. The amendments had no effect on the consolidated financial statements.

Amendments to IAS 32 "Financial Instruments: Presentation": The amendments clarify how the issuer should account for subscription rights, options and warrants on the acquisition of a fixed number of equity instruments that are denominated in currency other than the functional currency of the issuer. Up until now, such rights have been treated as derivative liabilities. If such instruments are issued pro rata to the issuer's existing shareholders for a fixed amount of cash, they should be classified as equity even if the exercise price is denominated in a different currency. The amendments had no effect on the consolidated financial statements.

Amendments to IFRIC 14 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction": The amendments to IFRIC 14 are relevant in those rare cases when an entity subject to a minimum funding requirement makes an early payment of contributions to meet these minimum funding requirements. The amendment allows entities to treat this prepayment as an asset in such cases. Application of the amendments was obligatory for reporting periods starting on or after January 1, 2011. The amendments had no effect on the consolidated financial statements.

IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments": IFRIC 19 provides guidance on how a debtor should account for its shares or other equity instruments issued in full or partial settlement of a financial liability in accordance with IFRS. The interpretation clarifies that the equity instruments issued to a creditor to extinguish a financial liability is consideration paid in accordance with IAS 39.41 and the equity instruments concerned should be measured at fair value. Where this cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished, with the difference between the carrying amount of the financial liability extinguished and the amount measured upon initial recognition of the equity instruments issued being recognized in profit or loss. Application of the interpretation was obligatory for reporting periods beginning on or after July 1, 2010. The amendments had no effect on the consolidated financial statements.

The IASB publishes annual improvements to existing standards, generally in the form of minor amendments. Gigaset applied the amendment as of January 1, 2011 (Annual Improvement Project 2010). Application had no significant effect on the financial position, cash flows, or financial performance of Gigaset or the presentation of the financial information.

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

Application of the following revised and newly issued standards and interpretations already adopted by the IASB was not yet mandatory in fiscal 2011:

Standards		Application mandatory from	Adopted by EU Commission
IFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters	1/1/2012	No
IFRS 7	Disclosures – Transfers of Financial Assets	1/1/2012	Yes
IAS 12	Deferred Tax: Recovery of Underlying Assets	1/1/2012	No
IFRS 10	Consolidated Financial Statements	1/1/2013	No
IFRS 11	Joint Arrangements	1/1/2013	No
IFRS 12	Disclosure of Interests in Other Entities	1/1/2013	No
IFRS 13	Fair Value Measurement	1/1/2013	No
IAS 1	Presentation of Financial Statements	1/1/2013	No
IAS 19	Employee Benefits	1/1/2013	No
IAS 27	Separate Financial Statements	1/1/2013	No
IAS 28	Investments in Associates and Joint Ventures	1/1/2013	No
IFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities	1/1/2013	No
IAS 32	Amendments to Offsetting Financial Assets and Financial Liabilities	1/1/2014	No
IFRS 9	Financial Instruments	1/1/2015	No
IFRS 9 / IFRS 7	Amendments to Mandatory Effective Date and Transition Disclosures	1/1/2015	No
<b>Interpretations</b>			
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	01.01.2013	No

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

The main amendment to IAS 19 is that unexpected fluctuations in pension obligations and any plan assets, known as actuarial gains and losses, will be presented directly in other comprehensive income (OCI) within equity. The option exercised up until now by Gigaset to defer recognition, known as the corridor method, has been eliminated. This will probably lead to equity becoming more volatile. A further accounting change requires interest expense to be determined on the basis of the benefit-oriented net obligation in the future. Furthermore, the amended standard requires more comprehensive disclosures than before. The exact quantitative effects are currently being reviewed, but cannot yet be estimated reliably at the present time.

The effects of the first-time application of the other revised or newly issues standards and interpretations cannot be reliably estimated at the present time.

## Scope and method of consolidation

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The present consolidated financial statements at December 31, 2011 include the separate financial statements of the parent company, Gigaset, and its subsidiaries, where appropriate together with special purpose entities.

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

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

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

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

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

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

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

Besides the parent company, 47 subsidiaries consisting of 19 domestic and 28 foreign companies – were included in the consolidated financial statements of Gigaset at December 31, 2011.

Compared with the previous year, 5 companies were added to the consolidation group or acquired, and 17 companies were deconsolidated, sold or liquidated in fiscal 2011.

No companies were accounted for in the consolidated financial statements by the equity method at December 31, 2011.

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

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

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

## Currency translation

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

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

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

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

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

		Exchange rate at *)		Average exchange rate *)		
		12/31/2011	12/31/2010	2011	2010	
▶	United Arab Emirates	AED	4.7454	4.8687	5.1132	4.8782
	Argentina	ARS	5.5547	5.2722	5.7393	5.2047
	Australia	AUD	1.2723	1.3136	1.3482	1.4423
	Brazil	BRL	2.4159	2.2177	2.3261	2.3344
	Canada	CAD	1.3215	1.3322	1.3756	1.3665
	Switzerland	CHF	1.2156	1.2504	1.2340	1.3823
	China	CNY	8.1588	8.8220	8.9961	8.9805
	Denmark	DKK	7.4342	7.4535	7.4507	7.4472
	United Kingdom	GBP	0.8353	0.8608	0.8678	0.8582
	Hong Kong	HKD	10.0510	10.3856	10.8345	10.3077
	Japan	JPY	100.2000	108.6500	111.0211	116.4567
	Mexico	MXN	18.0512	16.5475	17.2854	16.7532
	Norway	NOK	7.7540	7.8000	7.7903	8.0060
	Poland	PLN	4.4580	3.9750	4.1187	3.9950
	Russia	RUB	41.7650	40.8200	40.8797	40.2780
	Sweden	SEK	8.9120	8.9655	9.0273	9.5469
	Turkey	TRL	2.4432	2.0694	2.3351	1.9973
	USA	USD	1.2939	1.3362	1.3917	1.3268
	South Africa	ZAR	10.4830	8.8625	10.0882	9.7135

\*) Equivalent for EUR 1

## Adjustment of the comparison data from the consolidated financial statements at December 31, 2010

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The earnings per share for 2010 has been adjusted. In accordance with IAS 33.23, common shares issued upon conversion of a mandatorily convertible instrument must be included in the calculation of basic earnings per share from the date when the contract is concluded. The convertible bond issued in 2010 was designed as a mandatory convertible bond, albeit with a variable exchange ratio. In calculating the earnings per share for 2010, the convertible bond was treated as potential common shares and was therefore included in the calculation of the diluted earnings per share. By reason of the consolidated net loss, however, the diluted earnings per share was not calculated in accordance with IAS 33.

By virtue of the rule set out in IAS 33.23, however, the convertible bond should also have been included in the calculation of the basic earnings per share and should therefore have resulted in basic earnings per share of EUR -3.35, instead of the EUR -3.45 presented in the Annual Report 2010.

The corrected calculation of the earnings per share for 2010 based on the provisions of IAS 33.23 is presented in the table below:

2010 in EUR'000	Calculation in the Annual Report 2010		
	Continuing operations	Discontinued operations	Group
<b>PROFIT/LOSS</b>			
Basis for the basic earnings per share (share of period profit or loss attributable to shareholders of the parent company)	-7,423	-91,822	-99,245
Effect of potentially diluting common shares: Convertible bond	0	0	0
Basis for the diluted earnings per share	-7,423	-91,822	-99,245
<b>NUMBER OF SHARES</b>			
Weighted average common shares for the basic earnings per share	28,782,304	28,782,304	28,782,304
Effect of potentially diluting common shares: stock options	0	0	0
Effect of potentially diluting common shares: Convertible bond	0	0	0
Weighted average common shares for the diluted earnings per share	28,782,304	28,782,304	28,782,304
Basic earnings per share (in EUR)	-0.26	-3.19	-3.45
Diluted earnings per share (in EUR)	-0.26	-3.19	-3.45

Adjusted calculation			
Continuing operations	Discontinued operations	Group	EUR'000
			<b>PROFIT/LOSS</b>
-7,423	-91,822	-99,245	Basis for the basic earnings per share (share of period profit or loss attributable to shareholders of the parent company)
0	0	0	Effect of potentially diluting common shares: Convertible bond
-7,423	-91,822	-99,245	Basis for the diluted earnings per share
			<b>NUMBER OF SHARES</b>
29,616,839	29,616,839	29,616,839	Weighted average common shares for the basic earnings per share
0	0	0	Effect of potentially diluting common shares: stock options
0	0	0	Effect of potentially diluting common shares: Convertible bond
29,616,839	29,616,839	29,616,839	Weighted average common shares for the diluted earnings per share
-0.25	-3.10	-3.35	Basic earnings per share (in EUR)
-0.25	-3.10	-3.35	Diluted earnings per share (in EUR)

The values presented in the income statement at December 31, 2010 were adjusted. The adjustment did not necessitate any changes to the statement of financial position at December 31, 2010 or at December 31, 2009, nor any changes to the consolidated net loss for 2010 or 2009. Because the change of method did not have any effects on the opening statement of financial position at January 1, 2009, the company opted not to present the opening statement of financial position at January 1, 2009.

The changes pertain to the presentation of interest expenses incurred in connection with pension obligations and the income earned on plan assets, which had previously been presented within net financial expenses. The company is of the opinion that the combined presentation within personnel expenses of all expenses and income related to the accounting treatment of pension obligations allows for a more comparable presentation for the users of the financial statements of the company's financial position, cash flows and financial performance, compared with the company's most important competitors.

2010 in EUR'000	Continuing operations	Discontinued operations	Total	Continuing operations
<b>Revenues</b>	<b>503,650</b>	<b>505,812</b>	<b>1,009,462</b>	
Change in inventories of finished and semi-finished products	-4,295	6,826	2,531	
Other internal production capitalized	17,859	2,631	20,490	
Other operating income	33,975	19,398	53,373	
Purchased goods and services	-253,805	-357,825	-611,630	
Personnel expenses	-127,574	-97,973	-225,547	-2,539
<b>Other operating expenses</b>	<b>-132,362</b>	<b>-112,835</b>	<b>-245,197</b>	
<b>EBITDA</b>	<b>37,448</b>	<b>-33,966</b>	<b>3,482</b>	<b>-2,539</b>
<b>Depreciation and amortization</b>	<b>-34,800</b>	<b>-23,059</b>	<b>-57,859</b>	
Impairments	0	-28,932	-28,932	
EBIT	2,648	-85,957	-83,309	-2,539
Income/expenses from non-current financial assets accounted for by the equity method	0	149	149	
Other interest and similar income	349	240	589	
Interest and similar expenses	-7,366	-4,664	-12,030	2,539
Net financial expenses	-7,017	-4,275	-11,292	2,539
Income/expenses from ordinary activities	-4,369	-90,232	-94,601	0
Income taxes	-3,054	-2,916	-5,970	
Consolidated net loss	-7,423	-93,148	-100,571	0
thereof attributable to non-controlling interests	0	-1,326	-1,326	
Thereof attributable to shareholders of ARQUES Industries AG	-7,423	-91,822	-99,245	0
Earnings per common share				
- Basic in EUR	-0.25	-3.10	-3.35	0.00
- Diluted in EUR	-0.25	-3.10	-3.35	0.00

Discontinued operations	Total	Continuing operations	Discontinued operations	Total	EUR'000
		503,650	505,812	1,009,462	<b>Revenues</b>
		-4,295	6,826	2,531	Change in inventories of finished and semi-finished products
		17,859	2,631	20,490	Other internal production capitalized
		33,975	19,398	53,373	Other operating income
		-253,805	-357,825	-611,630	Purchased goods and services
-960	-3,499	-130,113	-98,933	-229,046	Personnel expenses
		-132,362	-112,835	-245,197	<b>Other operating expenses</b>
-960	-3,499	34,909	-34,926	-17	<b>EBITDA</b>
		-34,800	-23,059	-57,859	<b>Depreciation and amortization</b>
		0	-28,932	-28,932	Impairments
-960	-3,499	109	-86,917	-86,808	<b>EBIT</b>
		0	149	149	Income/expenses from non-current financial assets accounted for by the equity method
		349	240	589	Other interest and similar income
960	3,499	-4,827	-3,704	-8,531	Interest and similar expenses
960	3,499	-4,478	-3,315	-7,793	Net financial expenses
0	0	-4,369	-90,232	-94,601	Income/expenses from ordinary activities
		-3,054	-2,916	-5,970	Income taxes
0	0	-7,423	-93,148	-100,571	Consolidated net loss
		0	-1,326	-1,326	thereof attributable to non-controlling interests
0	0	-7,423	-91,822	-99,245	thereof attributable to shareholders of ARQUES Industries AG
					<b>Earnings per common share</b>
0.00	0.00	-0.25	-3.10	-3.35	- Basic in EUR
0.00	0.00	-0.25	-3.10	-3.35	- Diluted in EUR

## B. Summary of Principal Accounting and Valuation Methods

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

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

### Recognition of income and expenses

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

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

### Research and development expenditures

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Expenditures for research, which is defined as original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in full as an expense. On the other hand, expenditures for development, which is defined as the application of research findings or other knowledge to a plan or design for the production of new or substantially improved products and processes, are capitalized.

Recognition is permitted if the entity can demonstrate its ability to measure reliably the development expenditures and that the product or process is technically and economically feasible and will generate probable future economic benefits. In addition, Gigaset must have the intention and the resources available to complete the development and to use or sell the asset. The capitalized expenses cover the cost of materials, direct labor costs, and the directly allocable general overhead, provided these serve to make the asset available for use. The capitalized costs are recognized under internally generated intangible assets. Other development expenditures are recognized immediately in profit or loss when they arise. Capitalized development expenditures are disclosed at production cost, less cumulative amortization and impairments.

## Government grants

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

## Net financial income/expenses

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

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

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

## Income taxes

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

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

The profit generated by international Group subsidiaries is determined on the basis of local tax law and is taxed at the rate relevant for the county of domicile. The applicable country-specific income tax rates vary between 15.8% and 40.0%.

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

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

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

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

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

## Earnings per share

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

## Goodwill

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The goodwill arising upon consolidation represents the excess of the acquisition cost of a company acquisition over the Group's share of the fair value of the identifiable assets, liabilities, and contingent liabilities of a subsidiary or jointly managed company at the date of acquisition. According to IFRS 3 (Business Combinations), goodwill is not subject to scheduled amortization. Instead, IAS 36 (Impairment of Assets) states that an impairment test should be carried out once a year, and also when there is any indication of impairment. If necessary, the goodwill is written

down to its recoverable amount. Every impairment loss is recognized immediately in income and original values may not be reinstated at a later time. When a subsidiary or jointly controlled company is sold, the attributable amount of goodwill is included in the calculation of the profit or loss on the sale.

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

## Other intangible assets

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

The following estimated useful lives are applied:

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

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

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

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

## Internally generated intangible assets

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

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

## Property, plant and equipment

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

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

- Buildings: 10-50 years
- Technical plant and machinery: 5-15 years
- Operating and business equipment: 2-10 years

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

## Borrowing costs

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

- is a qualifying asset and
- the borrowing costs to be capitalized are material.

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

## Non-current financial assets accounted for by the equity method

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Interests in associated companies and joint ventures are accounted for by the equity method.

Associated companies are companies over which the Group exercises significant influence but which it does not control. Such a relationship is usually accompanied by 20% to 50% of the voting rights.

A joint venture is a jointly controlled company that exists when the Group concludes legal agreements with one or more contracting parties regarding economic activities generally performed by companies controlled jointly by the parties to the agreement.

The equity method defined in IAS 28 requires differences arising upon initial consolidation to be treated in accordance with the same principles as full consolidation, which in turn causes investments accounted for using the equity method to be measured initially at cost. The Group's interest in associated companies and joint ventures includes the goodwill constituted upon acquisition, less cumulative impairments.

The Group's share of the profits or losses of associated companies is recognized in the net financial income or expenses shown in the consolidated income statement from the date of acquisition. Accumulated changes after acquisition resulting from dividend payouts or other changes in the investment's equity not recognized in profit or loss are set off against the carrying amount of the investment.

Unrealized gains and losses on transactions between Group companies and associated companies are eliminated in proportion to the Group's share of equity in the subsidiary. In the event of unrealized losses, the transferred assets are tested for impairment.

## Special purpose entities

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

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

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

## Non-current assets held for sale

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

## Impairment of non-financial assets

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

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

There were intangible assets with indefinite useful lives in the reporting period. These assets were tested for impairment compliant with IAS 36.

## Leases

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

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

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

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

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

## Inventories

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

## Trade receivables

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

## Factoring

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Some Gigaset companies assign a portion of their trade receivables to financing companies (known as factors). In accordance with IAS 39, sold trade receivables are only eliminated from the statement of financial position when significant portions of the risks associated with the receivables have been transferred to the buyer of the receivables. Under existing contractual agreements, significant portions of the risk of customer insolvency (del credere risk) are transferred to the factor. Gigaset still bears a portion of the interest and del credere risk of these receivables and therefore recognizes the receivables in the amount of the remaining commitments ("continuing involvement"). These receivables are offset by a liability measured in such a way that the net balance of assets and liabilities reflects the remaining claims or obligations. In accordance with the requirements of IAS 39, the sold receivables are therefore partially eliminated from the statement of financial position on the reporting date, although the portion that

remains as the continuing involvement is low compared with the total amount of sold receivables. The purchase price retentions withheld initially by the factor as security are recognized separately under other assets. They are due as soon as the customer's payment is received.

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

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

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

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

## Receivables measured at fair value through profit or loss

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

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

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

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

## Cash and cash equivalents

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

## Financial assets

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

### Financial assets at fair value through profit or loss

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

### Loans and receivables

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

### Held-to-maturity financial investments

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

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

### Available-for-sale financial assets

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

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

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

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

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

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

### Derivative financial instruments

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

## Shareholders' equity

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

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

## Provisions

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

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

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

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

## Employee benefits

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### Pension obligations

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

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

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

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

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

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

### Share-based payment

In fiscal 2006, Gigaset established a share-based payment plan for its executive officers under which compensation is rendered by issuing treasury shares. This plan was continued in 2011. In accordance with IFRS 2, the fair value of the services rendered by the employees in exchange for the granting of options is recognized as an expense. The total cost, which is recognized as an expense over the vesting period, is measured as the fair value of the options (likely to be) exercisable. The fair value of the options is measured once by means of a Monte Carlo simulation at the respective grant dates. Non-market-based barriers to exercising options are reflected in the assumptions concerning the anticipated number of options to be exercised. The estimated number of options that can be exercised is reassessed at each reporting date. The effects of any changes made to the original estimates are recognized in the income statement and by making a corresponding adjustment in equity over the time remaining until the shares become vested.

## Termination benefits

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

## Profit-sharing and bonus plans

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

## Liabilities

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

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

## Segment reporting

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

In segment reporting, the operating segments are structured in accordance with the principal activities and the geographical regions of the Gigaset Group.

Gigaset's operating segments are:

- Gigaset
  - Europe
  - Americas
  - Asia-Pacific / Middle East
  
- Holding
  
- Other (discontinued)

## Legal disputes and claims for damages

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

## Assumptions and estimates made for accounting and valuation purposes

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

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

### **Estimates made for the purposes of purchase price allocation**

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

### **Estimates made in connection with impairment tests**

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

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

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

### **Estimates made with regard to receivables measured at fair value**

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

### **Income taxes**

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

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

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

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

### Provisions

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

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

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

## C. Notes on Financial Instruments

### Significance

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

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

### Financial risk factors

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

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

### Credit risk/ default risk

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

To counter default risks and the possibly associated credit rating and liquidity risks, the Group arranges to have a trade credit insurance company conduct credit checks of its customers, issue credit limits and cover a portion of the possible losses on receivables. As an alternative to the credit checks conducted by trade credit insurance compa-

nies, those customers that cannot be insured by such companies furnish security deposits (deposits, credit note retentions), which would be applied against unpaid receivables. Furthermore, the option of up-front payment or cash on delivery is given to those customers that cannot be insured or are not insured by reason of other circumstances.

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

Of the loans and receivables presented for the Group at the end of 2011 in the total amount of EUR 77,468 thousand (PY: EUR 93,589 thousand), an amount of EUR 56,959 thousand or 73.5% (PY: EUR 50,986 thousand or 54.5%) was insured. Trade credit insurance has been used as the security instrument for most of the receivables. Other forms of security exist in the form of letters of credit, customer deposits and bank guaranties.

The default risk equal to the carrying amounts of loans and receivables (EUR 77,468 thousand, PY: EUR 93,589 thousand) is limited to a maximum default risk of EUR 20,509 thousand (PY: EUR 42,603 thousand) by means of trade credit insurance, letters of credit and other credit improvements.

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

EUR'000	Carrying amount	Maximum default risk	Secured portion	2010 %
<b>Total</b>	93,589	42,603	50,986	54.5
Trade receivables	83,355	32,789	50,566	54.0
Loans	0	0	0	0.0
Other receivables	10,234	9,814	420	0.5

As in the prior year, the Gigaset Group did not receive any collateral security in 2011, aside from the standard security instruments described above.

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

	2011		2010	
	EUR'000	%	EUR'000	%
<b>Total</b>	<b>77,468</b>	<b>100.0</b>	<b>93,589</b>	<b>100.0</b>
Germany	25,298	32.7	18,809	20.1
Europe - EU	26,497	34.2	52,298	55.9
Europe - Other	3,174	4.1	3,568	3.8
Rest of World	22,499	29.0	18,914	20.2

As a rule, valuation allowances are charged in adequate amounts to account for discernible default risks in the receivables portfolio. The changes in valuation allowances on trade receivables are presented in tabular format in Note 19 Trade receivables.

## Liquidity risk

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

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

Due to the dynamic nature of the business environment in which the Group operates, the goal of Corporate Finance is to preserve the necessary financing flexibility by keeping unused credit facilities available. The credit facilities have been committed by various banks, either until further notice or for twelve months at a time.

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

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

2010 in EUR'000	Carrying amount	Total outflow	< 1 year	1-5 years	> 5 years
<b>Non-derivative financial liabilities</b>	<b>128,724</b>	<b>135,212</b>	<b>97,894</b>	<b>37,229</b>	<b>89</b>
Trade payables	89,798	89,798	89,709	0	89
Liabilities to banks	4,373	4,373	4,373	0	0
Other financial liabilities	353	353	353	0	0
Convertible bond	23,092	28,084	0	28,084	0
Other liabilities	11,108	12,604	3,459	9,145	0
<b>Derivative financial liabilities</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total</b>	<b>128,724</b>	<b>135,212</b>	<b>97,894</b>	<b>37,229</b>	<b>89</b>

With the consent of the Supervisory Board, the Executive Board adopted a resolution on February 10, 2011 to convert the convertible bond at June 30, 2011 in accordance with the terms and conditions of the bond. The cash flows presented above for 2010 are based on the circumstances at the reporting date for 2010 and represent the cash flows that would result if no conversion to shares would have occurred.

A more detailed presentation of current liabilities to banks and current financial liabilities in the maturity range "< 1 year" is provided in Note 31 Current financial liabilities; the same for trade payables is provided in Note 32 Trade payables, and the same for derivative financial liabilities is provided in Note 34 Current other liabilities.

In the prior year, the expected cash outflow for obligations under finance leases was EUR 50 thousand in less than one year and EUR 8 thousand between one and five years. At the reporting date, there were no further obligations under finances leases.

Of the total financial liabilities presented for the Group at year-end 2011 in the amount of EUR 111,766 thousand (PY: EUR 128,724 thousand) an amount of EUR 6,941 thousand or 6.2% (PY: EUR 15,821 thousand or 12.3%) is secured. The security items are broken down in the table below:

▶ EUR'000	Intangible assets	Land and buildings	Other property, plant & equipment	Inventories	Trade receivables	Other security	2011 %
Trade payables	0	0	0	2,144	4,797	0	6,2
Liabilities to banks	0	0	0	0	0	0	0,0
Other financial liabilities	0	0	0	0	0	0	0,0
Other liabilities	0	0	0	0	0	0	0,0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2,144</b>	<b>4,797</b>	<b>0</b>	<b>6,2</b>

▶ EUR'000	Intangible assets	Land and buildings	Other property, plant & equipment	Inventories	Trade receivables	Other security	2010 %
Trade payables	0	0	4,342	1,551	4,182	2,227	9,6
Liabilities to banks	0	1,305	1,703	0	0	0	2,3
Other financial liabilities	0	0	0	0	0	511	0,4
Other liabilities	0	0	0	0	0	0	0,0
<b>Total</b>	<b>0</b>	<b>1,305</b>	<b>6,045</b>	<b>1,551</b>	<b>4,182</b>	<b>2,738</b>	<b>12,3</b>

The category of "other security" is mainly composed of bank guaranties, deficiency guaranties and patents. Furthermore, most of the subsidiaries receive goods under country-specific retentions of title.

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

	2011		2010	
	EUR'000	%	EUR'000	%
<b>Total</b>	<b>111,766</b>	<b>100.0</b>	<b>128,724</b>	<b>100.0</b>
Germany	42,251	37.8	61,235	47.6
Europe - EU (excluding Deutschland)	24,236	21.7	14,669	11.4
Europe - Other	1,218	1.1	11,436	8.9
Rest of World	44,061	39.4	41,384	32.1

## Market price risk

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

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

The loans presented under financial liabilities and the liabilities under finance leases are subject to a theoretical interest rate risk. The Group is exposed to price risks primarily in connection with the purchasing of raw materials and supplies for manufacturing.

## Foreign currency risk

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

Of the financial instruments presented for the Group, an amount of EUR 57,552 thousand (PY: EUR 44,831 thousand) consisted of financial assets denominated in foreign currencies and an amount of EUR 49,232 thousand (PY: EUR 49,917 thousand) consisted of financial liabilities denominated in foreign currencies. The risk concentrations based on foreign currencies are presented in the table below:

Financial assets in	2011		2010	
	EUR'000	%	EUR'000	%
▶ USD (U.S. dollars)	16,353	28.5	6,405	14.3
BRL (Brazilian reals)	9,261	16.1	7,538	16.7
CNY (Chinese renminbi yuan)	8,833	15.3	4,393	9.8
ARS (Argentine pesos)	4,724	8.2	4,470	10.0
CHF (Swiss francs)	3,922	6.8	3,624	8.1
GBP (British pounds)	3,320	5.8	3,375	7.5
SEK (Swedish krona)	3,152	5.5	1,642	3.7
TRL (Turkish lira)	3,089	5.4	4,488	10.0
RUB (Russian rubles)	2,670	4.6	3,002	6.7
PLN (Polish zloty)	1,395	2.4	2,255	5.0
MXN (Mexican pesos)	508	0.9	0	0.0
AED (United Arab Emirates dirham)	192	0.3	157	0.4
JPY (Japanese yen)	133	0.2	409	0.9
CAD (Canadian dollars)	0	0.0	1,213	2.7
NOK (Norwegian krone)	0	0.0	762	1.7
DKK (Danish krone)	0	0.0	444	1.0
Other	0	0.0	654	1.5
<b>Total</b>	<b>57,552</b>	<b>100.0</b>	<b>44,831</b>	<b>100.0</b>

Financial liabilities in	2011		2010	
	EUR'000	%	EUR'000	%
▶ USD (U.S. dollars)	41,107	83.5	43,764	87.8
CNY (Chinese renminbi yuan)	3,420	6.9	924	1.9
JPY (Japanese yen)	1,016	2.1	1,299	2.6
CHF (Swiss francs)	771	1.6	350	0.7
SEK (Swedish krona)	581	1.2	496	1.0
AED (United Arab Emirates dirham)	577	1.2	209	0.4
PLN (Polish zloty)	516	1.0	272	0.5
BRL (Brazilian reales)	346	0.7	572	1.1
TRL (Turkish lira)	328	0.7	861	1.7
ARS (Argentine pesos)	275	0.6	259	0.5
RUB (Russian rubles)	212	0.4	382	0.8
GBP (British pounds)	62	0.1	438	0.9
ZAR (South African rand)	18	0.0	0	0.0
CAD (Canadian dollars)	3	0.0	0	0.0
NOK (Norwegian krone)	0	0.0	73	0.1
HUF (Hungarian forints)	0	0.0	16	0.0
DKK (Danish krone)	0	0.0	2	0.0
<b>Total</b>	<b>49,232</b>	<b>100.0</b>	<b>49,917</b>	<b>100.0</b>

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

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

Result of the currency sensitivity analysis:

If the relative value of the euro against the foreign currencies in which the Gigaset Group operates had been 10% higher or 10% lower at December 31, 2011, the equity presented in the functional currency would have been EUR 755 thousand lower or EUR 924 thousand higher, respectively (December 31, 2010: EUR 522 thousand higher or EUR 639 thousand lower).

The hypothetical effect on profit or loss (after taxes) of EUR -755 thousand (PY: EUR +522 thousand) or EUR 924 thousand (PY: EUR -639 thousand) respectively, is broken down in the table below on the basis of the corresponding currency sensitivities:

▶ EUR'000	2011		2010	
	+ 10%	-10%	+ 10%	-10%
EUR/USD	2,250	-2,750	3,396	-4,151
EUR/JPY	80	-98	81	-99
EUR/AED	35	-43	5	-6
EUR/ZAR	2	-2	0	0
EUR/MXN	-46	56	0	0
EUR/PLN	-80	98	-180	220
EUR/RUB	-223	273	-238	291
EUR/SEK	-234	286	-330	403
EUR/TRL	-251	307	-330	403
EUR/CHF	-286	350	-298	364
EUR/GBP	-296	362	-267	326
EUR/ARS	-404	494	-383	468
EUR/CNY	-492	601	-315	385
EUR/BRL	-810	990	-633	774
EUR/HUF	0	0	1	-2
EUR/DKK	0	0	-40	49
EUR/NOK	0	0	-63	77
EUR/CAD	0	0	-110	135
<b>Total</b>	<b>-755</b>	<b>924</b>	<b>522</b>	<b>-639</b>

At the reporting date, the Group held three foreign currency derivatives to hedge the exchange rate of the U.S. dollar against the euro, for a total notional amount of USD 16 million. All these derivatives, which are designed as "bonus-eventual" currency futures contracts, were concluded on August 3, 2011. As of the reporting date, derivatives totaling USD 9 million will expire on January 10, 2012, derivatives totaling USD 4 million will expire on February 13, 2012 and derivatives totaling USD 3 million will expire on March 13, 2012. At the reporting date, these derivatives were measured at their fair value of EUR 998 thousand. The currency sensitivity analysis yielded the result that if the U.S. dollar exchange rate had been 10% higher, the fair value would have been lower by EUR 1,083 thousand, and if the U.S. dollar exchange rate had been 10% lower, the fair value would have been higher by EUR 1,354 thousand.

## Interest rate risks

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

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

Fixed interest rates have been stipulated for interest-bearing receivables and liabilities. Market interest rate risks of non-derivative financial instruments with fixed interest rates can have an effect on profit or loss only when they are measured at fair value. Accordingly, all financial instruments with fixed interest rates that are measured at amortized cost are not subject to interest rate risks according to the definition of IFRS 7.

The sensitivity analyses conducted in accordance with IFRS 7 did not lead to any potential effects on profit and loss, either in 2011 or in 2010.

## Other price risks

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

## Classification

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

## Carrying amounts, measurement methods and fair values by measurement category

EUR'000	Note	Measurement category per IAS 39	Carrying amount 2011	Fair value 2011
<b>Assets</b>				
<b>Non-current assets</b>				
Financial assets	17	LaR	2,334	2,525
<b>Current assets</b>				
Trade receivables	19	LaR	59,723	59,723
Other assets	20	LaR, FA-HfT	16,409	16,409
Cash and cash equivalents	22	LaR	62,262	62,262
<b>Liabilities</b>				
<b>Non-current liabilities</b>				
Financial liabilities	25	FL-AC	0	0
Liabilities under finance leases	28		0	0
Other liabilities	29	FL-AC	0	0
<b>Current liabilities</b>				
Current financial liabilities	31	FL-AC	6,083	6,083
Liabilities under finance leases	28		0	0
Trade payables	32	FL-AC	96,239	96,239
Other liabilities	34	FL-AC	9,444	9,444
thereof aggregated by measurement category according to IAS 39				
<b>Financial assets</b>				
Loans and receivables (LaR)			139,730	139,921
Held-to-maturity financial investments (HtM)			0	0
Available-for-sale financial assets (AFS)			0	0
Financial assets held for trading (FA-HfT)			998	998
Financial assets designated at fair value (FA-FVO)			0	0
<b>Financial liabilities</b>				
Measured at amortized cost (FL-AC)			111,766	111,766
Financial liabilities held for trading (FL-HfT)			0	0

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

## Carrying amounts, measurement methods and fair values by measurement category

EUR'000	Note	Measurement category per IAS 39	Carrying amount 2010	Fair value 2010
<b>Assets</b>				
<b>Non-current assets</b>				
Financial assets	17	LaR	0	0
<b>Current assets</b>				
Trade receivables	19	LaR	83,355	83,355
Other assets	20	LaR	10,234	10,234
Cash and cash equivalents	22	LaR	36,608	36,608
<b>Liabilities</b>				
<b>Non-current liabilities</b>				
Financial liabilities	25	FL-AC	23,092	23,800
Liabilities under finance leases	28		8	8
Other liabilities	29	FL-AC	8,846	8,436
<b>Current liabilities</b>				
Current financial liabilities	31	FL-AC	4,726	4,726
Liabilities under finance leases	28		50	50
Trade payables	32	FL-AC	89,798	89,798
Other liabilities	34	FL-AC	2,262	2,262
thereof aggregated by measurement category according to IAS 39				
<b>Financial assets</b>				
Loans and receivables (LaR)			130,197	130,197
Held-to-maturity financial investments (HtM)			0	0
Available-for-sale financial assets (AFS)			0	0
Financial assets held for trading (FA-HfT)			0	0
Financial assets designated at fair value (FA-FVO)			0	0
<b>Financial liabilities</b>				
Measured at amortized cost (FL-AC)			128.724	129.022
Financial liabilities held for trading (FL-HfT)			0	0

Measurement method per IAS 39				Statement of financial position measurement method per IAS 17	EUR'000
Amortized cost	Fair value recognized in equity	Fair value through profit or loss			
<b>Assets</b>					
<b>Non-current assets</b>					
0	0	0	0	Financial assets	
<b>Current assets</b>					
83,355	0	0	0	Trade receivables	
10,234	0	0	0	Other assets	
36,608	0	0	0	Cash and cash equivalents	
<b>Liabilities</b>					
<b>Non-current liabilities</b>					
23,092	0	0	0	Financial liabilities	
-	-	-	8	Liabilities under finance leases	
8,846	0	0	0	Other liabilities	
<b>Current liabilities</b>					
4,726			0	Current financial liabilities	
-	-	-	50	Liabilities under finance leases	
89,798	0	0	0	Trade payables	
2,262	0	0	0	Other liabilities	
thereof aggregated by measurement category according to IAS 39					
<b>Financial assets</b>					
Loans and receivables (LaR)					
Held-to-maturity financial investments (HtM)					
Available-for-sale financial assets (AFS)					
Financial assets held for trading (FA-HfT)					
Financial assets designated at fair value (FA-FVO)					
<b>Financial liabilities</b>					
Measured at amortized cost (FL-AC)					
Financial liabilities held for trading (FL-HfT)					

In financial year 2011, the category of other assets included derivative financial assets in the amount of EUR 998 thousand (PY: EUR 0 thousand). As in the prior year, the item of other liabilities included no long-term derivative liabilities and no derivative liabilities of a short-term nature.

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

Liabilities under finance leases do not fall within the scope of IAS 39 and are therefore presented separately.

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

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

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

For those financial instruments attributed to disposal groups according to IFRS 5, the carrying amounts, measured values and fair values according to the measurement categories of IAS 39 are presented separately in Note 23.

## Net gains or losses arising from financial instruments

EUR'000	From subsequent measurement					Net gain or loss 2011	2010
	From interest	At fair value	Currency translation	Impairment	From disposal		
<b>Financial assets</b>							
Loans and receivables	-284	0	2,201	-1,704	-309	-96	-4,432
Held to maturity	0	0	0	0	0	0	0
Available for sale	0	0	0	0	0	0	0
Designated at fair value	0	0	0	0	0	0	0
<b>Financial liabilities</b>							
Measured at amortized cost	-3,732	0	-4,826	0	0	-8,558	-10,309
<b>Derivative financial instruments</b>							
Held for trading	0	1,236	0	0	0	1,236	374

The interest from financial instruments is presented as part of net interest income/expenses (see Note 9). In particular, this item includes interest income on loans extended, interest expenses for receivables from factoring and interest expenses for liabilities to banks and other financial liabilities. No interest income was generated in 2011 or 2010 on financial assets in which impairment losses had been recognized ("unwinding").

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

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

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

Net gains or losses on financial instruments held for trading include income and expenses from changes in market values in the amount of EUR 1,236 thousand (PY: EUR 127 thousand).

## Capital management

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

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

## Change in the gearing ratio

 EUR'000	2011	2010
Non-current liabilities	33,643	65,989
Current liabilities	197,885	244,534
<b>Liabilities</b>	<b>231,528</b>	<b>310,523</b>
<b>Equity</b>	<b>77,095</b>	<b>35,040</b>
Gearing Ratio	3.0	8.9

## D. Notes to the Income Statement

### 1. Revenues

The consolidated revenues of the Group break down as follows:

EUR'000	2011			2010		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Revenues from sales of goods	458,569	61,982	520,551	503,650	505,812	1,009,462
<b>Total</b>	<b>458,569</b>	<b>61,982</b>	<b>520,551</b>	<b>503,650</b>	<b>505,812</b>	<b>1,009,462</b>

The total revenues break down as follows:

EUR'000	2011	2010
Trading revenues	21,544	75,937
Production revenues	499,007	933,525
<b>Total</b>	<b>520,551</b>	<b>1,009,462</b>

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

### 2. Other internal production capitalized

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

EUR'000	2011			2010		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Gigaset Group (ohne Home Media)	17,761	0	17,761	17,859	0	17,859
Anvis Group	0	0	0	0	2,631	2,631
<b>Total</b>	<b>17,761</b>	<b>0</b>	<b>17,761</b>	<b>17,859</b>	<b>2,631</b>	<b>20,490</b>

### 3. Other operating income

The other operating income breaks down as follows:

▶ EUR'000	2011			2010		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Reversal of provisions	13,060	66	13,126	7,002	3,134	10,136
Exchange rate changes	7,790	664	8,454	13,526	5,078	18,604
Deconsolidations	0	2,580	2,580	928	0	928
Reversal of negative goodwill arising on consolidation	0	1,888	1,888	0	0	0
Income from derivatives	1,634	0	1,634	1,669	127	1,796
Disposable of non-current assets	469	116	585	44	1,034	1,078
Reversal of valuation allowances	244	0	244	1,175	1,212	2,387
Payments in compensation of loss or damage	32	0	32	36	39	75
Rental income	0	25	25	38	442	480
Charge-off of liabilities	0	0	0	3,740	221	3,961
Costs charged to third parties and cost reimbursements	0	0	0	0	223	223
Miscellaneous operating income	6,800	4,616	11,416	5,817	7,888	13,705
<b>Total</b>	<b>30,029</b>	<b>9,955</b>	<b>39,984</b>	<b>33,975</b>	<b>19,398</b>	<b>53,373</b>

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

The income from deconsolidations in 2011 resulted from the Oxxynova Group, which was sold in connection with the portfolio streamlining strategy.

▶ EUR'000 2011	Continuing operations	Discontinued operations	Total
Oxxynova	0	2,580	2,580
<b>Total</b>	<b>0</b>	<b>2,580</b>	<b>2,580</b>

▶ EUR'000 2010	Continuing operations	Discontinued operations	Total
Eurostyle	599	0	599
Other	329	0	329
<b>Total</b>	<b>928</b>	<b>0</b>	<b>928</b>

#### 4. Purchased goods and services

▶ EUR'000	2011			2010		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Raw materials and supplies	175,390	36,495	211,855	226,901	257,525	484,426
Purchased goods	49,004	272	49,276	21,530	52,631	74,161
Purchased services	838	208	1,046	3,419	17,247	20,666
Other	3,849	1,118	4,967	1,955	30,422	32,377
<b>Total</b>	<b>229,081</b>	<b>38,093</b>	<b>267,174</b>	<b>253,805</b>	<b>357,825</b>	<b>611,630</b>

The other purchased goods and services included reversals of valuation allowances in the amount of EUR 0 thousand (PY: EUR 1,272 thousand) in the category of continuing operations and reversals of valuation allowances in the amount of EUR 553 thousand (PY: EUR 231 thousand) in the category of discontinued operations.

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

<b>▶ EUR'000</b>	<b>2011</b>	<b>2010</b>
Gigaset Group (excluding Home Media)	228,471	251,833
Oxxynova Group	14,596	70,757
SM Electronic Group	12,338	11,424
Van Netten Group	11,159	30,259
Holding	610	1,973
Anvis Group	0	161,329
Gigaset Group (Home Media)	0	25,024
Carl Froh Group	0	26,349
Wanfried Druck Group	0	16,921
Fritz Berger Group	0	8,132
Golf House Group	0	7,629
<b>Total</b>	<b>267,174</b>	<b>611,630</b>

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

<b>▶ EUR'000</b>	<b>2011</b>	<b>2010</b>
Gigaset Group (excluding Home Media)	175,390	226,901
Oxxynova Group	13,340	57,884
SM Electronic Group	12,008	11,034
Van Netten Group	11,147	27,373
Anvis Group	0	125,346
Carl Froh Group	0	21,094
Wanfried Druck Group	0	14,794
<b>Total</b>	<b>211,885</b>	<b>484,426</b>

The expenses for purchased goods derived from the following groups:

▶ EUR'000	2011	2010
Gigaset Group (excluding Home Media)	49,004	21,529
SM Electronic Group	181	288
Oxxynova Group	80	639
Van Netten Group	11	37
Anvis Group	0	18,409
Gigaset Group (Home Media)	0	16,148
Fritz Berger Group	0	8,132
Golf House Group	0	7,629
Carl Froh Group	0	831
Wanfried Druck Group	0	519
<b>Total</b>	<b>49,276</b>	<b>74,161</b>

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

▶ EUR'000	2011	2010
Holding	611	1,972
Gigaset Group (excluding Home Media)	228	1,447
Oxxynova Group	188	226
SM Electronic Group	19	26
Anvis Group	0	12,624
Carl Froh Group	0	3,334
Wanfried Druck Group	0	1,037
<b>Total</b>	<b>1,046</b>	<b>20,666</b>

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

## 5. Personnel expenses

▶ EUR'000	2011			2010		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Wages and salaries	88,792	8,773	97,565	111,444	78,946	190,390
Social security, pension and other benefit costs	18,950	1,829	20,779	18,669	19,987	38,656
<b>Total</b>	<b>107,742</b>	<b>10,602</b>	<b>118,344</b>	<b>130,113</b>	<b>98,933</b>	<b>229,046</b>

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

▶ EUR'000	2011	2010
Gigaset Group	106,617	127,073
SM Electronic Group	4,885	4,987
Van Netten Group	4,400	9,311
Oxxynova Group	1,318	9,957
Holding	1,124	4,000
Actebis Group	0	50,848
Carl Froh Group	0	8,935
Wanfried Druck Group	0	7,850
Golf House Group	0	2,567
Fritz Berger Group	0	2,480
Gigaset (Home Media)	0	1,038
<b>Total</b>	<b>118,344</b>	<b>229,046</b>

The wages and salaries contained expenses of EUR 108 thousand (PY: EUR 107 thousand) for share-based payments.

## 6. Other operating expenses

The other operating expenses break down as follows:

EUR'000	2011			2010		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Marketing and representation expenses	36,619	4,068	40,687	28,340	4,949	33,289
Administrative expenses	17,035	3,739	20,774	22,371	17,485	39,856
Outgoing freight / transport costs	11,763	2,828	14,591	13,384	14,188	27,572
Exchange rate changes	11,554	1,001	12,555	18,543	3,830	22,373
Addition to warranty provisions	9,868	0	9,868	12,024	598	12,622
Consulting expenses	5,655	996	6,651	11,841	4,772	16,613
Expenses for land / buildings (including rent)	3,891	2,257	6,148	4,444	6,774	11,218
Patent and licensing fees	1,043	3,496	4,539	1,429	2,056	3,485
Maintenance of technical equipment, machinery and operational and office equipment	2,947	1,446	4,393	781	7,751	8,532
Valuation allowances and losses on receivables	4,096	1	4,097	3,746	1,419	5,165
Other taxes	1,740	7	1,747	2,940	2,012	4,952
Expenses for financial derivatives	398	0	398	1,422	0	1,422
Addition to provision for anticipated losses	283	417	700	505	1,058	1,563
Losses on the disposal of non-current assets	45	32	77	1,260	215	1,475
Losses on deconsolidations	0	0	0	6	39,317	39,323
Miscellaneous operating expenses	10,076	1,825	11,901	9,326	6,411	15,737
<b>Total</b>	<b>117,013</b>	<b>22,113</b>	<b>139,126</b>	<b>132,362</b>	<b>112,835</b>	<b>245,197</b>

The losses on deconsolidations in the prior year derived from the following sold companies:

▶ EUR'000	Continuing operations	Discontinued operations	Total
Anvis	0	36,736	36,736
Wanfried Group	0	2,581	2,581
Sonstige	6	0	6
<b>Total</b>	<b>6</b>	<b>39,317</b>	<b>39,323</b>

## 7. Impairment losses

The impairment losses break down as follows:

▶ EUR'000	2011			2010		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
SM Electronic Group	0	1,897	1,897	0	-3,099	-3,099
Van Netten Group	0	153	153	0	17,973	17,973
Gigaset Group	31	0	31	0	0	0
Carl Froh Group	0	0	0	0	7,748	7,748
Fritz Berger Group	0	0	0	0	5,174	5,174
Golf House Group	0	0	0	0	1,809	1,809
Anvis Group	0	0	0	0	42	42
Oxxynova Group	0	0	0	0	-715	-715
<b>Total</b>	<b>31</b>	<b>2,050</b>	<b>2,081</b>	<b>0</b>	<b>28,932</b>	<b>28,932</b>

The impairment losses recognized in the SM Electronic Group in 2011 amounted to EUR 1,897 thousand, due to restructuring measures. An essential aspect of the restructuring measures was the outsourcing of logistics, for which reason the high-bay warehouse and other assets required for logistics could no longer be used. The impairment losses in the total amount of EUR 1,897 thousand related to intangible assets in the amount of EUR 110 thousand, and to property, plant and equipment in the amount of EUR 1,787 thousand.

The van Netten Group was classified as a disposal group already in 2010. Therefore, the corresponding assets and liabilities were presented as assets held for sale and as liabilities related to assets held for sale in 2010. In consideration of the fair value less costs to sell, an impairment loss of EUR 153 thousand (PY: EUR 17,973 thousand) was recognized in 2011. The impairment loss recognized in 2011 reflected the change in the assets and liabilities held until the deconsolidation date in June 2011.

The impairment losses recognized in the Gigaset Group in the total amount of EUR 31 thousand (PY: EUR 0 thousand) related to intangible assets in the amount of EUR 26 thousand (PY: EUR 0 thousand), and to property, plant and equipment in the amount of EUR 5 thousand (PY: EUR 0 thousand).

The impairment losses recognized in the prior year in the Carl Froh Group in the amount of EUR 7,748 thousand, the Fritz Berger Group in the amount of EUR 5,174 thousand and the Golf House Group in the amount of EUR 1,809 thousand were charged in respect of the necessary impairments resulting from the classification as held for sale and from the continued development of assets and liabilities in the time remaining until the respective deconsolidation dates.

## 8. Income/expenses from non-current financial assets accounted for by the equity method

The income from financial assets accounted for by the equity method amounted to EUR 0 thousand (PY: EUR 149 thousand). The prior-year figure derived from the joint ventures of the Anvis Group.

## 9. Net interest income/expenses

EUR'000	2011			2010		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Other interest and similar income	1,002	12	1,014	349	240	589
Interest and similar expenses	-3,507	-269	-3,776	-4,827	-3,704	-8,531
<b>Zinsergebnis</b>	<b>-2,505</b>	<b>-257</b>	<b>-2,762</b>	<b>-4,478</b>	<b>-3,464</b>	<b>-7,942</b>

Other interest and similar income in the amount of EUR 1,014 thousand (PY: EUR 589 thousand) consisted mainly of interest on loans extended, current account balances and term deposits, which are assigned to the category of loans and receivables.

Interest and similar expenses in the amount of EUR 3,776 thousand (PY: EUR 8,531 thousand) were mainly composed of interest payments to banks on loans received, which are assigned to the category of financial liabilities at amortized cost. This item also included interest expenses related to the convertible bond issue, in the amount of EUR 1,239 thousand (PY: EUR 206 thousand), as well as interest expenses on liabilities under finance leases in the amount of EUR 0 thousand (PY: EUR 371 thousand) and interest expenses on receivables under factoring arrangements, which reduced the net result of the loans and receivables category by EUR 1,037 thousand (PY: TEUR 1,227 thousand). Moreover, interest expenses related to the discounting of provisions amounted to EUR 0 thousand in 2011 (PY: EUR 607 thousand).

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

## 10. Income taxes

The income tax expenses break down as follows:

▶ EUR'000	2011			2010		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Current tax expenses	-7,914	-21	-7,935	-4,504	-2,440	-6,944
Deferred tax income	6,110	129	6,239	1,450	-476	974
Total income tax expenses/income	<b>-1,804</b>	<b>108</b>	<b>-1,696</b>	<b>-3,054</b>	<b>-2,916</b>	<b>-5,970</b>

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

▶ EUR'000	2011	2010
Profit/loss before income taxes	19,237	-94,601
expected income tax rate	33,0 %	33,0 %
expected income tax expenses	6,348	-31,218
Effect of income from reversals of negative goodwill recognized in the income statement	-623	0
Valuation at equity	0	-49
Tax rate changes	-787	-575
Tax rate differences	-100	-1,594
Tax-exempt income	-837	-4,089
Non-deductible expenses	500	4,852
Change in valuation allowance for deferred tax assets and unrecognized deferred tax assets in respect of tax loss carry-forwards	-3,330	38,677
Current taxes for different periods	1,406	-582
Tax credits	-1	5
Other effects	-880	543
<b>Income tax expenses (+) / income (-) recognized in the income statement</b>	<b>1,696</b>	<b>5,970</b>
Effective tax rate	8.82 %	-6.31 %

## 11. Non-controlling interests

The consolidated loss of EUR 17,541 thousand (PY: EUR -100,571 thousand) included non-controlling interests of EUR 126 thousand (PY: EUR -1,326 thousand).

## 12. Earnings per common share

The basic and diluted earnings per share amounted to EUR 0.35 in financial year 2011 (PY: EUR -3.35), as per the following calculation:

EUR'000	2011			2010		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
<b>PROFIT/LOSS</b>						
Basis for the basic earnings per share (share of period profit or loss attributable to shareholders of the parent company)	20,537	-3,122	17,415	-7,423	-91,822	-99,245
Effect of potentially diluting common shares: Convertible bond	0	0	0	0	0	0
Basis for the diluted earnings per share	20,537	-3,122	17,415	-7,423	-91,822	-99,245
<b>NUMBER OF SHARES</b>						
Weighted average common shares for the basic earnings per share	50,014,264	50,014,264	50,014,0264	29,616,839	29,616,839	29,616,839
Effect of potentially diluting common shares: stock options	9,315	0	9,315	0	0	0
Effect of potentially diluting common shares: Convertible bond	0	0	0	0	0	0
Weighted average common shares for the diluted earnings per share	50,023,579	50,014,264	50,023,579	29,616,839	29,616,839	29,616,839
<b>Basic earnings per share (in EUR)</b>	<b>0.41</b>	<b>-0.06</b>	<b>0.35</b>	<b>-0.25</b>	<b>-3.10</b>	<b>-3.35</b>
<b>Diluted earnings per share (in EUR)</b>	<b>0.41</b>	<b>-0.06</b>	<b>0.35</b>	<b>-0.25</b>	<b>-3.10</b>	<b>-3.35</b>

Due to the negative result in the prior year and for the discontinued operations in 2011, no diluted earnings per share were calculated, in accordance with IAS 33.

The potentially diluting common shares (stock options) expired in 2011, so that no further potentially diluting common shares existed at the reporting date.

### 13. Dividend proposal

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The financial year net income calculated in accordance with the regulations of the German Commercial Code (GCC) amounted to EUR 5,135 thousand. After appropriating an amount of EUR 2,568 thousand to Other retained earnings and in consideration of a profit carried forward in the amount of EUR 46,121 thousand, the distributable profit according to the GCC amounts to EUR 48,689 thousand. With regard to the utilization of the distributable profit according to the GCC, the Executive Board and Supervisory Board will propose to the annual shareholders' meeting that the company appropriate an amount of EUR 46,121 thousand to Other retained earnings and carry forward the remaining amount of EUR 2,568 thousand to new account.

## E. Notes to the Statement of Financial Position

### 14. Intangible assets

EUR'000	Franchises, intellectual property rights, and similar rights and licenses	Goodwill	Other intangible assets	Advance payments	Total
▶ Acquisition cost at 1/1/2011	29,496	0	42,535	18	72,049
Companies added to consolidation group	121	0	0	34	155
Currency translation	-8	0	3	0	-5
Additions	1,732	0	14,014	110	15,856
Disposals	-5,896	0	0	0	-5,896
Transfers	-142	0	0	-58	-200
<b>Balance at 12/31/2011</b>	<b>25,303</b>	<b>0</b>	<b>56,552</b>	<b>104</b>	<b>81,959</b>
Amortization at 1/1/2011	-9,480	0	-24,247	0	-33,727
Currency translation	6	0	-1	0	5
Additions	-3,277	0	-8,328	-34	-11,639
Impairments (IAS 36)	-136	0	0	0	-136
Disposals	5,793	0	0	0	5,793
Transfers	142	0	0	34	142
<b>Balance at 12/31/2011</b>	<b>-6,952</b>	<b>0</b>	<b>-32,576</b>	<b>0</b>	<b>-39,528</b>
Net carrying amounts at 12/31/2010	20,016	0	18,288	18	38,322
Net carrying amounts at 12/31/2011	18,351	0	23,976	104	42,431
Acquisition cost at 1/1/2010	63,796	5,716	42,857	2,670	115,039
Companies added to consolidation group	0	0	0	0	0
Companies removed from consolidation group	-19,419	-46	-16,169	-3,500	-39,134
Currency translation	14	0	287	0	301
Additions	1,005	0	15,560	1,080	17,645
Disposals	-69	0	0	-2	-71
Transfers	-15,831	-5,670	0	-230	-21,731
<b>Balance at 12/31/2010</b>	<b>29,496</b>	<b>0</b>	<b>42,535</b>	<b>18</b>	<b>72,049</b>

▶ EUR'000	Franchises, intellectual property rights, and similar rights and licenses	Goodwill	Other intangible assets	Advance payments	Total
<b>Amortization at 1/1/2010</b>	-27,765	-5,282	-21,811	0	-54,858
Companies removed from consolidation group	13,022	0	10,879	0	23,901
Currency translation	-7	0	-223	0	-230
Additions	-7,036	0	-13,092	0	-20,128
Impairments (IAS 36)	0	0	0	0	0
Reversal of impairments	0	0	0	0	0
Disposals	59	0	0	0	59
Transfers	12,247	5,282	0	0	17,529
<b>Balance at 12/31/2010</b>	<b>-9,480</b>	<b>0</b>	<b>-24,247</b>	<b>0</b>	<b>-33,727</b>
<b>Net carrying amounts 12/31/2009</b>	<b>36,031</b>	<b>434</b>	<b>21,046</b>	<b>2,670</b>	<b>60,181</b>
<b>Net carrying amounts 12/31/2010</b>	<b>20,016</b>	<b>0</b>	<b>18,288</b>	<b>18</b>	<b>38,322</b>

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

▶ EUR'000	12/31/2011	12/31/2010
Brand names	8,399	8,399
Patents	7,222	8,293
Franchises	2,313	1,775
Customer bases	417	710
Advantageous contracts	0	839
<b>Total</b>	<b>18,351</b>	<b>20,016</b>

The **customer bases** in the total amount of EUR 417 thousand (PY: EUR 710 thousand) pertained to two subsidiaries of Gigaset Communications GmbH. The customer bases of the Gigaset Group are amortized on a straight-line basis over useful lives ranging from 3 to 5 years.

The **brand names** acquired in connection with business combinations were capitalized on the books of the respective acquiring companies, provided that a future benefit for the company was ascribed to the brand. In making the determination of useful life, an indefinite useful life was assumed for these brands on the basis of past experience data and the estimations of the management regarding the future development of this brand. The factors considered in making this determination included the anticipated usage of the brand, typical product life cycles, possible

commercial obsolescence, competition, the industry environment, the level of brand maintenance expenditures, legal or similar usage restrictions and the influence of the company's other assets on the useful life of the brand in question.

At the reporting date, the brand name Gigaset was presented in the amount of EUR 8,399 thousand (PY: EUR 8,399 thousand). The brand name "Gigaset" is ascribed to the operating Gigaset Group, as the smallest cash-generating unit. The brand name was subjected to an impairment test at December 31, 2011 on the basis of the fair value less costs to sell. The calculation was conducted on the basis of a four-year cash flow plan. Appropriate growth rates were applied for the period thereafter. The applied discount factor after taxes was 9.88%. Based on the detailed business plan, the growth discount was set at 0.5%. Based on this calculation, there was no need to recognize an impairment loss. The calculations showed that realistically assumable changes in the underlying assumptions would not lead to any impairment loss.

The franchises mainly consisted of software licenses for the following companies:

▶ EUR'000	12/31/2011	12/31/2010
<b>Franchise</b>		
Gigaset Group	2,313	1,753
Other	0	22
Total	2,313	1,775

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

Capitalized development expenses of EUR 23,976 thousand (PY: EUR 18,288 thousand), all of which pertained exclusively to Gigaset Communications GmbH, have been presented within the item of other intangible assets. The development activities of the Gigaset Group represent capitalized product developments. Research and development expenses of EUR 28,009 thousand (PY: EUR 31,345 thousand), were recognized as expenses in financial year 2011, primarily at Gigaset Communications GmbH.

No capitalized goodwill existed at the reporting date.

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

Impairment losses of EUR 136 thousand were recognized in intangible assets in financial year 2011 (PY: EUR 0 thousand). For additional information on impairment losses, please refer to our comments in the section entitled "Impairment losses."

Borrowing costs of EUR 466 thousand were capitalized in financial year 2011 (PY: EUR 313 thousand).

## 15. Property, plant and equipment

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

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

<b>EUR'000</b>	<b>Land, lease- hold rights</b>	<b>Buildings, including buildings on non-owned land (excluding finance leases)</b>	<b>Technical equipment, plant and machinery (excluding finance leases)</b>	<b>Technical equipment, plant and machinery (finance leases)</b>
<b>Acquisition cost at 1/1/2010</b>	22,954	67,198	135,597	6,281
Companies removed from consolidation group	-5,821	-23,847	-55,611	-2,516
Currency translation	299	373	1,064	5
Additions	-13	498	6,594	346
Disposals	-2,061	-2,883	-9,879	0
Transfers	-11,333	-20,830	-67,995	-4,116
<b>Balance at 12/31/2010</b>	<b>4,025</b>	<b>20,509</b>	<b>9,770</b>	<b>0</b>
<b>Depreciation at 1/1/2010</b>	<b>-2,449</b>	<b>-14,131</b>	<b>-67,244</b>	<b>-1,339</b>
Companies removed from consolidation group	1,161	7,401	24,454	356
Currency translation	-76	-154	-794	-2
Additions	-149	-3,270	-14,402	-848
Impairments (IAS 36)	0	0	0	0
Reversals of impairments	0	0	715	0
Disposals	0	727	7,384	0
Transfers	1,531	6,589	45,491	1,833
<b>Balance at 12/31/2010</b>	<b>0</b>	<b>-2,838</b>	<b>-4,396</b>	<b>0</b>
<b>Net carrying amounts at 12/31/2009</b>	<b>20,505</b>	<b>53,067</b>	<b>68,353</b>	<b>4,942</b>
<b>Net carrying amounts at 12/31/2010</b>	<b>4,025</b>	<b>17,671</b>	<b>5,374</b>	<b>0</b>

Other equipment, operational and office equipment (excluding finance leases)	Other equipment, operational and office equipment (finance leases)	Advance payments and construction in progress	Total	EUR'000
61,839	343	2,806	297,018	Acquisition cost at 1/1/2010
-6,576	-332	-4,219	-98,922	Companies removed from consolidation group
443	1	95	2,280	Currency translation
12,640	154	3,458	23,677	Additions
-7,735	-14	-458	-23,030	Disposals
-9,978	-94	-1,373	-115,719	Transfers
50,633	58	309	85,304	Balance at 12/31/2010
-27,131	-184	59	-112,419	Depreciation at 1/1/2010
3,176	214	-109	36,653	Companies removed from consolidation group
-336	-1	0	-1,363	Currency translation
-19,021	-29	0	-37,719	Additions
0	0	-42	-42	Impairments (IAS 36)
0	0	0	715	Reversals of impairments
7,541	0	0	15,652	Disposals
6,381	0	92	61,899	Transfers
-29,390	0	0	-36,624	Balance at 12/31/2010
34,708	159	2,865	184,599	Net carrying amounts at 12/31/2009
21,243	58	309	48,680	Net carrying amounts at 12/31/2010

In financial year 2011, the property, plant and equipment did not include leased assets for which the Group was considered to be the beneficial owner by virtue of the underlying lease agreements (PY: EUR 58 thousand Other equipment, operational and office equipment).

Impairment losses of EUR 1,792 thousand were recognized in property, plant and equipment in financial year 2011 (PY: EUR 42 thousand). For additional information on impairment losses, please refer to the section entitled "Impairment losses."

Property, plant and equipment in the amount of EUR 0 thousand (PY: EUR 7,350 thousand) have been pledged as security for financial liabilities. For additional information on security, please refer to the notes on financial instruments in the section entitled "Liquidity risk."

## 16. Non-current financial assets accounted for by the equity method

Financial assets accounted for by the equity method showed the following development in the past financial year:

▶ EUR'000	2011	2010
<b>Balance at 1/1</b>	0	4,828
Companies removed from consolidation group	0	-1,325
Proportional share of profit/loss for the year	0	149
Disposal	0	-3,652
<b>Balance at 12/31</b>	0	0

The companies accounted for by the equity method generated a profit of EUR 149 thousand in financial year 2010, as follows:

▶ EUR'000	2010
Anvis South Africa / Brazil	149
Fulfilment Plus GmbH	0
<b>Total</b>	149

The share in the joint venture Anvis Brazil (Vibracoustic do Brasil Industria e Comercio de Artefatos de Borracha Ltda.) was sold in January 2010.

The share in the joint venture Anvis South Africa (BEL-Anvis ANTIVIBRATIONSSYSTEMS (Pty.) Ltd.) was deconsolidated in connection with the sale of the ANVIS Group.

## 17. Financial assets

The financial assets included loans extended with a term of more than one year. All loans were measured at amortized cost. These loans showed the following development in financial year 2011:

▶ EUR'000	12/31/2011	12/31/2010
<b>Balance at 1/1</b>	0	2,905
Changes in consolidation group	2,300	-3,100
Additions	34	195
Disposals	0	0
Transfers	0	0
Reversal of impairment loss	0	0
<b>Balance at 12/31</b>	2,334	0

The financial assets at December 31, 2011 included loans extended to the van Netten Group. In connection with the sale of the van Netten Group, a repayment plan was agreed to repay the loan that had previously been extended to the company. The disposed financial assets in 2010 pertained mainly to the Anvis Group, in the amount of EUR 2,677 thousand, and the Wanfried Group, in the amount of EUR 404 thousand.

## 18. Inventories

The inventories break down as follows:

EUR'000	12/31/2011	12/31/2010
▶ Finished goods, trading stock and finished services	25,110	24,551
Semi-finished goods and services	1,574	1,548
Raw materials and supplies	8,117	8,968
Advance payments	1,003	1,431
<b>Total</b>	<b>35,804</b>	<b>36,498</b>

Inventories are measured at the lower of acquisition or production cost and the net realizable value less costs to sell at the reporting date. The valuation allowances comprised within purchased goods and services amounted to EUR 872 thousand (PY: EUR 10,377 thousand). The valuation allowances were mainly charged to account for slow-moving inventories and insufficient salability.

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

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

Inventories in the amount of EUR 2,144 thousand (PY: EUR 1,551 thousand) have been pledged as security for financial liabilities. A detailed presentation of security can be found in the notes on financial instruments in the section entitled "Liquidity risk."

## 19. Trade receivables

EUR'000	12/31/2011	12/31/2010
▶ Receivables before valuation allowances	65,563	85,297
Valuation allowances	-5,840	-1,942
<b>Carrying amount of receivables</b>	<b>59,723</b>	<b>83,355</b>

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

▶ EUR'000	2011	2010
<b>Balance at 1/1</b>	<b>1,942</b>	<b>9,036</b>
Addition	4,097	1,124
Consumption	0	-10
Reversal	-199	-359
Changes in the consolidation group	0	-7,849
<b>Balance at 12/31</b>	<b>5,840</b>	<b>1,942</b>

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

Some companies of the Gigaset Group assigned a portion of their trade receivables to a financing company. The maximum volume of factoring agreements concluded at the reporting date was EUR 50,000 thousand (PY: EUR 80,000 thousand). However, the maximum volume was not utilized at the reporting date. Receivables in the amount of EUR 40,230 thousand (PY: EUR 31,864 thousand) were sold. Based on the contractual formulation of some factoring agreements, it can neither be assumed that the corresponding receivables were completely transferred, nor that the risks and rewards of the receivables remained completely with the company. In accordance with IAS 39, therefore, the companies recognized a so-called "continuing involvement" of EUR 783 thousand (PY: EUR 496 thousand), which was composed of the remaining interest rate risk in the amount of EUR 388 thousand (PY: EUR 248 thousand) and the del credere risk remaining with the company by reason of the purchase price retention, in the amount of EUR 395 thousand (PY: EUR 248 thousand).

In addition, the trade payables also comprised receivables due from the respective factor in connection with the purchase price retentions in the amount of EUR 7,090 thousand (PY: EUR 4,369 thousand). This does not include those companies that were carried within the disposal group in the item "assets held for sale" pursuant to the regulations of IFRS 5.

The age structure of trade receivables at December 31, 2011 is presented in the table below:

▶ EUR'000	12/31/2011	12/31/2010
<b>Carrying amount</b>	<b>59,723</b>	<b>83,355</b>
thereof: neither impaired nor past due at the reporting date	34,173	60,229
thereof: impaired at the reporting date	5,610	3,663
thereof: not impaired, but past due by the following time intervals at the reporting date	19,940	19,463
Past due up to 90 days	18,443	17,865
Past due 90 days to 180 days	262	857
Past due 180 days to 1 year	251	148
Past due by more than 1 year	984	593

Of the total trade receivables presented in the statement of financial position, an amount of EUR 4,797 thousand (PY: EUR 4,182 thousand) has been pledged as security for financial liabilities. A detailed presentation of security can be found in the notes on financial instruments in the section entitled "Liquidity risk."

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

The Gigaset Group received trade credit insurance, letters of credit and other credit improvements in the amount of EUR 56,959 thousand (PY: EUR 50,566 thousand) as security for trade receivables and outstanding invoices in financial year 2011.

The largest constituent items within trade receivables were divided among the sub-groups as follows:

<b>EUR'000</b>	<b>12/31/2011</b>	<b>12/31/2010</b>
Gigaset Group	59,211	82,374
Holding	512	981
<b>Total</b>	<b>59,723</b>	<b>83,355</b>

In accordance with the provisions of IFRS 5, the trade receivables of the SM Electronic Group were presented within the item of "Assets held for sale" at the reporting date.

By reason of the international activity of the Gigaset Group, the following receivables denominated in foreign currencies were converted to the Group currency (EUR) at December 31, 2011:

Foreign currency	12/31/2011		12/31/2010	
	EUR'000	%	EUR'000	%
USD (U.S. dollars)	8,446	28.0	5,060	18.7
BRL (Brazilian reals)	6,344	21.1	5,999	22.2
CHF (Swiss francs)	2,784	9.2	2,345	8.6
GBP (British pounds)	2,759	9.2	2,905	10.7
TRL (Turkish lira)	2,513	8.3	4,066	15.0
SEK (Swedish krona)	2,292	7.6	1,410	5.2
RUB (Russian rubles)	2,044	6.8	1,133	4.2
ARS (Argentine pesos)	1,528	5.1	1,937	7.1
PLN (Polish zloty)	785	2.6	916	3.4
HUF (Hungarian forint)	508	1.7	0	0.0
CNY (Chinese renminbi yuan)	134	0.4	11	0.0
CAD (Canadian dollars)	0	0.0	615	2.3
NOK (Norwegian krone)	0	0.0	466	1.7
DKK (Danish krone)	0	0.0	251	0.9
<b>Total</b>	<b>30,137</b>	<b>100.0</b>	<b>27,114</b>	<b>100.0</b>

## 20. Other assets

The following amounts were comprised within the item of other assets:

EUR'000	12/31/2011	12/31/2010
Receivables from factoring	13,614	7,282
Tax receivables	7,978	21,135
Derivatives	998	0
Current loans	886	548
Refund claims	650	646
Prepaid expenses	409	467
Security deposits	141	273
Debit balances in vendor accounts	120	186
Other personnel-related receivables	54	37
Receivables from pension liability insurance	18	49
Receivables due from former shareholders	0	607
Miscellaneous receivables	2,295	2,401
<b>Total</b>	<b>27,163</b>	<b>33,361</b>

The tax receivables do not include income tax receivables because those are presented separately. The tax receivables presented in this item were mainly composed of sales tax refund claims in the amount of EUR 7,701 thousand (PY: EUR 19,932 thousand) most of which attributable, in turn, to the Gigaset Group, in the amount of EUR 7,680 thousand (PY: EUR 19,652 thousand).

The receivables from factoring in 2011 consisted mainly of the outstanding portion of the purchase price receivable still owed to the Gigaset Group, in the amount of EUR 13,614 thousand (PY: EUR 7,282 thousand)

## 21. Current tax assets

This item was composed exclusively of current income tax assets, including an amount of EUR 3,076 thousand (PY: EUR 1,495 thousand) attributable to the Gigaset Group.

## 22. Cash and cash equivalents

This item comprises cash on hand, cash in banks for deposits that are due in less than three months, and financial instruments with an original term to maturity of less than three months. Of the total amount presented herein, an amount of EUR 3,280 thousand (PY: EUR 8,960 thousand) has been pledged as security for credit facilities and for currency hedging transactions (restricted cash).

▶ EUR'000	12/31/2011	12/31/2010
Cash on hand and cash at banks	58,982	27,648
Restricted cash	3,280	8,960
<b>Total</b>	<b>62,262</b>	<b>36,608</b>

### 23. Non-current disposal groups held for sale and discontinued operations

In accordance with IFRS 5, non-current assets and disposal groups are presented separately in the statement of financial position as "held for sale" if they can be sold in their current condition and the sale is highly probable. Assets classified as "held for sale" are measured at fair value less costs to sell, if that amount is less than the carrying amount. Based on this classification, liabilities that are directly related to such assets are presented separately in the statement of financial position as liabilities "held for sale."

In December 2011, the Supervisory Board approved the sale of the SM Electronic Group and efforts to sell the Group were begun immediately. Because the SM Electronic Group satisfies the criterion of immediately salability according to IFRS 5 and the execution of this plan is considered to be highly probable, the SM Electronic Group has been classified as a disposal group according to IFRS 5.

At December 31, 2011, the assets and liabilities of the disposal group SM Electronic (Other Segment) break down as follows:

▶ EUR'000	12/31/2011
<b>Assets</b>	
Deferred tax assets	17
Inventories	3,861
Current receivables and other assets	15,644
Cash and cash equivalents	894
<b>Total</b>	<b>20,416</b>
<b>Liabilities</b>	
Provisions	1,693
Other liabilities	20,195
Deferred tax liabilities	694
<b>Total</b>	<b>22,582</b>

The following additional disclosures are made with regard to discontinued operations: In 2011, Gigaset divested itself of the Carl Froh Group, the Oxxynova Group and the van Netten Group (all of the Other Segment). These operations are now presented as discontinued operations. The SM Electronic Group is also presented as discontinued operations because it is deemed to be an important business division in terms of total assets and revenues.

The following groups were presented as discontinued operations in 2010 (all of which attributed to the Other Segment): Carl Froh Group, Wanfried Group, van Netten Group, Anvis Group, Fritz Berger Group, Golf House Group, SM Electronic Group, Oxxynova Group, Home Media. For all reporting periods presented herein, the profit/loss contributions of all these groups are presented as discontinued operations in the consolidated income statement.

The cash and cash equivalents attributable to discontinued operations are presented in the table below:

<b>EUR'000</b>	<b>01/01 – 12/31/2011</b>	<b>01/01 – 12/31/2010</b>
Cash inflow (+)/ outflow (-) from operating activities	-1,491	-9,598
Cash inflow (+)/ outflow (-) from investing activities	246	-1,412
Cash inflow (+)/ outflow (-) from financing activities	0	-3,401
<b>Change in cash and cash equivalents</b>	<b>-1,245</b>	<b>-14,411</b>

The disclosures concerning the financial instruments within the above-mentioned disposal groups that must be measured in accordance with IAS 39 are presented in the table below.

▶ EUR'000	Measurement category per IAS 39	Carrying amount 2011	Fair value 2011
<b>Assets</b>			
<b>Current assets</b>			
Trade receivables	LaR	3,284	3,284
Other assets	LaR	8,657	8,657
Cash and cash equivalents	LaR	894	894
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade payables	FL-AC	17,980	17,980
Other liabilities	FL-AC	1,750	1,750
Thereof aggregated by measurement category as per IAS 39			
<b>Financial assets</b>			
Loans and receivables(LaR)		12,835	12,835
<b>Financial liabilities</b>			
Measured at amortized cost (FL-AC)		17,980	17,980
Financial liabilities held for trading (FL-HfT)		1,750	1,750

## Measurement method per IAS 39

Amortized cost	Fair value recognized in equity	Fair value through profit or loss	Statement of financial position measurement method per IAS 17	EUR'000
<b>Assets</b>				
<b>Current assets</b>				
3,284	0	0	-	Trade receivables
8,657	0	0	-	Other assets
894	0	0	-	Cash and cash equivalents
<b>Liabilities</b>				
<b>Current liabilities</b>				
17,980	0	0	-	Trade payables
0	0	1,750	-	Other liabilities
Thereof aggregated by measurement category as per IAS 39				
<b>Financial assets</b>				
Loans and receivables(LaR)				
<b>Financial liabilities</b>				
Measured at amortized cost (FL-AC)				
Financial liabilities held for trading (FL-HfT)				

## 24. Equity

### Subscribed capital

The company's share capital is EUR 50,014,911.00 (PY: EUR 39,666,670.00) and is divided into 50,014,911 (PY: 39,666,670) no-par bearer shares. The shares are bearer shares. Thus, every no-par share represents EUR 1.00 of the company's share capital.

Due to the conversion of convertible bonds, the number of no-par shares increased by 10,348,241 in 2011.

At the reporting date of December 31, 2011, no treasury shares (PY: 38,118) were held. In the prior year, the treasury shares were netted with subscribed capital, in accordance with IAS 32. Gigaset AG sold 38,118 treasury shares and purchased no treasury shares in 2011.

### Additional paid-in capital

Due to the conversion of convertible bonds, additional paid-in capital increased by EUR 13,268 thousand in 2011. Because, in accordance with IAS 32, the acquisition cost in excess of the nominal value of treasury shares issued in the amount of EUR 107 thousand was deducted from additional paid-in capital, the additional paid-in capital at the reporting date of December 31, 2011 amounted to EUR 87,981 thousand (PY: EUR 74,606 thousand).

### Retained earnings

The retained earnings rose from EUR 20,290 thousand to EUR 22,858 thousand due to the appropriation of one half the profit for 2011 according to the GCC, in the amount of EUR 2,568 thousand.

### Non-controlling interests

At the reporting date of December 31, 2011, the adjustment entry for non-controlling interests amounted to EUR 0 thousand (PY: EUR 95 thousand). The changes in non-controlling interests resulted from the deconsolidation of the Oxxynova Group and the van Netten Group.

### Accumulated other comprehensive income from discontinued operations

The item of accumulated other comprehensive income includes currency translation differences from discontinued operations in the amount of EUR 10 thousand (PY: EUR 0 thousand).

### Authorized Capital / Conditional Capital

Pursuant to Article 4 (5) of the Articles of Incorporation, the Executive Board is authorized to increase the Company's capital stock by issuing new shares in the period through December 20, 2015, with the consent of the Supervisory Board, by a total of up to EUR 19,833,335, all at once or in partial amounts, through the issuance of new bearer shares that qualify for dividends starting at the beginning of the year of issue, against cash or in-kind capital contributions (Authorized Capital 2010). The existing shareholders are fundamentally entitled to a subscription right, but it can be excluded under certain circumstances. The new shares can also be accepted by one or more financial institutions with the obligation to offer them to the existing shareholders for purchase (Indirect Subscription Right). The Executive Board is authorized to decide upon the content of the stock rights and the terms of the stock issue with the consent of the Supervisory Board and to specify the details of implementation of the capital increase. The Supervisory Board is further authorized to amend the wording of the Articles of Incorporation in accordance with the specific scope of the capital increase from the Authorized Capital 2010.

The annual shareholders' meeting of June 10, 2011 resolved to annul the Contingent Capital 2008/I and create a new Contingent Capital (Contingent Capital 2011/I), by means of which the company's share capital can be increased by up to EUR 1,300 thousand. However, the Contingent Capital serves the exclusive purpose of granting subscription rights ("stock options") to members of the company's Executive Board and selected employees of the company or its affiliated companies. The Executive Board is authorized, with the consent of the Supervisory Board, to grant stock options to beneficiaries in connection with the stock option plan in the time until December 31, 2014.

## Stock options

Gigaset AG introduced a stock option plan in financial year 2005. Because it expired, it was replaced with a new stock option program in 2008. By reason of the changes made to the business model, the stock option plan authorized in 2008 was replaced with a new stock option program in 2011. The new stock option plan does not entail any changes to existing stock option contracts. The company is entitled to fulfill the stock options either by issuing shares from the Conditional Capital 2011 created for that purpose, or by buying back treasury shares, or by paying a cash settlement. The Supervisory Board or Executive Board may select the means of fulfillment in the interest of the shareholders and the company. In general, however, the company plans to service the claims arising from the Stock Option Plan 2011 by issuing shares from the Conditional Capital 2011 created for that purpose. No stock options were issued under this stock option plan in 2011 (PY: none), and no further stock options were outstanding at the reporting date (PY: 30,000). In accordance with Executive Board agreements, cash-settled options were issued in three different tranches for 450,000 shares (PY: 400,000 shares) of Gigaset AG. Unlike standard stock options, the subscription rights under this stock option plan or Executive Board agreements are not linked to fixed exercise prices, as a general rule. On any one of up to three delivery dates, the beneficiary can request delivery of a certain number of common shares of Gigaset AG or the payment of the vested claim. The number of shares or the vested claim to be delivered or paid on a given delivery date is determined on the basis of the performance of the Gigaset share since the start date (calculation for the first tranche) or on the final valuation date (i.e., the final exercise date). If the share price decreases during that time, no shares will be delivered and no payments are made. As a general rule, the stock options expire if the employee leaves the Group before the stock options become vested.

The measurement results of the various cash-settled tranches are presented in the table below:

Tranche	Grant Date	Starting price	Delivery date	Closing price 12/31/2011	Interest rate	Volatility	Fair Value at the grant date	Fair Value at the reporting date
1 II / 2010	09/02/2010	2.75 €	08/31/2012	2.46 €	0.02%	52.60%	0.63 €	0.29 €
1 II / 2011	02/07/2011	3.30 €	08/31/2011	-	-	-	1.69 €	-
2 II / 2011	02/07/2011	2.75 €	08/31/2012	2.46 €	0.02%	52.60%	1.23 €	0.29 €
2 III / 2011	02/07/2011	-	01/31/2013	2.46 €	0.03%	50.85%	1.37 €	0.46 €

A total of 500,000 (all cash-settled) stock options were outstanding at the reporting date (PY: 430,000 (30,000 equity-settled and 400,000 cash-settled)), of which 500,000 were not yet exercisable. At the reporting date, the average weighted exercise price of the outstanding stock options was EUR 2.75 (PY: EUR 1.94). The stock options were measured by means of a Monte Carlo simulation. For this purpose, a simulation of the lognormal-distributed process was conducted for the price of the Gigaset share in order to measure the performance of the share between two valuation dates. The stock options granted are composed of up to three sub-options. Each sub-option is measured separately in the simulation model. The fair value of each stock option is calculated as the sum of the sub-options.

The cash-settled tranches were measured at the reporting date on the basis of the interest rates calculated on the basis of the yield curves for German government bonds for the individual measurement periods.

For measurement purposes, a dividend yield of 2.03% was applied for the period until December 31, 2012 and a dividend yield of 5.68% was applied for the periods after December 31, 2012.

The decision regarding the dividend proposal for 2011 will be made at the statement of financial position meeting of the Supervisory Board on March 26, 2012, and then published along with the annual financial statements approved by the Supervisory Board and the final annual report for financial year 2011. A dividend higher than the amount presented above would lead to a decrease in the value of the stock options, and conversely a dividend lower than the amount presented above would lead to an increase in the value of the stock options. However, the information available on the grant date represents the determining basis for calculating the value of the stock options. Consequently, the calculation has not been adjusted, but will be considered for the purpose of future calculations.

The measurement based on Monte Carlo simulation was conducted on the basis of historical volatilities. The historical volatility applied was calculated on a weekly basis. The life span of the stock options was applied as the relevant period for determining the historical volatility.

A total of 230,000 stock options (PY: 0) were exercised in financial year 2011. To date, the claims arising from the stock option plan were settled by issuing shares to the beneficiaries. By way of exception, the company exercised the option to settle the claims in cash in 2011. Therefore, no shares were issued in 2011; instead, the 30,000 stock options were settled in June by means of a cash payment in the amount of EUR 81 thousand (PY: EUR 0 thousand). The share price on the exercise date amounted to EUR 3.81 and the exercise price was EUR 1.11. To date, an expense of EUR 79 thousand has been recognized to account for the stock options that have been exercised so far. The difference between this amount and the actual payment has been recognized directly in equity. In connection with the exercise of 200,000 cash-settled stock options with an exercise price of EUR 2.00, an amount of EUR 150 thousand (PY: EUR 0 thousand) has been paid to the beneficiaries. The weighted share price on the exercise date was EUR 2.75.

The fair value of the cash-settled stock options to be recognized on a pro-rated basis at the reporting date was EUR 88 thousand (PY: EUR 139 thousand) and is presented as "other liabilities."

In 2011, there were a total of 150,000 (PY: 805,000) expired or forfeited stock options, with an average exercise price of EUR 3.30 (PY: EUR 2.08).

In 2011, the Group recognized expenses of EUR 9 thousand (PY: EUR 32 thousand) in connection with share-based compensation to be settled with equity instruments and expenses of EUR 99 thousand (PY: income of EUR 75 thousand) in connection with cash-settled stock options. The average remaining life of the stock options, based on the first possible exercise date, is 12 months (PY: 14 months) for the cash-settled stock options.

The stock options were included in the calculation of the diluted earnings per share in 2011. They were not included in 2010, due to the consolidated net loss.

## 25. Convertible bond

Gigaset AG issued a non-subordinated, unsecured convertible bond in the total nominal amount of up to EUR 23,800,002 in 2010.

The convertible bond was sub-divided into up to 11,900,001 fractional bearer bonds ranking pari passu with a nominal value or issue price of EUR 2.00 each. They earn interest at a rate of 9% p.a. and can be converted into up to 11,900,001 shares of the company.

The conversion right or conversion obligation is neither a self-standing derivative nor an embedded derivative that would have to be recognized separately in accordance with IAS 39.

By resolution of February 10, 2011, the Executive Board resolved, with the consent of the Supervisory Board, to convert this convertible bond in accordance with the issue terms and conditions on June 30, 2011.

The convertible bond was exchanged with effect as of June 30, 2011. Each holder of a fractional bond received 0.8696 shares with an imputed value of EUR 1.00 per share. As a result of this conversion, the number of shares outstanding increased by 10,348,241. Thus, the total number of shares issued by Gigaset AG rose to 50,014,911. In consideration of the directly attributable costs and deferred taxes in the amount of EUR 184 thousand, the conversion increased the Group's equity by EUR 23,616 thousand. The interest accrued on the bond at the rate of 9% p.a. in the time from January 1, 2011 to the conversion date was also due and payable upon conversion. The interest was paid on July 1, 2011.

## 26. Pension obligations

Provisions for pensions and similar obligations have been recognized for a total of six Group companies. The total amount of pension provisions was divided up among the following companies:

▶ EUR'000	2011	2010
Gigaset Group	10,217	8,157
Other	41	31
<b>Total</b>	<b>10,258</b>	<b>8,188</b>

The projected unit credit value of vested pension benefits under the defined benefit plans of the companies of the Gigaset Group showed the following development:

▶ EUR'000	2011	2010
<b>Projected unit credit value</b>		
Balance at 1/1	71,048	72,192
Companies added to consolidation group	0	0
Companies removed from consolidation group	-16,852	-8,688
Current service cost	1,464	1,348
Employee contributions	160	16
Interest expenses	2,884	3,736
Pension benefits paid	-647	-1,665
Plan settlements	0	-39
Actuarial gains/losses	-2,102	4,049
Foreign currency effects	10	99
<b>Balance at 12/31</b>	<b>55,965</b>	<b>71,048</b>

The provision for pension obligations was measured as follows:

▶ EUR'000	2011	2010
<b>Provision</b>		
<b>Projected unit credit value of pension obligations</b>	<b>55,965</b>	<b>71,048</b>
- internally financed	4,553	17,815
- externally financed	51,412	53,233
Unrecognized actuarial gains/losses	-8,294	-10,217
Unrecognized subsequent service cost	0	-3
Fair value of plan assets	-38,710	-37,533
Unrecognized assets as per IAS 19.58 (b)	757	640
<b>Pension provisions</b>	<b>10,258</b>	<b>23,935</b>
Pension provisions related to assets held for sale	0	-15,747
<b>Total pension provisions</b>	<b>10,258</b>	<b>8,188</b>

The pension expenses recognized in financial year 2011 were composed of the following elements:

▶ EUR'000	2011	2010
<b>Pension expenses</b>		
Current service cost	1,464	1,348
Expected income from plan assets	-1,420	-2,270
Compounding of expected pension obligation	2,884	3,736
Amortization of actuarial gains/losses	404	298
Amortization of subsequent service cost	3	0
Effects of plan adjustments (pension plan reduction or settlement)	0	0
Effects of unrecognized assets as per IAS 19.58 (b)	236	1
<b>Total pension expenses</b>	<b>3,571</b>	<b>3,113</b>

Pension expenses are presented as personnel expenses in the item of social security, pension and other benefits. The actual return on plan assets has been presented as EUR -524 thousand (PY: EUR 2,740 thousand).

The plan assets showed the following development:

▶ EUR'000	2011	2010
<b>Plan assets</b>		
<b>Fair value of plan assets at 01/01</b>	<b>37,533</b>	<b>35,213</b>
Acquisitions	568	0
Divestitures	-185	0
Expected income from plan assets	1,420	2,270
Actuarial gains/losses	-1,944	470
Employer contributions	735	74
Employee contributions	64	18
Benefits paid	-18	-518
Foreign currency effects	-3	6
<b>Fair value of plan assets at 12/31</b>	<b>38,170</b>	<b>37,533</b>

The plan assets for financial year 2011 break down as follows:

EUR'000	2011	2010
Institutional fund	36,525	36,564
Fixed-income securities	949	727
Equities	286	122
Real estate and real estate funds	175	62
Other	235	58
<b>Total</b>	<b>38,170</b>	<b>37,533</b>

Additional information at December 31, 2011:

EUR'000	2011	2010	2009	2008	2007
Projected unit credit value	55,965	71,048	72,192	169,899	104,279
Market value of plan assets	38,170	37,533	35,213	83,452	75,026
Surplus (+) / deficit (-)	-17,795	-33,515	-36,979	-86,447	-29,253
Experience-based adjustment of plan liabilities	-1,598	1,361	-790	525	31
Experience-based adjustment of plan assets	-1,944	470	-312	-9,506	-150

The expected contributions to plan assets and the benefit payments in the following year (net obligation) totaled EUR 121 thousand (PY: EUR 97) thousand.

The current employer's contributions to the statutory pension insurance system are recognized as operating expenses in the respective year. In financial year 2011, they amounted to EUR 6,199 thousand (PY: EUR 9,742 thousand).

No payments were made in respect of defined-contribution plans in financial year 2011 (PY: EUR 49 thousand).

The calculation was based on the following actuarial assumptions:

In %	2011	2010
Discount factor	5.37	5.39
Salary trend	2.25	2.13
Pension trend	1.95	1.78
Employee turnover	*	*
Return on plan assets	3.82	3.80
Mortality tables:		
Germany:	Heubeck 2005 G	
Italy:	ISTAT 2002	
Austria:	Generationentafel Pagler 2008, Angestellte	
Switzerland:	EVK2000	
Brazil:	RP-2000	

\* depending on age

The expected return on plan assets of the companies corresponds to the expected income from plan assets, after taking the expected contributions and disbursements into account. It is composed of interest, dividends and other income earned on the investment of plan assets, including realized and unrealized gains in assets, less expenses for administering the plan and any taxes to be paid by the plan.

## 27. Provisions

EUR'000	Balance at 01/01/2011	Changes in consolidation group	Utilization	Reversal	Addition	Reclassification	Currency/ interest effects	Balance at 12/31/2011
Warranties	14,097	299	-12,583	-233	9,868	0	-30	11,418
Onerous contracts	8,626	1,934	-1,873	-3,821	700	-1,173	-3	4,390
Personnel	3,667	0	-249	-76	963	0	-78	4,227
Restructuring	7,218	0	-3,469	-3,858	540	0	-16	415
Environmental remediation	258	0	-9	0	0	0	0	249
Other	13,720	227	-7,033	-5,138	12,873	-520	-214	13,915
<b>Total</b>	<b>47,586</b>	<b>2,460</b>	<b>-25,216</b>	<b>-13,216</b>	<b>24,944</b>	<b>-1,693</b>	<b>-341</b>	<b>34,614</b>

The **warranty provisions** of EUR 11,418 thousand (PY: EUR 14,097 thousand) pertained exclusively to the Gigaset Group and were calculated on the basis of experience values and estimates of future occurrence probabilities.

The **provisions for onerous contracts** related mainly to disadvantageous rental, usage and service agreements. They break down as follows:

EUR'000	12/31/2011	12/31/2010
<b>Onerous contracts</b>		
Gigaset Group	3,713	7,949
Other	677	677
<b>Total</b>	<b>4,390</b>	<b>8,626</b>

The **personnel provisions** for the past two financial years break down as follows:

EUR'000	12/31/2011	12/31/2010
<b>Personnel</b>		
Early partial retirement ( <i>Altersteilzeit</i> )	1,012	341
Service anniversary bonuses	3,215	3,326
<b>Total</b>	<b>4,227</b>	<b>3,667</b>

The **restructuring provision** was composed of lay-off mitigation plans and severance awards in the amount of EUR 415 thousand (PY: 7,218).

The provision for **environmental risks** in the amount of EUR 249 thousand (PY: EUR 258 thousand) was recognized in respect of a groundwater purification project at the production facility in Bocholt.

The maturity structure of provisions is presented below:

EUR'000	12/31/2011	12/31/2010
<b>Non-current provisions</b>	7,392	10,439
<b>Current provisions</b>	27,222	37,147
<b>Total</b>	<b>34,614</b>	<b>47,586</b>

The non-current provisions, which have a maturity of more than one year, were divided among the various categories as follows:

EUR'000	12/31/2011	12/31/2010
▶ Personnel	3,768	2,983
Warranties	2,541	3,949
Onerous contracts	677	677
Environmental risks	243	243
Restructuring	0	286
Other	163	2,301
<b>Total</b>	<b>7,392</b>	<b>10,439</b>

## 28. Liabilities under finance leases

In financial year 2011, there were no items within property, plant and equipment for which the Group would be deemed the beneficial owner by reason of the construction of the underlying leases. In the prior year, liabilities under finance leases amounted to EUR 58 thousand for the Group.

## 29. Other non-current liabilities

EUR'000	12/31/2011	12/31/2010
▶ Purchase price liabilities	0	8,846
Personnel-related liabilities	0	1,242
Miscellaneous other liabilities	35	32
<b>Total</b>	<b>35</b>	<b>10,120</b>

The prior-year purchase price liabilities in the amount of EUR 8,846 thousand resulted from the acquisition of the Gigaset Group. By reason of the fact that they will be due and payable on December 31, 2012, they are now presented within current liabilities. The same applies to the prior-year personnel-related liabilities in the amount of EUR 1,242 thousand, which will likewise be due and payable in 2012.

### 30. Deferred tax assets and deferred tax liabilities

Deferred taxes result from the different values contained in the IFRS financial statements as compared to the financial statements prepared for tax purposes, and from consolidation measures.

Deferred tax liabilities and assets were recognized in respect of the following items:

▶ EUR'000	12/31/2011	12/31/2010
<b>Deferred tax assets</b>		
Intangible assets	330	270
Property, plant and equipment	50	11
Financial assets	3	3
Inventories	231	403
Receivables and other current assets	786	418
Provisions	1,096	664
Liabilities	1,112	4,158
Tax loss carry-forwards	9,823	3,026
<b>Total deferred tax assets</b>	<b>13,431</b>	<b>8,953</b>
thereof current	2,794	4,856
thereof non-current	10,637	4,097
<b>Deferred tax liabilities</b>		
Intangible assets	12,493	11,100
Property, plant and equipment	3,900	5,342
Financial assets	0	0
Inventories	24	36
Receivables and other current assets	462	1,161
Non-current assets held for sale	0	0
Provisions	33	1,399
Liabilities	237	73
<b>Total deferred tax liabilities</b>	<b>17,149</b>	<b>19,110</b>
thereof current	723	2,639
thereof non-current	16,426	16,471
Net balance of deferred tax assets and liabilities	1,191	4,968
<b>Deferred tax assets presented in the statement of financial position</b>	<b>12,240</b>	<b>3,985</b>
<b>Deferred tax liabilities presented in the statement of financial position</b>	<b>15,958</b>	<b>14,142</b>

No deferred tax assets were recognized in respect of certain amounts of corporate income tax loss carry-forwards totaling EUR 117,339 thousand (PY: EUR 166,650 thousand) and certain amounts of trade tax loss carry-forwards totaling EUR 61,636 thousand (PY: EUR 107,044 thousand). Of the non-recognized corporate income tax loss carry-forwards, an amount EUR 62,366 thousand related to foreign companies (PY: EUR 61,298 thousand), of which, in turn, an amount of EUR 14,362 thousand will expire within 5 to 20 years. With regard to German companies, it should be noted that share transfers of 25% to 50% result in a proportional reduction of existing tax loss carry-forwards, while share transfers of more than 50% lead to the complete loss of existing tax loss carry-forwards.

Gigaset AG has exercised the option of recognizing deferred tax assets (EUR 9,412 thousand) for the use of tax loss carry-forwards in connection with future tax constructions.

No deferred tax liabilities were recognized in respect of temporary differences related to shares in subsidiaries in the amount of EUR 44,337 thousand (PY: EUR 22,157 thousand).

For more information on this subject, please refer to the presentation of accounting and valuation methods and the explanations provided in Section 10.

### 31. Current financial liabilities

▶ EUR'000	12/31/2011	12/31/2010
Liabilities to banks	4,946	4,373
Other current financial liabilities	1,137	353
<b>Total</b>	<b>6,083</b>	<b>4,726</b>

Based on the usual payment terms agreed with banks and other business partners, the due dates and the corresponding cash outflows of current financial liabilities are as follows:

▶ EUR'000	12/31/2011	12/31/2010
<b>Carrying amount</b>		
thereof due in the following time periods:		
< 30 days	4,277	749
30 - < 90 days	345	0
90 - < 180 days	516	0
180 days - 1 year	945	3,977

The current liabilities to banks consisted mainly of current account overdrafts, most of which were owed by the following corporate groups:

EUR'000	12/31/2011	12/31/2010
Gigaset AG	2,965	0
AT Operations 2 GmbH	1,823	3,624
Hortensienweg	158	358
Gigaset Group	0	391
Other	0	0
<b>Total</b>	<b>4,946</b>	<b>4,373</b>

Of the outstanding liabilities to banks, some bear interest at variable rates and others at fixed rates. At the reporting date, the interest rates on such liabilities ranged from 3.47% p.a. to 8.45% p.a.

The current liabilities to banks did not include any liabilities denominated in foreign currencies (PY: EUR 398 thousand current liabilities in U.S. dollars).

The other current financial liabilities consisted of loan liabilities payable to third parties. Of that amount, EUR 1,137 thousand (PY: EUR 273 thousand) pertained to Gigaset AG in 2011; in 2010, an amount of EUR 80 thousand pertained to other companies. In the prior year, these financial liabilities of other companies included Swiss francs in the amount of EUR 80 thousand, after being translated to the euro, as the Group currency. The other current financial liabilities bear interest at the rate of 18% p.a. and were fully repaid in January 2012.

## 32. Trade payables

Based on the usual payment terms agreed with suppliers and other business partners, the due dates and the corresponding cash outflows of current trade payables are presented in the table below:

EUR'000	12/31/2011	12/31/2010
Carrying amount	96,239	89,798
thereof due in the following time periods:		
< 30 days	55,962	41,017
30 - 90 days	39,484	43,503
90 - 180 days	241	821
180 days - 1 year	552	4,457

The largest amounts of trade payables were owed by the following corporate groups:

▶ <b>EUR'000</b>	<b>12/31/2011</b>	<b>12/31/2010</b>
Gigaset Group	94,360	86,062
Other	1,879	3,736
<b>Total</b>	<b>96,239</b>	<b>89,798</b>

By reason of the international activity of the Gigaset Group, the trade payables at December 31, 2011 included the following amounts denominated in foreign currencies, which have been translated to the euro, as the Group currency:

	<b>12/31/2011</b>		<b>12/31/2010</b>	
	<b>EUR'000</b>	<b>%</b>	<b>EUR'000</b>	<b>%</b>
▶ USD (U.S. dollars)	41,107	83.5	42,312	87.3
CNY (Chinese renminbi yuan)	3,420	6.9	924	1.9
JPY (Japanese Yen)	1,016	2.1	1,299	2.7
CHF (Swiss francs)	771	1.6	350	0.7
SEK (Swedish krona)	581	1.2	496	1.0
AED (United Arab Emirates dirham)	577	1.2	209	0.4
PLN (Polish zloty)	516	1.0	272	0.6
BRL (Brazilian reales)	346	0.7	572	1.2
TRL (Turkish lira)	328	0.7	861	1.8
ARS (Argentine pesos)	275	0.6	259	0.5
RUB (Russian rubles)	212	0.4	382	0.8
GBP (British pounds)	62	0.1	438	0.9
ZAR (South African rand)	18	0.0	0	0.0
Other	3	0.0	75	0.2
<b>Total</b>	<b>49,232</b>	<b>100.0</b>	<b>48,449</b>	<b>100.0</b>

Of the trade payables presented in the statement of financial position, an amount of EUR 4,796 thousand (PY: EUR 4,182 thousand) is secured by trade receivables, an amount of EUR 2,144 thousand (PY: EUR 1,551 thousand) by inventories, an amount of EUR 0 thousand (PY: EUR 4,342 thousand) by machinery and other operational equipment and an amount of EUR 0 thousand (PY: EUR 2,227 thousand) by other forms of security.

### 33. Tax liabilities

This item consisted exclusively of income tax liabilities and derived from the Gigaset Group, in the amount of EUR 7,790 thousand (PY: EUR 3,268 thousand).

### 34. Current other liabilities

EUR'000	12/31/2011	12/31/2010
Other personnel-related liabilities	14,586	19,439
Purchase price liabilities	9,444	0
Advance payments received	5,659	1,945
Customs liabilities	3,660	13,737
Other taxes	3,618	5,238
Social security contributions	1,096	1,121
Wages and salaries	406	284
Accruals and deferrals	67	19
Liabilities under bills of exchange	0	1,064
Miscellaneous other liabilities	3,032	2,225
<b>Total</b>	<b>41,568</b>	<b>45,072</b>

With the exception of the purchase price liabilities, the other current liabilities did not bear interest in financial year 2011. Due to the fact that they are due in less than one year, the difference between the carrying amount of the liabilities and the fair values of the liabilities can be deemed to be immaterial. Therefore, the repayment amounts presented in the statement of financial position are equivalent to the market values of the liabilities..

The other personnel-related liabilities were mainly composed of the following items:

EUR'000	12/31/2011	12/31/2010
Profit-based bonuses and other bonuses	3,844	8,389
Vacation leave not yet taken	2,523	2,511
Work time accounts	2,309	3,289
Other personnel-related liabilities	5,910	5,250
<b>Total</b>	<b>14,586</b>	<b>19,439</b>

The stated current purchase price liabilities in the amount of EUR 9,444 thousand resulted from the acquisition of the Gigaset Group. By reason of the fact that they will be due on December 31, 2012, they were reclassified from non-current to current other liabilities for the first time.

## F. Other Information

### 35. Segment report

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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 charged in the form of cost allocations.

At December 31, 2011, the "Other" segment comprised the following companies: Carl Froh Group (sold in the first quarter of 2011), Oxxynova Group (sold in the first quarter of 2011), van Netten Group (sold in the second quarter of 2011), the "Home Media" Division (closed) and the SM Electronic Group, which is being held for sale.

In the prior-year comparison period, the "Other" segment comprised the following companies: Carl Froh Group (formerly "Steel" segment), Wanfried Group (formerly "Print" segment), van Netten Group (formerly "Industrial Production" segment), Anvis Group (formerly "Automotive" segment), Fritz Berger Group (formerly "Retail" segment), Golf House Group (formerly "Retail" segment), SM Electronic Group (formerly "Retail" segment), Oxxynova Group (formerly "Specialty Chemistry" segment), "Home Media" Division (formerly "Home Media" segment).

Activities are attributed to the individual geographical regions on the basis of the country of domicile of the respective legal entity. Therefore, revenues and profit/loss contributions are attributed to geographical regions on the basis of legal entities, in accordance with the internal reporting system. The breakdown of revenues by receiving entities (home country of the recipient) is presented in the table of revenues by region, which follows the summary tables on the individual segments.

▶ January 1 to December 31, 2011 in EUR'000	Europe	Americas	Asia-Pacific/ Middle East	Gigaset Total
<b>Revenues</b>				
<b>External revenues</b>	<b>386,102</b>	<b>40,236</b>	<b>32,097</b>	<b>458,435</b>
Continuing operations	386,102	40,236	32,097	458,435
<i>Discontinued operations</i>	0	0	0	0
<b>Internal revenues</b>	<b>4,213</b>	<b>0</b>	<b>0</b>	<b>4,213</b>
Continuing operations	4,213	0	0	4,213
<i>Discontinued operations</i>	0	0	0	0
<b>Total revenues</b>	<b>390,315</b>	<b>40,236</b>	<b>32,097</b>	<b>462,648</b>
Continuing operations	390,315	40,236	32,097	462,648
<i>Discontinued operations</i>	0	0	0	0
<b>Segment EBITDA</b>	<b>58,882</b>	<b>-704</b>	<b>1,602</b>	<b>59,780</b>
Continuing operations	58,882	-704	1,602	59,780
<i>Discontinued operations</i>	0	0	0	0
<b>Depreciation and amortization</b>	<b>-26,410</b>	<b>-25</b>	<b>-111</b>	<b>-26,546</b>
Continuing operations	-26,410	-25	-111	-26,546
<i>Discontinued operations</i>	0	0	0	0
<b>Impairments</b>	<b>-25</b>	<b>-6</b>	<b>0</b>	<b>-31</b>
Continuing operations	-25	-6	0	-31
<i>Discontinued operations</i>	0	0	0	0
<b>Segment EBIT</b>	<b>32,447</b>	<b>-735</b>	<b>1,491</b>	<b>33,203</b>
Continuing operations	32,447	-735	1,491	33,203
<i>Discontinued operations</i>	0	0	0	0
Income from financial assets accounted for by the equity method				
Net interest income/expenses				
<b>Income/expenses from ordinary activities</b>				
Income taxes				
<b>Consolidated net income/loss</b>				
Non-controlling interests				
<b>Consolidated net income/loss</b> Attributable to shareholders of Gigaset AG				

Holding company	Other	Eliminations	Consolidated	January 1 to December 31, 2011 in EUR'000
				Revenues
134	61,892	0	520,551	External revenues
134	0	0	458,569	Continuing operations
0	61,982	0	61,982	Discontinued operations
637	2,776	-7,626	0	Internal revenues
637	0	-4,850	0	Continuing operations
0	2,776	-2,776	0	Discontinued operations
771	64,758	-7,626	520,551	Total revenues
771	0	-4,850	458,569	Continuing operations
0	64,758	-2,776	61,982	Discontinued operations
-8,325	-596	0	50,859	Segment EBITDA
-8,325	0	0	51,455	Continuing operations
0	-596	0	-596	Discontinued operations
-32	-201	0	-26,779	Depreciation and amortization
-32	0	0	-26,578	Continuing operations
0	-201	0	-201	Discontinued operations
0	-2,050	0	-2,081	Impairments
0	0	0	-31	Continuing operations
0	-2,050	0	-2,050	Discontinued operations
-8,357	-2,847	0	21,999	Segment EBIT
-8,357	0	0	24,846	Continuing operations
0	-2,847	0	-2,847	Discontinued operations
			0	Income from financial assets accounted for by the equity method
			-2,762	Net interest income/expenses
			19,237	Income/expenses from ordinary activities
			-1,696	Income taxes
			17,541	Consolidated net income/loss
			126	Non-controlling interests
			17,415	Consolidated net income/loss Attributable to shareholders of Gigaset AG

▶ January 1 to December 31, 2010 in EUR'000	Europe	Americas	Asia-Pacific/ Middle East	Gigaset Total
<b>Revenues</b>				
<b>External revenues</b>	433,134	37,714	32,802	503,650
Continuing operations	433,134	37,714	32,802	503,650
<i>Discontinued operations</i>	0	0	0	0
<b>Internal revenues</b>	0	0	0	0
Continuing operations	0	0	0	0
<i>Discontinued operations</i>	0	0	0	0
<b>Total revenues</b>	433,134	37,714	32,802	503,650
Continuing operations	433,134	37,714	32,802	503,650
<i>Discontinued operations</i>	0	0	0	0
<b>Segment EBITDA</b>	50,047	-4,330	1,944	47,661
Continuing operations	50,047	-4,330	1,944	47,661
<i>Discontinued operations</i>	0	0	0	0
<b>Depreciation and amortization</b>	-34,542	-58	-33	-34,633
Continuing operations	-34,542	-58	-33	-34,633
<i>Discontinued operations</i>	0	0	0	0
<b>Impairments</b>	0	0	0	0
Continuing operations	0	0	0	0
<i>Discontinued operations</i>	0	0	0	0
<b>Segment EBIT</b>	15,505	-4,388	1,911	13,028
Continuing operations	15,505	-4,388	1,911	13,028
<i>Discontinued operations</i>	0	0	0	0
Income from financial assets accounted for by the equity method				
Net interest income/expenses				
<b>Income/expenses from ordinary activities</b>				
Income taxes				
<b>Consolidated net loss</b>				
Non-controlling interests				
<b>Consolidated net loss Attributable to shareholders of Gigaset AG</b>				

Holding company	Other	Eliminations	Consolidated	January 1 to December 31, 2010 in EUR'000
				<b>Revenues</b>
0	505,812	0	1,009,462	<b>External revenues</b>
0	0	0	503,650	Continuing operations
0	505,812	0	505,812	<i>Discontinued operations</i>
1,570	0	-1,570	0	<b>Internal revenues</b>
1,570	0	-1,570	0	Continuing operations
0	0	0	0	<i>Discontinued operations</i>
1,570	505,812	-1,570	1,009,462	<b>Total revenues</b>
1,570	0	-1,570	503,650	Continuing operations
0	505,812	0	505,812	<i>Discontinued operations</i>
-12,752	-34,926	0	-17	<b>Segment EBITDA</b>
-12,752	0	0	34,909	Continuing operations
0	-34,926	0	-34,926	<i>Discontinued operations</i>
-167	-23,059	0	-57,859	<b>Depreciation and amortization</b>
-167	0	0	-34,800	Continuing operations
0	-23,059	0	-23,059	<i>Discontinued operations</i>
0	-28,932	0	-28,932	<b>Impairments</b>
0	0	0	0	Continuing operations
0	-28,932	0	-28,932	<i>Discontinued operations</i>
-12,919	-86,917	0	-86,808	<b>Segment EBIT</b>
-12,919	0	0	109	Continuing operations
0	-86,917	0	-86,917	<i>Discontinued operations</i>
			149	Income from financial assets accounted for by the equity method
			-7,942	Net interest income/expenses
			-94,601	<b>Income/expenses from ordinary activities</b>
			-5,970	Income taxes
			-100,571	<b>Consolidated net loss</b>
			-1,326	Non-controlling interests
			-99,245	<b>Consolidated net loss Attributable to shareholders of Gigaset AG</b>

The profit or loss effects of deconsolidations and the income from reversal of negative goodwill have been assigned to the respective segments.

In the table below, the revenues generated in financial year 2011 and in the comparison year 2010 are broken down by the region of the receiving entities:

▶ EUR'000	2011			2010		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Germany	174,157	48,147	222,304	294,751	261,624	556,375
Europe - EU (excluding Germany)	168,039	12,179	180,218	154,788	167,873	322,661
Europe - Other	16,419	413	16,832	10,947	17,781	28,728
Rest of World	99,954	1,243	101,197	43,164	58,534	101,698
<b>Total</b>	<b>458,569</b>	<b>61,982</b>	<b>520,551</b>	<b>503,650</b>	<b>505,812</b>	<b>1,009,462</b>

In accordance with IFRS 8.33 b), non-current assets were divided among the following regions in financial year 2011 and the comparison year 2010:

▶ EUR'000	12/31/2011	12/31/2010
<b>Non-current assets</b>		
Germany	87,307	84,503
Europe-EU (excluding Germany)	815	978
Europe – Other	6	1,315
Rest of World	214	206
<b>Total</b>	<b>88,342</b>	<b>87,002</b>

## 36. Cash flow statement

The cash flow statement presents the changes in net funds of the Gigaset Group in the reporting year and in the prior year. Net funds are defined as cash and cash equivalents, less restricted cash. As a general rule, items denominated in foreign currencies are translated at average exchange rates for the year. By way of exception, cash and cash equivalents are translated at the exchange rate on the reporting date. The effect of exchange rate changes on net funds is presented separately.

In accordance with IAS 7, cash flows are classified as cash flow from operating activities, investing activities and financing activities.

▶ EUR'000	2011	2010
<b>Cash flow statement</b>		
Cash inflow (+)/ outflow (-) from operating activities	31,986	-36,923
Cash inflow (+)/ outflow (-) from investing activities	-9,520	-4,693
<b>Free cash flow</b>	<b>22,466</b>	<b>-41,616</b>
Cash inflow (+)/ outflow (-) from financing activities	1,930	4,875
<b>Change in cash and cash equivalents</b>	<b>24,396</b>	<b>-36,741</b>

The cash flow statement has been prepared in accordance with the indirect method. The changes in items of the statement of financial position considered for this purpose have been adjusted for the effects of changes in the consolidation group, so that only those cash flows attributable to the group are presented in the cash flow statement. Cash flows resulting from changes in non-current assets held for sale and liabilities related to non-current assets held for sale have been assigned to those areas of the cash flow statement in which they gave rise to cash outflows or inflows. For these reasons, the changes in items of the statement of financial position presented in the cash flow statement cannot be reconciled with the statement of financial position.

Impairments are presented in a separate line item of cash flow from operating activities.

The item of other non-cash income and expenses was mainly composed of internal production capitalized, waivers of receivables and income from the reversal of valuation allowances charged against receivables.

Cash outflows of EUR 650 thousand (PY: EUR 0 thousand) pertained to the acquisition of investments in companies in financial year 2011. This amount was offset by acquired cash and cash equivalents in the amount of EUR 1,626 thousand (PY: EUR 0 thousand).

The net funds at December 31, 2011 amounted to EUR 59,876 thousand (PY: EUR 29,787 thousand). This item comprises immediately available cash in banks, checks and cash on hand. Restricted cash, which has been pledged as security for liabilities and currency hedging transactions, amounted to EUR 3,280 thousand at December 31, 2011 (PY: EUR 8,960 thousand). Thus, the total amount of cash and cash equivalents amounted to EUR 63,156 thousand (PY: EUR 38,747 thousand). Of this total, an amount of EUR 894 thousand (PY: EUR 2,139 thousand) was presented as assets held for sale and an amount of EUR 62,262 thousand (PY: EUR 36,608 thousand) was presented as cash and cash equivalents.

### 37. Notes on significant company sales

Effective January 1, 2011, the Carl Froh Group (part of the "Other" segment), classified as discontinued operations, was sold to the subsidiary manager for a symbolic sale price. The sold assets amounted to EUR 21.8 million, including cash and cash equivalents of EUR 0.3 million. The liabilities amounted to EUR 21.8 million. The deconsolidation loss, including consolidation effects and other expenses related to the transaction, amounted to EUR 0.0 million.

At the end of February 2011, the Oxxynova Group (part of the "Other" segment), classified as discontinued operations, was sold to an investor for a symbolic sale price. The sold assets amounted to EUR 27.2 million, including cash and cash equivalents of EUR 0.6 million. The liabilities amounted to EUR 29.8 million. The deconsolidation loss, including consolidation effects and other expenses related to the transaction, amounted to EUR 2.6 million and was presented as other operating expenses.

At the end of June 2011, the Van Netten Group (part of the "Other" segment), classified as discontinued operations, was sold to a strategic investor for a sale price of EUR 405 thousand. The sold assets amounted to EUR 17.8 million, including cash and cash equivalents of EUR 0.2 million. The liabilities amounted to EUR 15.2 million. The deconsolidation loss, including liabilities remaining in the Group, consolidation effects and other expenses related to the transaction, amounted to EUR 0.0 million.

The sold assets and transferred liabilities are summarized in the table below:

<b>Assets</b>	<b>EUR'000</b>
<b>Intangible assets</b>	<b>1,904</b>
Property, plant and equipment	24,360
Other assets	40,508
<b>Total</b>	<b>66,772</b>
<b>Liabilities</b>	
Provisions and accrued liabilities	20,694
Liabilities	46,094
<b>Total</b>	<b>66,788</b>

### 38. Notes on significant company acquisitions

In February 2011, Gigaset purchased shares in the SM Electronic Group held by the management. Combined with the shares already held by Gigaset, the Group now holds 100% of the shares in SME Holding GmbH shares, 100% of the shares in SM Electronic GmbH shares and 100% of the shares in the wholly-owned subsidiaries Skymaster Electronic HK Limited and Emanon GmbH.

These companies have been included in the consolidated financial statements of Gigaset AG since February 3, 2011.

The purchase price for the acquisition of the SM Electronic Group was EUR 650 thousand in cash, including EUR 648 thousand for the assumption of shareholder loans. In addition to the equity shares, Gigaset also assumed the shareholder loans of the management in the nominal amount of approximately EUR 1,551 thousand. These cash flows and the acquired assets and liabilities of the company, together with the loan receivables that were already in effect, gave rise to negative goodwill in the amount of EUR 1,888 thousand, which was recognized in profit or loss and presented in the income statement as other operating income.

The profit/loss contribution of the SM Electronic Group from the date of acquisition until December 31, 2011 amounted to EUR -8,705 thousand. That figure includes the principal start-up and acquisition losses, as well as restructuring losses. It does not include other operating income from the reversal of negative goodwill. The SM Electronic Group generated revenues of EUR 2,656 thousand in the period from January 1, 2011 to the acquisition date and revenues of EUR 21,543 thousand in the period from the acquisition date until December 31, 2011. The profit/loss contribution of the SM Electronic Group in the period from January 1, 2011 to the acquisition date amounted to EUR -406 thousand. It is not practicably feasible to state the effects of the company acquisition for this period according to International Financial Reporting Standards (IFRS) 3.60 in conjunction with Paragraph B64 (q) (ii). First of all, far-reaching assumptions would have to be made regarding the objectives of the management in order to determine the profit/loss contribution; furthermore, numerous assumptions would have to be made in order to determine the profit/loss contributions, making it nearly impossible to distinguish between objective information and assumptions.

The acquired assets and liabilities of the SM Electronic Group are presented in the table below:

▶ EUR'000	Carrying amounts	Fair value
<b>Non-current assets</b>		
Intangible assets	366	155
Property, plant and equipment	758	961
Other assets	707	940
Deferred tax assets	0	168
<b>Current assets</b>		
Provisions	3,768	3,768
Trade receivables	8,941	8,941
Other assets	9,159	9,076
Cash and cash-equivalents	1,626	1,626
<b>Liabilities</b>		
Provisions	-526	-,2460
Trade payables	-9,306	-9,382
Other liabilities	-24,272	-24,272
Deferred tax liabilities	0	-974
<b>Net assets</b>		<b>-11,453</b>

The acquired cash and cash equivalents amounted to EUR 1,626 thousand, giving rise to a total cash inflow of EUR 976 thousand.

The fair value of the acquired trade receivables was EUR 8,941 thousand, based on the amount of EUR 9,517 thousand as the nominal value of receivables and expected losses on receivables in the amount of EUR 576 thousand.

The fair value of the proportionate share of equity held in the acquired company, which was held immediately prior to the acquisition date, amounted to EUR 0 thousand. This circumstance was reflected particularly in the purchase price for the shares, as a result of which no profit was recognized in connection with the restated value of the shares on the occasion of the business combination.

No divisions were discontinued or sold in connection with the acquisition.

No further acquisitions were made as of December 31, 2011

### 39. Other financial commitments

The other financial commitments at the reporting date of December 31, 2011 resulted from non-cancelable rent, lease and service agreements concluded by the Group and its subsidiaries in the ordinary course of business. In the table below, the total future payments to be made under these agreements are broken down by due dates, as follows:

2011	Up to 1 year EUR'000	1-5 years EUR'000	More than 5 years EUR'000	Total EUR'000
Rental and lease commitments	2,824	3,843	2,933	9,600
Other commitments	1,723	3,418	0	5,141
<b>Total</b>	<b>4,547</b>	<b>7,261</b>	<b>2,933</b>	<b>14,741</b>

2010	Up to 1 year EUR'000	1-5 years EUR'000	More than 5 years EUR'000	Total EUR'000
Rental and lease commitments	4,111	4,659	12,200	20,970
Other commitments	3,724	2,201	0	5,925
<b>Total</b>	<b>7,835</b>	<b>6,860</b>	<b>12,200</b>	<b>26,895</b>

The total rental and lease commitments amounted to EUR 9,600 thousand (PY: EUR 20,970 thousand). Of this amount, rental and lease agreements for land and buildings accounted for EUR 7,685 thousand (PY: EUR 17,709 thousand), rental and lease agreements for other equipment, operational and office equipment accounted for EUR 1,409 thousand (PY: EUR 1,612 thousand) and operating leases for machinery and equipment accounted for EUR 506 thousand (PY: EUR 1,649 thousand).

The other financial commitments in the amount of EUR 5,141 thousand (PY: EUR 5,925 thousand) resulted from maintenance and service agreements for machinery and equipment, software and other operational and office equipment.

The Group was subject to a firm capital expenditure order in the amount of EUR 2,002 thousand (PY: EUR 170 thousand) at the reporting date of December 31, 2011.

## 40. Contingent liabilities

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The contingent liabilities at the reporting date of December 31, 2011 were related to the following companies and matters:

In connection with the acquisition of 100% of the shares in Oxynova GmbH by OXY Holding GmbH (formerly: Mainsee 410. W GmbH), Gigaset AG issued a guarantee in favor of the seller, Evonik-Degussa, to cover the anticipated liability for environmental damage, as well as a guarantee to maintain the two locations of Oxynova GmbH, which are limited to five years after the purchase contract enters into effect. Evonik Degussa GmbH is now asserting a claim of EUR 12 million against the company under this contractual agreement and demanded payment of this amount most recently by letter of February 14, 2012. The company considers the claim to be unfounded for reasons of fact and law, but the outcome of a possible lawsuit cannot be predicted with certainty, of course, and therefore the company proposed an out-of-court settlement in February 2012 involving payments amounting to EUR 3.6 million, in order to avoid a time-intensive and costly arbitration tribunal proceeding. In consideration of the existing uncertainties and the imminent threat of a lawsuit, the company has formed provisions in the amount of EUR 3.6 million at December 31, 2011. The out-of-court settlement negotiations have not yet been completed. It is unclear whether Evonik Degussa GmbH will file an arbitration complaint, as it has threatened to do, despite the settlement offer.

In connection with the sale of the Jahnel-Kestermann Group, a seller liability (guarantee for corporate relationships) was assumed in the amount of EUR 18.5 million, limited in time until April 14, 2018. The probability of occurrence is considered to be very low.

In connection with the sale of the Teutonia Group, a seller liability of EUR 3 million was assumed within the framework of the purchase contract warranty. The probability of occurrence is considered to be very low.

The buyer of the Rohner AG was indemnified from any costs arising from lawsuits in connection with assertion of the right of first refusal in rem for a parcel of real estate in the course of the acquisition of the Wolfsheckmühle together with its real estate. Under an action for part of the cause, the buyer claimed damages of EUR 1,000 thousand. This claim was dismissed and the plaintiff was ordered to pay costs by the courts of first and second instance. In January 2012, the buyer withdrew its appeal against denial of leave to appeal imposed by the Federal Court of Justice, so that the dismissive judgment of the second-instance court is now unappealable. As a means of suspending the limitation period, the buyer of Rohner AG filed an additional claim for damages of the remaining amount of EUR 3,750 thousand at the end of 2011. This proceeding is still pending before the Baden-Baden Regional Court. In consideration of the unappealable judgment of the second-instance court relative to the partial action for EUR 1,000 thousand, the probability of occurrence of this liability is considered to be very low.

In connection with the sale of Oxiris Chemicals S.A., Spain, an environmental guarantee is still in effect. It is limited in time until December 31, 2013 and is limited to the amount of up to EUR 6,000 thousand. The probability of occurrence is considered to be very low.

In connection with the sales of the Rohé Group and the Sommer Group in 2009, guarantees for the corporate relationships of the sold companies are still in effect, in the amount of EUR 800 thousand. These guarantees will expire on March 31, 2015. The probability of occurrence is considered to be very low.

In connection with the sale of the subsidiary Fritz Berger, the customary seller guarantees were issued, also for corporate relationships, among other matters. This liability is limited in time until April 21, 2015 and is currently limited to an

amount of EUR 650 thousand. A liability for tax matters was agreed for up to 90% of any supplementary tax liabilities. The duration of this liability is determined with reference to the administrative finality of the respective assessments of the tax authorities. There are no indications of possible utilization and therefore the risk is considered to be low.

In connection with the sale of Golf House, a liability of up to EUR 1,700 thousand was assumed for various matters. With the exception of the liability for the substantive value of loan receivables and for corporate relationships, the liability expired on January 8, 2012, in all other cases on July 8, 2013. The liability period for tax liability is longer, depending on the administrative finality of the respective tax assessments. There are no indications of possible utilization and therefore the risk is considered to be low.

In connection with the sale of the Anvis Group, Gigaset AG assumed a liability for the compliance with corporate law and the adequacy of the separate financial statements of the companies of the Anvis Group at December 31, 2009. The liability is limited to EUR 10 million and will expire on December 2, 2014. The company also assumed a liability for tax matters. The liability under this guarantee will expire six months after presentation of respective, administratively final tax assessments. The probability of occurrence is considered to be extremely low.

Lauc, S. L., a company organized under Spanish law, has announced that it intends to seek recourse from the company under a contractual guarantee agreement from the year 2007 in the amount of approximately EUR 700 thousand in connection with the acquisition of the now insolvent company Capresa. The company disputes the grounds, amount and due date of the claim.

The company assumed a purchase contract guarantee of EUR 405 thousand in connection with the sale of van Netten. The probability of occurrence is considered to be very low.

In connection with the sales of other subsidiaries in the years 2009, 2010 and 2011, the company issued guarantees for the corporate relationships of these subsidiaries. The probability of occurrence of these guarantees is considered to be very low.

In addition, there were contingent liabilities in the amount of EUR 300 thousand (PY: EUR 0 thousand) resulting from guarantees in connection with the subsidiaries' operations.

## 41. Disclosures pursuant to Section 264b HGB

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The following domestic subsidiaries organized as unincorporated partnerships within the meaning of Section 264a of the German Commercial Code (HGB) have in some cases exercised the exemption options permitted by Section 264b HGB:

- Gigaset Communications Licensing and Leasing GmbH & Co. KG
- Gigaset Asset GmbH & Co. KG
- Hortensienweg Grundstücksverwaltung GmbH & Co. KG

## 42. Executive Board and Supervisory Board of Gigaset AG

The following persons served on the Executive Board in financial year 2011 and in the time until the preparation of the annual financial statements:

- **Charles Fränkl**, businessman, Meerbusch (Executive Board Chairman, in charge of Marketing, Product Development, Supply Chain, M&A, Innovation & Strategy since January 1, 2012)
- **Dr. Alexander Blum**, businessman, Munich (in charge of Finance, IT, Legal, Human Resources and Investor Relations since March 30, 2011)
- **Maik Brockmann**, businessman, Hannover (sole member of the Executive Board until March 29, 2011, in charge of Sales since March 30, 2011)

The other executive activities of the Executive Board members consisted mainly of serving on the supervisory boards and executive boards and chief executive positions of affiliated companies and subsidiaries of Gigaset AG.

Specifically, the Executive Board members who served on the board in 2011 and in the time until the preparation of the annual financial statements held the following seats on supervisory bodies (starting date and ending date indicated when those dates fall within the reporting period):

Dr. Alexander Blum (Executive Board member since March 30, 2011)

Company	Board	Starting date	Ending date
<b>Inside the Group</b>			
Gigaset Communications (Shanghai) Ltd.	Chairman of the Board	8. November 2011	

Maik Brockmann

Company	Board	Starting date	Ending date
<b>Inside the Group</b>			
Gigaset Communications GmbH	Supervisory Board		8. Januar 2012
<b>Outside the Group</b>			
Planervilla AG, Hannover	Supervisory Board		

The Executive Board member Charles Fränkl did not hold seats on supervisory bodies in 2011 and in the time until the preparation of the annual financial statements.

At the annual shareholders' meeting of the Company on June 10, 2011, some new members were elected to the Supervisory Board. In the reporting timeframe, the following individuals were members of the Supervisory Board of the Company:

Current members:

- Rudi Lamprecht (Member and Chairman since June 10, 2011)
- Prof. Dr. Michael Judis (Vice Chairman)
- Dr. Dr. Peter Löw (Chairman until June 10, 2011)
- Susanne Klöß (Member since June 10, 2011)
- David Hersh
- Bernhard Riedel

Departed members:

- Dipl. Kfm. Dr. Rudolf Falter (Member until June 10, 2011)
- Hubertus Prinz zu Hohenlohe-Langenburg (Member until June 10, 2011)

The members of the Supervisory Board listed below held the listed memberships on additional supervisory boards and controlling boards in financial year 2011.

**Rudi Lamprecht, Chairman of the Supervisory Board since June 10, 2011, businessman, Munich**

- Member of the Supervisory Board of Gigaset Communications GmbH
- Member of the Supervisory Board of Fujitsu Technology Solutions GmbH
- Managing partner of EWC East-West-Connect GmbH

**Prof. Dr. Michael Judis, Vice Chairman, lawyer, Munich**

- Member of the Advisory Board of GIG Holding GmbH, Munich
- Alternate member of the Supervisory Board of Your Family Entertainment AG, Munich

**Dr. Dr. Peter Löw**, Chairman of the Supervisory Board until June 10, 2011, businessman, Munich

- Chairman of the Supervisory Board of dapd media holding AG
- Chairman of the Supervisory Board of xStudy SE
- Chairman of the Supervisory Board of brownB AG
- Member of the Supervisory Board of xarafi AG

**Susanne Klöß**, Diplom-Kauffrau, Munich

- Member of the management committee of Deutsche Bank Privat- und Geschäftskunden AG

**David Hersh**, Managing Partner Mantra Americas LLC, New York, USA

- No seats were held on other supervisory boards and similar boards within the meaning of Section 125 (1) AktG.

**Bernhard Riedel**, lawyer, Munich

- No seats were held on other supervisory boards and similar boards within the meaning of Section 125 (1) AktG.

**Dipl.-Kfm. Dr. Rudolf Falter**, lawyer, tax advisor, Munich

- No seats were held on other supervisory boards and similar boards within the meaning of Section 125 (1) AktG.

**Hubertus Prinz zu Hohenlohe – Langenburg**, lawyer, Munich

- Member of the Advisory Board of GIG Holding GmbH, Munich

## 43. Compensation of Executive Board and Supervisory Board members

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The Compensation Report (pursuant to Section 4.2.5. of the German Corporate Governance Code) explains the principles applied in setting the compensation of Executive Board members and indicates the amount and structure of Executive Board compensation. It also describes the principles applied in setting the compensation of the Supervisory Board members and the amount of that compensation, and discloses the shareholdings of Executive Board and Supervisory Board members.

### Compensation of Executive Board members

The responsibilities and contributions of each Executive Board member are taken into account for purposes of setting the compensation. The compensation granted in financial year 2011 consisted of a fixed annual salary, plus various success-dependent components. The variable components consist of bonus arrangements for all members who served on the Executive Board in the past financial year, which are dependent on the performance of a virtual share portfolio (reflecting the company's success) and on the achievement of certain targets adopted in the respective board member's area of responsibility (reflecting the success of his division).

Specifically, the Executive Board compensation is composed of the following elements:

- The fixed compensation is paid in the form of a monthly salary.
- The variable compensation consists in part of a special bonus, the amount of which is determined on the basis of the performance of a "virtual share portfolio," and in part of an individual bonus agreement for each member who served on the Executive Board in the past financial year.


The basis for calculating the variable compensation based on the "virtual share portfolio" of every member who served on the Executive Board in the past financial year is a specific number of shares of GIGASET AG (the "virtual share portfolio"), measured at a certain share price ("initial value"). The amount of variable compensation is calculated in every case from the possible appreciation of the virtual share portfolio over a certain period of time, that is, relative to a pre-determined future date ("valuation date"). The difference between the value of the virtual share portfolio measured at the share price at the valuation date and the initial value ("capital appreciation") yields the amount of variable compensation. As a general policy, the capital appreciation amount (converted at the share price at the valuation date) is settled in cash.

The virtual share portfolio of Mr. Maik Brockmann comprises 200,000 shares at each delivery date. The valuation date of all shares are or were August 31, 2011 and August 31, 2012. The grant date was September 2, 2010.

At the reporting date, the fair value of the virtual share portfolio for Mr. Brockmann amounted to EUR 38,666.67 for the first tranche of 200,000 shares, payable on August 31, 2012 (with a vested proportion of 66.7% according to IFRS).

The virtual share portfolio of Dr. Blum comprises 150,000 shares at each delivery date. The valuation date of all shares are or were August 31, 2011, August 31, 2012 and January 31, 2013. The grant date was February 7, 2011.

At the reporting date, the fair value of the virtual share portfolio for Dr. Blum amounted to EUR 25.184,21 for the second tranche of 150,000 shares, payable on August 31 2012 (with a vested proportion of 57.8% according to IFRS) and EUR 24.483,87 for the third tranche of 150,000 shares, payable on January 31, 2013 (with a vested proportion of 45.8% according to IFRS). At the grant date, the fair value of the granted stock options amounted to EUR 253,500.00 for the first tranche (expired in 2011), EUR 184,500.00 for the second tranche and EUR 205,500.00 for the third tranche.

 Virtual share portfolios/stock options, in units	Maik Brockmann	Dr. Alexander Blum
<b>Outstanding at 01/01/2011</b>	<b>400,000</b>	<b>0</b>
Granted in 2011	0	450,000
Forfeited in 2011	0	0
Exercised in 2011	200,000	0
Average price per share on the exercise date, in EUR	2.75	lower than exercise price
Expired in 2011	0	150,000
<b>Outstanding on 12/31/2011</b>	<b>200,000</b>	<b>300,000</b>
Thereof exercisable options	0	0
Range of exercise prices	2.75	2.75
Income (+)/expenses (-) recognized in the reporting period according to IFRS, in EUR	-49,133.33	-49,668.08

In addition, individual bonus agreements were concluded with all members who served on the Executive Board in the reporting period.

By virtue of the Executive Board employment contract of Mr. Brockmann, he can receive a variable compensation for the successful fulfillment of his duties. The Supervisory Board decides at its own discretion whether and in what amount such compensation will be granted. Any distributions from the stock option agreement must be taken into account as well. A Supervisory Board resolution must be adopted on the concrete determination.

The variable compensation of Dr. Blum is measured with reference to the degree of attainment of the established indicator for the success of Gigaset Communications GmbH in the given financial year. The indicator applied for that purpose is the EBITDA of Gigaset Communications GmbH. The target to be attained is discussed and agreed between the shareholders of Gigaset Communications GmbH and Dr. Blum at the beginning of every financial year.

Mr. Fränkl receives a variable compensation component for the successful performance of his duties. It is measured with reference to the degree of fulfillment of the indicator established for the business success of the company, such as EBITDA, for example. The targets are jointly discussed by the Chairman of the company's Supervisory Board and Mr. Fränkl and then adopted by the Chairman of the Supervisory Board at the beginning of every financial year.

The following compensation was granted to the individual members of the Executive Board for financial year 2011:

Financial year	Compensation (cash)		In-kind benefit		Success bonus		Stock options (cash)		Total	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
▶ Maik Brockmann	156,000	52,000	17,197	2,700	25,000	100,000	149,800	0	347,996	154,700
Dr. Alexander Blum (since March 30, 2011)	121,950	0	6,300	0	56,250	0	0	0	184,500	0

The Executive Board member Dr. Alexander Blum has not entered into a separate Executive Board employment contract with the company. Instead, he receives his compensation on the basis of the managing director employment contract concluded between him and Gigaset Communications GmbH. This compensation also encompasses the compensation for his activity of the Executive Board; Gigaset Communications GmbH charges the company for the work performed by Dr. Blum for Gigaset AG. Beyond the foregoing, no further compensation was granted to the Executive Board members for their work in subsidiaries or affiliated companies.

## Compensation of the Supervisory Board

The annual shareholders' meeting held on June 10, 2011 adopted a new compensation system, as follows: "Every member of the Supervisory Board shall receive a fixed compensation of EUR 1,000.00 per month and a meeting fee of EUR 1,000.00 for every meeting of the Supervisory Board or one of its committees in which the member will have participated. The Chairman of the Supervisory Board shall receive a fixed compensation of EUR 1,500.00 per month and a meeting fee of EUR 1,500.00 for every meeting of the Supervisory Board or one of its committees in which the Chairman will have participated. The compensation shall be due and payable at the close of the annual shareholders' meeting that resolves to ratify the actions of the Supervisory Board in the preceding financial year."

The compensation granted on the basis to members of the Supervisory Board of Gigaset Aktiengesellschaft in financial year 2011 is presented in the table below:

EUR	Settled	Set aside in provisions	Total expenses
▶ Rudi Lamprecht (Chairman)	0,00	13,500	13,500
Prof. Dr. Michael Judis	9,000	11,000	20,000
Susanne Klöß	0,00	11,000	11,000
Dr. Dr. Peter Löw (former Chairman)	13,500	11,000	24,500
Bernhard Riedel	10,000	9,000	19,000
David Hersh	8,000	11,000	19,000
Hubertus Prinz zu Hohenlohe-Langenburg	9,000	0,00	9,000
Dr. Rudolf Falter	9,000	0,00	9,000
<b>Total</b>	<b>58,500</b>	<b>66,500</b>	<b>125,000</b>

The compensation granted to members of the Supervisory Board of Gigaset AG in financial year 2010 is presented in the table below:

EUR	Settled	Set aside in provisions	Total expenses
▶ Dr. Dr. Peter Löw (Chairman)	0.00	18,000	18,000
Dr. Georg Obermeier (former Chairman)	30,000	0.00	30,000
Hubertus Prinz zu Hohenlohe-Langenburg	12,000	0.00	12,000
Bernhard Riedel	26,000	0.00	26,000
Dr. Rudolf Falter	20,000	11,000	31,000
Prof. Dr. Michael Judis	12,000	0.00	12,000
Antoine Dréan	12,000	0.00	12,000
Jean-Francois Borde	15,000	0.00	15,000
David Hersh	17,000	13,000	30,000
<b>Total</b>	<b>144,000</b>	<b>42,000</b>	<b>186,000</b>

Accordingly, the total compensation granted to the Supervisory Board amounted to EUR 125,000 (PY: EUR 186,000).

No further commitments have been made in the event of termination of Supervisory Board mandates. No loans or advances were extended to members of the Executive Boards or Supervisory Boards of Gigaset AG. No contingent liabilities have been assumed in favor of these persons.

## 44. Shareholdings of Executive Board and Supervisory Board members

At the reporting date, the members of the Executive Board held 34,348 shares of Gigaset AG.

At the reporting date, the members of the Supervisory Board together held 1,824,038 shares of Gigaset AG, representing 3.65% of the total shares outstanding.

The shareholdings of Executive Board and Supervisory Board members were divided among the individual members as follows:

	Number of shares at 12/31/2011 or at the resignation date	Number of shares at the date of preparation of the financial statements	Number of options at 12/31/2011 or at the resignation date	No of options at the date of preparation of the financial statements
<b>Executive Board</b>				
Charles Fränkl, Executive Board Chairman	0	0	0	0
Dr. Alexander Blum	34,348	34,348	0	0
Maik Brockmann	0	0	0	0
<b>Supervisory Board</b>				
Rudi Lamprecht (Chairman since June 10, 2011)	300	300	0	0
Prof. Dr. Michael Judis (Vice Chairman)	10,604	10,604	0	0
Dr. Dr. Peter Löw (Chairman until June 10, 2011)	1,811,833	1,811,833	0	0
Susanne Klöß	0	0	0	0
Bernhard Riedel	1,301	1,301	0	0
David Hersh	0	0	0	0
Hubertus Prinz zu Hohenlohe- Langenburg (member until June 10, 2011)	1,565		0	
Dr. Rudolf Falter (member until June 10, 2011)	1,038		0	

### Disclosures concerning stock option rights and similar incentives

Any stock options of Supervisory Board and Executive Board members presented in the table above are stock options that can be purchased in the open market. Gigaset AG did not grant stock options to the members of the Supervisory Board, nor to members of the Executive Board. Please refer to the comments in the Compensation Report for additional information on the virtual share portfolios of Executive Board members.

## 45. Disclosures concerning dealings with related parties

In accordance with IAS 24, related parties are defined as persons or companies who can influence or be influenced by the reporting entity.

No significant transactions were conducted between the Group and related parties in the reporting period.

Please refer to Section 43 for information on the compensation of the Executive Board and Supervisory Board that must be disclosed in accordance with IAS 24 No.17.

## 46. Professional fees for the independent auditor

Professional fees in the total amount of EUR 371 thousand (PY: EUR 807 thousand) were incurred for the services of the independent auditor within the meaning of Section 318 HGB in financial year 2011:

EUR'000	2011	2010
Audit services for the annual financial statements	362	745
Other certification services	0	8
Tax advisory services	0	54
Other services	9	0
<b>Total</b>	<b>371</b>	<b>807</b>

## 47. Employees

The Gigaset Group had an average of 1,910 employees in financial year 2011 (PY: 4,988 employees). The total number of employees at the reporting date of December 31, 2011 was 1,875 (PY: 2,333 employees).

	Reporting Date		Average	
	12/31/2011	12/31/2010	2011	2010
Wage-earning employees	8	406	29	1,820
Salaried employees	1,801	1,848	1,822	3,079
Apprentice-trainees	66	79	59	89
<b>Total</b>	<b>1,875</b>	<b>2,333</b>	<b>1,910</b>	<b>4,988</b>

## 48. Declaration of Conformity with the German Corporate Governance Code

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The Executive Board and Supervisory Board of GIGASET Aktiengesellschaft issued the Declaration of Conformity with the German Corporate Governance Code in its version of May 26, 2010, as required by Section 161 of the Stock Corporations Act (AktG), and made it permanently available to shareholders at the company's website ([www.gigaset.com](http://www.gigaset.com), menu item "Investor Relations," submenu item "Corporate Governance"). Exceptions from the German Corporate Governance Code were duly noted.

## 49. Shareholder structure

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The following notifications as per Section 21 or Section 26 German Securities Trading Act (WpHG) are still valid.

Dr. Dr. Peter Löw notified us in accordance with Section 21 WpHG that he held a total voting rights share of 3.62% (corresponding to 1,811,833 voting rights) on October 29, 2010. This share of voting rights was unchanged at December 31, 2011.

The following notifications regarding the voting rights thresholds set forth in Sections 21 and 26 of the German Securities Trading Act (WpHG) were received in financial year 2011 and in the time until the preparation of the annual financial statements:

1a) On March 14, 2011, Oppenheimer International Small Company Fund, 6803 S. Tucson Way, Centennial, CO, USA 80112-3924, fell below the threshold of 5% of the voting rights in Gigaset AG, Munich (ISIN: DE0005156004, WKN: 515600). On this date, the voting rights share amounted to 1,800,000 shares, or 4.54%.

1b) On March 15, 2011, Oppenheimer International Small Company Fund, 6803 S. Tucson Way, Centennial, CO, USA 80112-3924, fell below the threshold of 3% of the voting rights in Gigaset AG, Munich (ISIN: DE0005156004, WKN: 515600). On this date, the voting rights share amounted to 808,454 shares, or 2.04%.

2a) On March 14, 2011, OppenheimerFunds Inc., 6803 S. Tucson Way, Centennial, CO, USA 80112-3924, fell below the threshold of 5% of the voting rights in Gigaset AG, Munich (ISIN: DE0005156004, WKN: 515600). On this date, the voting rights share amounted to 1,800,000 shares, or 4.54%, which are attributable to OppenheimerFunds Inc. in accordance with Section 22 (1) (1) (6) WpHG. Of that amount, 4.54% is attributable from Oppenheimer International Small Company Fund, Centennial, U.S.A.

2b) On March 15, 2011, OppenheimerFunds Inc., 6803 S. Tucson Way, Centennial, CO, USA 80112-3924, fell below the threshold of 3% of the voting rights in Gigaset AG, Munich (ISIN: DE0005156004, WKN: 515600). On this date, the voting rights share amounted to 808,454 shares, or 2.04%, which are attributable to OppenheimerFunds Inc. in accordance with Section 22 (1) (1) (6) WpHG. Of that amount, 2.04% is attributable from Oppenheimer International Small Company Fund, Centennial, U.S.A.

3a) On March 14, 2011, Oppenheimer Acquisition Corp., 6803 S. Tucson Way, Centennial, CO, USA 80112-3924, fell below the threshold of 5% of the voting rights in Gigaset AG, Munich (ISIN: DE0005156004, WKN: 515600). On this date, the voting rights share amounted to 1,800,000 shares, or 4.54%, which are attributable to Oppenheimer Acquisition Corp. in accordance with Section 22 (1) (1) (6) WpHG. Of that amount, 4.54% is attributable from Oppenheimer International Small Company Fund, Centennial, U.S.A.

3b) On March 15, 2011, Oppenheimer Acquisition Corp., 6803 S. Tucson Way, Centennial, CO, USA 80112-3924, fell below the threshold of 3% of the voting rights in Gigaset AG, Munich (ISIN: DE0005156004, WKN: 515600). On this date, the voting rights share amounted to 808,454 shares, or 2.04%, which are attributable to Oppenheimer Acquisition Corp. in accordance with Section 22 (1) (1) (6) WpHG. Of that amount, 2.04% is attributable from Oppenheimer International Small Company Fund, Centennial, U.S.A.

4a) On March 14, 2011, MassMutual Holding LLC, 1295 State Street, USA-01111-0001 Springfield, Massachusetts, fell below the threshold of 5% of the voting rights in Gigaset AG, Munich (ISIN: DE0005156004, WKN: 515600). On this date, the voting rights share amounted to 1,800,000 shares, or 4.54%, which are attributable to MassMutual Holding LLC in accordance with Section 22 (1) (1) (6) (2) WpHG. Of that amount, 4.54% is attributable from Oppenheimer International Small Company Fund, Centennial, U.S.A.

4b) On March 15, 2011, MassMutual Holding LLC, 1295 State Street, USA-01111-0001 Springfield, Massachusetts, fell below the threshold of 3% of the voting rights in Gigaset AG, Munich (ISIN: DE0005156004, WKN: 515600). On this date, the voting rights share amounted to 808,454 shares, or 2.04 %, which are attributable to MassMutual Holding LLC in accordance with Section 22 (1) (1) (6) (2) WpHG. Of that amount, 2.04% is attributable from Oppenheimer International Small Company Fund, Centennial, U.S.A.

5a) On March 14, 2011, Massachusetts Mutual Life Insurance Company, 1295 State Street, USA-01111-0001 Springfield, Massachusetts, fell below the threshold of 5% of the voting rights in Gigaset AG, Munich (ISIN: DE0005156004, WKN: 515600). On this date, the voting rights share amounted to 1,800,000 shares, or 4.54%, which are attributable to Massachusetts Mutual Life Insurance Company in accordance with Section 22 (1) (1) (6) (2) WpHG. Of that amount, 4.54% is attributable from Oppenheimer International Small Company Fund, Centennial, U.S.A.

5b) On March 15, 2011, Massachusetts Mutual Life Insurance Company, 1295 State Street, USA-01111-0001 Springfield, Massachusetts, fell below the threshold of 3% of the voting rights in Gigaset AG, Munich (ISIN: DE0005156004, WKN: 515600). On this date, the voting rights share amounted to 808,454 shares, or 2.04%, which are attributable to Massachusetts Mutual Life Insurance Company in accordance with Section 22 (1) (1) (6) (2) WpHG. Of that amount, 2.04% is attributable from Oppenheimer International Small Company Fund, Centennial, U.S.A.

6a) On July 15, 2011, Mr. Antoine Drean, France, notified us in accordance with Sections 21 (1); 22 (1) (1) (1) WpHG that the voting rights share of Mr. Antoine Drean in Gigaset AG, Munich, ISIN DE 0005156004, WKN 515600, exceeded the threshold of 5% on July 12, 2011 and has amounted to 5.19% of the voting rights (2,596,206 voting rights) since that time. Of this amount, 5.19% of the voting rights (2,596,206 voting rights) are attributable to Mr. Antoine

Drean in accordance with Section 22 (1) (1) (1) WpHG. The voting rights attributable to Mr. Antoine Drean are held by the following companies controlled by Mr. Antoine Drean:

- Elevon Invest SARL
- Mantra Gestion SAS
- Mantra Investissement SCA

6b) On July 18, 2011, Elevon Invest SARL, Paris, France (formerly Mantra Holdings SARL) notified us in accordance with Sections 21 (1); 22 (1) (1) (1) WpHG that the voting rights share of Elevon Invest SARL in Gigaset AG, Munich, ISIN DE 0005156004, WKN 515600, crossed the threshold of 5% on July 12, 2011 and has amounted to 5.19% of the voting rights (2,596,206 voting rights) since that time.

Of this amount, 5.19% of the voting rights (2,596,206 voting rights) are attributable to Elevon Invest SARL in accordance with Section 22 (1) (1) (1) WpHG. The voting rights attributable to Elevon Invest SARL are held by the following companies controlled by Elevon Invest SARL:

- Mantra Gestion SAS
- Mantra Investissement SCA

6c) On July 15, 2011, Mantra Gestion SAS, Paris, France, notified us in accordance with Sections 21 (1); 22 (1) (1) (1) WpHG that the voting rights share of Mantra Gestion SAS in Gigaset AG, Munich, ISIN DE 0005156004, WKN 515600, crossed the threshold of 5% on July 12, 2011 and has amounted to 5.19% of the voting rights (2,596,206 voting rights) since that time. Of that amount, 5.19% of the voting rights (2,596,206 voting rights) are attributable to Mantra Gestion SAS in accordance with Section 22 (1) (1) (1) WpHG. The voting rights attributable to Mantra Gestion SAS are held by the following companies controlled by Mantra Gestion SAS:

- Mantra Investissement SCA

6d) On July 15, 2011, Mantra Investissement SCA, Paris, France, notified us in accordance with Sections 21 (1) WpHG that the voting rights share of Mantra Investissement SCA, in Gigaset AG, Munich, ISIN DE 0005156004, WKN 515600, crossed the threshold of 5% on July 12, 2011 and has amounted to 5.19% of voting rights (2 596 206 voting rights) since that time.

## 50. Legal disputes and claims for damages

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

Gigaset AG reached a comprehensive out-of-court settlement in the arbitration proceeding with Siemens AG on December 10, 2010. This arbitration proceeding ended officially with an arbitration award in the first quarter of 2011, which was issued after the parties reached a comprehensive out-of-court settlement.

In July 2009, the European Commission imposed a total fine of EUR 61.1 million on various European companies in the calcium carbide sector in the context of anti-trust law investigations. In this context, a fine totaling EUR 13.3 million was imposed jointly and severally on SKW Stahl-Metallurgie Holding AG and SKW Stahl-Metallurgie GmbH, as the direct cartel participants, for which the Commission held the Group parent company at that time, Arques Industries AG, jointly and severally liable on the basis of the assumption that it formed a "corporate unit" with the direct cartel participants. At the reporting date of December 31, 2011, the portion of the fine attributable to Gigaset, in the amount of EUR 6.65 million, including interest, was paid in full. However, Gigaset also filed an appeal against the assessment of the Commission, which has not yet been decided. In this connection, there is a possibility that the fine paid already for Gigaset could be refunded in full or in part. Furthermore, Gigaset filed a lawsuit against SKW Stahl-Metallurgie GmbH and SKW Stahl-Metallurgie Holding AG already in 2010, in which it mainly claims reimbursement of the entire fine imposed against Gigaset, plus interest, from the cartel participants. This lawsuit was dismissed by judgment of the Munich I Regional Court of July 13, 2011 and by judgment of the Munich Higher Regional Court of February 9, 2012. The company considers these judgments to be unfounded on both legal and factual grounds and will therefore file an appeal against the judgment of the Munich Higher Regional Court of February 9, 2012. The company believes that the appeal has good chances for success, but in consideration of the two negative judgments of the prior-instance courts, it must be prepared for the possibility that it will not completely win the appeal before the Federal Court of Justice.

Lauc, S. L., a company organized under Spanish law, has announced that it intends to seek recourse from the company under a contractual guarantee agreement from the year 2007 in the amount of approximately EUR 0.7 million in connection with the acquisition of the now insolvent company Capresa. The company disputes the grounds, amount and due date of the claim, but has proposed an out-of-court settlement offer involving payments of EUR 75,000, in order to avoid a time-intensive and costly court proceeding. Lauc, S. L. has not yet responded to the settlement offer.

In addition, a former managing director of a former subsidiary of Gigaset AG, has filed a lawsuit against the new owners of the company, and alternatively against Gigaset AG, due to the alleged violation of his alleged preemptive right to the former subsidiary. Gigaset AG considers the lawsuit to be inadmissible and otherwise unfounded.

In a criminal proceeding, the Munich Public Prosecutor's Office has accused the former Executive Board of embezzling from Gigaset Communications GmbH in 2009. In the meantime, the Munich Public Prosecutor's Office has told the company that it should join the proceeding as a co-participant. In this case, the company denies criminal responsibility for the actions of its directors and officers, both on factual and legal grounds.

## 51. Significant events after the reporting date

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Mr. Charles Fränkl assumed his position as the new Executive Board Chairman of Gigaset AG on January 1, 2012. The 53-year Swiss native is a highly knowledgeable and widely respected expert in the international business of telecommunications and information technology.

A fourth incident of battery overheating in the SL910 product line occurred on January 3, 2012. This renewed incident made it clear that the measures initiated so far in the battery production process and subsequent x-ray screening were not sufficient to completely rule out the possibility of overheating. A repeated recall was not necessary as a result of this incident, but the renewed efforts for locating and solving the problem delayed the re-start of production.

By signing date of January 9, 2012, Gigaset AG and Gigaset Communications GmbH entered into a long-term loan agreement with a bank syndicate. The syndicated loan for a total amount of EUR 35 million is meant to give the Gigaset Group the necessary financing leeway for the planned company acquisitions.

Evonik Degussa GmbH has asserted a claim of EUR 12 million against Gigaset AG under a contractual agreement from the year 2006 and demanded payment of this amount from Gigaset AG by letter of February 14, 2012. The company considers the claim to be unfounded for reasons of fact and law, but proposed an out-of-court settlement by letter of February 24, 2012, involving payments amounting to EUR 3.6 million, in order to avoid a time-intensive and costly arbitration proceeding. The out-of-court settlement negotiations have not yet been completed. It is also unclear whether Evonik Degussa GmbH will file an arbitration complaint, as it has threatened to do, despite the settlement offer.

## 52. Release for publication of the consolidated financial statements

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The Executive Board released the present consolidated financial statements of Gigaset AG for publication on March 20, 2011. The company's shareholders will have the right and the opportunity to amend the consolidated financial statements at the annual shareholders' meeting.

Munich, March 20, 2012

The Executive Board of Gigaset AG

Charles Fränkl

Dr. Alexander Blum

Maik Brockmann



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## Report of the Executive Board

The Executive Board of Gigaset AG is responsible for the information contained in the consolidated financial statements and the combined management report. This information has been reported in accordance with the accounting regulations of the International Accounting Standards Committee. The combined management report was drafted in accordance with the provisions of the German Commercial Code.

By means of implementing uniform Groupwide guidelines, using reliable software, selecting and training qualified personnel and continually optimizing the processes of the acquired companies, we are able to present a true and fair view of the company's business performance, its current situation and the opportunities and risks of the Group. To the necessary extent, appropriate and objective estimates were applied.

In accordance with the resolution of the annual shareholders' meeting, the Supervisory Board has engaged PricewaterhouseCoopers AG, Wirtschaftsprüfungsgesellschaft, Munich, to audit the consolidated financial statements of the Group in the capacity of independent auditors. The Supervisory Board discussed the consolidated financial statements and the consolidated management report with the auditors in the financial statements review meeting. The results of their review are presented in the Report of the Supervisory Board.

### Responsibility statement

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

Munich, March 20, 2012

The Executive Board of Gigaset AG

## Auditor's Report\*

We have audited the consolidated financial statements prepared by Gigaset AG, Munich, comprising the balance sheet, income statement, statement of comprehensive income, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the Group management report of Gigaset AG, which is combined with the management report of the parent company, for the business year from January 1 to December 31, 2011. The preparation of the consolidated financial statements and the combined management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315a (1) HGB („Handelsgesetzbuch“ - German Commercial Code) are the responsibility of the parent company's Executive Board. Our responsibility is to express an opinion on the consolidated financial statements and the combined management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB and generally accepted German standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in consolidation, the determination of the companies to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the company's Executive Board, as well as evaluating the overall presentation of the consolidated financial statements and the combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with the IFRSs, as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these provisions. The combined management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Munich, March 21, 2012

PricewaterhouseCoopers Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

Andreas Fell  
Wirtschaftsprüfer  
(German Public Auditor)

ppa. Lydia Willmes  
Wirtschaftsprüferin  
(German Public Auditor)

\* Translation of the auditor's report issued in German on the consolidated financial statements prepared in German by the management of Gigaset AG.

## Financial Calender

### March 30, 2012

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- Audited Financial Statements for the fiscal year 2010
- Press Conference on Financial Statements

### May 14, 2012

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- 1st quarterly report for the 2011 fiscal year

### June 12, 2012

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- Annual General Meeting in Munich (Germany)

### August 8, 2012

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- 2nd quarterly report for the 2011 fiscal year

### November 9, 2012

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- 3rd quarterly report for the 2011 fiscal year

## Imprint

### Publisher

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Gigaset AG  
Hofmannstrasse 61  
81379 München

Telephone: +49 89 444456-928  
Telefax: +49 89 444456-930  
info@gigaset.ag, www.gigaset.ag

### Editorial

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Gigaset AG  
Investor Relations and Corporate Communications

### Concept, Layout, Production

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The Growth Group AG  
Telephone: +49 89 21557680-0  
Telefax: +49 89 21557680-9  
www.growth-group.com

## GIGASET LIST OF SHAREHOLDINGS

	Location		Equity share direct	Equity share indirect
<b>Gigaset AG</b>	<b>Munich</b>	<b>Germany</b>		
CFR Holding GmbH	Munich	Germany	100%	
GOH Holding GmbH	Munich	Germany	100%	
Gigaset Industries GmbH	Vienna	Austria	100%	
Gigaset Asset Invest GmbH	Vienna	Austria		100%
Gigaset Commercial GmbH	Vienna	Austria		100%
IVMP AG	Baar	Switzerland		100%
Hottinger Holding GmbH	Vienna	Austria		100%
ARQUES Capital GmbH i.L.	Vienna	Austria		100%
ARQUES Süd Beteiligungs GmbH	Vienna	Austria		90%
Gigaset Malta Limited	St. Julians	Malta	100%	
Gigaset Finance Limited	St. Julians	Malta		100%
Gigaset Beteiligungsverwaltungs GmbH (formerly Arques Wert Entwicklung GmbH)	Munich	Germany	100%	
Gigaset Asset GmbH & Co. KG	Munich	Germany	100%	
GIG Holding GmbH	Munich	Germany		100%
Gigaset Communications GmbH	Munich	Germany		100%
Gigaset Management GmbH	Munich	Germany		100%
Gigaset Communications Schweiz GmbH	Solothurn	Switzerland		100%
Gigaset Communications FZ-LLC	Dubai	UAE		100%
Gigaset Communications Polska Sp. z.o.o.	Warsaw	Poland		100%
Gigaset Communications UK Limited	Firmley/Camberley	Great Britain		100%
Gigaset Communications ILETISIM Hizmetleri LTD.STI	Istanbul	Turkey		100%
Gigaset Communications Argentina S.R.L.	Buenos Aires	Argentina		100%
OOO Gigaset Communications Russia	Moscow	Russia		100%
Gigaset Communications Austria GmbH	Vienna	Austria		100%
Gigaset Equipamentos de Comunicado Ltda.	Sao Paulo	Brazil		100%
Gigaset Communications (Shanghai)Limited	Shanghai	PR China		100%

Currency '000	Equity at 31/12/2011 <sup>1)</sup>	Profit / Loss 2011 <sup>1)</sup>	Average no. of employees	
EUR	210.355	5.135	2	Gigaset AG
EUR	-6	1	0	CFR Holding GmbH
EUR	325	-2	0	GOH Holding GmbH
EUR	-904	-70	0	Gigaset Industries GmbH
EUR	3,941	-5	0	Gigaset Asset Invest GmbH
EUR	-183	-3	0	Gigaset Commercial GmbH
CHF	12,146	-10	0	IVMP AG
EUR	-2,021	5	0	Hottinger Holding GmbH
EUR	-829	-25	0	ARQUES Capital GmbH i.L.
EUR	-3	-3	0	ARQUES Süd Beteiligungs GmbH
EUR	1,258	-2,452	0	Gigaset Malta Limited
EUR	1,120	80	1	Gigaset Finance Limited
EUR	19	-1	0	Gigaset Beteiligungsverwaltungs GmbH (formerly Arques Wert Entwicklung GmbH)
EUR	199,999	-1	0	Gigaset Asset GmbH & Co. KG
EUR	42,614	-2	0	GIG Holding GmbH
EUR	70,398	28,939	1,398	Gigaset Communications GmbH
EUR	5	-1	0	Gigaset Management GmbH
CHF	393	165	4	Gigaset Communications Schweiz GmbH
AED	8,087	899	15	Gigaset Communications FZ-LLC
PLN	2,899	2,856	177	Gigaset Communications Polska Sp. z.o.o.
GBP	311	216	6	Gigaset Communications UK Limited
TRL	3,158	-719	8	Gigaset Communications ILETISIM Hizmetleri LTD.STI
ARS	8,419	894	8	Gigaset Communications Argentina S.R.L.
RUR	7	-12	12	OOO Gigaset Communications Russia
EUR	-138	-676	13	Gigaset Communications Austria GmbH
BRL	863	-2,387	26	Gigaset Equipamentos de Comunicado Ltda.
CNY	19,047	10,047	64	Gigaset Communications (Shanghai)Limited

	Location		Equity share direct	Equity share indirect
▶ Gigaset Communications France SAS	Saint Denis	France		100%
Gigaset Communications Italia S.R.L.	Milan	Italy		100%
Gigaset Communications Nederland B.V.	s-Gravenhage	Netherlands		100%
Gigaset Communications Iberia S.L.	Madrid	Spain		100%
Gigaset Communications Sweden AB	Solna	Sweden		100%
Gigaset Communications Inc.	Dallas	USA		100%
Newdial GmbH	Bocholt	Germany		100%
Gigaset Communications and Licensing GmbH & Co. KG	Munich	Germany		100%
Gigaset Malta GmbH	Munich	Germany	100%	
Schierholz Translift Global Manufacturing & Finance AG i.L.	Baar	Switzerland	100%	
Hortensienweg Verwaltungs GmbH	Munich	Germany	100%	
Hortensienweg Grundstücksverwaltungs GmbH & Co. KG	Munich	Germany		100%
Hortensienweg Management GmbH	Munich	Germany	100%	
AT Operations 1 GmbH	Munich	Germany	100%	
AT Operations 2 GmbH	Munich	Germany	8%	92%
Arques Beta Beteiligungs GmbH i.L.	Vienna	Austria		100%
SME Holding GmbH	Munich	Germany	100%	
SM Electronic GmbH	Stapelfeld/Braak	Germany		100%
Emanon GmbH	Stapelfeld/Braak	Germany		100%
Skymaster Electronic HK Limited	Hong Kong	PR China		100%
<b>Non-consolidated companies</b>				
SM Electronic GmbH	Hamburg	Germany		100%
Sommer Immobilien GmbH & Co. KG (formerly Arques Immobilien GmbH & Co. KG)	Laucha an der Unstrut	Germany	6%	
OXY Holding GmbH	Steyerberg	Germany		10%

1) The values disclosed represent the country specific values from the separate financial statement of the respective company

2) The exchange rates are presented in the "Currency Translation" section in the general part of the Notes

Currency '000	Equity at 31/12/2011 <sup>1)</sup>	Profit / Loss 2011 <sup>1)</sup>	Average no. of employees	
EUR	1,236	579	19	Gigaset Communications France SAS
EUR	963	450	16	Gigaset Communications Italia S.R.L.
EUR	-470	119	12	Gigaset Communications Nederland B.V.
EUR	4,956	4,817	15	Gigaset Communications Iberia S.L.
SEK	10,055	773	9	Gigaset Communications Sweden AB
USD	5,563	-5,848	6	Gigaset Communications Inc.
EUR	24	-2	0	Newdial GmbH
EUR	-1	0	0	Gigaset Communications and Licensing GmbH & Co. KG
EUR	21	-1	0	Gigaset Malta GmbH
CHF	1,668	14	0	Schierholz Translift Global Manufacturing & Finance AG i.L.
EUR	-6	-2	0	Hortensienweg Verwaltungs GmbH
EUR	3,504	-50	0	Hortensienweg Grundstücksverwaltungs GmbH & Co. KG
EUR	3,025	-14	0	Hortensienweg Management GmbH
EUR	127	126	0	AT Operations 1 GmbH
EUR	-7,111	-98	0	AT Operations 2 GmbH
EUR	-9,326	-314	0	Arques Beta Beteiligungs GmbH i.L.
EUR	-271	-6	0	SME Holding GmbH
EUR	-11,921	-5,510	64	SM Electronic GmbH
EUR	5	-5	0	Emanon GmbH
HKD	1,456	1,256	0	Skymaster Electronic HK Limited
<b>Non-consolidated companies</b>				
EUR	-	-	-	SM Electronic GmbH
EUR	-	-	-	Sommer Immobilien GmbH & Co. KG (formerly Arques Immobilien GmbH & Co. KG)
EUR	-	-	-	OXY Holding GmbH

