ANNUAL REPORT 2019

Gigaset

KEY FIGURES

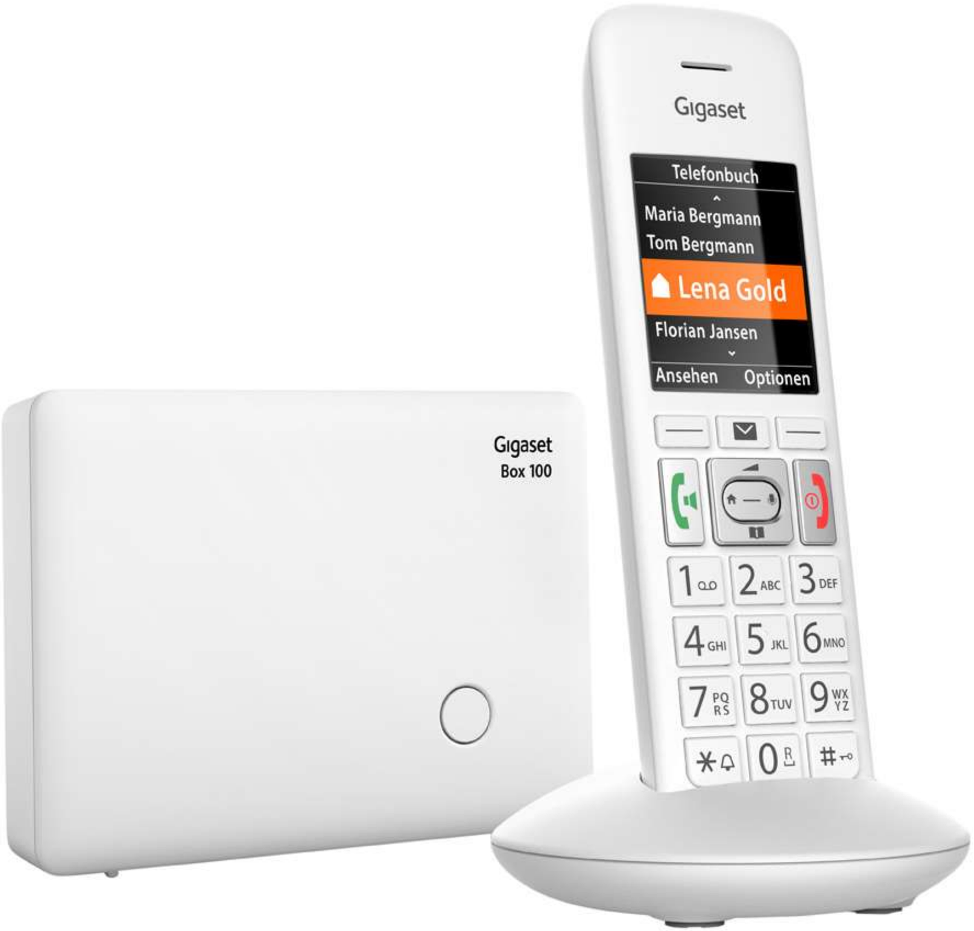
EUR millions	2015	2016	2017	2018	2019
Consolidated revenues	305.3	281.9	293.3	280.3	257.9
EBITDA (Earnings before interest, taxes, depreciation and amortization)	7.5[1]	25.0[1]	25.3[1]	22.1	28.5
EBIT (Earnings before interest and taxes)	-16.3[2]	12.8[2]	12.2[2]	8.5	13.7
Consolidated profit or losses for the year	-22.0	4.3	7.9	3.4	11.3
Free cashflow	-9.7	7.2	2.0	-24.1	1.2
Earnings per share (diluted) in EUR	-0.17	0.03	0.06	0.03	0.09
Total assets	221.1	221.7	226.9	213.1	222.6
Consolidated equity	17.9	17.8	24.1	25.0	18.5
Equity ratio (in %)	8.1	8.0	10.6	11.7	8.3
Number of employees	1,270	1,061	930	888	895

1 Earnings from core business activities before depreciation and amortization

2 Operating result

TABLE OF CONTENTS

TO OUR SHAREHOLDERS



Gigaset E370A

With the latest model in the life series, Gigaset presents a convenient "multi-generation telephone" that, thanks to its large display, extensive address book, SOS emergency function and answering machine, is the ideal solution for users of all ages.

LETTER TO THE SHAREHOLDERS

Dear Shareholders,

Gigaset is staying its course to the future. The development of our business as well as trend indicators from analysts and futurologists show that the Company's broad positioning in the telecommunications sector is conducive to reaching its goals, and that the growth segments Smartphone, Smart Home and Professional show promise.

As a result of our efforts over the last few years, we have divided our business into two thematic areas, each with different strategies. The core business is Phones, with the growth segments Smartphones, Smart Home, and Professional.

Our greatest challenge is to react to ever-accelerating market mechanisms and development cycles. The strategic assessment of opportunities and risks that we are pursuing in the context of our visionary orientation toward "Gigaset 2025" forms the basis of our future success.

We are firmly convinced that we have laid the foundation for a successful future with our broadly diversified product portfolio and by addressing numerous future-oriented topics – such as demographic change, which we are addressing with our Smart Care System and age-appropriate products from the Phones and Smartphones segments – as well as with our goal of developing a holistic ecosystem for the customer, in which all products are networked and digitally connected to each other as well as to third-party solutions.

Our vision for "Gigaset 2025" addresses how we can build on the accelerating pace of change, and use it to further expand the relevance of our products for customers and gain market share in the Smartphone, Smart Home and Professional segments. Our goal is to maintain our leading role in the Phones segment in the medium and long term, further expand our market share in Smart Phones and Smart Home, and be one of the preferred partners for our Professional customers.

In order to achieve these goals we have significantly revised our product approach. Our innovative efforts revolve around the concept of customer centricity. We will only be successful if we put ourselves entirely in the position of our customers and understand their needs and challenges. We are pursuing this approach not only through the products themselves, but are also thinking more and more in solution scenarios and networked applications. We are pressing ahead with the digital transformation, in terms of our processes and systems as well as production. Examples such as our smartphone production in Bocholt, Germany, which is based on a cooperation between humans and robots, are proof of our progress and our innovative position in our industry.

In their networked and digitalized form, our products create more and more added value for the customer as a portfolio of solutions. In this context, another cornerstone of our thinking – our "Made in Germany" approach, which applies to nearly all our products – appears secondary at first. But the "Made in Germany" promise is key in the context of customers' growing environmental awareness and their desire for sustainable products that conserve resources. For us, "Made in Germany" always means maximum environmental awareness. Gigaset is working intensively to make its production, supply chains and not least the products themselves increasingly sustainable and environmentally friendly, by fine-tuning numerous parameters to provide green solutions.

For all that has been achieved in the last and previous years, our thanks go out to our employees. In challenging times of change, they are key drivers of our progress. We are proud of our team's unwavering enthusiasm. All of us, every day, are responsible for the transformation, reorientation, and success of our Company.

With this strong and dedicated team, we are confident that every step we take will stabilize and secure the future of the Company, bring us closer to our customers, increase our understanding of their needs, and help them to make their lives easier and more successful.

We thank you, our shareholders, for supporting us in this period of change, and are confident that you will continue to do so in the future. We continue to see a promising future in the telecommunications market, which will continue to overcome borders and bring mankind closer together. This is a market in which we participate, and we will help make this vision of the future a reality!

Sincerely,

Klaus Weßing	Thomas Schuchardt
CEO	CFO

CAPITAL MARKET AND SHARE

Financial markets 2019: Between hope and fear

Global stock markets can look back on a successful 2019. They countered the weak performance in 2018 with the best start to the year in a long time. The dominant themes were the trade dispute between the US and China, and the United Kingdom's exit from the eurozone (Brexit). But disruptive geopolitical fires such as the Middle East conflict also kept market participants on tenterhooks. In addition, the year was characterized by constantly changing economic assessments. Fears of recession were repeatedly expressed, and those fears were exacerbated by the temporary formation of an inverted yield curve.

However, economic optimism also prevailed at times and the central banks likewise provided positive impulses for the stock markets with their continued loose monetary policy. Overall, however, the picture was divided. While the US economy continued to deliver strong growth, the economy in the eurozone was slow to emerge from depths of its business cycle. The stock markets were correspondingly volatile and demanded strong nerves from investors. Still, in the end confidence in an early recovery in global growth prospects prevailed and helped the stock exchange indicators set new records.

The opening of the monetary policy floodgates and the hope for an orderly Brexit at the end of January 2020, as well as the confidence that the US and China could reach at least a partial agreement in the trade dispute, gave a strong boost to the stock markets in the final quarter of 2019. Germany's leading index, the DAX, gained 25.5 %, while its US counterpart, the Dow Jones Industrial, gained 22.3 %. The front-runner was the US marketplace for technology stocks, the Nasdaq, which shone with an increase of 35.2 %, while in Germany the small-cap index SDAX emerged as the clear winner with a gain of 31.6 %.

Positive trend for Gigaset share price

The Gigaset share turned in a very satisfying performance in 2019, following the positive trend on the financial markets. After a cautious start to the year it posted significant gains in February. While the share price started at EUR 0.298, it fell in the first week of trading to EUR 0.245, its lowest level for 2019. Recovery promptly followed and by the beginning of February it had climbed to its high for the year of EUR 0.542. This was followed by a small amount of profit-taking, but overall the share was able to defend its level above the EUR 0.40 mark.

The share price climbed to EUR 0.534 upon publication of the results for 2018 at the end of April, again approaching its peak for the year. In the further course of the year the share price was highly volatile, trending up and down in unison with the financial markets. The adjustment of the annual forecast in mid-November disappointed investors, and the share price fell to EUR 0.33 on November 19, 2019.

Overall, however, the share price reacted moderately and the lows for the year were not approached again. In a friendly market environment Gigaset shares also performed well, closing the year at EUR 0.34 and posting a gain of 15.25 % for the year[1]. Due to the small amount of free float, the Gigaset share is generally exposed to greater price fluctuations even with smaller transactions.

[1] Bloomberg (2020) – Gigaset share price

Dividends

It was decided not to pay a dividend to shareholders for the 2019 financial year.

Shareholder structure

As defined by Deutsche Börse AG, 73.5 % of shares of Gigaset AG have been held by an institutional investor, Goldin Fund Pte. Ltd. of Singapore, since the end of 2017. Transactions entered into by managers of Gigaset AG are published on the Company's website in compliance with the German Securities Trading Act (Wertpapierhandelsgesetz, WpHG). Detailed information regarding the shares and options held by the Executive Board and Supervisory Board, as well as securities transactions on the part of members of the Company's governing bodies that require disclosure, can be found in the section on Corporate Governance in this annual report.

Contact

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

Raphael Dörr
SVP Corporate Communications & Investor Relations | SVP Sponsoring

Gigaset AG
Bernhard-Wicki-Str. 5
80636 Munich
Telephone: +49 89 444 456 866
Email: info@Gigaset.com

CORPORATE GOVERNANCE REPORT

Gigaset AG understands corporate governance as a process that is continuously developed and improved. With only a few exceptions, Gigaset AG complies with the German Corporate Governance Code (the "Code").

Management and control structure – Supervisory Board

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

The Supervisory Board appoints the members of the Executive Board and determines the allocation of duties. It monitors and advises the Executive Board in the management of the business. The Supervisory Board discusses the planning and business development as well as the strategy and its implementation. In addition to dealing with the quarterly reports, Gigaset AG's annual financial statements and the consolidated financial statements are discussed and approved under special consideration of the auditor's long-form audit reports and results of the review conducted by the Audit Committee. The Supervisory Board formed an Audit Committee for this purpose.

The Supervisory Board set up a Personnel Committee and a Finance Committee. The Personnel Committee is tasked with assisting and advising the Supervisory Board in its duties related to the legal relationships of the Executive Board members (including remuneration and bonuses). The Finance Committee deals with complex financial matters.

Management and control structure - Executive Board

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

Securities transactions by the Executive Board and Supervisory Board requiring disclosure

Members of the Executive Board and the Supervisory Board as well as their related parties are obligated in accordance with Art. 19 of the Market Abuse Regulation (EU) No. 596/2014 (MAR), to report to Gigaset AG and the German Federal Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht, BaFin) any own-account transactions involving shares or debt instruments of Gigaset AG or associated derivatives or other associated financial instruments if the value of the transactions carried out within a calendar year or fiscal year 2019 reached or exceeded the sum of EUR 5,000.00 ("Directors' Dealings").

The Company did not receive any notifications regarding Directors' Dealings in accordance with Art. 19 of the Market Abuse Regulation (EU) No. 596/2014 before the balance sheet was prepared on March 20, 2020.

Declaration of conformity

The Executive Board and Supervisory Board of Gigaset AG submitted the declaration of conformity with the German Corporate Governance Code on February 27, 2020, in the version dated February 7, 2017 as required under section 161 of the German Stock Corporation Act (Aktiengesetz, AktG) and then made it permanently and publicly available to the shareholders on the Company's website (http://www.gigaset.com/de_de/cms/gigaset-ag/investor-relations/unternehmen/corporate-governance.html) on February 28, 2020. The Executive Board and Supervisory Board of Gigaset AG declare their past and future compliance – with few exceptions – with the recommendations of the Regierungskommission Deutscher Corporate Governance Kodex ("The Commission") in the version dated February 7, 2017 published by the Federal Ministry of Justice and Consumer Protection in the official section of the Federal Gazette on April 24, 2017 (correction of the publication on May 19, 2017). The Declaration of Conformity itself and the statements on the exceptions are reproduced verbatim at the specified location.

Remuneration of the Executive Board

The duties and contribution of the respective Executive Board member are taken into account when determining their remuneration. Their compensation in the fiscal year 2019 comprises a fixed annual salary as well as success-related components (bonuses, variable compensation). The separate components are:

- The fixed remuneration is paid out monthly in 12 equal payments as a salary.
- The variable remuneration for the Executive Board members is based on company agreements and/or personal goals defined in bonus agreements
- Personally-defined goals and objectives have also been agreed with Executive Board members based on qualitative milestones

Thus, there are variable remuneration agreements for the members of the Executive Board based on company and/or performance-based bonus agreements and in some cases also based on personal goals with qualitative milestones. The goals were discussed with the Supervisory Board or the Chairman of the Company's Personnel Committee and with the Executive Board members at the beginning of the fiscal year or at the beginning of work as an Executive Board member. The Supervisory Board decides on the achievement of the respective goals based on the individual agreements.

Remuneration of the Supervisory Board

As a result of a resolution adopted by the Extraordinary General Meeting held on December 19, 2013, the remuneration scheme below, which was amended in a resolution adopted by the Annual General Meeting on August 17, 2017, regarding the remuneration of the Supervisory Board members in Section 1 "Base remuneration" as well as with respect to its period of validity, is applied retroactively as of August 15, 2013. The entire remuneration scheme is as follows:

In accordance with section 113 of the German Stock Corporation Act (Aktiengesetz, AktG) and article 12(2) of the Company's Articles of Association, the Annual General Meeting approves the following remuneration for the members of Gigaset AG's Supervisory Board:

1. *Base remuneration Every member of the Supervisory Board receives a fixed salary of EUR 5,000.00 ("base remuneration") for every month or partial month of their term of office ("accounting month"). The beginning and end of every accounting month are determined based on sections 187(1), 188(2) of the German Civil Code (Bürgerliches Gesetzbuch, BGB). The claim to base remuneration arises at the end of the accounting month.*

2. *Remuneration for participating in meetings. Every member of the Supervisory Board receives a payment of EUR 1,000.00 for participating in a Supervisory Board or committee meeting convened in accordance with the Articles of Association. Telephonic participation in the meeting as well as submission of a vote in writing in accordance with article 9(3) sentence 2 of the Articles of Association is*

equivalent to participating in the meeting. Multiple meetings of the same body on the same day are compensated as one meeting. The claim to compensation for attending a meeting arises when the minutes of the meeting are signed by the Chairman or Committee Chairman. The basis for the claims can only be proven by the minutes of the meeting in accordance with section 107(2) AktG.

3. *Remuneration for adopting a resolution outside of meetings. Every member of the Supervisory Board receives a salary of EUR 1,000.00 for submitting their vote during the adoption of a resolution in writing, by fax, by telephone, by e-mail, or by other means of telecommunication or data transmission outside of a meeting in accordance with article 9(4) of the Articles of Association ordered in any particular case by the Chairman. Multiple resolutions adopted outside of a meeting on the same day will be compensated as a single claim. The claim to compensation for adopting a resolution arises when the minutes of the resolution are signed by the Chairman or Committee Chairman. The basis for the claims can only be proven by the minutes of the resolution.*

4. *Remuneration of the Chairman. The Chairman of the Supervisory Board receives an additional 100 % and the Vice Chairman of the Supervisory Board receives an additional 50 % of all remuneration specified in articles 1 to 3.*

5. *Reimbursement of expenses. The Company reimburses the Supervisory Board members for expenses and any value added tax on remuneration or expenses incurred while performing the duties of their office. The claim to reimbursement of expenses arises when the expenses are personally paid by the Supervisory Board member.*

6. *Origination of claim and due date. All payment claims are due 21 days after the Company receives an invoice satisfying the requirements of a proper invoice. If a claim is asserted for the reimbursement of expenses, copies of receipts for the expenses must be attached to the invoice. The Company is authorized to make payments in advance of the due date.*

7. *Insurance. The Company must take out a D&O insurance policy for the benefit of Supervisory Board members that covers the statutory liability relating to their activities on the Supervisory Board.*

8. *Duration. This remuneration scheme takes effect retroactively as of August 15, 2013, and remains in force until replaced by an Annual General Meeting. This remuneration scheme replaces the remuneration scheme resolved by the Annual General Meeting on August 14, 2013, which is at the same time retroactively annulled. If compensation has already been paid based on the annulled remuneration scheme, it is to be applied against claims to payment under the new scheme.*

The resolved amendment of the base remuneration per para. 1 takes effect on August 18, 2017, and applies for the first time for accounting months beginning after August 18, 2017. It remains in effect until the Annual General Meeting adopts a new resolution."

Shareholdings of Executive Board and Supervisory Board

The Company asked the members of its Executive and Supervisory Boards how many shares of Gigaset AG they hold.

According to their own statements, the members of the Executive Board did not hold any shares of Gigaset AG at the balance sheet date or on the date of their retirement. According to their own statements, the current members of the Supervisory Board hold 20,000 shares of Gigaset AG as of the balance sheet date. This corresponds to a share of approximately 0.1 per thousand of the issued shares.

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

Executive board	Number of shares on December 31, 2019 or on the date of their retirement	Number of shares as of the date on which the balance sheet was prepared
Klaus Weßing (Chairman of the Executive Board, since December 15, 2015)	0	0
Stephan Mathys (Executive Board member from February 1, 2018 to December 13, 2018)	0	0
Supervisory Board		
Bernhard Riedel (Supervisory Board Chairman from March 22, 2013 to January 24, 2019)	3,264	0
Ulrich Burkhard	0	0
Paolo Vittorio Di Fraia	15,000	15,000
Hau Yan Helvin Wong (Supervisory Board Chairman since February 28, 2019)	5,000	10,000
Prof. Xiaojian Huang	0	0
Flora Ka Yan Shiu	0	0
Barbara Münch (alternate member on the Supervisory Board since January 24 ,2019)	0	0

Other information regarding corporate governance at Gigaset AG

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

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

REPORT OF THE SUPERVISORY BOARD

The Supervisory Board closely followed the Company and its Executive Board in all significant transactions in 2019. This can be seen in the number of meetings held, which exceeds the requirements set forth under section 110(3) of the German Stock Corporation Act (Aktiengesetz, AktG).

The Gigaset Group obtained bank financing of up to EUR 20 million in fiscal year 2018, which is earmarked for expanding the product portfolio in order to tap into new sales opportunities. In mid-2018 the Gigaset Group commenced production of a smartphone at Gigaset's own manufacturing site in Bocholt. In 2019, Gigaset introduced additional smartphones manufactured in Germany, supporting the NRW innovation strategy. Sustainability plays a major role for Gigaset - not only does production take place in Bocholt, but also the repair of all devices at our own repair center. In addition, the Gigaset Group has continued to implement its corporate transformation towards the goal of creating a comprehensive ecosystem as an overall solution for customers. The Group expanded the range of Smart Home products, and incurred increased research and development costs. Finance Director Thomas Schuchardt was appointed as Chief Financial Officer in August 2019.

Collaboration with the Executive Board

The Supervisory Board collaborated constructively with the members of the Executive Board over the entire course of the 2019 fiscal year. The Supervisory Board discharged all its duties as required by law and the Articles of Association and monitored and also advised the Executive Board in its work.

One focal point of the Supervisory Board's activities in the 2019 fiscal year consisted of providing further assistance with bank financing, as well as appointing Finance Director Thomas Schuchardt to the Executive Board. Furthermore, the Management regularly provides the Supervisory Board with a comprehensive overview of the development of the business, in particular sales revenues and the position of the Company since the last report, in the form of reports as stipulated under section 90(1) no. 3 AktG. The Supervisory Board required the Executive Board to provide precise and clear presentations detailing the Company's performance, the current situation, and the reasons for this, including an appropriate analysis and the associated figures. The Supervisory Board also discussed and scrutinized the budgets in order to evaluate the transactions, the financial situation, the Company's financial performance and liquidity, the market situation and the specifics regarding business performance as well as the significant risks to future development. To the extent necessary, the Executive Board reported on important occasions directly to the Chairman and the Vice Chairman (or Chairmen) of the Supervisory Board outside of the regular meetings.

Other regular topics of discussion included compliance, the risk position and risk management, the early risk identification system, the development of liquidity and the budget, and basic questions regarding corporate policy and strategy.

Activity of the Supervisory Board

The Supervisory Board discharged its duties at regular meetings. In these meetings, the Supervisory Board routinely dealt with the reports of the Executive Board on finance and investment and human resource planning, as well as the implementation of corporate strategies and the resulting intermediate and long-term opportunities for growth. In addition, the Supervisory Board provided advice on the financing of the Company and its growth in 2019. Special emphasis was placed on supporting the existing bank financing, the Company's liquidity situation as well as its strategic orientation. Furthermore, the Supervisory Board also dealt intensively with the Company's internal organization. Furthermore, the Supervisory Board continued to address the clarification and elimination of the Company's risks.

The Supervisory Board questioned the Executive Board critically regarding its reports, current developments, and pending decisions. The documents presented by the Executive Board were reviewed and scrutinized. Moreover, periodic meetings were held between the Chairman of the Supervisory Board and the members of the Executive Board. In these meetings, the Management was questioned about current developments, pending decisions were discussed in detail, and resolutions of the Supervisory Board were prepared.

Supervisory Board meetings in 2019

The Supervisory Board convened for a total of seven regular meetings in fiscal year 2019, on February 28, 2019, March 27, 2019, April 25, 2019, May 28, 2019, August 13, 2019, November 28, 2019 and December 19, 2019. All members of the Supervisory Board participated in each of these meetings. In addition, the extraordinary constitutive meeting of the Supervisory Board took place after the regular Annual General Meeting on August 14, 2019. The members Prof. Xiaojian Huang and Flora (Ka Yan) Shiu were unable to participate in this meeting; the other Supervisory Board members were present.

The auditor selected by the Annual General Meeting, PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, was also present at the meeting to adopt the financial statements for the 2018 fiscal year held on April 25, 2019.

The Supervisory Board formed an Audit Committee, a Personnel Committee and a Finance Committee.

Activity of the Audit Committee

The Audit Committee convened in preparation for the Supervisory Board meeting to adopt the financial statements on April 25, 2019, as well as on May 28, 2019, August 13, 2019, and November 28, 2019. All members of the committee participated in each of these meetings. The Audit Committee additionally had the Executive Board provide a report at all meetings. The auditor was in attendance at the meeting to prepare for the meeting to discuss the financial statements on April 25, 2019 and critically reviewed the Company's interim and quarterly financial reports. In general, the Audit Committee dealt in great depth with the monitoring of the accounting process, the effectiveness of the internal control system, the risk management system, and the internal auditing system, compliance as well as the audit of the financial statements. The activities of the Audit Committee in connection with the audit comprised in particular the interim audit of the annual financial statements (and the consolidated financial statements) as well as the management report (and the Group management report), including the validity and usefulness of the annual, half-yearly, and quarterly financial reports. Furthermore, the Audit Committee also addressed the accounting process per se, including the principles and methods of accounting and the relevant precautionary measures. With regard to the monitoring of the internal control system and the risk management system, the Audit Committee monitored these systems and inspected whether the Executive Board had installed corresponding systems, whether the nature and concept of the systems set up by the Executive Board were adequate, and whether these systems were in fact completed in such manner that they meet their intended requirements. Regarding compliance, the Audit Committee monitored the effectiveness of the Compliance Management System for the responsible business behavior of Gigaset Group employees and reviewed the work of the Compliance Committee. Furthermore, the Audit Committee carried out an in-depth preparatory review of the separate non-financial Group report pursuant to section 315b of the German Commercial Code (Handelsgesetzbuch, HGB) prepared and published by the Company in 2019 for fiscal year 2018. Furthermore, the Audit Committee monitored the auditor with respect to his independence, discussed the areas of audit emphasis and major audit topics, and issued the audit engagement for the annual financial statements and consolidated financial statements for the fiscal year ending December 31, 2019. In this context, the Audit Committee worked toward the submission of the auditor's statement of independence and reviewed the accuracy of these statements in the run-up to the proposal to the Annual General Meeting.

Activity of the Personnel Committee

The Personnel Committee convened on July 04, 2019. All members of the committee participated in this meeting.

The Personnel Committee's responsibilities include the preparation of personnel decisions, insofar as they are reserved for plenary meetings due to the prohibition on the delegation of duties, in particular the submission of recommendations regarding the appointment and dismissal of members of the Executive Board and regarding the remuneration components of the employment contracts to be formed with the Executive Board members. In addition, the Personnel Committee prepares the proposals on the respective appointments. The focal points in the 2019 fiscal year were preparing the appointment of Mr. Thomas Schuchardt to the Executive Board along with the corresponding employment contract, and the consultations on Executive Board remuneration and remuneration components.

Activity of the Finance Committee

The Finance Committee did not convene in fiscal year 2019.

The topics of evaluating further options for external financing over and above the existing bank financing as well as further support of the existing bank financing were discussed in the full Supervisory Board due to their significance in fiscal year 2019.

Corporate Governance

The Supervisory Board, together with the Executive Board, was responsible for the application and further development of the standards for sound and responsible management in accordance with the German Stock Corporation Act (Aktiengesetz) and the German Corporate Governance Code.

On February 27, 2020, the Executive Board and Supervisory Board of Gigaset AG submitted the annual declaration of conformity with the German Corporate Governance Code in the version applicable on that date dated February 7, 2017, as required under section 161 of the German Stock Corporation Act and then made it permanently available to the shareholders on the Company's website (www.gigaset.com).

The Executive Board and Supervisory Board of Gigaset AG thereby declare that, with few exceptions, they have complied and will comply in the future with the Code Commission's recommendations regarding the management and supervision of the enterprise published in the electronic Federal Gazette in the current version.

Corresponding to the recommendations of the Code, the Supervisory Board received a declaration of independence from the auditor on August 10, 2019, stating that there are no business, financial, personal, or other relationships between the auditor and the Company that could justify doubts regarding the auditor's independence.

Separate non-financial Group report pursuant to section 315b HGB

The Executive Board submitted the non-financial report prepared by the company in accordance with section 315b HGB to the Supervisory Board in due time and the Supervisory Board reviewed it. In preparation for the review and decision on the part of the Supervisory Board, the Audit Committee first studied the aforementioned documents in detail. The Executive Board explained the separate non-financial Group report pursuant to section 315b HGB to the Audit Committee in detail at the Supervisory Board meeting of April 21, 2020. Furthermore, the Audit Committee members' questions were answered. The Audit Committee assured itself that the separate non-financial report was properly prepared. It concluded that this report fulfills the legal requirements. The Audit Committee recommended to the Supervisory Board not to raise any objections to the separate non-financial Group report pursuant to section 315b HGB.

The Supervisory Board performed its final review at its meeting of April 21, 2020, with due regard to the recommendation of the Audit Committee. The Executive Board also attended this meeting, explained the separate non-financial Group report and answered the questions of the Supervisory Board members. Based on this review and the report presented by the Audit Committee, the Supervisory Board assured itself that the separate non-financial Group report pursuant to section 315b HGB was properly prepared and reviewed. In particular, it concluded that the report fulfills the legal requirements. The Supervisory Board checked the separate non-financial Group report particularly for completeness and accuracy. No reasons for objections were found in this review. Based on the recommendation of the Audit Committee and the final result of the review conducted by the Supervisory Board, no objections are to be raised against the separate non-financial Group report pursuant to section 315b HGB.

Risk management

The Supervisory Board dealt with the issue of risk in detail in 2019, in particular with the risk management system. The Executive Board reported extensively on the risk situation and key individual risks. The structure and function of Gigaset AG's risk management system were reviewed in accordance with section 315(4) HGB and confirmed by the auditor. The result was discussed with the Supervisory Board.

Personnel matters of the Executive Board

Mr. Stephan Mathys had resigned from the Company's Executive Board for personal reasons effective immediately with a letter dated December 13, 2018.

As a consequence of these changes, in fiscal year 2019 the Executive Board consisted of only Mr. Klaus Wessing for the period from January 1, 2019 to August 13, 2019. Since August 13, 2019 the Executive Board has consisted of Mr. Klaus Wessing (Chairman of the Executive Board) and Mr. Thomas Schuchardt. The current Executive Board members represent the Company in accordance with the Articles of Association and are authorized to carry out legal transactions in the name of the Company with himself as the representative of a third party.

Personnel matters of the Supervisory Board

The members of the Supervisory Board in the reporting period were: Mr. Bernhard Riedel (Chairman) until January 24, 2019, Mr. Hau Yan Helvin Wong (Vice Chairman until February 28, 2019, Chairman since February 28, 2019), Mr. Ulrich Burkhardt, Mr. Paolo Vittorio Di Fraia (Vice Chairman from February 28, 2019, to August 14, 2019), Prof. Xiaojian Huang, Ms. Flora (Ka Yan) Shiu, as well as Ms. Barbara Münch (Vice Chairman of the Executive Board since August 14, 2019). All aforementioned Supervisory Board members, with the exception of Ms. Münch, joined the Supervisory Board in 2013 or 2014 and were active members of the Supervisory Board until the regular Annual General Meeting. Their appointments were confirmed by the Company's regular Annual General Meeting on August 14, 2019. At her induction the Company provided Supervisory Board member Ms. Barbara Münch with comprehensive information concerning the Company, the Supervisory Board, and the organization, as well as by means of separate discussions and meetings.

Comments on the management report

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

Audit of the annual and consolidated financial statements

The Executive Board presented the Supervisory Board with the prepared annual financial statements, the consolidated financial statements, and the group management report combined with the management report as well as its proposal on the losses carried forward on April 9, 2019.

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, which was appointed as the auditor and Group auditor ("auditor") by the Annual General Meeting for fiscal year 2019 upon recommendation by the Audit Committee and in accordance with the election proposal of the entire Supervisory Board, audited the annual financial statements as of December 31, 2019, as well as the consolidated financial statements as of December 31, 2019, including the respective management reports and issued an unqualified auditors' report in each case.

The Audit Committee and the Supervisory Board both reviewed the annual financial statements at length and provided advice in their respective meetings to adopt the financial statements held on April 21, 2020.

Prior to the adoption of a resolution by the Audit Committee regarding its recommendation to the Supervisory Board with respect to the election proposal to the Annual General Meeting, the auditor declared there are no business, financial, personal, or other relationships between the auditor and his governing bodies and chief auditors on the one hand and the Company and the members of its governing bodies on the other hand that could justify doubts regarding his independence. This declaration also included a statement regarding the extent of other services rendered for the Company in the preceding fiscal year as well as the extent of such services contractually agreed at that time for the following year. In connection with this, the Audit Committee examined and confirmed the existence of the requisite independence. The Supervisory Board was informed of the result of this examination before it adopted its resolution regarding the election proposal to the Annual General Meeting. The auditor also confirmed to the Audit Committee as well as to the Supervisory Board in their meetings to adopt the financial statements held on April 21, 2020, that there are no circumstances that would arouse concerns of a lack of impartiality on his part. In this context, he also presented information regarding services rendered in addition to the audit services. The Audit Committee reported to the Supervisory Board in its meeting held on April 21, 2020, on its monitoring of the auditor's independence in consideration of the non-audit-related services rendered and its assessment that the auditor continues to possess the requisite independence.

The auditor presented the Supervisory Board with his report regarding the nature and scope as well as the result of his audit (long-form audit report). The aforementioned financial statement documents, the auditor's long-form audit report, and the Executive Board's proposal on the losses carried forward were all promptly provided to the Supervisory Board members.

The Supervisory Board for its part reviewed the documents presented by the Executive Board and the auditor's long-form audit report.

In preparation for the review and decision on the part of the Supervisory Board, the Audit Committee first studied the aforementioned documents in detail.

In its meeting held on April 21, 2020, the Audit Committee heard detailed comments by the Executive Board regarding the annual financial statements, the consolidated financial statements, and the combined management report and group management report as well as its proposal on the losses carried forward. Furthermore, the Audit Committee members' questions were answered. In addition, the auditor, who also participated in the meeting, reported on his audit, in particular the areas of audit emphasis defined in consultation with the Audit Committee and the Supervisory Board and the primary results of the audit and commented extensively on his long-form audit report. No material weaknesses of the internal control system, the risk management system, or the accounting process were identified by the auditor. The members of the Audit Committee acknowledged the long-form audit report and the auditors' report, critically reviewed them, and also discussed them with the auditor as with the audit, which included questions regarding the nature and scope of the audit as well as the results of the audit. The Audit Committee assured itself that the audit and the audit report had been properly prepared. It was satisfied in particular that the audit report – as also the audit performed by the auditor – complied with the legal requirements. The Audit Committee shares the auditor's assessment that the internal controls and the risk management system, in particular also with respect to the accounting process, do not exhibit any material weaknesses. The Audit Committee recommended that the Supervisory Board approve the results of the auditor's audit and – since in his opinion there are no objections to be raised against the documents presented by the Executive Board – also endorse the annual financial statements, the consolidated financial statements, and the combined management report and group management report and endorse the Executive Board's proposal on the losses carried forward.

The Supervisory Board's final review of the annual financial statements, consolidated financial statements, and the combined management report and group management report as well as the Executive Board's proposal on the losses carried forward was conducted during the Supervisory Board meeting held on April 21, 2020, under consideration of the Audit Committee's report and recommendations as well as the auditor's long-form audit report. The Executive Board participated in this meeting, commented on the documents it presented and answered the Supervisory Board members' questions. The auditor also participated in this meeting and reported on his audit as well as the significant results of the audit and answered the Supervisory Board members' questions, in particular regarding the nature and scope of the audit and the audit results. Through this and on the basis of the report issued by the Audit Committee, the Supervisory Board satisfied itself of the propriety of the audit and the long-form audit report. Following the recommendation of the Audit Committee, the Supervisory Board approved the results of the auditor's audit.

Based on the final result of the review conducted by the Supervisory Board of the annual financial statements, consolidated financial statements, and the combined management report and group management report as well as the Executive Board's proposal on the losses carried forward, there are no objections to be raised; that also pertains to the declaration of conformity and indeed also insofar as it is not to be audited by the auditor. Following the recommendation of the Audit Committee, the Supervisory Board approved the annual financial statements and the consolidated financial statements.

The annual financial statements are deemed to be adopted with the Supervisory Board's endorsement.

In its assessment of the position of the Company and the Group, the Supervisory Board concurs with the Executive Board's assessment in its combined management report and group management report and, following the Audit Committee's recommendation, also endorsed these reports.

As a result of the review of the Executive Board's proposal on the losses carried forward conducted in the Audit Committee meeting and in the Supervisory Board meeting held on April 21, 2020, which included a discussion with the auditor in both meetings, the Supervisory Board – following the recommendation of the Audit Committee – approved and endorsed the Executive Board's proposal on the losses carried forward. The proposal includes:

"The net profit for fiscal year 2019 amounts to EUR 5,315,058.75. Including the losses carried forward in the amount of EUR 191,506,333.60, this results in a net accumulated loss of EUR 186,191,274.85, which will be carried forward to a new account."

Report of the Executive Board on relationships with affiliated companies

The Executive Board presented the report it prepared on relationships with affiliated companies in fiscal year 2019 (dependent company report) to the Supervisory Board in a timely manner.

The auditor audited the dependent company report and issued the following auditors' report:

"Based on our mandatory audit and assessment, we confirm that

1. the report's factual statements are accurate,

2. the consideration paid by the Company with respect to the transactions listed in the report was not inappropriately high."

The auditor presented the audit report to the Supervisory Board. The dependent company report and the audit report were promptly provided to all members of the Supervisory Board.

For its part, the Supervisory Board reviewed the Executive Board's dependent company report and the auditor's audit report.

In preparation for the review and decision on the part of the Supervisory Board, the Audit Com-mittee first studied the aforementioned documents in detail. In its meeting held on April 21, 2020, the Audit Committee heard comments from the Executive Board on its dependent company report. Furthermore, the Audit Committee members' questions were answered. In addition, the auditor, who also participated in the meeting, reported on his audit, in particular the areas of audit emphasis and the significant results of the audit and commented in detail on his long-form audit report. The members of the Audit Committee acknowledged the long-form audit report and the auditors' report, critically reviewed them, and also discussed them with the auditor as with the audit, which included questions regarding the nature and scope of the audit as well as the audit findings. The Audit Committee assured itself that the audit and the audit re-port had been properly prepared. It was satisfied in particular that the audit report – as also the audit performed by the auditor – complied with the legal requirements. The Audit Committee recommended that the Supervisory Board approve the results of the auditor's audit and – since in his opinion there are no objections to be raised against the Executive Board's explanation of the dependent company report – adopt a resolution on a corresponding opinion.

The Supervisory Board's final review was conducted during the Supervisory Board meeting held on April 21, 2020, in consideration of the Audit Committee's recommendation as well as the auditor's long-form audit report. The Executive Board also participated in this meeting, commented on the dependent company report and answered the Supervisory Board members' questions. The auditor also participated in this meeting, reported his audit of the dependent company report and the significant results of the audit, commented on his audit report, and answered questions placed by the Supervisory Board members, in particular regarding the nature and scope of the audit of the dependent company report and the audit results. Through this and on the basis of the report issued by the Audit Committee, the Supervisory Board satisfied itself of the propriety of the audit of the dependent company report and the long-form audit report. It was satisfied in particular that the audit report – as also the audit performed by the auditor – complied with the legal requirements. The Supervisory Board reviewed the dependent company report in particular with respect to its completeness and accuracy, whereby it satisfied itself that the group of affiliated companies had been determined with the requisite diligence and that the precautions necessary for the identification of reportable transactions and measures had been taken. No indications suggesting a reason to object to the dependent company report became apparent in this audit. Following the recommendation of the Audit Committee, the Supervisory Board approved the results of the auditor's audit of the dependent company report. Based on the final result of the review conducted by the Supervisory Board of the report on relationships with affiliated companies (dependent company report), there are no objections to be raised against the Executive Board's explanation at the end of the report on relationships with affiliated companies (dependent company report).

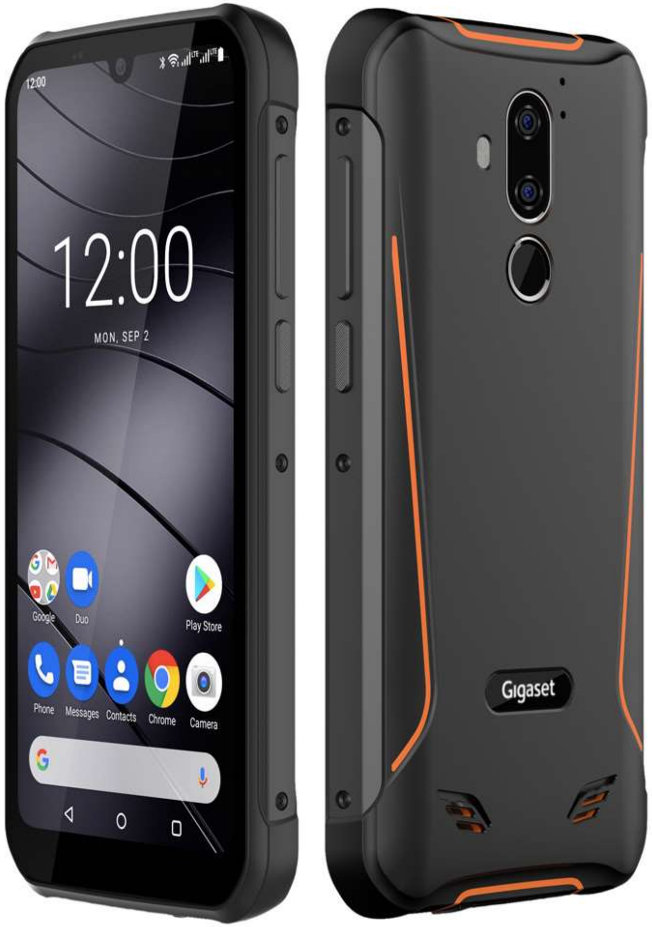
The Supervisory Board would like to express its thanks to the Executive Board members active in 2019 and to all the employees for their outstanding commitment in fiscal year 2019.

Munich, April 2020

Hau Yan Helvin Wong

Chairman of the Supervisory Board

COMBINED MANAGEMENT REPORT



GX290
With the robust work and outdoor smartphone, Gigaset expands its product range of mobile devices to include a long-lasting and specially protected device – a companion for particularly challenging conditions – be it work or play, for those who expect more from their smartphone.

1 BASIC PRINCIPLES OF THE GROUP

1.1 Business model

Gigaset AG is a global enterprise operating in the area of telecommunications. The Company is headquartered in Munich and has a highly automated production site in Bocholt, Germany. In 2019, Gigaset had an average of 887 employees and conducted sales activities in 55 countries.

Gigaset carries out business activities in the segments of Phones, Smartphones, Smart Home and Professional. Observed on a regional basis, the Company operates in Germany, Europe (excluding Germany), and the rest of the world, whereby most of its revenues are generated in Europe, in particular in the four most important European markets for the Company: Germany, France, Italy, and the Netherlands (EU4).

1.1.1. Phones

Gigaset's core business in the Phones product segment continues to focus on the production and distribution of DECT cordless telephones and DECT/CAT-iq mobile components (Gigaset HX portfolio). DECT is the most successful telecommunications standard for cordless telephones and used in over 100 countries worldwide.[2] In this area, Gigaset is the market leader in key European markets.[3] Nearly all of the Company's DECT products for the Phones product segment are manufactured at the Company's own production site in Bocholt. Future opportunities in the Phones product segment include the constant expansion and development of the mobile component portfolio (Gigaset HX) and easy to use telephone portfolio (Gigaset life series). There is additional potential in consumer IP telephones and their combination with online add-on services (spam protection, online phone book). An initial solution (Gigaset CL690A SCB) will be launched on the German market in the first quarter of 2020.

1.1.2. Smartphones

In the Smartphones segment, Gigaset continues to operate in the low to mid-price segment, with prices up to EUR 300. The aim is to further increase the market share and awareness of the brand in this segment. In 2019, the fourth generation of smartphones was launched, with the portfolio having being continuously expanded to meet market requirements. This included the introduction of a hard-wearing smartphone that is also suitable for use in B2B environments, enabling Gigaset to address this new business field.

Basing production in Germany gives Gigaset a variety of ways to set its brand apart from the competition. There are many customization possibilities, both for end and business customers. In terms of customer service, too, Gigaset wants to establish itself as a manufacturer that offers comprehensive manufacturer warranties, customer satisfaction guarantees and especially short repair times. For environmental reasons, the Company follows the principle: "Repairs before Exchanges".

1.1.3. Smart Home

Security and alarm solutions as well as other smart home comfort solutions are developed and marketed for private households in the Smart Home segment. The solutions from these segments concentrate on the protection of condominiums and houses and more comfort in one's own home.

[2] DECT (2020) - DECT Technology

[3] GfK (2020) - Cordless Phones 2019 Europe 6 (page 38)

Gigaset relies on a modular, sensor-based system that enables users to maintain a constant connection with their home via smartphone and supported by the cloud. The portfolio of sensors is continuously expanded, while on the software side progress is being made with the integration of third-party systems in order to increase the users' comfort.

The Smart Home market is currently divided into three parts:

- Platform providers (gateways, cloud and app)
- Manufacturers of sensors and actuators
- Suppliers of complete solutions

With its holistic approach, Gigaset offers its customers a diverse range of customized complete solutions. Sensors, actuators, gateways, the cloud and apps are fully integrated and harmonized with one another. This means that customers do not have to compile their systems using components from individual manufacturers, do not have any interface problems and, in the event of any issues, can turn to just one contact partner.

1.1.4. Professional

The Professional segment is the Company's second-largest sales pillar. The Professional segment offers products in the areas of multi-cell systems, DECT-based cordless telephones and non-proprietary IP desk telephones on the market for professional telecommunications solutions.

These product pillars allow Gigaset to benefit from the continuous growth trend being driven by the switch from traditional TDM telephony to All-IP and hybrid solutions in Western Europe.[4] This trend, which has already taken hold in previous years with cloud-based systems coming to the fore,[5] for example , will now be boosted further with the proactive deactivation of old analogue and ISDN connections from large network operators, such as Deutsche Telekom.[6]

Thanks to the newly developed DECT multi-cell system of the N-series, which has increased the maximum number of cordless terminals in a company to up to 20,000, Gigaset has been able to target a wider range of customers since the end of 2019 and thus address in the enterprise segment and develop it accordingly.

1.2 Goals and strategies

Gigaset's overall strategic goal is to expand the Company into an integrated hardware, software and service provider. In addition to the stabilization of the core business with Phones by crowding out competitors in important core markets in Europe, the Company's existing product range is being further expanded and given a broader base via the product segments of Smartphones, Smart Home and Professional.

In the long term, Gigaset wants to offer its customers a freely customizable, scalable ecosystem of products from all of the aforementioned segments. A smart ecosystem therefore integrates existing product components as well as new hardware and software-based solution components that support, assist and connect our customers in all living situations, from private to professional.

1.3 Control systems

The development of the Group and Gigaset AG was analyzed and managed by the management on a monthly basis in 2019 using various financial performance indicators. The Gigaset Group is oriented worldwide based on regional points of sale. The analysis of revenues and earnings before interest, taxes, depreciation, amortization and impairment losses (EBITDA) by region as well as free cashflow at

[4] MZA Consultants (2019) - Business Phones Competitive Environment 2019 - Western Europe - Market Analysis

[5] MZA Consultants (2019) - Hosted-Cloud Business Telephony 2019 - Executive Summary

[6] Handelsblatt (2019) – Telekom cancels ISDN connections

the Group level played an important role in monitoring the operating business in the Group. Operating costs were analyzed and managed in detail based on cost categories and the cost centers in which the costs are incurred. Integrated financial planning (statement of comprehensive income, statement of financial position, financial plan) is implemented group-wide for the reliable analysis of changes in liquidity. In addition, risk management is an integral part of business processes and decisions. Gigaset AG was managed as a separate company in 2019 based on the result under German generally accepted commercial accounting principles.

The material non-financial performance indicators for Gigaset remain unchanged.

- Research and development
- Environment
- Employees

Due to the high priority of these factors for the Gigaset Group and Gigaset AG, they are presented in detail in the Sections "Research and development", "Environment" and "Employees" below.

1.4 Research and development

Gigaset's research and development program focuses in particular on the further development and improvement of the products and services in the various product segments. Research and development take on a key role in the area of product innovation, whereby the focus is placed on technical aspects. Online services (cloud solutions) are becoming increasingly important in the Gigaset portfolio and underscore the shift in the Company's operating orientation from a pure hardware manufacturer to a provider of integrated solutions for home, work and on-the-go.

In financial year 2019, the Group incurred expenses for research and development in the amount of EUR 18.2 million and capitalized a total of EUR 11.6 million in development costs, EUR 10.6 million of which under other intangible assets and EUR 1.0 million under property, plant and equipment. The resulting capitalization rate amounts to 63.7%. Amortization of capitalized development costs amounted to EUR 7.8 million in the financial year. Gigaset AG, in its function as a holding company, did not itself report any research and development expenses in the financial year.

2 SIGNIFICANT EVENTS IN THE 2019 FINANCIAL YEAR

January 2019:

The Chairman of the Supervisory Board passes away unexpectedly

In January 2019, Gigaset AG disclosed that the Chairman of the Company's Supervisory Board, Mr. Bernhard Riedel (57), who had held his position since March 22, 2013, had passed away unexpectedly.

During a transition phase, the Supervisory Board continued to carry out its activities under the leadership of the deputy Chairman, Mr. Hau Yan Helvin Wong. During the 2019 Annual General Meeting, Ms. Barbara Münch, who had previously been a substitute member of the Supervisory Board, was appointed to the Supervisory Board in succession as an ordinary member and Mr. Wong was elected as the new Chairman of the Supervisory Board.

August 2019:

Thomas Schuchardt is elected as Chief Financial Officer

In a press report on August 13, the Company announced that the Supervisory Board of Gigaset AG had elected Thomas Schuchardt as the new CFO. The former Finance Director of Gigaset Communications GmbH had already taken over the commercial management of the Company in January 2019.

Prior to that, Thomas Schuchardt had been Senior Vice President Controlling at Gigaset since January 1, 2017. With this new position, the Supervisory Board has therefore not only honored Mr. Schuchardt's achievements, but also ensured continuity in the finance department.

November 2019:

The Company adjusts its sales expectations

On November 19, the Executive Board drew up an ad-hoc report stating that it does not expect to achieve the slight increase in sales compared with 2018 previously forecast.

The Company based this on year-on-year Group sales. The outlook regarding EBITDA (forecast to match the previous year's level) and a considerably improved free cashflow remained unchanged.

3 ECONOMIC REPORT

3.1 General economic and industry-specific framework conditions

3.1.1. General economic conditions

According to a preliminary estimate by the International Monetary Fund (IMF) from January 2020, global economic output grew by just 2.9 % in 2019 (2018: 3.6 %). Drops in growth were recorded by both developed economies (from 2.2 % in 2018 to 1.7 % in 2019) and emerging and developing countries (from 4.5 % in 2018 to 3.7 % in 2019). With the exception of Japan, which achieved growth of 1.0 % compared with 0.3 % in the previous year, and the United Kingdom's economy, which increased by 1.3 % according to these calculations, thus matching the previous year's level, growth slowed down in all major developed economies: Growth in the eurozone was estimated at 1.2 % (2018: 1.9 %) and in Germany at 0.5 % (2018: 1.5 %). In the United States, growth was 2.3 %, down from 2.9 % in 2018.

The reasons for this were sustained international trade disputes, general political uncertainty and numerous ongoing geopolitical and local tensions, fiscal risks in China and the U.S.A., and rising protectionism around the world. Social unrest in a number of countries and major natural disasters, including hurricanes and severe forest and bushfires in Australia, also contributed to a growing level of uncertainty.

Gigaset's key markets are Germany, France, Italy and the Netherlands (EU4). They developed as described above or as follows: France's economic growth slipped from 1.7 % in 2018 to 1.3 % in 2019 according to an estimate by IMF experts and Italy's economic growth fell to 0.2 % (2018: 0.8 %).[7] For the Netherlands, growth of 1.8 % (2018: 2.6 %) is expected for 2019.[8]

3.1.2. Telecommunications market

3.1.2.1. Phones

Observing the six countries Germany, France, Italy, the Netherlands, the United Kingdom, and Spain in 2019, the key European market for cordless telephones shrank by 11 % in terms of unit volume and by 8 % in terms of revenues.[9] Despite the decline in unit volume and revenues for cordless telephones with and without answering machines, the market for individual mobile components recorded positive revenue developments (+4 %).[10] Gigaset performed better in the EU6 area than the overall market (-7 % in unit volume compared with -11 %),[11] increasing its market share to 36 % .[12]

3.1.2.2. Smartphones

According to Statista, global sales of smartphones amounted to approximately 1.37 billion units in 2019, signaling a decline of 2.1 % compared with the previous year (2018: approximately 1.4 billion units).[13] By adding new products in the area of feature phones – i.e. a GSM cell phone that also features a camera, radio receiver, organizer and MP3 player as well as simple games and/or a web browser and can be controlled via a graphic user interface

[7] IMF (2020) – World Economic Outlook Update January
[8] Statista (2020) – Real GDP growth in the Netherlands up to 2024
[9] GfK (2020) – Cordless Phones 2019 Europe 6 (page 24)
[10] GfK (2020) – Cordless Phones 2019 Europe 6 (page 29)
[11] GfK (2020) – Cordless Phones 2019 Europe 6 (page 39)
[12] GfK (2020) - Cordless Phones 2019 Europe 6 (page 41)
[13] Statista (2020) – Global sales of smartphones up to 2019

Gigaset counteracted this trend in the fourth quarter of 2019, increasing its mobile business by 18.5 % overall. In the domestic market, Germany, sales growth was as high as +34.4 %.[14]

3.1.2.3. Smart Home

A current study by Splendid Research specifies a market potential of EUR 19 billion for Germany, of which EUR 2.95 billion classified as spending on smart home applications for new build projects, EUR 7.52 billion as spending on possible initial smart home investments and EUR 8.52 billion as spending on expanding existing smart home installations.[15]

The smart home market can be divided into the following five categories.[16] Gigaset offers relevant products in all of these core areas and thus serves the entire Smart Home market:

- Energy management (thermostat and climate)
- Entertainment and communication (smart speakers)
- Building/condominium security (windows, doors, motion, sirens, cameras, water and smoke)
- Home automation and comfort (smart speakers and plugs)
- Health / ambient assisted living (smart care)

3.1.2.4. Professional

In the 2019 financial year, the Professional product segment achieved a 6.6 % increase in revenues in the domestic German market. This corresponds to over half (53 %) of the total revenues in the Professional product segment, while global annual revenues fell by -5.4 %. In terms of market share, Germany's 53 % puts it in the lead, followed by France with 12.5 % and the Netherlands with 10.2 %. Overall, Europe is responsible for 97 % of global revenues.[17]

3.2 Business performance of the Group

3.2.1. Phones

In a persistently difficult market environment, Gigaset's revenues in the Phones segment fell by 8.7 % in 2019 to EUR 176.4 million. Products from the volume segment (low-end price category) continued to be the main sales pillars. The most successful product family in the Gigaset Phones portfolio was the Gigaset A415 family.[18] In the Italian market for cordless telephones, Gigaset managed to drive competitor Panasonic from first place in 2019 and increase its unit volume by +2 % to 40 % and revenues by +3 % to 45 %.[19] In its key domestic market, Germany, Gigaset increased its market share by 2 % to 48 %, while the main competitor Panasonic recorded a slight decline (-1 %) and competitor AVM remained unchanged.[20]

3.2.2. Smartphones

In the Smartphones business segment, sales increased by 18.4 % in the previous financial year. Revenues were slightly below the previous year's level (-11,3 %)[21], due to a lower average price following the addition of new, lower-priced products from the area of feature phones. Gigaset

[14] Gigaset (2020)
[15] Splendid Research (2019) - Smart Home Monitor 2019 (Seite 17)
[16] Splendid Research (2019) - Smart Home Monitor 2019 (Seiten 9-11)
[17] Gigaset (2020) - Board Professional NSR
[18] Gigaset internal (2020)
[19] GfK (2020) - Cordless Phones 2019 Europe 6 (page 53)
[20] GfK (2020) - Cordless Phones 2019 Europe 6 (page 51)
[21] Gigaset internal (2020)

launched five new smartphone models in 2019, receiving positive feedback from the media, as shown by the "Good" seal of approval awarded for the GS290 by trade magazine CHIP.[22]

Business continued to develop positively, especially in Germany. Sales increased by 34.4 % and revenues by 18,1 % in 2019. In Eastern Europe, too, sales improved by 13.8 %, while revenues were up by as much as 22.5 %. New customer groups were reached in Italy, particularly thanks to the feature phones GL390 and GL590.[23]

3.2.3. Smart Home

In the previous financial year, revenues from Smart Home products increased by just under 16 %, with the core markets of Germany, Austria, Switzerland and the Netherlands in particular achieving solid revenue growth.[24] The specially offered Smart Home bundles tested in 2018 were rolled out to the European market. These bundles offer entry-level solutions for key issues in smart homes.

In addition, Gigaset added intelligent thermostats and climate sensors to its smart home system with the aim of tapping additional revenue potential in the area of energy management and helping to save energy. Gigaset also entered into important cooperative agreements with telecommunications companies and energy providers.[25] This will enable Gigaset to present itself as a capable partner on the B2B market for smart homes.

3.2.4. Professional

The most successful product segment in the Professional segment, in which Gigaset increased revenues by 4.4 % in the 2019 financial year, is the multi-cell system of the N-series.[26] This is in line with the fact that multi-cell DECT technology, with a market share of 92 % in the first half of 2019,[27] continues to be preferred choice for cordless telephones for business use in Western Europe. In the same period, Gigaset sold more multi-cell DECT cordless telephones than all other competitors in Western Europe, thus achieving the largest market share in the first half of 2019 (28 %).[28]

To even better meet the needs of smaller customers, Gigaset brought a new single-cell solution to market in 2019. With this solution, Gigaset expects to generate new revenue potential in the segment of growing small- and medium-sized companies.

Owing to the increased, aggressive competition from players in the Far East who have asserted their dominance in the IP desk telephone market,[29] Gigaset Professional's non-proprietary IP desk telephone portfolio is bit by bit fading into the background.[30]

Sales in cordless telephones for professional use fell slightly compared with the previous year (-3 %).[31] Considering Western European developments in the market in the first half of 2019 (-8 % compared with the first half of 2018), however,[32] Gigaset has remained stable.

3.2.5. Environment

As a global enterprise, Gigaset AG observes the principles of sustainable conservation of the environment and the natural resources on which mankind depends. Gigaset's products are manufactured according to the highest environmental protection and quality standards in the production facility in Bocholt. Our commitment to protecting the environment is reflected both in the development and production of the energy-efficient Gigaset ECO DECT cordless telephone as well as in the consumption of energy at the production site in Bocholt.

[22] CHIP (2019) – Gigaset GS290 seal of approval

[23] Gigaset internal (2020)

[24] Gigaset internal (2020)

[25] Gigaset internal (2020)

[26] Gigaset internal (2020)

[27] MZA Consultants (2019) – On Site Business Voice Mobility Shipment Review 1H 2019 – Western Europe – Total Multi-Cellular Handset Market

[28] MZA Consultants (2019) – On Site Business Voice Mobility Shipment Review 1H 2019 – Western Europe – DECT Manufacturer Market Shares

[29] MZA Consultants (2019) – Business Phones Competitive Environment 2019: Non-Proprietary SIP Phones Market Shares

[30] Gigaset internal (2020)

[31] Gigaset internal (2020)

[32] MZA Consultants (2019) – On Site Business Voice Mobility Shipment Review 1H 2019 – Western Europe – DECT Multi-Cellular Handset Market

Gigaset has helped to reduce waste by continuing to apply the HTV®-Life strategy. The HTV®-Life mark of excellence manifests a product that does not contain measures for the intentional reduction of product lifetime (planned obsolescence).[33] With respect to economy, the Company ensures compliance with the environmentally-based (ISO 14001) standards in the value chain with the corresponding selection of suppliers based on the required qualifications.

3.2.6. Employees

In 2019, a total of 44 employees left the Company, eight of which as a result of early retirements, termination agreements, termination of employment due to occupational disability payments, dismissals by the employer, and the expiration of limited duration contracts. In addition, 22 employees moved from their active time in the Company to a passive phase in connection with an individual partial retirement agreement.

Another eleven employees left the Company of their own volition and three employees died. In total, Gigaset recruited 51 new employees to the Company. The number of employees in the subsidiaries fell only slightly from 260 to 256 employees as at the reporting date December 31, 2019. At year-end 2019, Gigaset had a total of 895 employees.

Gigaset is positioning itself in the market as an international communications company with clear strengths in the area of technology, products, and digital services. The international orientation of all its locations puts Gigaset in a very good position in the competition for the best employees. Observing only the leavers on the basis of a voluntary departure from the Company, the turnover rate for 2019 fell to 1.7 %. In the previous year it was still 2.1 %.

The need for employees varies as a result of the higher revenue planning compared with the previous year, but also due to the expansion of business activities in the Phones, Smartphones, Professional, and Smart Home product centers. These needs can be covered in individual cases by the Company's own employees (key talents or apprentices/trainees).

Additional personnel must be also attracted, however, by means of external recruitment (in particular through job exchanges and recruitment agencies). The Company also relied on temporary workers primarily for semi-skilled activities to provide the Company with the necessary operational flexibility in a highly seasonal sales market.

3.3 Financial performance, cashflows and financial position of the Group

3.3.1. Financial performance

The Gigaset Group generated **revenues** in the total amount of EUR 257.9 million (prior year: EUR 280.3 million) in the 2019 financial year just ended. Revenues from core business activities are subject to the usual seasonal fluctuations in the consumer business. The decrease in revenues of 8.0 % or EUR 22.5 million compared with the previous year can be explained by a decrease of EUR 16.9 million in particular due to increasingly difficult market conditions in the Phones segment.

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

Revenues based on receiving units represent the revenues invoiced in the respective regions independent of the registered office of the invoicing unit. For example, if a German company issues an invoice in the Netherlands, such revenues are allocated to the region of "Europe" in the presentation based on receiving units. Revenues based on receiving units can be broken down as follows for the individual regions:

[33] HTV-Life (2020) – Tested products

Revenue in EUR millions	2019	2018	Change in %
Germany	121.3	124.4	-2.5
Europe (excluding Germany)	103.5	122.3	-15.4
Rest of World	33.1	33.6	-1.5
Gigaset Total	**257.9**	**280.3**	**-8.0**

The allocation to the individual geographical areas for the current segment reporting in the Group is also still based on the country in which the respective legal unit is domiciled. For example, if a German company issues an invoice in the Netherlands, such revenues are allocated to the region of Germany in the presentation based on country of domicile. Revenues based on country of domicile can be broken down as follows for the individual regions:

Revenue in EUR millions	2019	2018	Change in %
Germany	141.3	148.3	-4.7
Europe (excluding Germany)	90.9	104.8	-13.3
Rest of World	25.7	27.2	-5.5
Gigaset Total	**257.9**	**280.3**	**-8.0**

In the 2019 financial year, the Smart Home segment recorded a sales increase of 15.6 %. Performance in the other segments of Phones, Professional, and Smartphones was negative. In the Phones business, revenues fell by EUR 16.9 million to EUR 176.4 million. In the Professional segment, revenues declined by EUR 3.3 million from EUR 59.9 million in 2018 to EUR 56.6 million. Revenues declined slightly in the Smartphones business, falling by EUR 2.7 million.

Revenue in EUR millions	2019	2018	Change in %
Phones	176.4	193.3	-8.7
Professional	56.6	59.9	-5.5
Smartphones	21.2	23.9	-11.3
Smart Home	3.7	3.2	15.6
Gigaset Total	**257.9**	**280.3**	**-8.0**

The **cost of materials** for raw materials, merchandise, finished goods and purchased services was EUR 130.9 million – a decrease of EUR 15.8 million from EUR 146.7 million in the previous year. At 50.2 %, the cost of materials rate remained nearly constant (prior year: 50.9 %), taking into account the change in inventories. The key figure is derived as the quotient of material expense and the total of revenues and the change in inventories of finished goods and work in progress.

Gross profit, comprising revenues less the cost of material and including the 8.3 % change in inventories of finished goods and work in progress decreased to EUR 129.8 million in the reporting period.

Other own work capitalized in the amount of EUR 9.2 million (prior year: EUR 9.8 million) mainly includes costs related to the development of new products. In the 2019 financial year, investments were made on the software side into further developing the single- and multi-cell DECT IP systems and into expanding the IP desk telephone portfolio. In the Smart Home segment, the costs of developing a gateway were capitalized in particular.

Other operating income amounted to EUR 18.5 million and was thus up EUR 4.8 million year-on-year. The increase in other operating income is primarily due to the reimbursement of the administrative fine through the SKW lawsuit in the amount of EUR 3.3 million as well as to the reversal of liabilities in connection with the 2019 tax audit amounting to EUR 3.8 million. The other main items include income from exchange gains in the amount of EUR 2.8 million (prior year: EUR 5.8 million) and reversals from provisions in the amount of EUR 1.4 million (prior year: EUR 2.9 million). The remaining other operating income relates mainly to income from rents in the amount of EUR 1.4 million (prior year: EUR 1.1 million).

Personnel expenses for wages, salaries, social security contributions and old age pensions amounted to EUR 59.4 million, representing a year-on-year decrease of EUR 1.2 million. Compared with the previous year, the number of employees increased slightly by 7 persons.

Other operating expenses in the amount of EUR 69.7 million (prior year: EUR 82.4 million) were incurred in the reporting period. These include in particular marketing expenses (EUR 26.3 million; prior year: EUR 32.7 million), general administrative expenses (EUR 10.1 million; prior year: EUR 10.8 million), and costs for the loaning of employees (EUR 8.4 million; prior year: EUR 8.3 million). This item also includes transport costs (EUR 6.3 million; prior year: EUR 7.0 million), expenses from exchange losses (EUR 2.8 million; prior year: EUR 6.1 million), advisory and auditing costs (EUR 3.1 million; prior year: EUR 2.9 million), expenses for land and buildings (EUR 1.9 million; prior year: EUR 2.9 million), patent and license fees (EUR 2.3 million; prior year: EUR 2.4 million), and preventative maintenance work (EUR 1.8 million; prior year: EUR 1.8 million). The decline in marketing costs compared with the previous year is essentially the result of fewer expenses for the Smartphones segment and the introduction to market of the new Smart Care segment in the previous year and the associated marketing activities. In addition, more investments were made into social media and corporate communications in the previous financial year.

Earnings before interest, taxes, depreciation, amortization and impairment losses (EBITDA) thus amounted to EUR 28.5 million (prior year: EUR 22.1 million). Taking into account depreciation, amortization and impairment losses in the amount of EUR -14.8 million (prior year: EUR -13.6 million), **earnings before interest and taxes** (EBIT) amounted to EUR 13.7 million (prior year: EUR 8.5 million).

Taking into account the **financial result** in the amount of EUR 0.8 million (prior year: EUR -1.1 million) leads to a **result from ordinary activities** of EUR 14.5 million (prior year: EUR 7.5 million). The financial result includes interest expenses in the amount of EUR -0.6 million (prior year: EUR -0.3 million) from the funding raised in 2018.

Consolidated profit for the year amounts to EUR 11.3 million for financial year 2019 (prior year: EUR 3.4 million).

This results in **earnings per share** of EUR 0.09 (basic/diluted) (prior year: EUR 0.03 (basic/diluted)).

3.3.2. Cashflows

Cashflow can be broken down as follows:

Cashflow in EUR millions	2019	2018
Cashflows from operating activities	17.2	-9.6
Cashflows from investing activities	-16.1	-14.5
Free Cashflow	1.2	-24.1
Cashflows from financing activities	-1.6	12.0

In the 2019 financial year, the Gigaset Group recorded a **cash inflow from operating activities** in the amount of EUR 17.2 million (prior year: cash outflow of EUR -9.6 million). Cashflows from operating activities, which were up compared with the previous year, resulted primarily from the increase in trade liabilities.

The **cash outflow from investing activities** amounts to EUR -16.1 million after EUR -14.5 million in the previous financial year. At EUR 9.2 million (prior year: EUR 9.8 million), the majority of capital expenditures relate to the decrease in cash resources resulting from own work capitalized for the development of innovative products and solutions.

In the current financial year, there was a **cash outflow from financing activities** of EUR -1.6 million as a result of the payment of interest on the credit facility. The draw-down of funds from this loan of EUR 2.4 million had a positive effect, however. The cash inflow from the previous year was EUR 12.0 million, which can be attributed to the draw-down of funds from the loan in the amount of EUR 13.5 million.

Cash and cash equivalents amounted to EUR 36.6 million as of December 31, 2019 (prior year: EUR 36.9 million).

Cashflow includes changes in exchange rates in the amount of EUR 0.1 million (prior year: EUR -0.1 million).

Please refer to the cashflow statement presented in the Notes to the consolidated financial statements for a detailed presentation of changes in **cash and cash equivalents**.

3.3.3. Financial position

The Gigaset Group's **total equity and liabilities** amounted to EUR 222.6 million as of December 31, 2019, representing an increase of EUR 213.1 million compared with the previous year.

At EUR 78.4 million, **noncurrent assets** increased by EUR 5.3 million compared with December 31, 2018. This effect resulted primarily from the first-time application of IFRS 16 and the associated capitalization of right-of-use assets in the amount of EUR 4.3 million.

Current assets constituted 64.8 % of total assets. These increased by EUR 4.2 million compared with the previous year and amount to EUR 144.2 million. At EUR 35.2 million (prior year: EUR 32.7 million), inventories are higher than in the previous year. Whereas the portfolio of raw materials, consumables and supplies increased by EUR 3.1 million and unfinished goods and services increased by EUR 0.1 million compared with the previous year, the inventories of finished goods and merchandise fell by EUR 0.4 million and advanced payments made by EUR 0.2 million. Trade receivables amounted to EUR 45.4 million as at the reporting date, considerably up from the previous-year level of EUR 40.8 million. The portfolio of cash and cash equivalents only changed slightly year-on-year from EUR 36.9 million to EUR 36.6 million. Please refer to the statement of cashflows in the notes for a breakdown of changes in cash and cash equivalents.

Total liabilities amount to EUR 204.1 million (prior year: EUR 188.1 million), 46.5 % of which are current. Total debt in 2019 increased by EUR 16.0 million compared with the previous year. The main reasons for this were the increase in pension obligations in the amount of EUR 19.0 million and the first-time consideration of lease liabilities pursuant to IFRS 16 in the amount of EUR 4.4 million. Owing to the increase in pension obligations, the rise in debt primarily concerns noncurrent liabilities.

The Gigaset Group's **equity** amounted to EUR 18.5 million as of December 31, 2019, and was EUR -6.5 million lower than at the beginning of the year. This corresponds to an equity ratio of 8.3 % compared with 11.7 % as of December 31, 2018. Taking into account deferred taxes, actuarial losses were recognized in the amount of EUR 15.7 million in equity. Taking into account deferred taxes, cashflow hedging led to a negative effect of EUR 1.1 million recognized directly in equity. Consolidated profit for the year amounted to EUR 11.3 million and led to a corresponding positive effect in consolidated equity.

Noncurrent liabilities include primarily pension obligations, financial liabilities, noncurrent provisions for personnel expenses, and provisions for guarantees as well as lease liabilities and deferred tax liabilities. The increase in noncurrent liabilities amounts to EUR 17.1 million year-on-year; as a result, these liabilities now amount to EUR 109.2 million as of the reporting date. The increase resulted from negative measurement effects with respect to pension obligations, which led to an increase of EUR 92.5 million as at the reporting date. In addition, the introduction of IFRS 16 led to the recognition of lease liabilities in the amount of EUR 2.8 million.

At EUR 94.8 million, **current liabilities** are around 1.1 % lower than reported as of the prior-year reporting date. Trade liabilities increased year-on-year by EUR 3.9 million. Current provisions are EUR 3.2 million lower compared with the previous year, with the decrease primarily due to the reversal of provisions in connection with the tax audit conducted. Tax liabilities fell from EUR 15.0 million to EUR 4.9 million in the reporting period, mainly due to tax payments resulting from the tax audit carried out in 2019. The increase in other liabilities in the amount of EUR 15.2 million to EUR 16.6 million resulted primarily from an increase of EUR 3.9 million in liabilities from customs debts.

3.3.4. General assessment of the Group's economic situation

As in the previous year, financial year 2019 was characterized by a declining telecommunications market. The cost-saving measures initiated in previous years were also continued in this financial year. The Group's liquidity position remains secured and the Group will continue the strategy of investing in forward-looking and high-margin segments with a view to expanding the share in the total portfolio.

Gigaset would like to counter the declining revenues in the overall market in particular by gaining market shares in the Phones segment and increasing revenues in the Professional segment as well as improving the market position of the Smart Home segment and further expanding the Smartphones segment. New business lines such as Smart Care or Smart Communications are also likewise to contribute to increasing revenues in the coming years and are being continually expanded.

EBITDA increased significantly in the 2019 financial year, amounting to EUR 28.5 million (prior year: EUR 22.1 million). The decline in gross profit was largely offset by cost savings in the area of other operating expenses. The increase in other operating income also had a positive effect on earnings.

Annual revenues for 2019 in the amount of EUR 257.9 million in the Group declined by EUR 22.5 million compared with the previous year and did not – as forecast – increase slightly compared with 2018. Despite this development, EBITDA amounted to EUR 28.5 million, thus considerably exceeding the previous year's forecast and the forecast from November 2019 (EBITDA remaining at the previous year's level). At EUR 1.2 million, free cashflow also increased considerably compared with the previous year (EUR -24.1 million), thus also confirming the previous year's forecast and the value forecast in November 2019.
Please refer to our comments in Section 8 (Forecast Report and Outlook) below for more information on the course of business in 2020.

3.3.5. Key indicators of financial performance, cashflows and the financial position

Key indications in %	2019	2018
Equity ratio	8.3	11.7
Ratio of noncurrent assets to total assets	31.0[1]	29.5
Debt capital structure	46.5	51.0
Return on sales	4.4	1.2
Return on equity	61.0	13.6
Return on investment	5.8	2.2

[1] Owing to the introduction of IFRS 16, there has been a change in the way ratio is determined compared with the previous year. Now, recognized right-of-use assets are included in the calculation, which is why only a limited comparison with the previous year can be made.

3.4 Financial performance, cashflows and financial position of Gigaset AG

3.4.1. Financial performance

Revenues in the amount of EUR 515 thousand (prior year: EUR 1,751 thousand) comprised exclusively services rendered for associated companies in Germany.

Other operating income increased from EUR 226 thousand to EUR 7,295 thousand. This item mainly includes reversals of provisions in the amount of EUR 2,867 thousand (prior year: EUR 180 thousand) and income from a lawsuit in the amount of EUR 3,312 thousand.

Personnel expenses decreased year-on-year from EUR 772 thousand to EUR 577 thousand.

Other operating expenses were incurred in the 2019 financial year in the amount of EUR 3,177 thousand (prior year: EUR 2,619 thousand). There were primarily cost allocations from Gigaset Communications GmbH in the amount of EUR 665 thousand (prior year: EUR 649 thousand), expenses for Supervisory Board compensation in the amount of EUR 623 thousand (prior year: EUR 621 thousand) as well as legal and advisory costs in the amount of EUR 499 thousand (prior year: EUR 427 thousand). Furthermore, expenses were incurred for insurance policies in the amount of EUR 304 thousand (prior year: EUR 190 thousand) and expenses for business consulting costs in the amount of EUR 51 thousand (prior year: EUR 73 thousand).

The line item **Other interest and similar income** included primarily interest income from a lawsuit in the amount of EUR 1,288 thousand, from the reversal of interest provisions for tax audits in the amount of EUR 749 thousand and from interest charged on loans to associates in the amount of EUR 65 thousand (prior year: EUR 207 thousand).

There were no **impairment losses on noncurrent financial assets** in the 2019 financial year (prior year: EUR 49,668 thousand).

Interest and similar expenses amounted to EUR 629 thousand (prior year: EUR 684 thousand) and included primarily interest effects from internal clearing transactions in the amount of EUR 443 thousand, interest expenses in connection with tax audits for value added tax paid in arrears in the amount of EUR 111 thousand and the addition of interest in connection with the allocation to provisions in the amount of EUR 75 thousand.

Based on the hierarchical structure of the statement of comprehensive income, net profit after tax was EUR 5,315 thousand (net loss for the prior financial year: EUR -52,566 thousand).

Net income in the amount of EUR 5,315 thousand (prior year: EUR -52,723 thousand) was generated in the 2019 financial year.

3.4.2. Cashflows

Cashflow can be broken down as follows:

Cashflow in EUR millions	2019	2018
Cashflows from operating activities	2.0	-1.4
Cashflows from investing activities	0.0	0.0
Free Cashflow	2.0	-1.4
Cashflows from financing activities	0.5	0.7

In financial year 2019, Gigaset AG recorded a **cash inflow from continuing operations** in the amount of EUR 1,993 thousand (prior year: EUR -1,443 thousand). Cash outflow can be explained primarily by Gigaset AG's currently cash expenses comprising personnel expenses and the compensation of Supervisory Board members, legal and advisory fees, and cost allocations for services rendered by Group companies.

Cashflows from investing activities in the current financial year amounted to EUR -36 thousand after EUR -8 thousand in the previous year.

Thus, **free cashflow** amounted to EUR 1,957 thousand compared with EUR -1,451 thousand in the previous year.

In the current financial year, there was a **cash inflow from financing activities** as a result of the repayment of a loan extended to a Group company in the amount of EUR 505 thousand.

Cash and cash equivalents amounted to EUR 3,573 thousand (prior year: EUR 1,111 thousand) as at December 31, 2019.

3.4.3. Financial position

Gigaset AG's **total assets** amount to EUR 122,871 thousand as at December 31, 2019 (prior year: EUR 121,209 thousand), and thus increased by 1.4 % year-on-year. This is mainly due to the net profit for the period and the increase in liquid funds.

Noncurrent assets increased by EUR 11,641 thousand to EUR 116,718 thousand (prior year: EUR 105,078 thousand), which is primarily due to the increase in shares in associated companies as the result of an intra-Group share purchase.

Current assets amount to EUR 6,153 thousand (prior year: EUR 16,131 thousand), constituting 5.0 % of total assets. They include mainly receivables from associated companies as well as other assets and bank deposits. Receivables from associated companies decreased year-on-year by EUR 12,557 thousand to EUR 1,076 thousand. This was primarily due to the offsetting of intra-Group claims as part of a share purchase involving associated companies. Furthermore, cash in banks increased by EUR 2,462 thousand.

On the liabilities side, the increase in **total equity and liabilities** can be seen primarily in the increase in equity due to the net profit for the period of EUR 5,315 thousand and due to the increase in pension provisions to EUR 659 thousand (prior year: EUR 577 thousand).

The equity ratio increased from 81.4 % to 84.7 %.

In the financial year just ended, Gigaset AG's **noncurrent liabilities** increased from EUR 610 thousand to EUR 784 thousand and include primarily pension provisions in the amount of EUR 659 thousand (prior year: EUR 577 thousand) and other provisions in the amount of EUR 125 thousand (prior year: EUR 33 thousand).

Current liabilities, provisions and deferred income decreased to EUR 18,050 thousand (prior year: EUR 21,877 thousand). Current liabilities include liabilities to associated companies in the amount of EUR 16,761 thousand (prior year: EUR 17,153 thousand). Current provisions include other provisions in the amount of EUR 485 thousand (prior year: EUR 4,366 thousand). Furthermore, other liabilities were recognized in the amount of EUR 73 thousand (prior year: EUR 278 thousand).

3.4.4. General assessment of the Group's economic situation

Net income amounts to EUR 5,315 thousand, which significantly exceeds the forecast from the previous year of a loss in the mid to high single-digit millions.

3.4.5. Key indicators of financial performance, cashflows and the financial position

Key figures of Gigaset AG in EUR millions	2019	2018
Noncurrent assets	116.7	105.1
Current assets	6.2	16.1
Equity	104.0	98.7
Noncurrent liabilities	0.8	0.7
Current liabilities	18.1	21.8
Equity ratio in %	84.7	81.4
Return on equity in %	5.1	negative
Return on investment in %	3.8	negative

4 OPPORTUNITIES AND RISK REPORT FOR THE YEAR ENDED DECEMBER 31, 2019

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

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

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

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

Category/Sub-category	**Risk management**
Market and industry risks	
Products | Patents | Certificates	*
Legal operating environment	*
Customers	***
Business and litigation risks	
Information technology	*
Personnel	*
Financial risk	
Liquidity	**
Foreign currency	*
Equity	**
Taxes	**
Liability risks	
Guarantees | Contingent liabilities	*
Litigation	*

4.1 Market and industry risks

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

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

More and more landlines are being replaced by cell phone connections, depending on the rate plans offered by network operators. The increased use of multifunctional smartphones is also leading to a change in consumer behavior. With Gigaset's entry into the business with mobile consumer devices, the Company undertook the marketing of new product groups. This entry is fraught with risks, as Gigaset is a new competitor in an existing market. With Gigaset's business with products for home networking, the Company has entered a market whose future development is still fraught with uncertainty.

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

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

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

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

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

The economic, legal, and political operating environment in Germany and the markets served by Gigaset have direct effects on Gigaset's business. The entry of Gigaset into new markets is fraught with special risks. This applies in particular to the entry into the smartphone market – which has already been achieved – where Gigaset as an importer of the devices is obligated to pay copyright fees in diverse regional markets depending on local laws. Gigaset has recognized corresponding provisions for this risk at the level of its subsidiaries where necessary based on case-by-case legal assessments.

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

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

In the Smart Home segment, Gigaset already introduced a modular, sensor-based security system to the market in 2012, for which the hardware and software has since been continuously expanded. The products and services serve a broad field of security-relevant scenarios in the private residential environment. In 2019, the system was expanded to include another comfort component (climate sensor) and the Smart Care approach for the elderly and people in need of assistance was expanded with the help of three new products.

With a smart speaker, which is equipped with the globally used Amazon “Alexa” voice recognition function including DECT functionality and can be connected to existing DECT systems, Gigaset has taken a step into the core future market of voice recognition. The Smart Home segment and the Phones segment will continue to converge in this area.

In the Phones business, the portfolio was expanded in 2019 to include a HX handset in the A-class area, a mass-produced A-class product was replaced by a fresher design and a stylish (design) telephone was added to serve this niche. The business with so-called easy to use (big button) telephones is continuing to grow within the Phones business. Here, Gigaset has brought to market another cordless and a corded big button telephone in the mid-price segment, adding to its existing portfolio. The elderly portfolio was also expanded to include a 2G GSM big button telephone and a smartphone with a pre-installed app especially for older people.

The expansion of the smartphone business is another measure. The Company is trying to establish a foothold in the smartphone segment with a low-risk approach and slowly expand the business further. The high brand awareness and trust in the brand name as well as distribution access to the most important target markets are a good foundation. In 2019, another five models were launched (GS110/190/195/290 and GX290), two of which bear the label “Made in Germany”. This approach gives Gigaset logistical advantages over its competitors due to its close physical proximity to customers and allows the Company to respond to customer wishes flexibly, e.g. by applying own logos in small volumes or printing very small batches.

4.2 Business and litigation risks

Reliable and consistent information systems and reporting structures capable of providing useful information are necessary in order to monitor and manage the Group and the development of subsidiaries. Gigaset has a professional bookkeeping, controlling, information, and risk management system at its disposal and has established a company-wide, regular controlling and risk management system. The technical ability to function is ensured by means of corresponding IT support, supported by and depending on corresponding service providers. The Executive Board is periodically and promptly informed of long-term developments in the countries and regions.

Nevertheless, it cannot be ruled out that the information system can fail in individual cases or that it may not be operated correctly by the relevant employees and therefore negative economic developments in a region are not reported promptly.

A distinct integration of the processes as well as Gigaset's global orientation require a high degree of digitalization in all business segments. The constant professionalization of cybercrime is leading to a steadily worsening threat situation for IT security with potential consequences for relevant corporate processes.

We are countering this risk by implementing group-wide security guidelines and current information security technology, which is in turn constantly further developed. Nevertheless, as a general rule, unauthorized access to data or systems resulting in the reduction or loss of confidentiality, integrity, or readiness cannot be ruled out even in our Company.

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

Gigaset could process someone's data in an unauthorized manner or otherwise violate specifications regarding data protection and therefore be exposed to risk associated with laws governing data protection.

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

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

Gigaset could violate the intellectual property of third parties or be obligated to pay for the use of third-party intellectual property. This applies in particular in the area of smartphones, where there are uncertainties with respect to licensing requirements and important market participants are therefore involved in major legal disputes.

Defects in Gigaset's products can lead to warranty and product liability claims as well as the loss of revenues, which could impact Gigaset's results. Gigaset purchases commodities and materials predominantly from at least two suppliers. The Company tries to avoid dependency on specific suppliers with respect to prices, volumes, and innovations through a wide-ranging collaboration. With respect to products purchased from third parties, such as smartphones, there is a latent risk as a result of the platform-related concentration of purchasing each given product from a single supplier. In order to put the smartphone business on safer footing, now at least one additional supplier has been established that can take over the business if the primary supplier falls through. Regular control mechanisms will nevertheless be continued; for example, the observation of the markets, key financial figures, and the tracking of deliveries to avoid an interruption of supply.

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

Individual Gigaset companies are exposed to default risks with respect to existing receivables from Group companies if the debtor company cannot repay the debt. With the exception of important facts and circumstances listed under "Liability risks" in Section 4.5 below, there are no identifiable facts or circumstances that could lead to Gigaset AG having to pay for liabilities on the part of subsidiaries.

The future success of Gigaset also depends on qualified managers and employees. If the Gigaset Group cannot attract or hold onto sufficiently qualified managers and employees, it could have a negative effect on the development of the Group.

The implementation of the restructuring program in effect since the end of 2015 was carried out as planned, and has been completed since the end of 2018. The restructuring measures have not had a noticeable after-effect among customers.

However, the worldwide reorientation of the Group has not yet been fully completed. The changes to the sales channels with growing shares in online business in particular mean that further structural changes are needed. These are not necessarily linked to personnel reduction measures, however.

The Gigaset Group's existing insurance policies could prove insufficient for various risks associated with the Company's activities. Gigaset may also not be able to purchase sufficient insurance coverage at reasonable prices in the future. In addition, insurance protection against a potential default on the part of individual customers or entire distribution regions can be reduced or entirely eliminated as a result of reduction in economic activity.

4.3 Financial risk

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

The business activities are financed both through own funds as well as through bank borrowings that were raised in financial year 2018. In April 2018, Gigaset entered into a loan agreement over EUR 20.0 million in order to finance capital expenditures in new lines of business. As of December 31, 2019, EUR 15.9 million of this amount had been drawn down. For financial year 2020 as well as for financial year 2021, the Company has sufficient liquid funds at its disposal based on its internal budgeting. According to the terms of the contract, the loan can be paid off in installments beginning January 2020.

Gigaset AG has no external loans payable. Even if Gigaset AG is not a recipient of the financing raised by Gigaset Communications GmbH and guaranteed by a State government, it is nevertheless jointly and severally liable in addition to the borrower in accordance with section 421 of the German Civil Code (Handelsgesetzbuch, HGB) for all present and future claims on the part of the lender. However, in exchange, the loan agreement enables Gigaset Communications GmbH to compensate Gigaset AG for its expenses with an annual lump-sum payment. In accordance with this opportunity, Gigaset AG has sufficient liquid funds at its disposal for financial year 2020 as well as for financial year 2021 based on its internal budgeting.

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

The Group uses various instruments to refinance its receivables portfolio, such as factoring, in order to hedge cashflow risks and to ensure the liquidity of the Group. If it should be necessary to renegotiate the terms of the sale of receivables (factoring) agreed to by Gigaset Group companies due to expiration or termination, Gigaset is financially dependent on the currently available terms and conditions and a new arrangement may not be agreed.

The loan agreement entered into in April 2018 stipulates compliance with various contractual duties until the loan funds are fully repaid. Noncompliance entitles the lender to give notice of termination of the loan agreement for cause and to call in the loan principal, which would lead to an uncovered need for liquidity. Among other things, the contractual duties include compliance with key financial figures.

In addition, the loan agreement specifies various contractual duties that Gigaset must adhere to as the borrower and which can cause the loan principal to be called in if violated. A violation of these contractual duties for which Gigaset is at fault is not likely at this time.

A change in control at Gigaset AG in which the current majority shareholder Goldin Fund Pte. Ltd., Singapore, transfers 50 % or more of its interest in the Company to one or more third parties represents an exception to this. Such a change in control can likewise entail a termination of the loan agreement for cause, but cannot be influenced by the Executive Board of Gigaset AG.

Early repayment of the loan in full if the lender exercises its right to termination for cause is not possible using the Company's own liquid funds based on currently available information.

In the Gigaset Group, income arises and expenses are also incurred in foreign currencies, e.g. for the procurement of numerous components for production that are paid for in U.S. dollars. As a rule, the associated currency risk is hedged by financing international activities in matching currencies or by using derivative financial instruments to hedge foreign currency exposures and thus does not present a specific risk for the Group.

Changes in capital market rates can result in changes in plan assets to cover pension obligations.

Gigaset holds a financial investment in Gigaset Mobile Pte. Ltd. as a noncurrent asset. When measuring the financial assets, the determination of the fair value of this financial investment led again to an impairment loss. This impairment was recognized directly in equity. Further impairment losses of the remaining residual value of this financial investment in the future cannot be ruled out.

4.4 Tax risk

4.4.1. Tax risk in Gigaset AG

Gigaset AG receives tax advice on an ongoing basis in order to identify any risks in advance. In 2016, the Company received an audit order in the area of value added tax and income tax for financial years 2010 to 2013. The federal tax audit by the German Federal Central Tax Office (*Bundeszentralamt für Steuern* (BZSt)) and the tax audit by the Bavarian state revenue office (local tax office of Munich) were completed in August 2019 with the production of the tax audit reports. The formal assessment notices for the audited years were all issued in October 2019. All of the tax reimbursements resulting therefrom were offset against tax payments; any tax payments in excess of this were settled in full.

4.4.2. Other tax risks in the Gigaset Group

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

Transfer pricing documentation is prepared annually under the leadership of an external tax consulting firm that specializes in transfer pricing and which is familiar with Gigaset in order to limit any potential tax risk arising from intragroup clearing transactions with and between foreign companies.

4.5 Liability risks

4.5.1. Guarantees on the part of the parent company

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

4.5.2. Legal disputes involving Gigaset AG

Gigaset AG is involved in various legal disputes in connection with its general operations, in particular processes and arbitration proceedings, as well as official administrative proceedings, or such proceedings could be initiated or claims asserted against the Company in the future. Even if the outcome of individual proceedings cannot be predicted with certainty due to the imponderabilities with which legal disputes are always fraught, there will not be any significant negative impacts on the Group's financial performance in excess of the risks reflected in the financial statements as liabilities or provisions according to current assessments. The following legal disputes involving Gigaset AG are currently pending/took place in the 2019 financial year:

Cartel cases involving SKW

In July 2009, the European Commission imposed a total administrative fine of EUR 61.1 million on various European companies in the calcium carbide sector in connection with an investigation under anti-trust laws. An administrative fine totaling EUR 13.3 million was imposed jointly and severally against SKW Stahl-Metallurgie GmbH, which was directly involved in the cartel, as well as its parent company SKW Stahl-Metallurgie Holding AG (hereinafter both together "SKW"). As the group parent company at the time, Gigaset AG is now also joint and severally liable for this administrative fine by order of the European Commission because it formed an "entrepreneurial unit" with SKW. The portion of the fine attributable to Gigaset AG in the amount of EUR 6.7 million was paid on a preliminary basis in 2009 to 2010 (i.e. for the duration of the appeal proceedings) to the European Commission. Concurrently, Gigaset also filed an appeal against the assessment of the administrative fine. In its decision handed down on January 23, 2014, the European court of first instance (European General Court) partially upheld the action brought by Gigaset AG (formerly: ARQUES Industries AG) against the fine imposed by the European Commission in the cartel case involving SKW and reduced Gigaset AG's administrative fine by EUR 1.0 million. The action brought by SKW was refused, i.e. the administrative fine imposed on it was not reduced. SKW has filed an appeal against this judgment, which was rejected by the European Court of Justice in a decision handed down on June 16, 2016. Parallel to the legal dispute that has been decided, Gigaset AG filed a suit against SKW in a civil court for reimbursement of the antitrust fine paid by Gigaset on the grounds that SKW alone should bear the administrative fine as the originator of the cartel and consequently should reimburse Gigaset AG for the portion of the administrative fine it has already paid. In the litigation on this matter between Gigaset and SKW, Gigaset considers its position to have been affirmed by the judgment of the Federal Court of Justice dated November 18, 2014, which has remanded the case to the lower court for renewed arguments and decision. The higher regional court now once again responsible then suspended Gigaset's legal dispute against SKW at the beginning of 2015 until the European Court of Justice's decision regarding the existence (or non-existence) of the fine imposed on SKW. The reimbursement by means of recourse to parties joint and severally liable desired by Gigaset depends on the logical preliminary question of whether (and to what extent) SKW and Gigaset are at all joint and severally liable, and consequently on whether the administrative fines imposed on Gigaset and SKW become finally enforceable. This preliminary question was decided in favor of Gigaset with the decision handed down by the European Court of Justice on June 16, 2016 (see above). The higher regional court of Munich thereupon reopened the proceedings. With a resolution dated September 28, 2017, the Local Court of Munich (Amtsgericht) issued an order temporarily establishing personal management in addition to protective shield proceedings in accordance with section 270a (1) of the German Insolvency Code (Insolvenzordnung, InsO) with respect to SKW Stahl-Metallurgie Holding AG and opened insolvency proceedings with another resolution dated December 1, 2017. This led to a suspension of these civil proceedings in accordance with section 240 sentence 1 of the Code of Civil Procedure (Zivilprozessordnung, ZPO) with respect to SKW Stahl-Metallurgie Holding AG, but not with respect to SKW Stahl-Metallurgie GmbH. In the meantime, Gigaset AG has resumed the legal dispute suspended in accordance with section 240 ZPO in relation to SKW Stahl-Metallurgie Holding AG. On April 11, 2019, the higher regional court of Munich resolved that SKW Stahl-Metallurgie Holding GmbH is obliged to pay Gigaset AG a total amount of approximately EUR 4.8 million (EUR 3.6 million plus interest). To avoid an ongoing legal dispute, Gigaset and SKW agreed on a compromise to bring the legal dispute to a definitive close, consisting of, in addition to a waiver of the right to appeal, a short-term payment obligation on the part of SKW amounting to a total of EUR 4.6 million. Gigaset received the settlement payment in due time in two installments made in May and June 2019. The costs of the legal dispute do not form part of the compromise agreement and are still to be settled by the parties to the legal dispute.

Evonik in the matter of Oxxynova

In the legal dispute with Evonik Degussa GmbH over a contractual penalty in the amount of EUR 12.0 million, a court of arbitration had ordered Gigaset AG to pay EUR 3.5 million plus interest to Evonik in November 2013 while dismissing the rest of the suit. On March 4, 2015, Gigaset paid the principal amount of EUR 3.5 million plus interest to Evonik. Due to the amounts paid under the guarantee, Gigaset now has taken recourse against the principal debtor, OXY Holding GmbH and the additional indemnification debtor, StS Equity Holding UG. After failing to reach an agreement out of court, Gigaset filed a lawsuit against the principal debtor OXY Holding GmbH as well as StS Equity Holding UG as the indemnifying party for reimbursement of this amount in a request for arbitration and payment order dated June 29, 2015. Insolvency proceedings were subsequently opened against the assets of both OXY Holding GmbH as well as StS Equity Holding UG. Gigaset is the principal creditor in both proceedings. In the meantime, the distribution of the insolvency assets has been largely completed; Gigaset expects – not least based on an agreement with the insolvency administrator regarding the matter – to receive up to EUR 3.5 million from the insolvency assets. EUR 2.0 million of this amount already flowed to the Company in the second quarter of 2016 by means of a preliminary distribution of the liquid insolvency assets in the insolvency proceedings over the assets of OXY Holding GmbH as well as around EUR 0.2 million in the fourth quarter of 2018 from the final distribution in the insolvency proceedings over the assets of StS Equity Holding UG. The Company expects an additional sum of around EUR 1.3 million as part of the final distribution in the insolvency proceedings of OXY Holding GmbH. In the final result, the Company will incur a net loss of EUR 1.3 million, primarily representing the interest paid to Evonik from the principal amount.

4.6 Overall statement regarding the report on opportunities and risks

Gigaset's primary opportunities in the forward-looking and high-margin market segments, whose potential is to be tapped through the further expansion and development of the Professional, Smart Home, and Smartphones segments.

If the realization of entrepreneurial opportunities and the development of the associated revenue potential cannot be achieved to the desired degree, there will be a risk of weaker sales figures due to the declining core business.

Gigaset is dependent on a sufficient supply of liquidity. In addition to the planned inflow of liquid funds from the operating business, such a supply of funds also depends on the planned availability of financing under the loan agreement as well as the other instruments used for refinancing. Limitations in this regard could lead to an uncovered need for liquidity.

5 DESCRIPTION OF THE RISK MANAGEMENT OBJECTIVES AND MEASURES

and the main features of the internal control and risk management system with respect to the accounting process of Gigaset AG and the Gigaset Group (section 289 (2) no. 1a and (4) as well as section 315 (2) no. 1a and (4) HGB).

5.1 Internal control and management through the group-wide planning and reporting process

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

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

The basis for this is the prompt availability of reliable and consistent information. Safeguarding the data base is the responsibility of the relevant Finance departments, in particular Controlling, Accounting, Tax, and Treasury, of the holding company as well as the individual Group entities.

Corresponding processes and monitoring measures both integrated and independent from the processes are implemented in accordance with the situation and industry affiliation of the respective company. Quick access to the information needed to manage the Group is ensured through this process.

The preparation and analysis of the information from the Group entities take place at Gigaset primarily in the Accounting, Global Controlling, and Treasury departments as well as in the central Risk Management department of Gigaset Communications GmbH. The completeness and accuracy of accounting data are periodically reviewed. The Company's other governing bodies such as the Supervisory Board are likewise included in the Gigaset Group's control environment with their prescribed activities based on their function.

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

5.2 Structural information

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

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

Accounting processes are recorded using individually selected professional accounting systems that are adapted as needed, such as SAP or DATEV. As of the 2020 financial year, Group companies which have been using DATEV will migrate to the SAP system, thus further harmonizing the accounting system landscape.

5.3 Process and controlling information

The implemented processes and related controlling instruments include the following key aspects, among other things:

- Central and local duties and responsibilities are defined.
- Accounting control mechanisms, such as the principle of review by a "second set of eyes", validation by the systems, manual inspections, and documentation of changes are implemented.
- Deadline and process plans for separate and consolidated financial statements are prepared and distributed or are made generally accessible.
- Analysis and – if necessary – adjustment of the reporting packages presented by the Group companies.
- Plausibility check of the systems at the Group level.
- Single-step consolidation process with a professional consolidation system.
- Use of standardized and complete sets of forms.
- Use of experienced, trained employees.
- The auditor performs a check function as a process-independent instrument within the scope of their statutory audit engagement.

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

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

5.4 Group-wide, systematic risk management

Risk management at Gigaset is an integral part of corporate management and corporate planning.

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

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

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

R2C_GRC provides Gigaset with a systematic, web-based risk management system with which all risks can be recorded group-wide and presented in consolidated form for each company or from the perspective of the Group.

The individual risks can be efficiently managed at the company level on this basis and a current and complete view of the risk situation in the Group can be supplied at the same time. The compliance and monitoring of the risk strategies established by the Executive Board for the Gigaset Group are thereby optimally ensured.

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

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

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

Risk assessment is carried out quantitatively on the basis of a 4x4 matrix for the factors probability of occurrence and severity of loss and is related to the potential impact of a negative event on results along a 12 month time horizon. In addition to substantiating the assessment, suitable measures to mitigate or avoid the risk as well as the person responsible for the risk are to be indicated for every individual risk.

The severity of loss is measured after steps have been taken, but before planned measures are implemented. The results of the classification are presented in tabular form in a so-called "risk map" or visualized in a portfolio.

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

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

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

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

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

In certain cases, Gigaset hedges against currency risk arising as a result of transactions with third parties denominated in foreign currency using derivative financial instruments, for which purpose Gigaset employs in particular forward exchange deals and currency options and records this by means of corresponding hedge accounting.

5.5 Disclaimer

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

6 SUPPLEMENTARY DISCLOSURES PURSANT TO SECTIONS 289A AND 315A HGB (ACQUISITION-RELATED DISCLOSURES)

Sections 289a no. 1 HGB, 315a no. 1 HGB: The subscribed capital of Gigaset AG as of December 31, 2019, amounts to EUR 132,455,896 and is divided into 132,455,896 no-par value bearer shares with a notional value of EUR 1.00 per share. Each share grants the same rights and one vote.

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

Sections 289a no. 3, 315a no. 3 HGB: As of the date of this report, the Company has received no new notifications regarding shareholdings in excess of ten percent of the voting rights.

Goldin Fund Pte. Ltd., Singapore, notified the Company on January 27, 2016 (with a correction on January 28, 2016), that it now holds 97,357,789 shares of the Company that grant the same number of voting rights. This corresponds to a share of 73.50 % of the 132,455,896 voting rights. As far as the Executive Board is aware, the shareholder therefore held a share of 73.5 % of the voting rights also in financial year 2019.

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

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

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

Sections 289a no. 7, 315a no. 7 HGB:

Authorized Capital 2019 (Art. 4 (3) of Articles of Association)

The Annual General Meeting held on August 12, 2014 authorized the Executive Board to issue, with the consent of the Supervisory Board, authorized capital amounting to up to EUR 22,000,000.00 up to August 11, 2019 and agreed to amend Art 4 (6) of the Articles of Association accordingly. This authorization was not made use of. The authorization expired on August 11, 2019. This Authorized

Capital 2014 should therefore be annulled. The Authorized Capital 2016 included in Art. 4 (5) of the Articles of Association at that time only takes advantage of some of the legal possibilities for authorized capital. In order to provide the Company with the greatest possible flexibility with respect to financing, the Authorized Capital 2014 is to be replaced by a newly Authorized Capital 2019 with the possibility of disapplying pre-emption rights. Against this background, the Annual General Meeting resolved on August 14, 2019 to create an additional newly Authorized Capital 2019 with the possibility of disapplying subscription rights and to correspondingly amend the Articles of Association.

The Executive Board is authorized to increase the share capital, with the consent of the Supervisory Board, by up to a total of EUR 22,000,000.00, once or in partial amounts, by issuing new no-par value bearer shares qualifying for dividends as of the beginning of the financial year in which they are issued, in exchange for cash contributions, in the time until August 13, 2024 (Authorized Capital 2019). The shareholders are generally entitled to a subscription right.

The new shares can also be underwritten by one or more credit institutions with the requirement that they be offered to the shareholders (indirect subscription right).

The Executive Board is authorized with the approval of the Supervisory Board to decide on the contents of the share rights and the terms under which the shares are issued as well as the details of the execution of the capital increase.

Furthermore, the Executive Board is authorized, with the consent of the Supervisory Board, to exclude the subscription right of the shareholders in the following cases:

a) In the case of capital increases in exchange for cash contributions, provided that the issue price of the new shares is not significantly less than the stock exchange price at the time of the final determination of the issue price, and provided that the shares issued by virtue of letter a) of this authorization under disapplication of pre-emption rights in exchange for cash contributions do not exceed a total of 10 % of the share capital either on August 14, 2019, or at the time when the present authorization takes effect, or when it is exercised;

b) To the extent that it is necessary in order to grant to the holders or creditors of convertible bonds or warrant-linked bonds issued by the Company or by subordinated Group companies a subscription right for new shares for an amount to which they would be entitled after exercising the warrant right or conversion right or after fulfilling the conversion obligation;

c) In order to eliminate fractional amounts from the subscription right.

The share of the share capital of all shares issued based on this authorization under disapplication of pre-emption rights may not exceed 20 % of the share capital either on August 14, 2019, or when the present authorization takes effect, or when this authorization is exercised. In each case, the proportional amount of share capital attributable to shares that are issued in the period from August 14, 2019, to the end of the term of the authorization under disapplication of pre-emption rights by direct or analogous application of section 186 (3) sentence 4 of the German Stock Corporation Act (Aktiengesetz, AktG) is to be applied against this limit of 20 % as well as to the limit of 10 % of the share capital in accordance with letter a) of this authorization. Furthermore, the proportional amount of the share capital attributable to shares that were or may still be issued for the purpose of servicing conversion or warrant rights or conversion obligations is to be applied against these limits, insofar as the underlying bond was issued during the term of the present authorization under disapplication of pre-emption rights in accordance with section 186 (3) sentence 4 AktG. Finally, the proportional amount of the share capital of the shares that are issued beginning on August 14, 2019, based on an authorization to utilize treasury shares in accordance with sections 71 (1) no. 8 sentence 5, 186(3) sentence 4 AktG under disapplication of pre-emption rights is to be applied to the aforementioned limits.

The Supervisory Board is also authorized to adapt the version of the Articles of Association in line with the respective amount of the capital increase from the Authorized Capital 2019.

The Authorized Capital 2014 and the corresponding authorization of the Executive Board pursuant to Art. 4 (6) of the Articles of Association will be annulled. Art. 4 (6) of the Articles of Association will be deleted entirely.

In light of this, the Annual General Meeting resolved to delete Art. 4 paragraph 6 from the Articles of Association entirely and insert the following new paragraph 3 into Art. 4 of the Articles of Association:

"The Executive Board is authorized to increase the share capital, with the consent of the Supervisory Board, by up to a total of EUR 22,000,000.00, once or in partial amounts, by issuing new no-par value bearer shares qualifying for dividends as of the beginning of the financial year in which they are issued, in exchange for cash contributions, in the time until August 13, 2024 (Authorized Capital 2019). The shareholders are generally entitled to a subscription right.

The new shares can also be underwritten by one or more credit institutions with the requirement that they be offered to the shareholders (indirect subscription right).

The Executive Board is authorized with the approval of the Supervisory Board to decide on the contents of the share rights and the terms under which the shares are issued as well as the details of the execution of the capital increase.

Furthermore, the Executive Board is authorized, with the consent of the Supervisory Board, to exclude the subscription right of the shareholders in the following cases:

a) In the case of capital increases in exchange for cash contributions, provided that the issue price of the new shares is not significantly less than the stock exchange price at the time of the final determination of the issue price, and provided that the shares issued by virtue of letter a) of this authorization under disapplication of pre-emption rights in exchange for cash contributions do not exceed a total of 10 % of the share capital either on August 14, 2019, or at the time when the present authorization takes effect, or when it is exercised;

b) To the extent that it is necessary in order to grant to the holders or creditors of convertible bonds or warrant-linked bonds issued by the Company or by subordinated Group companies a subscription right for new shares for an amount to which they would be entitled after exercising the warrant right or conversion right or after fulfilling the conversion obligation;

c) In order to eliminate fractional amounts from the subscription right.

The share of the share capital of all shares issued based on this authorization under disapplication of pre-emption rights may not exceed 20 % of the share capital either on August 14, 2019, or when the present authorization takes effect, or when this authorization is exercised. In each case, the proportional amount of share capital attributable to shares that are issued in the period from August 14, 2019, to the end of the term of the authorization under disapplication of pre-emption rights by direct or analogous application of section 186 (3) sentence 4 of the German Stock Corporation Act (Aktiengesetz, AktG) is to be applied against this limit of 20 % as well as to the limit of 10 % of the share capital in accordance with letter a) of this authorization. Furthermore, the proportional amount of the share capital attributable to shares that were or may still be issued for the purpose of servicing conversion or warrant rights or conversion obligations is to be applied against these limits, insofar as the underlying bond was issued during the term of the present authorization under disapplication of pre-emption rights in accordance with section 186 (3) sentence 4 AktG. Finally, the proportional amount of the share capital of the shares that are issued beginning on August 14, 2019, based on an authorization to utilize treasury shares in accordance with sections 71 (1) no. 8 sentence 5, 186(3) sentence 4 AktG under disapplication of pre-emption rights is to be applied to the aforementioned limits."

This authorization has so far not been utilized.

<u>Authorized Capital 2016 (Art. 4 (5) of Articles of Association)</u>

The Authorized Capital 2014 currently included in Art. 4 (6) of the Articles of Association only takes advantage of some of the legal possibilities for authorized capital. In order to provide the Company with the greatest possible flexibility with respect to financing, the Annual General Meeting resolved on August 12, 2016, to create an additional newly Authorized Capital 2016 with the possibility of disapplying pre-emption rights and to correspondingly amend the Articles of Association.

In light of this, the Annual General Meeting resolved to insert the following new paragraph 5 into Art. 4 of the Articles of Association:

"5. The Executive Board is authorized to increase the share capital, with the consent of the Supervisory Board, by up to a total of EUR 44,200,000.00, once or in partial amounts, by issuing new no-par value bearer shares qualifying for dividends as of the beginning of the financial year in which they are issued, in exchange for cash contributions, in the time until August 11, 2021 (Authorized Capital 2016). The shareholders are generally entitled to a subscription right.

The new shares can also be underwritten by one or more credit institutions with the requirement that they be offered to the shareholders (indirect subscription right).

The Executive Board is authorized with the approval of the Supervisory Board to decide on the contents of the share rights and the terms under which the shares are issued as well as the details of the execution of the capital increase.

Furthermore, the Executive Board is authorized, with the consent of the Supervisory Board, to exclude the subscription right of the shareholders in the following cases:

a) *In the case of capital increases in exchange for cash contributions, provided that the issue price of the new shares is not significantly less than the stock exchange price at the time of the final determination of the issue price, and provided that the shares issued by virtue of letter a) of this authorization under disapplication of pre-emption rights in exchange for cash contributions do not exceed a total of 10 % of the share capital either on August 12, 2016, or at the time when the present authorization takes effect, or when it is exercised;*

b) *To the extent that it is necessary in order to grant to the holders or creditors of convertible bonds or warrant-linked bonds issued by the Company or by subordinated Group companies a subscription right for new shares for an amount to which they would be entitled after exercising the warrant right or conversion right or after fulfilling the conversion obligation;*

c) *In order to eliminate fractional amounts from the subscription right.*

The share of the share capital of all shares issued based on this authorization under disapplication of pre-emption rights may not exceed 20 % of the share capital either on August 12, 2016, or when the present authorization takes effect, or when this authorization is exercised. In each case, the proportional amount of share capital attributable to shares that are issued in the period from August 12, 2016, to the end of the term of the authorization under disapplication of pre-emption rights by direct or analogous application of section 186 (3) sentence 4 of the German Stock Corporation Act (Aktiengesetz, AktG) is to be applied against this limit of 20 % as well as to the limit of 10 % of the share capital in accordance with letter a) of this authorization. Furthermore, the proportional amount of the share capital attributable to shares that were or may still be issued for the purpose of servicing conversion or warrant rights or conversion obligations is to be applied against these limits, insofar as the underlying bond was issued during the term of the present authorization under disapplication of pre-emption rights in accordance with section 186 (3) sentence 4 AktG. Finally, the proportional amount of the share capital of the shares that are issued beginning on August 12, 2016, based on an authorization to utilize treasury shares in accordance with sections 71 (1) no. 8 sentence 5, 186(3) sentence 4 AktG under disapplication of pre-emption rights is to be applied to the aforementioned limits."

This authorization has so far not been utilized.

Contingent Capital 2019 (Art. 4 (4) of the Articles of Association)

Bonds with warrants and/or convertible bonds can be important instruments for ensuring appropriate capital resources as a decisive basis for business development. The Company mostly accrues debt capital at low interest rates that it later retains as equity under certain circumstances. To issue such bonds, the corresponding authorization is required as well as the creation of contingent capital.

The authorization of the Executive Board to issue bonds with warrants and/or convertible bonds from August 12, 2014 in accordance with Art. 4 (8) of the Articles of Association expired on August 11, 2019 and should therefore be annulled.

The authorization of the Executive Board at that time to issue bonds with warrants and/or convertible bonds from August 12, 2016 with the Contingent Capital 2016 in the amount of EUR 29,700,000 in accordance with Art. 4 (9) of the Articles of Association only takes advantage of some of the legal possibilities for contingent capital.

In order to provide the Company with the greatest possible flexibility with respect to financing within the scope of the legal possibilities for using this important financial instrument in the future, the Annual General Meeting resolved on August 14, 2019 to create a new additional authorization to issue bonds with warrants and/or convertible bonds as well as a new Contingent Capital 2019 with the possibility of disapplying pre-emption rights and to correspondingly amend the Articles of Association:

1. Authorization of the Executive Board to issue bonds with warrants and/or convertible bonds

 a) Authorization period, nominal value, number of shares

The Executive Board is authorized to do the following, with the consent of the Supervisory Board, up to August 13, 2024, on one or more occasions:

- to issue bearer or registered bonds with warrants and/or convertible bonds with or without a limited term in a total nominal amount of up to EUR 150,000,000.00 ("bonds") through the Company or through companies which have a direct or indirect majority stake in the Company ("subordinated Group companies") and

- to assume the guarantee for such bonds issued by subordinated Group companies and

- to grant holders or creditors of bonds warrant rights and/or conversion rights on up to 35,000,000 Company bearer shares with a proportional amount of the share capital of up to EUR 35,000,000.00, subject to the relevant terms and conditions underlying the bonds.

The individual issuances can be divided into equal partial debentures and are to be issued in exchange for cash performance.

Upon the issuance of bonds with warrants, one or more warrants will be added to each partial debenture entitling the holder or creditor to acquire Gigaset shares, subject to the terms and conditions of the bond and/or warrant.

The warrants concerned can be separable from the partial debentures in question. The terms and conditions of the bond and/or warrant may stipulate that the warrant price can also be paid through the transfer of partial debentures or possibly through a cash payment. The proportional amount of share capital attributable to the shares to be acquired per partial debenture must not be higher than the nominal amount of the bond with warrant or an issue price lower than the nominal amount.

Upon the issuance of convertible bonds, the holder or creditor will have the right or be required to convert their convertible bonds into Gigaset shares subject to the terms and conditions of the convertible bonds. The conversion ratio is determined by dividing the nominal amount or the lower issue price of a partial debenture by the set conversion price for a Company bearer share. The conversion ratio will be rounded to the fourth decimal. The bond terms may require a cash payment or stipulate that fractional amounts that cannot be converted be merged and/or settled in cash. The bond terms can also stipulate a conversion obligation. The proportional amount of share capital attributable to shares to be acquired per partial debenture must not exceed the nominal amount of the partial debenture or an issue price lower than the nominal amount.

 b) Subscription right, exclusion of a subscription right

The shareholders are generally entitled to a subscription right on the bonds; the bonds can also be underwritten by one or more credit institutions with the requirement that they be offered to the shareholders (indirect subscription right). However, the Executive Board is authorized, with the consent of the Supervisory Board, to exclude the subscription right of the shareholders to bonds:

- in the case of issuance of bonds in exchange for cash performance, provided the issue price is not significantly less than the theoretical market price of the bonds calculated in accordance with recognized actuarial methods; however, this only applies to the extent that the share of the share capital of the shares to be issued for the purpose of servicing warrant and/or conversion rights or conversion obligations conferred by the issuance of bonds does not exceed 10 % of the share capital either on August 14, 2019, or when the present authorization takes effect, or when this authorization is exercised

- to eliminate fractional amounts arising as a result of the subscription ratio from the shareholders' subscription right on the bonds

- to grant holders or creditors of warrant or conversion rights or conversion obligations subscription rights to compensate for dilution to the extent that they would be entitled after exercising these rights and/or fulfilling these obligations.

The share of the share capital of all shares to be issued for the purpose of servicing warrant and/or conversion rights or conversion obligations conferred by the issue of bonds due to this authorization, excluding the subscription right, may not exceed 20% of the share capital either on August 14, 2019, or when the present authorization takes effect, or when this authorization is exercised. In each case, the proportional amount of share capital attributable to shares that are issued in the period from August 14, 2019, to the end of the term of the authorization under disapplication of pre-emption rights by direct or analogous application of section 186 (3) sentence 4 of the German Stock Corporation Act (Aktiengesetz, AktG) is to be applied against this limit of 20% as well as to the aforementioned limit of 10% of the share capital. Furthermore, the proportional amount of the share capital attributable to shares that were or may still be issued for the purpose of servicing conversion or warrant rights or conversion obligations is to be applied against these limits, insofar as the underlying bond was issued during the term of the present authorization under disapplication of pre-emption rights in accordance with section 186 (3) sentence 4 AktG. Finally, the proportional amount of the share capital of the shares that are issued beginning on August 14, 2019, based on an authorization to utilize treasury shares in accordance with sections 71 (1) no. 8 sentence 5, 186(3) sentence 4 AktG under disapplication of pre-emption rights is to be applied to the aforementioned limits.

c) Warrant or conversion price, dilution protection

- The warrant or conversion price must not exceed 80 % of the price of the Gigaset share in the XETRA trading system (or in a comparable successor system). For this, the average closing price of the ten trading days prior to the definitive decision of the Executive Board regarding the issue of an offer to subscribe to the bonds and/or regarding the Company's declaration of acceptance of a public invitation to submit subscription offers will be taken. For subscription rights trading, the days on which the subscription rights trading occurs, with the exception of the last two trading days, are decisive, unless the Executive Board has already set a warrant and/or conversion price prior to the subscription rights trading.

- Notwithstanding section 9 (1) of the German Stock Corporation Act (Aktiengesetz, AktG), owing to a dilution protection clause and in accordance with the terms and conditions of the warrant or conversion price, the warrant and/or conversion price can be reduced or cash components amended or subscription rights granted if the Company increases the share capital before the expiry of the warrant or conversion deadline by granting a subscription right to its shareholders or issues or guarantees additional bonds without granting the holders of warrant rights and/or the creditors of conversion bonds a subscription right to the extent to which they would be entitled after exercising their warrant or conversion rights and/or conversion obligations. The same also applies to other measures which may lead to a dilution of the value of the warrant and/or conversion rights and/or conversion obligations. In any case, however, the proportional amount of share capital attributable to shares to be acquired per partial debenture must not exceed the nominal amount of the partial debenture or a lower issue price.

Sections 9 (1) and 199 of the AktG shall remain unaffected.

d) Other structuring possibilities

The Executive Board is authorized, with the consent of the Executive Board and taking into account existing requirements, to establish further details of the issue and features of the bonds and their terms and conditions itself or in agreement with the bodies of the subordinated Group companies issuing the bonds, in particular warrant and conversion price, interest rate, issue price, term and denomination, creation of a warrant or conversion obligation, determination of a cash payment, merging or settlement of fractional amounts, cash payment instead of delivery in shares, delivery of existing shares instead of issue of new shares, dilution protection and warrant and/or conversion period.

2. Contingent capital increase

The share capital is conditionally increased by up to EUR 35,000,000.00 through the issuance of up to 35,000,000 new bearer shares qualifying for dividends from the beginning of the financial year in which they were issued. The contingent capital increase serves the purpose of issuing shares to the holders or creditors of bonds with warrants and/or convertible bonds that were issued by the Company or a subordinate Group company in exchange for cash performance in the time until August 13, 2024, by virtue of the authorization of the Annual General Meeting of August 14, 2019. New shares are issued respectively at the warrant or conversion price specified under the aforementioned authorization. The contingent increase in capital may only be carried out to the extent that warrant rights and/or conversion rights arising from the bonds are exercised and/or conversion requirements from the bonds are met and to the extent that cash contributions are not paid or treasury shares are not offered for subscription. The Executive Board is authorized with the consent of the Supervisory Board to establish the further details applicable to the conduct of the contingent capital increase (Contingent Capital 2019).

3. The authorization of the Executive Board decided by the Annual General Meeting of August 12, 2014 pursuant to Art. 4 (8) of the Articles of Association to issue bonds with warrants and/or conversion bonds will be annulled. Art. 4 (8) of the Articles of Association will be deleted entirely.

In light of this, the Annual General Meeting resolved to delete Art. 4 paragraph 8 from the Articles of Association entirely and insert the following new paragraph 4 into Art. 4 of the Articles of Association:

"The share capital is conditionally increased by up to EUR 35,000,000.00 through the issuance of up to 35,000,000 new bearer shares qualifying for dividends from the beginning of the financial year in which they were issued. The contingent capital increase serves the purpose of issuing shares to the holders or creditors of bonds with warrants and/or convertible bonds that were issued by the Company or a subordinate Group company in exchange for cash performance in the time until August 13, 2024, by virtue of the authorization of the Annual General Meeting of August 14, 2019. New shares are issued respectively at the warrant or conversion price specified under the aforementioned authorization. The contingent increase in capital may only be carried out to the extent that warrant rights and/or conversion rights arising from the bonds are exercised and/or conversion requirements from the bonds are met and to the extent that cash contributions are not paid or treasury shares are not offered for subscription. The Executive Board is authorized with the consent of the Supervisory Board to establish the further details applicable to the conduct of the contingent capital increase (Contingent Capital 2019)."

This authorization has so far not been utilized.

<u>Contingent Capital 2016 (Art. 4 (9) of the Articles of Association)</u>

Since the existing authorization of the Executive Board to issue bonds with warrants and/or convertible bonds from August 12, 2014, with Contingent Capital 2014 in the amount of EUR 35,000,000.00 in accordance with Art. 4 (8) of the Articles of Association only takes advantage of some of the legal possibilities for contingent capital, the Annual General Meeting on August 12, 2016 resolved a new additional authorization to issue bonds with warrants and/or convertible bonds as well as a new Contingent Capital 2016 and amended the Articles of Association accordingly. The Executive Board was also authorized, with the consent of the Supervisory Board, to disapply the pre-emption rights of the shareholders to the warrant-linked and/or convertible bonds.

Accordingly, the Annual General Meeting resolved to add a new Art. 4 (9) to the Articles of Association, which reads as follows:

"9. The share capital is conditionally increased by up to EUR 29,700,000.00 through the issuance of up to 29,700,000 new bearer shares qualifying for dividends from the beginning of the financial year in which they were issued. The contingent capital increase serves the purpose of issuing shares to the holders or creditors of bonds with warrants and/or convertible bonds that were issued by the Company or a subordinate Group company in exchange for cash performance in the time until August 11, 2021, by virtue of the authorization of the Annual General Meeting of August 12, 2016. New shares are issued respectively at the warrant or conversion price specified under the aforementioned authorization. The contingent increase in capital may only be carried out to the extent that warrant rights and/or conversion rights arising from the bonds are exercised and/or conversion requirements from the bonds are met and to the extent that cash contributions are not paid or treasury shares are not offered for subscription. The Executive Board is authorized with the consent of the Supervisory Board to establish the further details applicable to the conduct of the contingent capital increase (Contingent Capital 2016)."

The Company has not yet utilized the authorization granted in Art. 4 (9) of the Articles of Association.

Sections 289a no. 8, 315a no. 8 HGB: There are no material agreements with the parent company as of December 31, 2019, subject to the condition of a change in control as a consequence of a takeover offer.

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

7 GERMAN CORPORATE GOVERNANCE CODE

7.1 Statement on corporate governance at Gigaset AG & the Group

7.1.1. Declaration of conformity

Corporate governance is an issue that Gigaset AG takes very seriously. The Executive Board and Supervisory Board understand corporate governance to be a process that is continuously further developed and improved.

With only a few exceptions, Gigaset AG complies with the German Corporate Governance Code (the "Code").

The Executive Board and Supervisory Board of Gigaset AG submitted the declaration of conformity with the German Corporate Governance Code on February 27, 2020, in the version currently valid dated February 7, 2017, as required under section 161 of the German Stock Corporation Act (Aktiengesetz, AktG) and then made it permanently and publicly available to the shareholders on the Company's website (http://www.gigaset.com/de_de/cms/gigaset-ag/investor-relations/unternehmen/corporate-governance.html) on February 28, 2020. The Executive Board and Supervisory Board of Gigaset AG thereby declare that, with few exceptions, they have complied and will comply in the future with the Code Commission's recommendations regarding the management and supervision of the enterprise published in the electronic Federal Gazette in the current version.

7.1.2. Relevant disclosures regarding governance practices

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

The Gigaset Business Conduct Guidelines are the core rules and standards of Gigaset AG's compliance system. In addition, a Compliance Committee comprising three members who meet regularly advises and supports the Executive Board in all questions related to the lawful governance of the Company, compliance with statutory provisions and official instructions, and adherence to associated internal guidelines. The Compliance Committee's responsibilities include, among other things, continuously monitoring compliance and conducting training courses for the employees, clarifying suspicious cases and formulating recommended actions for the Executive Board as well as managing an information and reporting center for compliance violations ("whistleblower hotline"). Employees and third parties can direct information regarding potential compliance violations by telephone using the whistleblower hotline, by email, or anonymously by submitting a report form to the Compliance Committee.

7.1.3. Report on corporate governance

7.1.3.1. Functioning of the Executive Board

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

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

If more than one person is appointed to the Executive Board, the members of the Executive Board have joint responsibility for the overall management of the Company. 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. The Executive Board represents the Company and corporate group vis-a-vis third parties and the workforce in matters that affect more than just parts of the Company or the corporate group. In addition, it has special responsibility for certain Corporate Center units and their areas of activity.

7.1.3.2. Functioning of the Supervisory Board

The Supervisory Board is tasked with supervising and advising the Executive Board. It comprises six members. The Supervisory Board is directly involved in decisions of fundamental importance for the Company; it also agrees on the Company's strategic orientation with the Executive Board and discusses the progress achieved on implementing the business strategy with the Executive Board. The Chairman of the Supervisory Board coordinates the board's work and chairs its meetings. The Executive Board keeps the Supervisory Board informed at all times about the Company's policies, planning and strategy as part of a regular exchange of views. The Supervisory Board checks the annual plan and adopts the separate 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. As in the prior year, the Supervisory Board also reviewed the dependent company report, which the Executive Board will present to the Supervisory Board after it is signed together with auditor’s report and opinion. As in the prior year, the Supervisory Board reviewed the dependent company report insofar independently and comprehensively just as it reviewed the completeness of the statements made therein. In addition, it reviewed the separate consolidated non-financial report in accordance with section 315b HGB. In addition, the Supervisory Board has begun an open, dialog-oriented self-assessment, which will be carried out over the longer term, to determine the effectiveness of the Supervisory Board as a whole and its committees. The aim is to ascertain specific ways to further develop its composition and working methods. The Supervisory Board started by analyzing and discussing the number, duration and content of its meetings, the working methods and division of labor, the appointment of committees and tasks carried out by these committees and the provision of information, on the basis of which it derived and implemented measures.

7.1.3.3. Supervisory Board committees

Audit Committee: After the death of Mr. Riedel, the Audit Committee comprised Mr. di Fraia, Mr. Burkhardt (Chairman), and Ms. Shiu from January 24, 2019 to March 27, 2019. Since March 27, 2019, the Audit Committee has comprised Mr. Wong, Mr. di Fraia, Mr. Burkhardt (Chairman), and Ms. Shiu.

The members of the Supervisory Board who also served on the Audit Committee in the financial year meet the statutory requirements of independence and expertise in the areas of accounting or auditing that members of the Supervisory Board and Audit Committee must fulfill.

Among other things, the Audit Committee's duties include reviewing the Company's accounts, the annual and consolidated financial statements prepared by the Executive Board, the combined management report, the proposal for the utilization of Gigaset AG's unappropriated net profit, and the Gigaset Group's quarterly reports and interim management reports. The Audit Committee draws up proposals for the approval of the annual financial statements by the Supervisory Board on the basis of the independent auditors' report on the audit of Gigaset AG's separate annual financial statements and the Gigaset Group's consolidated financial statements and combined management report. The Audit Committee is also responsible for the Company's relations with the independent auditors. The committee submits to the Supervisory Board a proposal regarding the election of the independent auditors, suggests areas of audit emphasis, sets the fees paid to the auditors and engages the independent auditors elected by the Annual General Meeting. Furthermore, the committee monitors the independence, qualification, rotation, and efficiency of the auditors of the annual financial statements. In addition, the Audit Committee handles the review of the separate consolidated non-financial report in accordance with section 315b HGB and addresses the Company's internal control system, the procedures used to record, control and manage risk, and the internal audit system.

Personnel Committee: The Personnel Committee is directly responsible for dealing with all personnel matters of the Executive Board to the extent permitted under the law. After the death of Mr. Riedel, the Personnel Committee comprised Mr. Wong and Mr. di Fraia from January 24, 2019 to March 27, 2019. Since March 27, 2019, the Personnel Committee has comprised Mr. Wong, Mr. di Fraia, and Ms. Münch (Chairwoman).

Finance Committee: The Finance Committee deals with complex financial issues. After the death of Mr. Riedel, the Finance Committee comprised Mr. Wong and Mr. di Fraia from January 24, 2019 to March 27, 2019. Since March 27, 2019, the Finance Committee has comprised Mr. Wong, Ms. Münch, and Mr. di Fraia (Chairman).

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

7.1.3.4. Disclosures regarding the share of women and the concept of diversity

On July 24, 2017, the Supervisory Board established targets for the share of women – namely 16.66 % on the Supervisory Board by June 30, 2022, and 0 % on the Executive Board by June 30, 2022. These targets were hit during financial year 2018. In addition, the Executive Board established targets on August 9, 2017, for the share of women in the two management levels below the Executive Board – namely, 10 % for the first management level and 30 % for the second management level by June 30, 2022. As only two employees are now employed at Gigaset AG, these targets have not yet been met.

Gigaset AG does not pursue a diversity concept. Gigaset is of the opinion that the appointment to the Company's Executive Board should be based primarily on skills, qualifications, and professional experience. The Supervisory Board is elected by the Annual General Meeting. The election recommendations to the Annual General Meeting are also based primarily on the candidates' skills, qualifications and professional experience. Gigaset AG is of the opinion that the suitability of candidates should be decided solely by the Company's shareholders.

7.1.3.5. Share transactions involving members of the Executive Board and Supervisory Board

Members of the Executive Board and the Supervisory Board as well as their related parties are obligated in accordance with Art. 19 of the Market Abuse Regulation (EU) No. 596/2014 (MAR), to report to Gigaset AG and the German Federal Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht, BaFin) transactions involving shares or debt instruments of Gigaset AG or other associated financial instruments conducted by persons discharging managerial responsibilities ("managers' transactions"), if the value of the transactions reaches or exceeds EUR 5,000 in a calendar year and/or in the 2019 financial year. Gigaset AG publishes information regarding such transactions immediately on its webpage and notifies the BaFin in writing accordingly; the information is communicated to the commercial register for archiving.

The Company did not receive any notifications in accordance with Art. 19 of the Market Abuse Regulation (EU) No. 596/2014 (MAR) in financial year 2019.

7.1.3.6. Extensive reporting

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

7.2 Main features of the compensation system for Gigaset AG's governing bodies (compensation report)

7.2.1. Compensation paid to members of the Executive Board

The duties and contribution of the respective Executive Board member are taken into account when determining their compensation. The compensation granted in the 2019 financial year comprised both a fixed salary as well as variable compensation components. There are variable compensation components for the members of the Executive Board based on company and/or performance-based bonus agreements and in some cases also based on personal goals with qualitative milestones. The goals were discussed with the Supervisory Board and/or the Chairman of the Company's Audit Committee and with the Executive Board members at the beginning of the financial year or at the beginning of work as an Executive Board member. The Supervisory Board decides on the achievement of the respective goals based on the individual agreements.

Based on a resolution of the Annual General Meeting held on August 11, 2015, in accordance with sections 286 (5) and 314(3) HGB (old version), the itemized disclosures required under section 285 no. 9a sentences 5 to 8 and section 314 (1) no. 6a sentences 5 to 8 HGB (old version) will not be provided when preparing the separate financial statements of Gigaset AG and the consolidated financial statements. This resolution applies to the preparation of the separate financial statements of Gigaset AG and the consolidated financial statements for the financial years commencing January 1, 2015, and the next four financial years, but ends no later than August 10, 2020. In accordance with article 83 of the Introductory Act to the German Commercial Code, sections 285, 286, 289a, 289f, 291, 314, 315a, 324, 325, 325a, 329 and 341s of the German Commercial Code in the version valid as of January 1, 2020 are to be applied to annual and consolidated financial statements as well as management and group management reports for the financial year starting December 31, 2020 for the first time.

Therefore, the disclosures regarding the compensation paid to members of the Executive Board in the paragraphs of the compensation report below are each provided in aggregate without any names.

The possible and/or granted total compensation of the members of the Executive Board for financial year 2019 breaks down as follows analogous to the requirements of the German Corporate Governance Code (version dated February 2017), Model Table 1 for Section 4.2.5 (3) (1st indent):

Payments granted to Executive Board members, in EUR	**2018 (100%)**	**2019 (100%)**	**2019 (Min)**	**2019 (Max)**
Fixed compensation	617,209	527,622	0	
Fringe benefits	25,202	50,280	0	
Total of fixed compensation components	642,411	577,902	0	
One-year variable compensation	50,000	50,000	0	275,000
Multi-year variable compensation	0	0	0	0
Total of fixed and variable compensation	692,411	627,902	577,902	852,902
Service cost	11,592	3,549	3,549	3,549
Total compensation	**704,003**	**631,451**	**581,451**	**856,451**

The income accruing to the members of the Executive Board for financial year 2019 breaks down as follows in accordance with the requirements of the German Corporate Governance Code (version dated February 2017), Model Table 2 for Section 4.2.5 (3) (2nd indent):

Allocation to Executive Board members collectively, in EUR	2019	2018
Fixed compensation	527,622	617,209
Fringe benefits	50,280	25,202
Total of fixed compensation components	577,902	642,411
One-year variable compensation	50,000	50,000
Multi-year variable compensation	627,902	692,411
Service cost	3,549	11,592
Total compensation	**631,451**	**704,003**

No further compensation was granted to the Executive Board members for their work in subsidiaries or associated companies. The allocations from the total compensation of the Executive Board amounted to EUR 0.6 million in the financial year (prior year: EUR 0.7 million).

7.2.2. Compensation paid to members the Supervisory Board

As a result of a resolution adopted by the Extraordinary General Meeting held on December 19, 2013, the compensation scheme below, which was amended in a resolution adopted by the Annual General Meeting on August 17, 2017, regarding the compensation of the Supervisory Board members in Section 1 "Base compensation" as well as with respect to its period of validity, is applied retroactively as of August 15, 2013. The entire compensation scheme is as follows:

"In accordance with section 113 of the German Stock Corporation Act (Aktiengesetz, AktG) and Art. 12 (2) of the Company's Articles of Association, the Annual General Meeting approves the following compensation for the members of Gigaset AG's Supervisory Board:

1. Base compensation. Every member of the Supervisory Board receives a fixed salary of EUR 5,000.00 ("base compensation") for every month or partial month of their term of office ("accounting month"). The beginning and end of every accounting month are determined based on sections 187 (1), 188 (2) of the German Civil Code (Bürgerliches Gesetzbuch, BGB). The claim to base compensation arises at the end of the accounting month.

2. Compensation for participating in meetings. Every member of the Supervisory Board receives a salary of EUR 1,000.00 for participating in a Supervisory Board or committee meeting convened in accordance with the Articles of Association. Telephonic participation in the meeting as well as submission of a vote in writing in accordance with Art. 9 (3) sentence 2 of the Articles of Association is equivalent to participating in the meeting. Multiple meetings of the same body on the same day are compensated as one meeting. The claim to compensation for attending a meeting arises when the minutes of the meeting are signed by the Chairman or Committee Chairman. The basis for the claims can only be proven by the minutes of the meeting in accordance with section 107 (2) AktG.

3. Compensation for adopting a resolution outside of meetings. Every member of the Supervisory Board receives a salary of EUR 1,000.00 for submitting their vote during the adoption of a resolution in writing, by fax, by telephone, by e-mail, or by other means of telecommunication or data transmission outside of a meeting in accordance with article 9(4) of the Articles of Association ordered in any particular case by the Chairman. Multiple resolutions adopted outside of a meeting on the same day will be compensated as a single claim. The claim to compensation for adopting a resolution arises when the minutes of the resolution are signed by the Chairman or Committee Chairman. The basis for the claims can only be proven by the minutes of the resolution.

4. Compensation of the Chairman. The Chairman of the Supervisory Board receives an additional 100 % and the Vice Chairman of the Supervisory Board receives an additional 50 % of all compensation specified in articles 1 to 3.

5. Reimbursement of expenses. The Company reimburses the Supervisory Board members for expenses and any value added tax on compensation or expenses incurred while performing the duties of their office. The claim to reimbursement of expenses arises when the expenses are personally paid by the Supervisory Board member.

6. Origination of claim and due date. All payment claims are due 21 days after the Company receives an invoice satisfying the requirements of a proper invoice. If a claim is asserted for the reimbursement of *expenses, copies of receipts for the expenses must be attached to the invoice. The Company is authorized to make payments in advance of the due date.*

7. Insurance. The Company must take out a D&O insurance policies for the benefit of Supervisory Board members that covers the statutory liability relating to their activities on the Supervisory Board.

8. Duration. This compensation scheme takes effect retroactively as of August 15, 2013, and remains in force until replaced by an Annual General Meeting. This compensation scheme replaces the compensation scheme resolved by the Annual General Meeting on August 14, 2013, which is at the same time retroactively annulled. If compensation has already been paid based on the annulled compensation scheme, it is to offset claims to payment under the new scheme.

The resolved amendment of the base compensation takes effect on August 18, 2017, and applies for the first time for accounting months beginning after August 18, 2017. It remains in effect until the Annual General Meeting adopts a new resolution."

These resolutions are being implemented by the Company.

For the detailed breakdown of the compensation of the Supervisory Board, please refer to our comments in the Notes to the consolidated financial statements.

8 FORECAST REPORT AND OUTLOOK

8.1 General economic development

On the basis of a forecast by the International Monetary Fund (IMF) published in January 2020, global economic growth should increase to 3.3 % in 2020, up from 2.9 % in 2019. However, given the effects of the coronavirus pandemic on the global economy, this growth is no longer perceived as likely. The more positive development is due to a slight upturn in global trade and production, the eased trade dispute between China and the USA, and the result of the latest parliamentary election in the United Kingdom, which averted the risk of a hard Brexit.

Emerging and developing countries are forecast to develop positively, with expected growth of 4.4. % (2019: 3.7 %), while developed economies are expected to achieve growth of 1.6 % in 2020, falling slightly short of the value of 1.7 % in 2019.

Growth in the eurozone is expected to improve slightly to 1.3 % (2019: 1.2 %). The German economy in particular is expected to surpass its growth rate again, notching up an increase of 1.1 % (2019: 0.5 %). As for France, the IMF forecasts stagnated economic growth at 1.3 %[34]. Owing to the coronavirus pandemic in Italy, economic output is expected to be negative in 2020 with a decline of 0.6 %.[35] According to Statista, the Dutch economy will grow by 1.6 % in 2020 after 1.8 % in 2019.[36]

[34] IMF (2020) – World Economic Outlook Update January

[35] Reuters (2020) – Italy heads for recession

[36] Statista (2020) – Real GDP growth

8.2 Development of the industry

8.2.1. Phones

The Group expects that the market for fixed-line telephony will also decline worldwide in the future due to increased competition and as a result of the growing share of mobile communication. Gigaset expects the price level of the market for cordless fixed-line telephony to decline as well. The objective for the Phones segment is to maintain its market shares.

8.2.2. Smartphones

Market researchers expect global sales of Smartphones to perform positively over the coming years. The reason for this is new technical innovations, such as the 5G transmission standard, which is expected to boost the use of mobile devices thanks to its quick possibilities of transmission. By 2023, market researchers forecast an increase to around 1.49 billion devices.[37] According to Statista, around 1.37 billion smartphones were sold in 2019.[38] Growth of almost 9 % is therefore expected over the next four years.

Based on these overall positive prospects, Gigaset expects to achieve further growth in the Smartphones segment with its differentiation strategy and focus on special niches.

[37] Statista (2019) – Forecast for the sale of smartphones until 2023

[38] Statista (2020) – Global sales of smartphones up to 2019

8.2.3. Smart Home

The Group also expects Smart Home applications overall to develop more modestly than forecast in the foreseeable future. Actual revenues over the past few years have not met the forecasts made. The same goes for competitors. Nevertheless, the Smart Home market has one of the largest growth rates.

Thanks to its positioning, the Company believes it is well prepared and expects to generate additional potential by incorporating more sensors, gateways and apps as well as cloud-to-cloud connections.

8.2.4. Professional

In the area of business customer telephony, the Group expects the significance of IP telephony to increase, in particular in Europe. With its business customer solutions, Gigaset specializes in small and medium-sized enterprises (SME). Analogous to the growth of the industry as a whole, this market segment has the potential for growth.

8.3 Development of the Gigaset Group

8.3.1. Financial performance

In financial year 2019, the market as a whole for DECT cordless telephones in the EU6 markets observed by Gigaset declined by 8 % in terms of revenues, thus 1 % less than in the previous year.[39] This trend is also expected to continue in the market in 2020. The segments of Smartphones, Smart Home and Professional will compensate for this decrease in revenues to an increasingly large extent, however.

In order to meet its objectives, Gigaset will consistently continue its cost management also in 2020 and invest with sound judgment depending on the revenue trend and other economic risk factors.

[39] GfK (2020) – Cordless Phones 2019 Europe 6 (page 24)

Gigaset hedged a large part of the U.S. dollar risk for 2020. In addition, the forecast is based on a USD/EUR exchange rate of 1.13. This forecast is based on the described general economic and industry-specific trends.

8.3.2. Cashflows

The Company currently finances itself essentially from its operating business, and will continue to place its focus on liquidity management. The Company's strategy with respect to securing financial stability remains conservative in order to preserve the Group's operational and strategic flexibility. As of the end of 2019, Gigaset had a portfolio of cash funds in the amount of EUR 36.6 Mio at its disposal. In addition to the operational requirements, this cash portfolio is to cover payment obligations for making payments in connection with the external financing. According to its planning, Gigaset expects that a sizable, positive portfolio of cash and cash equivalents will be available, even taking into account outstanding payment obligations.

8.4 Development of Gigaset AG

8.4.1. Financial performance

As the holding company of the Gigaset Group, Gigaset AG generates revenue from services provided to associated companies. Gigaset AG's earnings are also determined primarily based on impairment losses on noncurrent financial assets, personnel costs and other expenses for the Executive Board. Since revenues from the group allocations are not expected to cover all expenses, Gigaset AG is expected to generate a net loss for the financial year in the mid-single-digit millions.

As a holding company, Gigaset AG's performance is heavily influenced by the development of its subsidiaries, particularly the operating Gigaset Communications Group. For financial year 2020, no dividend income is planned at Gigaset AG.

8.4.2. Cashflows
Gigaset AG has access to the subsidiaries' liquid funds as a result of its integration into the Group. In addition, the Company will continue to finance itself by charging Group subsidiaries for services.

8.5 General assessment of the Group’s expected performance

2020 outlook
Gigaset AG’s outlook reflects the views of the Executive Board regarding the coming financial year 2020 in relation to material opportunities and risks. The report contains forward-looking statements that are based on the expectations and assessments of Gigaset AG. These assumptions are subject to a certain degree of uncertainty, which may lead in full or in part to the forecast business performance deviating from the actual business performance. Material factors are political and economic conditions over which the Company has no influence.

Fundamental assumptions
The assumptions in this outlook are based on the set-up and composition of Gigaset AG as a Group remaining unchanged. The outlook takes into account all of the knowledge available at the time of producing this outlook which could have an impact on the Company’s course of business.

Economic outlook
Gigaset AG expects that the restrained pace of growth in the global economy will continue in 2020, without any significant reversal in trend or positive acceleration. Europe and other developed countries will perform comparatively weaker than economies in emerging countries. The persistent weakness of leading economic indicators in the European Monetary Union thus represents a dampening factor for potential growth.

Pandemic risk
The occurrence of the Covid-19 virus in China at the beginning of 2020 harbors special, at present non-calculable risks for the global economy, which could also have an impact on Gigaset AG. At the time of drawing up the 2019 Annual report, the epicenter of the crisis had shifted to Europe. To help to contain the crisis, extensive measures, such as closing down retail shops, as well as sweeping measures, such as travel restrictions and closing borders, have been taken. At present, it is not possible to predict whether further measures will be taken or how long the special regulations restricting the flow of goods and consumption will last. Accordingly, the actual impacts in the medium and long term cannot be gauged at this point in time and could, in the worst-case scenario, throw our planning considerably out of kilter.

Impact on Gigaset AG
Developments in the international telecommunications and consumer electronics markets have a direct impact on Gigaset AG. While competition continues to intensify in the declining market for private DECT cordless telephony, additional opportunities are opening up in product areas with strong growth, albeit these are reliant on corresponding investments in research and marketing. Thanks to the three growth segments of Smartphones, Smart Home and Professional, a positive sales trend is expected. However, increasing uncertainty regarding political conditions leading to customs and trade conflicts could result in the economic performance differing from the forecast. The consequences of the pandemic mentioned above could also lead to negative effects. In light of the current situation, Gigaset views health policy, trade, customs and security policy, and other international trade conflicts as major factors influencing this development.

General assessment of the Executive Board for 2020
In light of the assumptions described in the outlook and excluding the further worsening of the Covid-19 crisis, Gigaset expects its financial position, cashflows and financial performance to develop as follows in the 2020 financial year:

The entrepreneurial focus is still on safeguarding the core business for private DECT cordless telephones whilst developing activities in the product segments of Smartphones, Smart Home and

Professional, which are all showing strong growth. Research, development and marketing expenses will increase again slightly compared with the previous year as a result of developing new products and positioning them on the market. Furthermore, Gigaset intends to interlink existing topics and solutions in order to unlock new potential for the future, drive forward promising strategic fields in the long term and further optimize its existing business, whilst retaining its entrepreneurial cost management strategy from 2019.

In 2020, Gigaset expects a small to medium decline in revenues in the Phones segment and a slight increase in revenues in the product segments of Smartphones, Smart Home and Professional. EBITDA will remain at the previous year's level, adjusted to take into account material positive exceptional effects in the amount of EUR 7 million. Free cashflow will also remain at the previous year's level. Unforeseeable, material changes to entrepreneurial or economic conditions may result in this forecast being adjusted.

9 PUBLICATION OF THE CONSOLIDATED NON-FINANCIAL REPORT IN ACCORDANCE WITH SECTION 315B (3) HGB

In accordance with section 315b (1) in conjunction with (3) HGB, Gigaset AG is exempt from the duty to expand the group management report to include a non-financial group statement, since Gigaset AG has prepared a separate consolidated non-financial report for the 2019 reporting period in addition to the combined management report. In compliance with section 315b (3) no. 2 b) HGB, Gigaset AG will make the separate consolidated non-financial report public and publish it on Gigaset AG's website under:

https://www.gigaset.com/de_de/cms/gigaset-ag/investor-relations/unternehmen/nichtfinanzieller-konzernbericht.html

10 DEPENDENT COMPANY REPORT

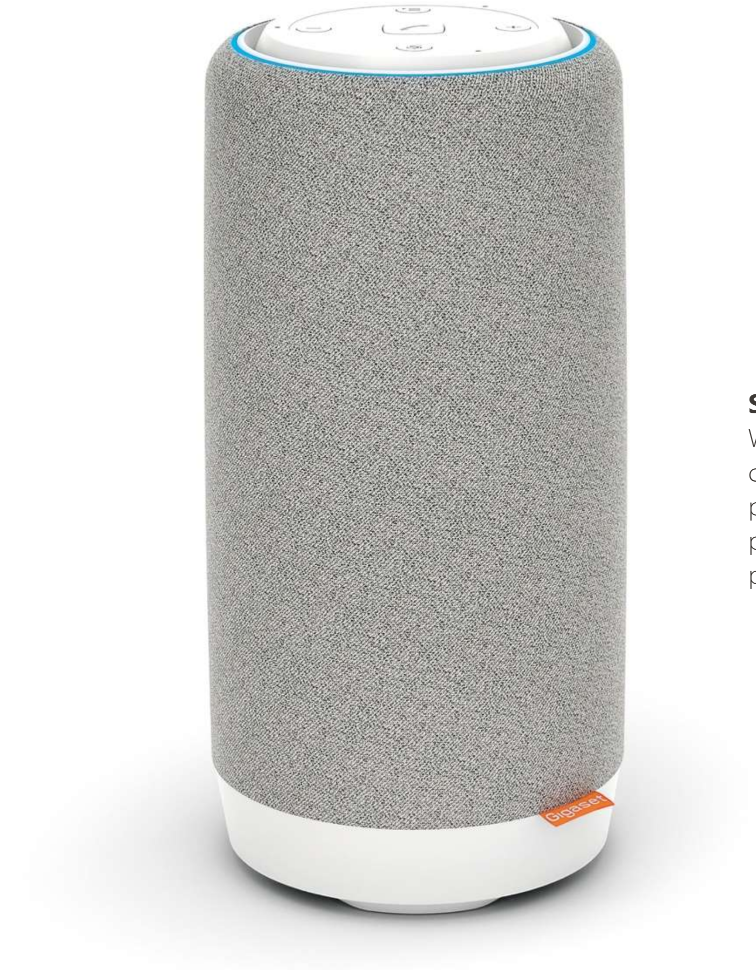
Goldin Fund Pte. Ltd., Singapore, holds a majority interest. In accordance with section 312 of the German Stock Corporation Act (Aktiengesetz, AktG), we prepared a report on March 20, 2020 regarding our relationships with associates that closes with the following statement: "We declare that the Company received appropriate consideration for each transaction listed in the report on relationships with affiliated companies in financial year 2019 based on the circumstances known to us at the time when the transactions were entered into."

Munich, March 20, 2020

The Executive Board of Gigaset AG

Klaus Weßing	Thomas Schuchardt
CEO	CFO

CONSOLIDATED FINANCIAL STATEMENTS



Smart Speaker L800HX
With the smart speaker L800HX, Gigaset combines classic DECT telephony with the convenience and possibilities of the Amazon Alexa. The L800HX is a powerful speaker for music streaming, speaker-phone and VPA with Amazon Alexa integration.

CONSOLIDATED INCOME STATEMENT[40]

EUR'000	Notes	1/1 - 12/31/2019	1/1 - 12/31/2018
Revenues	D.1	257,863	280,331
Change in inventories of finished and unfinished goods		2,879	7,940
Purchased goods and services	D.2	-130,897	-146,656
Gross profit		**129,845**	**141,615**
Other internal production capitalized	D.3	9,201	9,755
Other operating income	D.4	18,538	13,703
Personnel expenses	D.5	-59,397	-60,567
Other operating expenses	D.6	-69,685	-82,376
EBITDA		**28,502**	**22,130**
Depreciation and amortization	D.7	-14,771	-13,607
EBIT		**13,731**	**8,523**
Other interest and similar income	D.8	2,344	179
Interest and similar expenses	D.9	-1,559	-1,244
Financial result		**785**	**-1,065**
Result from ordinary activities		**14,516**	**7,458**
Income taxes	D.10	-3,209	-4,064
Consolidated net income for the year		**11,307**	**3,394**
Earnings per share	D.11		
– Undiluted (Basic) in EUR		0.09	0.03
– Diluted in EUR		0.09	0.03

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR'000	1/1 - 12/31/2019	1/1 - 12/31/2018
Consolidated net income for the year	**11,307**	**3,394**
Items that may possibly be reclassified to profit or loss at a later time		
Currency translation differences	-11	-705
Cashflow hedges	-1,603	2,292
Income taxes recognized on these items	510	-722
Items that will not be reclassified to profit or loss at a later time		
Revaluation effect, net debt of defined benefit pension plans before income taxes	-16,939	9,802
Financial instruments at Fair Value through Other Comprehensive Income (FVOCI)	-1,000	-9,700
Income taxes recognized on this item	1,258	-2,907
Total changes not recognized in profit or loss	**-17,785**	**-1,940**
Total income and expenses recognized	**-6,478**	**1,454**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

EUR'000	Notes	12/31/2019	12/31/2018
ASSETS			
Noncurrent assets			
Intangible assets	E.1	33,757	30,957
Property, plant and equipment	E.2	23,284	23,319
Right of use assets	E.3	4,331	0
Financial assets	E.4	7,686	8,686
Deferred tax assets	E.14	9,374	10,150
Total noncurrent assets		**78,432**	**73,112**
Current assets			
Inventories	E.5	35,246	32,720
Trade receivables	E.6	45,417	40,816
Other assets	E.7	26,670	29,016
Tax refund claims	E.8	293	471
Cash and cash equivalents	E.9	36,557	36,939
Total current assets		**144,183**	**139,962**
Total assets		**222,615**	**213,074**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

EUR'000	Notes	12/31/2019	12/31/2018
EQUITY AND LIABILITIES			
Equity	E.10		
Subscribed capital		132,456	132,456
Additional paid-in capital		86,076	86,076
Retained earnings		68,979	68,979
Accumulated other comprehensive equity		-268,968	-262,490
Total equity		**18,543**	**25,021**
Noncurrent liabilities			
Pension obligations	E.11	92,501	73,457
Provisions	E.12	2,983	3,773
Financial liabilities	E.13	10,176	13,500
Lease liabilities	E.3	2,827	0
Deferred tax liabilities	E.14	760	1,440
Total noncurrent liabilities		**109,247**	**92,170**
Current liabilities			
Provisions	E.12	14,770	18,355
Financial liabilities	E.13	5,724	0
Lease liabilities	E.3	1,563	0
Trade payables	E.15	51,247	47,355
Tax liabilities	E.16	4,945	15,005
Other liabilities	E.17	16,576	15,168
Total current liabilities		**94,825**	**95,883**
Total equity and liabilities		**222,615**	**213,074**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	EUR'000	Subscribed capital	Additional paid-in capital	Retained earnings	Accumulated other comprehensive equity	Consolidated equity
	December 31, 2017	**132,456**	**86,076**	**68,979**	**-263,423**	**24,088**
	Adjustments IFRS 9 / IFRS 15	0	0	0	-521	-521
	January 1, 2018	**132,456**	**86,076**	**68,979**	**-263,944**	**23,567**
1	Consolidated net income 2018	0	0	0	3,394	3,394
2	Currency translation differences	0	0	0	-705	-705
3	Cashflow hedges	0	0	0	1,570	1,570
4	Financial instruments measured at FairValue through Other Comprehensive Income (FVOCI)	0	0	0	-9,700	-9,700
5	Revaluation effects from defined benefit pension plans	0	0	0	6,895	6,895
6	Total changes not recognized in profit or loss	0	0	0	-1,940	-1,940
7	**Total net income (1+6)**	**0**	**0**	**0**	**1,454**	**1,454**
	December 31, 2018	**132,456**	**86,076**	**68,979**	**-262,490**	**25,021**
1	Consolidated net income 2019	0	0	0	11,307	11,307
2	Currency translation differences	0	0	0	-11	-11
3	Cashflow hedges	0	0	0	-1,093	-1,093
4	Financial instruments measured at FairValue through Other Comprehensive Income (FVOCI)	0	0	0	-1,000	-1,000
5	Revaluation effects from defined benefit pension plans	0	0	0	-15,681	-15,681
6	Total changes not recognized in profit or loss	0	0	0	-17,785	-17,785
7	**Total net income (1+6)**	**0**	**0**	**0**	**-6,478**	**-6,478**
	December 31, 2019	**132,456**	**86,076**	**68,979**	**-268,968**	**18,543**

CONSOLIDATED STATEMENT OF CASHFLOWS

EUR'000	1/1 - 12/31/2019	1/1/ - 12/31/2018
Result from ordinary activities	**14,516**	**7,458**
Depreciation and amortization of property, plant and equipment and intangible assets	14,771	13,607
Increase (+) / decrease (-) in pension provisions	2,105	1,827
Gain (-) / loss (+) on the sale of noncurrent assetes	2	2
Gain (-) / loss (+) from currency translation	-500	136
Net interest income	-785	1,065
Interest received	1,549	148
Income taxes paid	-8,811	-6,668
Increase (-) / decrease (+) in inventories	-2,526	-5,987
Increase (-) / decrease (+) in trade receivables and other assets	-3,858	-2,462
Increase (-) / decrease (+) in trade payables, other liabilities and other provisions	1,324	-17,544
Increase (-) / decrease (+) in other items of the statement of financial position	-575	-1,170
Cash inflow (+) /outflow (-) from operating activities (net cashflow)	**17,212**	**-9,588**
Proceeds from the sale of noncurrent assets	49	0
Payments of investments in noncurrent assets	-16,105	-14,489
Cash inflow (+)/outflow (-) from investing activities	**-16,056**	**-14,489**
Free cashflow	**1,156**	**-24,077**
Cashflows from the borrowing of noncurrent financial liabilities	2,400	13,500
Payments for lease liabilities	-1,423	0
Interest paid	-2,585	-1,530
Cash inflow (+)/outflow (-) from financing activities	**-1,608**	**11,970**
Cash and cash equivalents at beginning of period	33,912	44,595
Changes due to exchange rate differences	70	-51
Cash and cash equivalents at beginning of period, measured at prior-year closing exchange rate	33,842	44,646
Increase (-)/ decrease (+) in restricted cash	743	1,354
Change in cash and cash equivalents	-452	-12,107
Cash and cash equivalents at end of period	**34,203**	**33,842**
Restricted cash	2,354	3,097
Cash and cash equivalents per statement of financial position	**36,557**	**36,939**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

A. GENERAL INFORMATION AND PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

Business activities

Gigaset AG (or hereinafter called the "Company") is a stock corporation under German law, has its head office and principal place of business in Munich as set forth in its Articles of Incorporation, and is filed in the Commercial Register kept by Munich Local Court under entry no. HRB 146911. The Company's offices are located at Bernhard-Wicki-Strasse 5, in 80636 Munich.

Gigaset AG is a global enterprise operating in the area of telecommunications. The Company is headquartered in Munich and has a highly automated production site in Bocholt, Germany. Gigaset has 895 employees and had sales activities in 55 countries in the 2019 financial year.

The worldwide Gigaset Group is divided into regional segments for internal controlling purposes. Germany is by far the largest individual market. Gigaset sells its products using a direct and an indirect sales structure.

Please see the Group management report for further details on Gigaset's business activities.

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

Presentation of the consolidated financial statements

The consolidated financial statements are denominated in euros (EUR), the functional currency of the parent company, Gigaset AG. To enhance clarity, figures in the consolidated financial statements are shown in tables in thousands of euros (EUR'000) and in the running text, unless stated otherwise, in millions of euros (EUR mn). In chapters with relatively lower figures, they may also be stated in the running text in thousands of euros (EUR'000) for easier understanding.

In individual cases, rounding may lead to values in this report not adding up exactly to the specified total and percentages not resulting exactly from the presented values.

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

The consolidated statement of financial position is organized in accordance with the maturity structure of the constituent items. Assets and liabilities are considered current if they are payable within one year. Accordingly, assets and liabilities are considered noncurrent 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 noncurrent items. Non-controlling interests held by shareholders outside the Group are presented as a separate item within equity.

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

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

Accounting principles

The consolidated financial statements of Gigaset for the 2019 financial year 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 Standing 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 315e (1) of the German Commercial Code (HGB) have been observed. All the Standards in effect and applicable in the 2019 financial year have been observed.

In addition, application of the following amended and newly issued Standards and Interpretations of the IASB was mandatory starting with the 2019 financial year:

- IFRS 16 Leases. See the section below titled "Modifications to Accounting due to Initial Application of IFRS 16, Leases."

- IFRS 9 Financial Instruments – Prepayment features with negative compensation

  The amendments to IFRS 9 clarify the accounting for financial assets featuring a prepayment option and negative compensation payments at amortized cost. It also clarifies that a profit or loss arising in case of modification of financial liabilities without derecognition of the liability must be recognized in profit or loss. The new provisions apply for financial years beginning on or after January 1, 2019. The amendments had no effect on the consolidated financial statements.

- IAS 28 Investments in Associates and Joint Ventures – Long-term interests in associates and joint ventures

  The amendment to IAS 28 clarifies that long-term interests in associates and joint ventures (such as preferred stock or long-term loans, for instance) that reflect the economic content of a net investment in these companies must be measured according to the regulations of IFRS 9 Financial Instruments. Therefore, the impairment regulations of IFRS 9 must also be used for such investments. The new provisions apply for financial years beginning on or after January 1, 2019. The amendments had no effect on the consolidated financial statements.

- IAS 19 Employee Benefits – Plan amendment, curtailment or settlement

  The amendment to IAS 19 now clarifies that updated assumptions must be used after a plan amendment, curtailment, or settlement in order to determine the current service cost and net interest for the remaining period in the reporting period. Any reductions in surplus cover that may result due to the past service cost must additionally be recognized in profit or loss, even if this surplus cover was not previously recognized due to the effect of the asset ceiling. The new provisions apply for financial years beginning on or after January 1, 2019. The amendments had no effect on the consolidated financial statements.

- Annual improvement cycle to International Financial Reporting Standards (2015-2017 cycle)

  The annual improvements (2015-2017 cycle) relate to clarifications within the following standards:

- IFRS 3 Business Combinations (clarification that the acquisition of additional interests in a joint activity causing acquisition of control within the meaning of IFRS 10 represents a step acquisition and thus the previously held investments in the joint activity must be remeasured at the acquisition date),

- IFRS 11 Joint Arrangements (clarification that when an entity obtains control of a joint operation by acquiring additional interests in it, it does not remeasure the previously held interests in that business),

- IAS 12 Income Taxes (clarification that the income tax consequences of dividend payments on financial instruments classified as equity must be treated in accordance with the treatment of the transaction(s) causing the tax effect),

- IAS 23 Borrowing Costs (clarification that debt not yet repaid that was originally taken out specifically to procure a qualified asset must be included in the determination of the capitalization rate on general borrowings for other qualified assets for which no special debt was taken out, starting from the time from which this qualified asset is essentially ready for its intended use or sale).

  The new provisions apply for financial years beginning on or after January 1, 2019. The amendments had no effect on the consolidated financial statements.

- IFRIC 23 Uncertainty over Income Tax Treatments

  The provisions of IFRIC 23 clarify how the recognition and measurement rules of IAS 12 Income Taxes are to be applied in case of uncertain income tax treatments – tax risk items. A tax risk item exists when there is uncertainty as to whether the tax authorities will accept a tax treatment selected by a company. In this case, tax items subject to risk can be recognized either individually or collectively depending on which approach best represents the expected tax clarification of the circumstances. When determining the tax risk position, the tax authorities must be assumed to be fully informed, that is, any risk of discovery is thus not permitted to be factored in. The new provisions apply for financial years beginning on or after January 1, 2019. The amendments had no effect on the consolidated financial statements. The uncertain tax items are measured at the probable value.

Application of the following revised and newly issued Standards and Interpretations already adopted by the IASB was not yet mandatory in the 2019 financial year:

Standards		Application mandatory for Gigaset from	Adopted by the EU Commission
Framework	Amendments to the cross-references to the framework for financial accounting	1/1/2020	Yes
IFRS 3	IFRS 3, Business Combinations - Change in the definition of a business operation	1/1/2020	No
IAS 1/ IAS 8	IAS 1, Presentation of Financial Statements, / IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors - definition of materiality	1/1/2019	Yes
IFRS 9 / IAS 39 / IFRS 7	Amendments (simplifications relating to hedge accounting) based on the reform of benchmark interest rates (IBOR reform) in IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, and IFRS 7 Financial Instruments: Disclosures	1/1/2020	No
IFRS 17	Insurance Contracts	1/1/2021	No
IAS 1	IAS 1, Amendments to classify liabilities as current or noncurrent	1/1/2022	No
IFRS 10/ IAS 28	Sale of an investors' assets to or contribution to his affiliated company or joint venture company	unspecified	No
Interpretations			

Due to an ongoing research project, the required initial application of the amendments to IFRS 10 and IAS 28 regarding the sale or contribution of an investor's assets to its associated company or joint venture was postponed by the standard setter for an indefinite period of time. Therefore, adoption has also been postponed for an indefinite period.

For the amendments with initial application starting in 2020 resulting from the change in the references to the Conceptual Framework for Financial Reporting, IFRS 3 Business Combinations (change in the definition of a business operation), IAS 1 Presentation of Financial Statements, and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (definition of materiality), and the changes (simplifications regarding hedge accounting) based on the reform of benchmark interest rates (IBOR reform) (IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, and IFRS 7 Financial Instruments: Disclosures), the Company assumes that they will not have any material effects.

The effects of the first-time application of the other revised or newly issued Standards and Interpretations that are to be applied only starting with the 2021 financial year cannot be reliably estimated at the present time.

Scope and method of consolidation

The present consolidated financial statements at December 31, 2019, include the separate financial statements of the parent company Gigaset AG and its subsidiaries, including special purpose entities where appropriate.

Subsidiaries are all companies which the Company controls. This is generally the case when the share of voting rights exceeds 50 %. However, additional circumstances such as the existence and effect of potential voting rights, for, are also taken into account when determining whether such control exists. In this regard, the existing rules do not provide for an automatic attribution of potential voting rights; instead, they make it clear that all relevant facts and circumstances must be taken into account. Substantial potential voting rights may provide the holder with the opportunity to currently steer the activity of the other company. Rights are substantial when the actual possibility of exercising the rights exists. The management must assess whether potential voting rights are substantial. In this process, the terms and conditions of the instrument must be considered; specifically, it must be determined whether exercising such potential voting rights would be advantageous for the holder and whether the instruments can be exercised when decisions on material activities must be made. Thus, the exact circumstances must be taken into account on a case-by-case basis.

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. Structured units for which the Group does not hold a majority or any of the voting rights are nevertheless included in the group of subsidiaries when the Group has control.

Capital consolidation of the subsidiaries is carried out in accordance with IFRS 10 (Consolidated Financial Statements) 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 acquisition costs must be recognized as an expense. For initial consolidation, the assets, liabilities and contingent liabilities that can be identified as part of a business combination are measured at fair value at the date of acquisition, without regard to any non-controlling interests. The excess of the acquisition cost over the Group's share of the net assets measured at fair value is recognized as goodwill. If the acquisition cost is less than the fair value of the net assets of the acquired subsidiary, the difference is recognized directly in the statement of comprehensive income after conducting an additional review.

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

The results of the subsidiaries acquired or sold during the year are included in the consolidated income statement from the time when the Group's control of the subsidiary begins to the time when it ends. 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.

Besides the parent company, 20 (PY: 21) subsidiaries – consisting of 7 (PY: 8) domestic and 13 foreign companies were included in the consolidated financial statements of Gigaset at December 31, 2019. Compared to the prior year, there was one merger, but as an inter-company process, it had no effects on the consolidated financial statements.

As in the previous year, there were no subsidiaries with an immaterial effect on the Company's financial position, financial performance, and cashflows at December 31, 2019, that were not included in the consolidated financial statements.

Details of the subsidiaries that belong to the consolidation group are included in the list of shareholdings (Section 313 (2) 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 as of December 31, which is the reporting date for the consolidated financial statements of the parent company, Gigaset AG.

Currency translation

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

Gigaset translates the assets and liabilities of foreign Group companies whose functional currency is not the euro at the exchange rate applicable as of the reporting date. In contrast, income, expenses, profits, and losses are translated at annual average exchange rate. All currency translation differences are recognized in a separate line 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 to the functional currency at the exchange rates in effect on the transaction date. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currency to the functional currency at the exchange rate 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 profit or loss are included as part of the gain or loss from measurement at fair value. On the other hand, currency translation differences in non-monetary items for which changes in fair value are recognized in equity are included in equity.

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

		Closing exchange rate[1]		Average exchange rate[1]	
		12/31/2019	12/31/2018	2019	2018
Argentina	ARS	66.9490	43.9234	53.6960	32.8273
Switzerland	CHF	1.0855	1.1266	1.1128	1.1549
China	CNY	7.8166	7.8737	7.7418	7.8083
Denmark	DKK	7.4710	7.4675	7.4660	7.4531
United Kingdom	GBP	0.8499	0.8968	0.8774	0.8847
Hong Kong	HKD	8.7424	8.9687	8.7731	9.2599
Japan	JPY	121.8913	125.8980	122.0656	130.4150
Norway	NOK	9.8657	9.9397	9.8520	9.6023
Poland	PLN	4.2598	4.2980	4.2978	4.2609
Russia	RUB	69.8364	79.8149	72.4703	74.0563
Sweden	SEK	10.4445	10.2512	10.5866	10.2569
Singapore	SGD	1.5105	1.5592	1.5274	1.5929
Turkey	TRL	6.6804	6.0564	6.3585	5.6998
USA	USD	1.1227	1.1451	1.1197	1.1815

1 Equivalent in EUR

Since Gigaset has a subsidiary with registered offices in the UK and also maintains purchasing and sales relationships with business partners in the UK, Brexit and its effects on Germany will also have effects on the Group. Given the current political situation, it is impossible to list any more specific effects, since they depend, among other things, on the criteria for withdrawal of the UK from the EU that currently need to be negotiated. Nevertheless, it is already possible to state at this time that

Gigaset will be affected to a limited extent by possible currency fluctuations, customs regulations, and tax changes.

Modifications to Accounting due to Initial Application of IFRS 16 Leases

The new Accounting Standard IFRS 16 Leases has been used since January 1, 2019. IFRS 16 supersedes the previous Standard IAS 17 Leases. Under the new Standard, assets must be recognized in the statement of financial position of the lessee for the usage rights obtained under all leases and liabilities must be recognized for the payment obligations assumed. Gigaset makes use of the option of modified retroactive application of IFRS 16, according to which no adjustment of values from the previous year is necessary. They will continue to be presented in compliance with the former recognition regulations (for further details, see the 2018 Annual Report, Consolidated Notes Part A "General Information and Presentation of the Consolidated Financial Statements" under "Accounting Principles"). The initial application had no effect on equity as of the initial application date of January 1, 2019. Gigaset exercised simplification options within the framework of initial application. The new regulations are not applied to leases with terms that end within twelve months after the time of initial application. These leases will continue to be recognized directly as expenses within the EBITDA of the income statement. The capitalized rights of use will be depreciated over the relevant useful life (contract term or economic life upon the expected transfer of ownership) and thus reduce the Group EBIT. The portion of interest allocable to the leases will be presented after the EBIT within the income statement and will likewise influence consolidated earnings. Application of the new lease Standard will increase cash flow from operating activities and consequently free cash flow due to the elimination of expenses, but will correspondingly reduce cash flow from financing activities due to interest paid and repayments for the leases.

Gigaset makes use of the transitional regulations of IFRS 16 and does not carry out new assessments of existing agreements as to whether they satisfy the definition of a lease under IFRS 16. The existing lease assessments will be continued. The rights of use will in principle be capitalized in the amount of the corresponding lease liability within the framework of initial application of IFRS 16 at Gigaset. The lease liabilities were measured using an incremental borrowing rate of 3.98 % at the time of initial application. In this case, the simplification option of IFRS 16.C10 a) was used for the selection of the interest rate for similarly designed lease agreements. Here, the incremental borrowing rate is based on existing financing contracts of Gigaset.

No further simplification options listed in IFRS 16.C10 were used.

The effects of initial application of IFRS 16 are presented in the reconciliation from December 31, 2018, to January 1, 2019.

Reconciliation from 12/31/2018 to 1/1/2019	**EUR mn**
Rental and lease commitments from operating leases as of 12/31/2018	5.5
less operating leases beginning after 1/1	-1.9
Application simplification for short-term leases	-0.2
Application simplification for low-value assets	0.0
Gross lease liabilities as of 1/1/2019	**3.4**
Discount	-0.2
Net lease liabilities as of 1/1/2019	**3.2**
Present value of the liabilities from finance leases as of 12/31/2018	0.0
Additional lease liabilities due to initial application of IFRS 16 as of 1/1/2019	**3.2**

The initial addition of previously off-balance sheet lease liabilities as of January 1, 2019, by taking into account IFRS 16 as of January 1, 2019, merely results in a balance sheet extension by capitalization of the rights of use as noncurrent assets as well as by the recognition of a matching lease liability.

The effects on Gigaset's consolidated statement of financial position and income statement are shown below at the reporting date of December 31, 2019:

Leases in the statement of financial position as of 12/31/2019	**EUR mn**
ASSETS	
Noncurrent assets	
- Right-of-use assets – land and buildings	2.9
- Right-of-use assets – plant and office equipment	1.4
Total	**4.3**
EQUITY & LIABILITIES	
Noncurrent provisions and liabilities	
- Lease liabilities	2.8
Current provisions and liabilities	
- Lease liabilities	1.6
Total	**4.4**

Leases in the income statement	**EUR mn**
Other operating expenses	
- Expenses from short-term leases	0.8
- Expenses from low-value leases	0.0
Amortization and depreciation	
- Depreciation of right-of-use assets	1.5
Financial result	
- Interest expenses from lease liabilities	0.2

The underlying lease agreements relate primarily to rental contracts for real estate, logistics, infrastructure, and leased company vehicles.

Due to initial application of IFRS 16, Gigaset refrained from recognizing deferred taxes for the initial recognition of rights of use and lease liabilities pursuant to IAS 12.15 (initial recognition exemption).

B. 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. Where it was necessary to deviate from this due to applicable regulations, this is explained as relevant in the following sections in the explanation of the material accounting policies that were used in preparing the present consolidated financial statements.

Recognition of income and expenses

Gigaset recognizes operating revenues goods produced in-house as well as trading goods when the power to dispose of goods or services that can be delimited passes to the customer, that is, when the customer has the ability to determine the use of the transferred goods or services and primarily obtains the remaining benefit from them. The prerequisite for this is that a contract with enforceable rights and obligations exists and receipt of consideration, among other things, is likely, taking into account the customer's credit rating. The operating revenues correspond to the transaction price that Gigaset is expected to be entitled to. Variable consideration, such as cash discount clauses, is included in the transaction price when it is highly probably that no significant change in the operating revenues will occur as soon as the uncertainty in conjunction with the variable consideration no longer exists. The amount of the variable consideration is determined either according to the expectation method or using the most likely amount depending on which value most accurately estimates the variable consideration. The most likely value is determined for cash discount agreements. If the period between the transfer of the goods and services and the payment date exceeds twelve months and a significant benefit results for the customer or Gigaset from the financing, the consideration is adjusted by the net present value of the funds. If a contract comprises multiple goods or services that can be delimited, the transaction price is subdivided across the payment obligations based on the relative individual sale prices. If individual sale prices cannot be directly observed, Gigaset estimates them in a reasonable amount. Operating revenues are recognized for each payment obligation either at a specific time or over a specific period. The revenues of the Gigaset Group are for the most part collected at a point in time, whereby a share of business volume relating to a period of time is expected to increase in the future due to the Smart Home area.

Gigaset has made agreements with customers regarding marketing activities that are carried out for Gigaset. For these activities, customers receive remuneration in the form of advertising cost subsidies. The marketing activities represent consideration to be paid by the customer within the meaning of IFRS 15. If the customer provides a service (marketing service) in return for the payment made, this is a service provided by the customer. In this case, the consideration to be paid to the customer is not to be recognized as a revenue deduction item, but rather as an expense item. Flat-rate advertising cost subsidies that are not matched to any specific actions will continue to be recognized as a revenue deduction.

Gigaset is obligated to pay copyright levies to the Zentralstelle für Private Überspielungsrechte (ZPÜ - Central Office for Private Copying Rights). IFRS 15 fundamentally provides that sums collected in the interests of third parties are not to be included in the transaction price. The copyright levy payments are therefore not recognized as part of the operating revenues.

Operating expenses are recognized as expenses when the service is rendered or when they occur. Expenditures for research activities are recognized as expenses. 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.

"Income from the reversal of negative goodwill arising from capital consolidation" is presented within other operating income and is therefore also part of the EBITDA. Gains or losses from deconsolidation are presented in other operating income or other operating expenses and are therefore part of the EBITDA.

Research and development expenditures

Expenditures for research, which is defined as original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in full as an expense. On the other hand, expenditures for development, which is defined as the application of research findings or other knowledge to a plan or design for the production of new or substantially improved products and processes, are capitalized. Recognition is permitted if the entity can demonstrate its ability to measure reliably the development expenditures and that the product or process is technically and economically feasible and will generate probable future economic benefits. In addition, Gigaset must have the intention and the resources available to complete the development and to use or sell the asset. The ability to capitalize intangible assets is determined using a milestone plan that precisely defines from which milestone on capitalization can be applied. The capitalized expenses cover the cost of materials, direct labor costs, and the directly allocable general overhead, provided these are used to make the asset available for use, and borrowing costs to be capitalized pursuant to IAS 23 unless they are not immaterial. 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 measured at production cost, less accumulated scheduled amortization and impairments.

Government grants

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

Financial result

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.

Interest paid for leases is recognized in accordance with the regulations of IFRS 16 Leases.

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

Income taxes

The corporate tax rate in the reporting period was 33.0 % (PY: 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 for calculating current taxes in Germany. Local trade tax is levied on profits generated in Germany, as is corporate income tax. The local trade tax rate ranges from 16.0 % (PY: 16.0 %) to 17.2 % (PY: 17.2 %).

The profits generated by international Group subsidiaries are determined on the basis of local tax law and are taxed at the applicable rate in the country of domicile. The applicable country-specific income tax rates vary between 17.4 % (PY: 17.4 %) and 33.3 % (PY: 33.3 %).

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

Recognition of deferred tax assets is subject to the following rules:

- In the case of company acquisitions, deferred tax assets are normally recognized on tax loss carry-forwards and temporary differences at the acquisition date in accordance with the general regulations; however, insofar as reorganization cases are acquired, deferred tax assets are not recognized except in amounts up to the amount of deferred tax liabilities that have been recognized, provided that offsetting is permissible.

- In the case of companies that have a history of generating losses instead of profits, deferred tax assets are recognized at least in the amount required to offset deferred tax liabilities, and above that amount only if use of the loss carry-forwards is probable based on positive plans.

- In the case of companies that have a history of generating profits with an expectation of positive results in the future, any existing tax loss carry-forwards and deferred tax assets on temporary differences are likewise recognized.

Impairment losses are recognized for deferred tax assets that are no longer expected to be realized within a plannable period. Unrecognized deferred tax assets are reviewed and capitalized to the extent to which it has become probable for them to be utilized on account of taxable income generated in the future. As in previous years, a period of four years was used as the planning period for recognizing deferred tax assets. The period for the Group’s budget is three years (PY: three years), but the most recent budget year of the individual company is updated without change for the impairment test of the deferred tax assets.

Deferred tax assets and liabilities relating to items recognized directly in equity are presented 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 be based on income taxes that refer to the same taxable entity and are payable to the same tax authority.

Earnings per share

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

Purchased intangible assets

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

The following estimated useful lives are applied:

- Patents, utility designs, trademarks, publishing rights, copyrights and 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 recoverable amount is less than the carrying amount, the impairment is recognized in profit or loss.

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.

Internally generated intangible assets

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

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 an indication of impairment.

Property, plant and equipment

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

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

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

The residual carrying amounts and economic lives are reviewed every year at 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 in accordance with IAS 36. Gains 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 profit or loss.

Borrowing costs

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

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

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

Noncurrent assets held for sale

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

Impairments of non-financial assets

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

If impairment loss is reversed in a later period, 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 for the asset (or cash-generating unit) in previous years. Reversals of impairment losses are recognized immediately in profit or loss for the period.

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

Leases

A lease is a contract that conveys the right to control the use of an identified asset for a specific period against payment of consideration. As a lessee, the Group fundamentally recognizes assets for the rights of use to the leased objects ("Rights of use" balance sheet item) and liabilities at present values for the payment obligations entered into ("Lease liabilities" balance sheet item under both current and noncurrent liabilities) for all leases. The lease liabilities include the following lease payments:

- Fixed payments less any lease incentives to be received,
- Variable payments linked to an index or interest rate and that are measured initially using the index or (interest) rate applicable on the commencement date (e.g., payments that are linked to a reference interest rate such as the LIBOR),
- Expected residual value payments from residual value guarantees,

- The exercise price of a purchase option if such exercise was considered to be sufficiently certain, and
- Contractual penalties for termination of the lease if its term factors in the fact that a termination option will be exercised by which such exercise is indicated.

Lease payments are discounted using the interest rate implicit in the lease insofar as it can be determined. Otherwise, discounting is applied at the incremental borrowing rate that factors in the term of the individual contract, the economic environment, and the contract currency. Rights of use are measured at cost of purchase, which breaks down as follows:

- Lease liability (as described above in this section),
- Lease payments made upon or before commencement,
- less lease incentives received,
- plus initial direct costs, and
- the estimated costs to be incurred by the lessee for dismantling and removal of the underlying asset, restoration of the location, or restoration of the underlying asset to the state required in the lease agreement (restoration obligations).

In subsequent periods, right of use are measured at amortized cost. The depreciation of rights of use is applied on a straight-line basis over the period of the contractual relationship. For low-value leases (with an underlying fair value of less than EUR 5,000.00) and for short-term leases (less than twelve months), the application simplifications are used and the payments are recognized as expenses within EBITDA on the income statement. Furthermore, the new regulations are not applied to leases of intangible assets.

The capitalized rights of use from leases are depreciated over the relevant useful life (contract term or economic life upon expected transfer of ownership) and thus reduce the Group EBIT. The portion of interest allocable to the leases according to the effective interest method is presented after the EBIT within the income statement and likewise influences consolidated earnings.

In case of contracts that include non-lease components along with lease components, the option of foregoing a separation of these two components is used when such a separation is not immediately apparent from the contract. In addition, internal Group leases are not presented according to the provisions of IFRS 16 Leases – in accordance with internal management pursuant to IFRS 8 – but rather presented through operating results analogously to low-value leases and short-term leases due to the circumstance that effects from them are eliminated within the framework of consolidation.

Lease contracts for real estate generally include extension and termination options. Such contract conditions offer the Group the greatest possible flexibility. When determining the contract periods, all facts and circumstances are taken into account that offer an economic incentive to exercise extension options or not to exercise termination options. Changes in the periods arising from the exercise or non-exercise of such options are only factored into the contract period when they are sufficiently certain.

Insofar as reassessments such as a changed assessment regarding exercise of an extension option or change in a lease payment or even modification of the lease agreement occur during the period of lease agreements, this circumstance is taken into account accordingly at the time of the reassessment or modification and a corresponding change is applied to the right of use and the lease liability. Please see “Assumptions and estimates made for accounting and valuation purposes” below for further information on uncertainties and discretionary judgments relating to the recognition of leases.

Inventories

Inventories are measured at the lower of acquisition/production cost or 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, value adjustments are charged to account for overstocking, obsolescence and reduced salability. The moving average price method was used as a measurement simplification procedure for measuring the inventory.

Trade receivables

Trade receivables are measured at amortized cost less value adjustments unless they are subject to factoring. A value adjustment is charged against trade receivables if the determination based on lifetime expected loss indicates such an adjustment. The value adjustment is recognized in profit or loss. If the reasons for the value adjustments charged in prior periods no longer exist, the value adjustments are reversed accordingly.

Trade accounts receivable that are subject to a factoring agreement are carried at fair value affecting net income and are allocated to the category "fair value through profit or loss" (FVPL) within financial assets.

Factoring

Some companies of the Gigaset Group assign a portion of their trade receivables to financing companies (known as factors). In accordance with IFRS 9, sold trade receivables are derecognized only when significant portions of the risks associated with the receivables have been transferred to the buyer of the receivables. Under existing contractual agreements, significant portions of the risk of customer insolvency (del credere risk) are transferred to the factor. Gigaset still bears a portion of the interest and late payment 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 IFRS 9, the sold receivables are therefore partially derecognized as of the reporting date, although the portion that remains as the continuing involvement is low compared with the total amount of sold receivables. The purchase price retentions withheld initially by the factor as security are recognized separately under the category of other assets. They are due as soon as the customer's payment is received.

The remaining late payment risk due to purchase price retentions and the remaining interest rate risk are recognized as "continuing involvement" within trade receivables. This continuing involvement is offset by a corresponding other liability covering the additional risk of a potential loss of the receivables from the factor arising from the purchase price retentions, which is recognized under short-term other liabilities.

Additional purchase price retentions are agreed with the factor to account for legal validity and revenue deduction risk, which have been recognized as other assets. Barring

problems in the payment flows, these retentions will be due and payable after a period of limitation.

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

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

Cash and cash equivalents

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

Financial assets

The categorization of the financial assets depends on Gigaset's individual business model for managing the financial assets and the characteristics of the contractual payment flows. The individual business models differ between "collect", "hold and collect", and "other". The characteristics of the contractual payment flows are checked to see whether they are „solely payments of principal and interest" - sppi. The financial assets are subdivided into the following categories at Gigaset depending on the business model and the characteristics of the contractual payment flows:

- At amortized cost (AC)
- At fair value through profit or loss (FVPL)
- At fair value through other comprehensive income (FVOCI)
- Financial assets (hedge accounting).

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. For the determination of fair value, the counterparty credit risk has to be taken into consideration.

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 belong to a category that is not carried at fair value 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.

Financial assets measured at amortized cost (AC)

Financial assets that match both the "collect" business model as well as the "sppi" criterion for the contractual payment flows are assigned to this category. At Gigaset, this primarily includes trade accounts receivable, loans and other financial receivables and assets, as well as cash and cash equivalents. They are presented as current assets as long as their due date is not more than 12 months after the reporting date and as noncurrent assets if their due date is more than 12 months after the reporting date. The subsequent measurement of these assets is carried out by applying the effective interest method. Value adjustments for financial assets that are carried at amortized cost must normally be determined according to a three-step model (Step 1: expected loss for 12 months Step 2 in case of a significant increase in credit risk: lifetime expected loss, Step 3: individual measurement based on an expected default). An exception to this applies to trade accounts receivable for which determination of a possible impairment is carried out based on the lifetime expected loss model for reasons of simplification.

Financial assets measured at fair value through profit or loss (FVPL)

This category includes financial assets that are not to be allocated to any other category and those that were categorized from the beginning as at fair value through profit or loss based on the fair value option. They are presented as current assets as long as their due date is not more than 12 months after the reporting date and as noncurrent assets if their due date is more than 12 months after the reporting date. The subsequent measurement for these assets occurs at fair value with recognition of the impairments in profit or loss. Derivative financial instruments also belong to this category. Please see the discussion in this section under "Derivative financial instruments".

Financial assets measured at Fair Value through Other Comprehensive Income (FVOCI)

Financial assets that match both the "collect" business model as well as the "sppi" criterion for the contractual payment flows are assigned to this category. Equity instruments for which Gigaset uses the option of subsequent measurement with no effect on income are also disclosed in this category.

The subsequent measurement of these financial instruments is carried out at fair value with recognition of the value fluctuations in other comprehensive income (OCI). Upon disposal of financial assets whose changes in value were previously recorded in other comprehensive income (OCI), the cumulative changes in value must be reclassified into the profit for the period, affecting net income ("recycling") insofar as these assets were also classified in this way beforehand. This does not apply to equity instruments under IFRS 9 for which no recycling is planned, where the measurement effects remain in equity.

Financial assets (hedge accounting)

Insofar as financial assets – in Gigaset's case, foreign currency derivatives – are recognized within the framework of the regulations of hedge accounting pursuant to IFRS 9, they must be carried according to the regulations for hedge accounting. Please see the discussion under "Derivative financial instruments" regarding the treatment of derivative financial instruments within the framework of a hedge.

Derivative financial instruments

In accordance with IFRS 9, derivative financial instruments are measured at fair value as of the reporting date if the fair value can be reliably measured. The Company recognizes the change in the fair value of the derivative financial instruments either in the consolidated income statement or, if cashflow hedges are involved, in equity in the item of "Accumulated other comprehensive income" after consideration of deferred income taxes.

Cashflow hedges: The effective portion of the change in the fair value of the derivative instruments that are classified as cashflow hedges is recognized in the item of "Accumulated other comprehensive income" after consideration of deferred income taxes. The ineffective portion is recognized immediately in the consolidated income statement. The amounts accumulated in equity are recognized in the consolidated income statement in the same period in which the underlying transaction is recognized in the consolidated income statement. In the reporting period, the Company recognized cashflow hedges exclusively for hedges of planned foreign currency transactions. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. For the determination of fair value, the counterparty credit risk has to be taken into consideration.

If a contract contains one or more embedded derivatives that IFRS 9 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 profit or loss.

Equity

Shares are classified as equity. Costs directly allocable to the issuance of new shares or options are recognized in equity 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 (including any taxes) are deducted from equity until such time as the shares are retired, re-issued or resold. When such shares are subsequently re-issued or sold, the consideration received is recognized in equity attributable to the Company's shareholders after deduction of directly allocable transaction costs and the corresponding income taxes.

Provisions

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

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

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

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

Employee Benefits

Pension obligations

There are various pension plans in effect within the Gigaset Group, 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 the Gigaset Group, depending on the subsidiary concerned. These benefits essentially comprise the following:

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

The provision for defined benefit plans recognized in the consolidated statement of financial position is based on the present value of the pension obligation less the fair value of the pension plan assets as of the reporting date. If an asset results from the netting of the defined benefit obligation with the fair value of the plan assets, then it is fundamentally limited to the future economic benefit in the form of refunds from the plan or reductions in future contribution payments to the plan.

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 as of the reporting date and the anticipated future increases in salaries and pensions. The revaluation effects of the net obligation are recognized separately in equity under the item "Accumulated other comprehensive income." Revaluation effects result from changes in the present value of the defined benefit obligation due to experience adjustments (effects of the deviation between earlier actuarial assumptions and actual developments) and the effects of changes to actuarial assumptions. Gigaset's pension plan assets consist of the special funds, fixed-interest securities, stocks, and other assets which meet the definition of plan assets according to IAS 19. Past service cost must be recognized immediately in the income statement in the full amount, regardless of any vesting conditions. The net interest expense included in pension expenses is presented as personnel expenses.

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

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. 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.

Other long-term employee benefits

Other long-term employee benefits are all employee benefits, except for benefits to employees that are due in the short term, post-employment benefits (particularly pension funds), and benefits at termination of an employment relationship. This includes the obligations arising from partial early retirement agreements, for instance. The Group recognizes provisions when it is demonstrably and unavoidably obligated to provide these benefits. Benefits that fall due more than 12 months after the reporting date are discounted to present value. Claims from other long-term employee benefits payable are presented with the personnel provisions.

Profit-sharing and bonus plans

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

Liabilities

Financial liabilities are composed of liabilities and derivative financial instruments with negative fair values. Liabilities are measured at amortized cost. This means that current liabilities are measured at the amounts required to repay or settle the underlying obligations, while noncurrent liabilities and financial liabilities are measured at amortized cost in accordance with the effective interest method.

In accordance with IFRS 9, derivative financial instruments are measured at fair value as of the reporting date if the fair value can be reliably measured. The Company recognizes the change in the fair value of the derivative financial instruments either in the consolidated income statement or, if cashflow hedges are involved, in equity in the item of "Accumulated other comprehensive income" after consideration of deferred income taxes.

Cashflow hedges: The effective portion of the change in the fair value of the derivative instruments that are classified as cashflow hedges is recognized in the item of "Accumulated other comprehensive income" after consideration of deferred income taxes. The ineffective portion is recognized immediately in the consolidated income statement. The amounts accumulated in equity are recognized in the consolidated income statement in the same period in which the underlying transaction is recognized in the consolidated income statement. In the reporting period, the Company recognized cashflow hedges exclusively for hedges of planned foreign currency transactions.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. For the determination of fair value, the own credit risk has to be taken into consideration.

Segment report

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 generates income and expenses, whose financial performance is reviewed regularly by the chief operating decision maker for purposes of performance assessment and resource allocation, and for which discrete financial information is available. The chief operating decision maker is the Executive Board of the Company.

In the segment report, the Group's operating divisions are structured according to the geographical regions of the Gigaset Group.

The reportable segments of the Gigaset Group are the following:

- Gigaset
    - Germany
    - EU
    - Rest of World
- Holding company
    - This segment comprises the activities of Gigaset AG, Gigaset Industries GmbH, CFR Holding GmbH, GIG Holding GmbH, GOH Holding GmbH and Hortensienweg Management GmbH.

Legal disputes and claims for damages

The companies of the Gigaset Group are involved in various lawsuits and administrative proceedings in the course of their ordinary business, or it is possible that such lawsuits or administrative proceedings could be commenced or asserted in the future. Even if the outcome of individual proceedings cannot be predicted with certainty due to the imponderability of legal disputes, it is the current estimation of the Management that the matters in question will not have a significant adverse effect on the cashflows and 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

In preparing the consolidated financial statements, it was necessary to make certain assumptions and estimates that have a bearing on whether, and to what extent, assets and liabilities, income and expenses, and contingent liabilities accruing in the reporting period are recognized in the financial statements. Such assumptions and estimates relate mainly to the recognition and measurement of intangible assets, the adoption of uniform group-wide useful lives for property, plant and equipment and intangible assets, the lease periods, 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 the control of Management differ from the assumptions made, the actual performance figures could 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 the accounting and valuation policies.

Estimates made in connection with impairment tests

In accordance with IAS 36 (Impairment of Assets) and IAS 38 (Intangible Assets), intangible assets with indefinite useful lives must be tested for possible impairment at least once a year, or on an ad-hoc basis if events or changed circumstances indicate the possibility of impairment of an asset. For purposes of the impairment tests, the net carrying amounts of each individual cash-generating unit within Gigaset are compared with the recoverable amounts defined as the higher of the fair value less costs to sell or the value in use. In accordance with the relevant definition, the smallest identifiable business units for which there are independent cashflows 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 impairments determined in this amount that are to be recognized in profit or loss are allocated to the assets of the individual strategic business unit in proportion to their carrying amounts insofar as they fall within the scope of IAS 36 and the value of the individual asset is not less than the individual fair value less costs to sell.

The recoverable amount is calculated as the present value of the future cashflows 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 cashflows are estimated on the basis of Gigaset's current business plans. The cost of capital is calculated as the weighted average cost of equity and debt capital, 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 at least 20 years, to calculate the cost of debt capital.

Leases

The measurement of the capitalized rights of use is subject to estimates and assumptions that are recognized based on option exercise rights in the lease contracts. The options result primarily from extension and/or termination options for leases. This gives the Company a certain flexibility to react to changing circumstances. The assessment of the probability of exercising the option requires a high level of discretionary decisions, which, however, are only considered to be exercisable and thus recognized if it is highly probable that it will be exercised. In case of changes regarding the assumptions, the resulting effects immediately enter into the measurement of the leases so that they always reflect the best possible current level of knowledge.

Income taxes

The Group is required to pay income taxes in various countries based on different tax assessment bases. 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.

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

Furthermore, uncertainties are inherent in the interpretation of complex tax regulations and the amount and timing of future taxable income. Due particularly to the wide-ranging international activities of the corporate group, any differences between the actual profits or losses generated and the 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 for determining the amount of provisions to be recognized regarding the amount of the possible outflow of economic resources. A change in these assumptions could lead to a change in the amount of provisions to be recognized. Here as well, the assumptions made for this purpose give rise to uncertainties.

The determination of the net obligation from defined benefit plans 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 financial year. The underlying discount rate used is the interest rate paid by high-grade corporate bonds denominated in the currency in which the benefits are paid, 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.

Contingent liabilities

The recognition and measurement of provisions and contingent liabilities in connection with pending lawsuits or other outstanding claims from settlement, mediation, arbitral or administrative proceedings are linked to estimates made by Gigaset AG to a considerable degree. Thus, the assessment of the probability that a pending proceeding will be successful or a liability will be created, and the quantification of the possible amount of the payment obligation is based on the estimation of the individual circumstances. Moreover, provisions for onerous contracts are created whenever a loss is probable and the loss can be reliably estimated. Due to the uncertainties associated with this estimation, the actual losses may differ from the original estimates and thus from the provision amount. The calculation of provisions for taxes and legal risks also involves considerable estimates, which may change due to new information. When obtaining new information, Gigaset AG primarily uses the services of both internal experts and external consultants such as actuaries or lawyers. Changes in the estimates of these risks may have a considerable effect on the future financial performance.

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

C. NOTES ON FINANCIAL INSTRUMENTS

New definitions of classes pursuant to IFRS 9

New measurement categories were introduced due to the implementation of IFRS 9 Financial Instruments. In this section, the categories are labeled using the abbreviations shown in parentheses below, particularly in tables.

Financial assets – categories per IFRS 9

At fair value through profit or loss (FVPL)

At fair value through other comprehensive income (FVOCI)

At amortized cost (AC)

Other financial assets (hedge accounting)

Financial liabilities – categories per IFRS 9

At amortized cost (AC)

At fair value through profit or loss (FVPL)

Other financial liabilities (hedge accounting)

Significance

The purpose of the disclosures required by IFRS 7 is to provide decision-relevant information concerning the amount, timing and probability of future cashflows 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. Likewise, the term financial assets is also understood to include financial investments and derivatives held with positive market values. 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, lease liabilities, loans, liabilities under accepted bills of exchange and the issuance of the Company's own bills of exchange, as well as options written and derivative financial instruments with negative fair values.

Financial risk factors

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

The Group's comprehensive risk management program is focused on the unpredictability of developments in the financial markets and is aimed at minimizing the potentially negative consequences of those developments on the Group's cashflows. 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. The Company applies hedge accounting rules for hedging transactions with regard to the foreign currency risk for planned materials procurement.

Credit risk/default risk

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

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

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

The following summaries present the financial assets by measurement categories along with any collateral received for them.

Balance sheet items	Measurement category	Maximum default risk (carrying amount)	Collateral held		Mathematical risk
12/31/2019		EUR'000	EUR'000	%	EUR'000
Noncurrent assets					
Financial assets	FVOCI	7,686	0	0.0%	7,686
Current assets					
Trade receivables	AC	21,944	15,878	72.4%	6,066
Trade receivables	FVPL	23,473	13,360	56.9%	10,113
Other assets	AC	15,394	0	0.0%	15,394
Other assets	Hedging	0	0	n/a	0
Cash and cash equivalents	AC	36,557	0	0.0%	36,557
Total		**105,054**	**29,238**	**27.8%**	**75,816**

Balance sheet items	Measurement category	Maximum default risk (carrying amount)	Collateral held		Mathematical risk
12/31/2018		EUR'000	EUR'000	%	EUR'000
Noncurrent assets					
Financial assets	FVOCI	8,686	0	0.0%	8,686
Current assets					
Trade receivables	AC	21,208	15,912	75.0%	5,296
Trade receivables	FVPL	19,608	6,853	35.0%	12,755
Other assets	AC	18,941	0	0.0%	18,941
Other assets	Hedging	2,086	0	0.0%	2,086
Cash and cash equivalents	AC	36,939	0	0.0%	36,939
Total		**107,468**	**22,765**	**21.2%**	**84,703**

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

Financial assets	12/31/2019		12/31/2018	
	EUR'000	%	EUR'000	%
Germany	65,485	62.3	58,828	54.7
Europe (excluding Germany)	27,848	26.5	29,026	27.0
Rest of World	11,721	11.2	19,614	18.3
Total	**105,054**	**100.0**	**107,468**	**100.0**

As a rule, value adjustments are charged in adequate amounts to account for discernible default risks in the receivables portfolio. The changes in value adjustments on trade receivables are presented in tabular format in Note E.6, Trade payables.

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, lease 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, the operating business is for the most part financed by way of an optimized working capital approach under which financing is procured from factoring. The financing through factoring as currently practiced is also not endangered in the long term.

A bank loan was taken out in the 2018 financial year in order to finance future growth as well as to secure required liquidity for any retroactive tax payments that may accrue. The loan taken out had a value of EUR 15.9 million as of December 31, 2019. Since the tax liabilities turned out to be less than originally planned, Gigaset was not forced to completely draw down the loan. In January 2020, the existing financing and an adjustment to covenants were renegotiated, since financial ratios were not complied with in the previous year. The maximum credit volume, originally up to EUR 20.0 million, was frozen at EUR 15.9 million, but at the same time, the term of the loan was extended by two years in order to alleviate Gigaset's liquidity. In addition, it still continues to be possible in principle to submit a new application for a loan guaranteed by the German Land government for the EUR 4.1 million no longer available under the current contract. Gigaset is currently in discussions on this topic with the government institutions in order to obtain this amount and possibly funds in excess of this amount in order to be prepared for a possibly threatened collapse in demand in the context of the coronavirus crisis.

The loan agreement stipulates special terms with regard to financial ratios to be complied with ("financial covenants"). These include the EBITDA of the Gigaset Group, but using the definition of the credit agreement as a basis (specific additions or reductions). These were complied with as of December 31, 2019. Based on the renegotiated financing, the existing loan obligation will be repaid in 58 monthly installments beginning in January 2020. The terms in force as of December 31, 2019 had stipulated that the loan would have to be repaid in 33 monthly installments starting in January 2020. The interest terms of the loan have not changed. The loan was fully collateralized by the Company using land and buildings, other facilities and machine assets, as well as a storage assignment of the warehouse and pledge of the existing intangible assets.

In the table below, the financial liabilities are broken down by term to maturity. The non-derivative financial liabilities are measured at amortized cost as in the previous year. Due to the newly applicable IFRS 16 Leases, Gigaset recognizes lease liabilities starting in financial year 2019. They are presented in addition to the other financial liabilities: The undiscounted cash flows are shown:

12/31/2019 in EUR'000	Carrying amount	Total outflow	< 1 year	1 - 5 years	> 5 years
Non-derivative financial liabilities	**67,268**	**68,449**	**57,653**	**10,796**	**0**
Financial liabilities	15,900	17,081	6,285	10,796	0
Trade payables	51,247	51,247	51,247	0	0
Other liabilities	121	121	121	0	0
Derivative financial liabilities	**128**	**128**	**128**	**0**	**0**
Lease liabilities	**4,390**	**4,622**	**1,696**	**2,925**	**1**
Total	**71,786**	**73,199**	**59,477**	**13,721**	**1**

12/31/2018 in EUR'000	Carrying amount	Total outflow	< 1 year	1 - 5 years	> 5 years
Non-derivative financial liabilities	**60,941**	**62,602**	**48,011**	**14,591**	**0**
Financial liabilities	13,500	15,161	570	14,591	0
Trade payables	47,355	47,355	47,355	0	0
Other liabilities	86	86	86	0	0
Derivative financial liabilities	**172**	**172**	**172**	**0**	**0**
Lease liabilities	**0**	**0**	**0**	**0**	**0**
Total	**61,113**	**62,774**	**48,183**	**14,591**	**0**

A more detailed presentation of trade payables in the maturity range "< 1 year" is provided in Note E.15, Trade payables. Most of the Gigaset companies receive goods under country-specific retentions of title. The breakdown of financial liabilities by region yields the following risk concentrations:

Financial liabilities	12/31/2019		12/31/2018	
	EUR'000	%	EUR'000	%
Germany	26,053	38.7	22,983	37.6
Europe (excluding Germany)	17,005	25.2	14,971	24.5
Rest of World	24,338	36.1	23,159	37.9
Total	**67,396**	**100.0**	**61,113**	**100.0**

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 cashflows in foreign currencies that are expected to result from transactions.

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

Foreign currency risk

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

Of the financial instruments presented for the Group, an amount of EUR 16,643 thousand (PY: EUR 16,120 thousand) consisted of financial assets denominated in foreign currencies and an amount of EUR 29,141 thousand (PY: EUR 25,143 thousand) consisted of financial liabilities denominated in foreign currencies.

The risk concentrations based on foreign currencies are presented in the table below:

	12/31/2019		12/31/2018	
Financial assets in	**EUR'000**	**%**	**EUR'000**	**%**
USD (US dollar)	2,413	14.4	3,271	20.4
RUB (Russian ruble)	4,325	26.0	3,171	19.7
TRL (Turkish lira)	2,950	17.7	2,801	17.4
GBP (British pound)	2,009	12.1	1,968	12.2
CHF (Swiss franc)	1,597	9.6	1,836	11.4
CNY (Chinese renminbi yuan)	1,779	10.7	1,804	11.2
PLN (Polish zloty)	1,025	6.2	522	3.2
SEK (Swedish krona)	344	2.1	520	3.2
JPY (Japanese yen)	0	0.0	118	0.7
NOK (Norwegian krone)	99	0.6	53	0.3
DKK (Danish krone)	102	0.6	56	0.3
Total	**16,643**	**100.0**	**16,120**	**100.0**

	12/31/2019		12/31/2018	
Financial liabilities in	**EUR'000**	**%**	**EUR'000**	**%**
USD (US dollar)	25,005	85.7	20,442	81.2
CNY (Chinese renminbi yuan)	2,020	6.9	2,379	9.5
PLN (Polish zloty)	179	0.6	670	2.7
CHF (Swiss franc)	691	2.4	523	2.1
TRL (Turkish lira)	491	1.7	352	1.4
GBP (British pound)	253	0.9	314	1.2
RUB (Russian ruble)	138	0.5	216	0.9
SEK (Swedish krona)	44	0.2	136	0.5
JPY (Japanese yen)	294	1.0	89	0.4
Other	26	0.1	22	0.1
Total	**29,141**	**100.0**	**25,143**	**100.0**

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

As of 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 as of December 31, 2019, the equity presented in the functional currency would have been EUR 1,136 thousand higher or EUR 1,389 thousand lower, respectively (PY: EUR 819 thousand higher or EUR 1,002 thousand lower).

The hypothetical effect on profit or loss (after taxes) of EUR 1,136 thousand (PY: EUR 819 thousand) or EUR 1,389 thousand (PY: EUR 1,002 thousand), respectively, is broken down in the table below on the basis of the corresponding currency sensitivities:

	2019		2018	
EUR'000	**+10%**	**-10%**	**+10%**	**-10%**
EUR/USD	2,054	-2,510	1,561	-1,908
EUR/CNY	22	-27	52	-64
EUR/PLN	-77	94	13	-16
EUR/CZK	0	0	0	0
EUR/DKK	-7	9	-3	4
EUR/JPY	27	-33	-3	3
EUR/NOK	-9	11	-5	6
EUR/SEK	-27	33	-35	43
EUR/CHF	-82	101	-119	146
EUR/GBP	-160	195	-150	184
EUR/TRL	-224	273	-223	272
EUR/RUB	-381	465	-269	328
Total	**1,136**	**-1,389**	**819**	**-1,002**

To hedge risks arising from expected future transactions in foreign currencies, the Company regularly enters into foreign currency derivatives in the context of its risk management strategy. Short-term and medium-term company planning and the Group's liquidity planning constitute the basis for concluding hedging transactions. In principle, the incoming and outgoing payments determined per foreign currency are netted individually, taking the maturity structure into account, and hedged in one sum as a net item. Generally, up to 80 % of the expected net item is hedged. Therefore, the planned procurement transactions are classified as highly probable. Fee-based hedge transactions and hedges with a hedge ratio above 80 % are only concluded with prior coordination and approval of the Management. In the 2019 financial year and in the previous year, foreign currency derivatives were concluded primarily to hedge purchases in U.S. dollars (EUR/USD).

The Company uses hedge accounting regulations for foreign currency hedging in the Group. Representing foreign currency hedges based on hedge accounting regulations is intended to achieve more adequate disclosure within the income statement. Therefore, essentially no income or expenses from the measurement of the derivatives will be presented within exchange rate gains or losses for active hedging relationships; instead, the hedge transactions will be included in the purchased goods. Since future goods purchases in U.S. dollars will be hedged in the context of the hedge relationship based on existing plans, this is a cashflow hedge. To the extent that the relevant hedging activity is achieved with a high degree of probability, the changes in the value of the derivatives will be recognized in equity until the expected transaction is performed. Once the transaction has been performed, the effects arising from the hedge transactions will be included in the materials to be procured.

The forward exchange contracts existing as of December 31, 2019, for which hedge accounting was used, satisfy the requirements of IFRS 9 for cashflow hedges. The risk management strategies and the hedging documentation are harmonized with the regulations of IFRS 9. Effectiveness was assessed at the time of designation of the hedging relationships based on a prospective effectiveness test. This test led to the result that the defined hedging relationships were to be considered effective.

As of the reporting date, an accumulated amount of EUR -71 thousand (PY: EUR 1,023 thousand) was recognized in equity, taking deferred taxes relating to foreign currency derivatives into account. The effect from cashflow hedges, which were recognized in equity in the current period, is EUR -1,603 thousand (PY: EUR 2,292 thousand). Income taxes of EUR 510 thousand (PY: EUR -722 thousand) were recognized on this amount.

As of the reporting date, the Group held 36 (PY: 58) foreign currency derivatives to hedge the exchange rate of the U.S. dollar against the euro, for a total notional amount of USD 27.0 million (PY: USD 58.9 million) with a term until December 2020. As of the reporting date, the Group held no (PY: 12) foreign currency derivatives (PY with a notional amount of CHF 5.7 million). Twenty four USD foreign currency derivatives are designed as “plain vanilla” forward exchange contracts. Twelve USD foreign currency derivatives are designed as currency option transactions.

The regulations of hedge accounting are used as of the reporting date for 36 (PY: 58) foreign currency derivatives to hedge USD transactions. The volume of these forward contracts amounts to USD 27.0 million (PY: USD 58.9 million). The weighted average hedging rate for the USD amounts to 1.12 EUR/USD in the reporting year, and 1.16 EUR/USD in the previous reporting period.

As of the reporting date, the terms of the forward foreign exchange contracts run from January 2020 to December 2020 (PY: January 2019 to December 2019). The following hedging transactions were concluded for the listed U.S. dollar amounts for the individual months:

USD hedging transactions in million USD/ Period until month	**2020**	**2019**
January	2.25	4.00
February	2.25	4.00
March	2.25	4.00
April	2.25	3.50
May	2.25	3.50
June	2.25	3.50
July	2.25	4.00
August	2.25	5.00
September	2.25	4.50
October	2.25	6.00
November	2.25	8.70
December	2.25	8.20
Total	**27.0**	**58.9**

As of the reporting date, the derivatives were measured at their fair value of EUR +0 thousand (PY: EUR +2,086 thousand) and EUR -128 thousand (PY: EUR -172 thousand), and are recognized under Other current liabilities (PY: Other current assets or Other current liabilities).

The currency sensitivity analysis for the US dollar derivatives existing as of the reporting date yielded the result that a devaluation of the U.S. dollar by 10 % would have led to a reduction in the fair value of EUR -2,408 thousand (PY: EUR -5,057 thousand), and an appreciation of the U.S. dollar by 10 % would have led to an increase in the fair value of EUR 1,361 thousand (PY: EUR 5,057 thousand). Thus, equity (disregarding deferred taxes) would have been reduced by EUR 2,408 thousand (PY: EUR 5,057 thousand) if the U.S. dollar exchange rate had been 10 % higher, and increased by EUR 1,361 thousand (PY: EUR 5,057 thousand) if the U.S. dollar exchange rate had been 10 % lower.

There were no CHF derivatives as of the reporting date. The currency sensitivity analysis for the Swiss franc derivatives existing as of the reporting date of the previous year yielded the result that depreciation of the Swiss franc by 10 % would have led to a reduction in the fair value of EUR -507 thousand and appreciation of the Swiss franc by 10 % would have led to an increase in the fair value of EUR 507 thousand. Thus, equity (disregarding deferred taxes) would have been reduced by EUR 507 thousand if the Swiss franc exchange rate had been 10 % higher, and increased by EUR 507 thousand if the Swiss franc exchange rate had been 10 % lower.

This information breaks down as follows for the reporting period with respect to the statements relevant to Gigaset pursuant to IFRS 7.24a and 7.24b:

EUR'000	12/31/2019	12/31/2018
Carrying amount, derivatives hedging with positive carrying amount	0	2,086
Balance sheet item in which derivatives with a positive carrying amount are shown	Other assets (current)	Other assets (current)
Carrying amount, derivatives hedging with negative carrying amount	128	46
Balance sheet item in which derivatives with a negative carrying amount are shown	Other liabilities (current)	Other liabilities (current)
Change in fair value as basis for determining ineffectiveness	-128	2,040
Change in fair value, underlying transaction	128	-2,040
Cumulative amount recorded in equity for cashflow hedges (factoring in deferred taxes)	-71	1,023
Nominal value of the hedging transactions in USD	27,000	58,900

Interest rate risks

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

No noncurrent financial assets or liabilities with variable interest rates existed as of the reporting date.

Long-term debt with fixed interest rates exists as of the reporting date. A theoretical fair value risk arises for the long-term debt insofar as the loan carried at amortized cost were to be redeemed prematurely at market value. The calculated fair value of the loan based on the current interest rate level as of the reporting date is EUR 16,296 thousand (PY: EUR 13,998 thousand with a loan balance of EUR 13,500 thousand.). In case of an increase in the interest rate level by 10 %, the fair value would decline by EUR 14 thousand, while in case of a decrease in the interest rate level by 10 %, the fair value would increase by EUR 14 thousand.

Both fixed interest rates and variable interest rates have been stipulated for current financial assets and liabilities, insofar as they bear interest. Market interest rate changes of non-derivative financial instruments with fixed interest rates can have an effect on profit or loss only when they are measured at fair value. Accordingly, all financial instruments with fixed interest rates that are measured at amortized cost are not subject to interest rate risks according to the definition of IFRS 7. Market interest rate changes of primary financial instruments with variable interest have an effect on the cashflows of these financial instruments.

Since possible effects for the existing current assets and liabilities can be classified as immaterial due to the current low market interest rates and the short terms, no sensitivity analysis was performed.

Other price risks

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

Classification

The individual valuation classes and categories of IFRS 9, along with the corresponding carrying amounts and fair values of the financial instruments, are presented in the table below. The lease liabilities are additionally included in the summary. The following table shows the summary as of 12/31/2019:

Carrying amounts, measurement methods and fair values by measurement category in EUR'000	Measurement categories per IFRS 9	Notes	Carrying amount 12/31/2019	Fair value 12/31/2019	Amortized cost	Fair value recognized in equity without subsequent reclassification Into the income statement	Fair value thorough profit and loss	Hedge Accounting	Statement of financial position measurement method per IFRS 16
Assets									
Noncurrent assets									
Financial assets	FVOCI	E.4	7,686	7,686	0	7,686	0	0	0
current assets			0	0	0	0	0	0	0
Trade receivables	AC	E.6	21,944	21,944	21,944	0	0	0	0
	FVPL	E.6	23,473	23,473	0	0	23,473	0	0
Other assets	AC, FVPL	E.7	15,394	15,394	15,394	0	0	0	0
Cash and cash equivalent	AC	E.9	36,557	36,557	36,557	0	0	0	0
Liabilities									
Noncurrent liabilities									
Financial liabilities	AC	E.13	10,176	10,126	10,176	0	0	0	0
Lease liabilities	Leases	E.3	0	0	0	0	0	0	2,827
Current liabilities									
Current financial liabilities	AC	E.13	5,724	6,170	5,724	0	0	0	0
Current lease liabilities	Leases	E.3	0	0	0	0	0	0	1,563
Trade payables	AC	E.15	51,247	51,247	51,247	0	0	0	0
Other liabilities	AC, FVPL	E.17	249	249	121	0	0	128	0

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

In the previous period as of 12/31/2018, the measurement classes and categories of IFRS 9 break down as follows:

Carrying amounts, measurement methods and fair values by measurement category in EUR'000	Measurement categories per IFRS 9	Notes	Carrying amount 12/31/2018	Fair value 12/31/2018	Amortized cost	Fair value recognized in equity without subsequent reclassification Into the income statement	Fair value thorough profit and loss	Hedge Accounting	Statement of financial position measurement method per IFRS 16
Assets									
Noncurrent assets									
Financial assets	FVOCI	E.4	8,686	8,686	0	8,686	0	0	0
Current assets			0	0	0	0	0	0	0
Trade receivables	AC	E.6	21,208	21,208	21,208	0	0	0	0
	FVPL	E.6	19,608	19,608	0	0	19,608	0	0
Other assets	AC, FVPL	E.7	21,027	21,027	18,941	0	0	2,086	0
Cash and cash equivalents	AC	E.9	36,939	36,939	36,939	0	0	0	0
Liabilities									
Noncurrent liabilities									
Financial liabilities	AC	E.13	13,500	13,998	13,500	0	0	0	0
Lease liabilities	Leases	E.3	0	0	0	0	0	0	0
Current liabilities									
Current financial liabilities	AC	E.13	0	0	0	0	0	0	0
Current lease liabilities	Leases	E.3	0	0	0	0	0	0	0
Trade payables	AC	E.15	47,355	47,355	47,355	0	0	0	0
Other liabilities	AC, FVPL	E.17	258	258	86	0	127	45	0

Carrying amounts, measurement methods and fair values by measurement category in EUR'000	Measurement categories per IFRS 9	Notes	Carrying amount 12/31/2018	Fair value 12/31/2018	Amortized cost	Fair value recognized in equity without subsequent reclassification Into the income statement	Fair value thorough profit and loss	Hedge Accounting	Statement of financial position measurement method per IFRS 16
Thereof aggregated by measurement categories in EUR'000									
Financial assets									
At amortized cost (AC)			77,088	77,088	0	0	0	0	0
At fair value through other comprehensive income (FVCOI)			8,686	8,686	0	0	0	0	0
At fair value through profit or loss (FVPL)			19,608	19,608	0	0	0	0	0
Financial assets (hedging)			2,086	2,086	0	0	0	0	0
Financial liabilities									
At amortized cost (AC)			60,941	61,439	0	0	0	0	0
At fair value through profit or loss (FVPL)			127	127	0	0	0	0	0
Financial liabilities (hedging)			45	45	0	0	0	0	0

An indication of fair value is not required for current financial assets and liabilities pursuant to IFRS 7.29 as long as the carrying amount is a reasonable approximate value. Gigaset indicates the fair values in the preceding summaries for completeness and better understanding by the readers of the annual financial statements, but does not carry out separate measurement of the fair values, since the carrying amounts are used as reasonable approximate values. A separate determination is carried out only for the current portion of the noncurrent financial liabilities from the loan, since the effect is material. Therefore, there is also no separate presentation of the other items in the following table, which breaks down the determined fair values for the financial assets and liabilities according to hierarchy levels for financial year 2019 as supplemental information.

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

12/31/2018		Hierarchy level			
EUR'000	**Category**	**1**	**2**	**3**	**Total**
Financial assets					
Noncurrent financial assets	FVOCI	0	0	8,686	8,686
Derivative financial instruments	Hedging	0	2,086	0	2,086
Financial liabilities					
Noncurrent and current financial liabilities	AC	0	13,998	0	13,998
Derivative financial instruments	FVPL/ Hedging	0	172	0	172

In the 2019 financial year, the category of other assets included no current derivative financial assets (PY: EUR 2,086 thousand). The other liabilities included current derivative liabilities in the amount of EUR 128 thousand (PY: EUR 172 thousand).

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 as of the reporting date, which are taken from recognized external sources, are applied as the input parameters for these models. In accordance with IFRS 13, the calculation of these fair values is assigned to Level 2 of the measurement categories for the determination of fair values.

Liabilities under leases do not fall within the scope of IFRS 9 and are therefore presented separately. Due to the newly applicable recognition standard for leases, Gigaset presented liabilities under leases in 2019.

The noncurrent financial assets include the carrying amount for the investment in Gigaset Mobile Pte. Ltd., Singapore, which was assigned to the category “At fair value through other comprehensive income (FVOCI)”. Since the shares in Gigaset Mobile Pte. Ltd. are equity instruments, Gigaset exercised the option pursuant to IFRS 9.5.7.5 and irrevocably assigned these financial assets to the category “At fair value through other comprehensive income (FVOCI)”. A multiple approach was used at the transition date of January 1, 2018, based on available information for the measurement. Since no separate peer group exists or could be defined for Gigaset Mobile Pte. Ltd., the peer group of Gigaset was used. The market value of Gigaset's 14.98 % share was calculated based on a revenue multiple of 0.33 and average revenues for the years 2014 to 2017. The 2017 revenues are not based on the actual figures from the company, but rather on the most recently available values from the planning calculations of Gigaset Mobile Pte. Ltd. In accordance with IFRS 13, the calculation of the fair values was assigned to Level 3 of the measurement categories for the determination of fair values. New information was available from Gigaset Mobile Pte. Ltd. in both the 2018 and 2019 financial years. Due to the circumstance that no current planning was provided, Gigaset decided to measure the fair value based on the company's most recent audited annual financial statements and the derived claim to proportional equity. Due to the circumstance that this is a company operating in a foreign currency, the effects of changed exchange rates consequently also had to be factored in. The changed measurement of Gigaset Mobile Pte. Ltd. led to an impairment of EUR 1,159 thousand (PY: EUR 9,800 thousand), which was recognized directly in other comprehensive income due to its classification as FVOCI. In accordance with IFRS 13, the calculation of the fair values must be assigned to Level 3 of the measurement categories for the determination of fair values. If the equity of Gigaset Mobile Pte. Ltd. would change by 10 %, then Gigaset's claim to the proportional capital would also change by 10 %. The development of the noncurrent financial assets breaks down as follows:

EUR'000	2019	2018
Value at 1/1	**8,686**	**18,386**
Impairment (not affecting net income)	-1,159	-9,800
Foreign currency effects (not affecting net income)	159	100
Value at 12/31	**7,686**	**8,686**

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 as of the reporting date.

Trade payables and additional other current financial liabilities (except for the current portion of the loan obligation) are due in full within one year. Therefore, the nominal amounts or repayment amounts of such items are approximately equal to their fair values.

The fair values of other noncurrent 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.

Net gains or losses under financial instruments

	From Interest	From subsequent measurement			From disposal	Net gain or loss
2019 in EUR'000		**At fair value**	**Currency translation**	**Value adjustment**		**2019**
Financial assets						
AC	4	0	109	-728	0	-615
FV	-463	0	0	0	0	-463
FVOCI (with no effect on income)	0	-1,159	159	0	0	-1,000
Financial liabilities						
AC	-638	0	-142	0	99	-681
Derivative financial instruments						
FV	0	126	0	0	0	126
Hedging (affecting net income)	0	0	0	0	-566	-566
Hedging (with no effect on income)	0	-1,603	0	0	0	-1,603
2018 in EUR'000						**2018**
Financial assets						
AC	0	0	-74	-118	0	-192
FV	-408	0	0	0	0	-408
FVOCI (with no effect on income)	0	-9,800	100	0	0	-9,700
Financial liabilities						
AC	-321	0	-588	0	100	-809
Derivative financial instruments						
FV	0	332	0	0	0	332
Hedging (affecting net income)	0	0	0	0	1,431	1,431
Hedging (with no effect on income)	0	2,292	0	0	0	2,292

Interest from financial instruments is presented within other interest and similar income and interest and similar expenses (see Notes 8 and 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 2019 or the previous year on financial assets in which impairment losses had been recognized ("unwinding"). In reporting year 2019, the net interest income/loss was influenced by one-time effects from external audit interest at EUR 780 thousand as well as by interest income due to claims for damages in the amount of EUR 1,288 thousand and the interest expenses for leases recognized for the first time in the amount of EUR -169 thousand.

The income and expenses recognized for derivatives for which the regulations of hedge accounting were used were recognized in purchased goods and services. In the current year, they increased purchased goods and services by EUR 566 thousand and in the previous year they reduced purchased goods and services by EUR 1,431 thousand. The effects of measurement of derivatives for which the regulations of hedge accounting were not used were presented within exchange rate gains or exchange rate losses in the income statement and amount to EUR 126 thousand in the reporting year (PY: EUR 332 thousand).

Currency translation effects that are relevant to profit or loss are presented under exchange rate gains or exchange rate losses in the income statement.

The other components of the net gain or loss are recognized in Other operating income and Other operating expenses (see Notes D.4 Other operating income and D.6 Other operating expenses).

Net gains or losses on assets measured at amortized cost (AC) 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 measured at amortized cost (AC) are composed of interest expenses, income and expenses from currency translation and income from the waiver of amounts owed to suppliers.

Capital management

Gigaset's business model foresees consolidation in the area of home-based telecommunications solutions, the further development of sensor-based intelligent home networking, the expansion of the Business Customers business and the expansion of the smartphone business. The primary goal of capital management is to secure the survival of Gigaset as a going concern. Management of the Gigaset Group's capital structure is carried out by the parent company. 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 noncurrent 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 as of the reporting date, with due consideration given to book equity.

Change in the gearing ratio

EUR'000	**2019**	**2018**
Noncurrent liabilities	109,247	92,170
Current liabilities	94,825	95,883
Liabilities	204,072	188,053
Equity	**18,543**	**25,021**
Gearing Ratio	**11.0**	**7.5**

D. NOTES TO THE INCOME STATEMENT

1. Revenues

Operating revenues of the Group resulted primarily from the sale of goods and break down as follows:

EUR'000	2019	2018
Trade revenue	22,204	39,513
Production revenue	235,659	240,818
Total	**257,863**	**280,331**

Operating revenues are distributed over the following business areas:

EUR'000	2019	2018
Phones	176,340	193,393
Professional	56,628	59,867
Smartphones	21,238	23,903
Smart Home	3,657	3,168
Total	**257,863**	**280,331**

The distribution of the operating revenues by regions can be seen in the following breakdown:

2019 in EUR'000	Germany	France	Europe (excluding Germany and France)	Rest of World	Group
Phones	69,876	30,858	59,617	15,989	176,340
Professional	30,116	7,052	18,253	1,207	56,628
Smartphones	19,375	105	1,758	1	21,238
Smart Home	1,875	533	1,223	25	3,657
Total	**121,242**	**38,548**	**80,851**	**17,222**	**257,863**

2018 in EUR'000	Germany	France	Europe (excluding Germany and France)	Rest of World	Group
Phones	78,381	34,910	64,973	15,128	193,393
Professional	28,259	9,061	22,153	394	59,867
Smartphones	16,405	2,467	4,907	123	23,903
Smart Home	1,400	835	901	33	3,168
Total	**124,445**	**47,273**	**92,934**	**15,678**	**280,331**

There was no portfolio of unsatisfied performance obligations as of the reporting date.

2. Purchased goods and services

EUR'000	2019	2018
Raw materials and supplies	-111,392	-114,103
Purchased goods	-16,538	-27,966
Other	-2,967	-4,587
Total	**-130,897**	**-146,656**

The other purchased goods and services consisted mainly of energy supply costs. Raw materials and supplies included negative effects of hedges of materials purchases in foreign currencies compared to the previous year in the amount of EUR 0.6 million (PY: positive effects of EUR 1.4 million). Please refer to Section C Notes on Financial Instruments for details on this subject.

3. Other internal production capitalized

The other internal production capitalized consisted of capitalized development costs and the recognition of internally generated intangible and tangible assets.

4. Other operating income

EUR'000	2019	2018
Exchange rate gains	2,847	5,789
Reversal of provisions	1,402	2,910
Disposal of noncurrent assets	58	0
On-debiting	0	483
Income from the reversal of value adjustments	2	247
Miscellaneous operating income	14,230	4,274
Other operating income	**18,538**	**13,703**

The exchange rate gains of EUR 2.8 million (PY: EUR 5.8 million) included income from realized and unrealized foreign currency gains in the amount of EUR 2.7 million (PY: EUR 5.5 million) and derivative financial instruments in the amount of EUR 0.1 million (PY: EUR 0.3 million).

The reversals of provisions primarily include the reversal of provisions for licenses in the amount of EUR 0.6 million and for bonus provisions in the amount of EUR 0.3 million. In the previous year, the reversals of provisions primarily included the reversal of provisions for licenses and for bonus provisions, each in the amount of EUR 1.2 million.

The miscellaneous other operating income primarily relates to income from a lawsuit for damages won in the amount of EUR 3.3 million (PY: EUR 0.0 million), from reversed liabilities for an external audit in the amount of EUR 3.8 million (PY: EUR 0.0 million), rents in the amount of EUR 1.4 million (PY: EUR 1.1 million), reversal of trade payable in the amount of EUR 0.7 million (PY: EUR 0.0 million) and revenues from sales of material and waste in the amount of EUR 0.5 million (PY: EUR 0.2 million).

5. Personnel expenses

EUR'000	2019	2018
Personnel expenses before restructuring	-59,995	-60,301
Personnel expenses from restructuring	598	-266
Total (personnel expenses)	**-59,397**	**-60,567**

In this financial year, the item of restructuring expenses for personnel includes a reimbursement from the transfer company for funds not claimed.

Total **personnel expenses** break down as follows:

EUR'000	2019	2018
Wages and salaries	-46,993	-47,960
Social security, pension expenses and other benefit expenses	-12,404	-12,607
Total	**-59,397**	**-60,567**

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

EUR'000	2019	2018
Gigaset Group	-58,805	-59,656
Holding company	-592	-911
Total	**-59,397**	**-60,567**

6. Other operating expenses

EUR'000	2019	2018
Marketing and entertainment expenses	-26,292	-32,678
Administrative expenses	-10,067	-10,787
Employee leasing	-8,435	-8,324
Outgoing freight / transport costs	-6,313	-6,958
Advisory and audit fees	-3,095	-2,905
Exchange rate changes	-2,760	-6,120
Patent and licensing fees	-2,254	-2,393
Addition to warranty provisions	-2,000	-1,316
Expenses for land/buildings (including rent)	-1,903	-2,862
Maintenance of technical equipment, machinery, operational and office equipment	-1,794	-1,846
Research and development expenses	-1,099	-1,231
Other taxes	-672	-1,337
Miscellaneous other operating expenses	-3,001	-3,619
Other operating expenses	**-69,685**	**-82,376**

The marketing and entertainment expenses of EUR -26.3 million (PY: EUR -32.7 million) were primarily incurred at Gigaset Communication GmbH, at EUR -10.1 million (PY: EUR -14.9 million). The decline in marketing expenses compared to the previous year can be explained primarily by the lower marketing expenses for the Smartphones segment as well as the introduction of the new Smart Care division to the market carried out in the prior year and the related increased marketing activities. In addition, increased investments were made in the 2018 financial year compared to 2019 in the areas of social media and corporate communications, which are becoming increasingly important.

7. Depreciation, amortization and impairments

EUR'000	2019	2018
Amortization of intangible assets	-7,880	-8,150
Depreciation of property, plant and equipment	-5,370	-5,458
Depreciation of right of use assets	-1,521	0
Total	**-14,771**	**-13,607**

Depreciation of right of use assets was recognized in the reporting due to the initial application of IFRS 16. As in the previous year, there were no impairments in financial year 2019.

8. Other interest and similar income

Other interest and similar income in the amount of EUR 2.3 million (PY: EUR 0.2 million) consisted mainly of interest income of EUR 1.3 million within the framework of Gigaset AG's legal dispute with SKW Stahl-Metallurgie Holding AG, as well as from external audits in the amount of EUR 1.0 million.

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

9. Interest and similar expenses

Interest and similar expenses in the amount of EUR -1.6 million (PY:EUR -1.2 million) primarily comprised interest expenses for income taxes, local trade tax and corporate income tax remaining to be paid arising from external audits in the amount of EUR -0.1 million (PY: EUR -0.5 million), interest expenses for factoring in the amount of EUR -0.5 million (PY: EUR -0.4 million), and the interest expenses from the financing in the amount of EUR -0.6 million (PY: EUR -0.3 million). The interest expenses from factoring reduce the net result of the category "At fair value through profit or loss". Since financial year 2019, moreover, interest from leases is recognized under IFRS 16 in the amount of EUR -0.2 million.

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

10. Income taxes

The income tax expenses of EUR -3.2 million (PY: EUR -4.1 million) break down as follows:

EUR'000	2019	2018
Current tax expenses	-1,348	-4,963
Deferred tax expenses (-) / income (+)	-1,861	899
Total income tax expenses	**-3,209**	**-4,064**

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 result 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	2019	2018
Result before income taxes	14,516	7,458
Applicable income tax rate	33%	33%
Expected income tax expenses (-) / income (+)	-4,787	-2,460
Tax rate changes	0	-1
Tax rate differences	275	274
Tax-exempt income	286	78
Non-deductible tax expenses	-2,586	-1,086
Change in value adjustment on deferred tax assets and non-recognized deferred tax assets for tax loss carry-forwards	1,398	-1,224
Non-period current taxes	1,962	-107
Other effects	243	462
Stated income tax expenses	**-3,209**	**-4,064**
Effective tax rate	22.1%	54.5%

11. Earnings per share

The basic and diluted earnings per share amounted to EUR 0.09 in financial year 2019 (PY: EUR 0.03), as per the following calculation:

EUR'000	2019	2018
PROFIT/LOSS		
Basis for basic earnings per share (share of period profit/loss attributable to shareholders of the parent company)	11,307	3,394
Effect of potentially diluting common shares: Stock options	0	0
Basis for the diluted earnings per share	11,307	3,394
NUMBER OF SHARES		
Weighted average common shares outstanding, for calculating basic earnings per share	132,455,896	132,455,896
Effect of potentially diluting common shares: Stock options	0	0
Weighted average common shares outstanding, for calculating diluted earnings per share	132,455,896	132,455,896
Basic earnings per share (in EUR)	0.09	0.03
Diluted earnings per share (in EUR)	0.09	0.03

There were no diluting effects in the current financial year, so that the basic (undiluted) earnings per share corresponds to the diluted earnings per share.

12. Dividend proposal

No dividend was paid to shareholders in 2019 for financial year 2018.

The net income of Gigaset AG calculated in accordance with the German Commercial Code (GCC) amounted to EUR 5.3 million. The result is primarily influenced by other operating income in the amount of EUR 3.3 million, as well as interest income in the amount of EUR 1.3 million resulting from the positive outcome of the legal dispute on the SKW anti-trust law investigation. Taking the loss carry-forward of EUR -191.5 million into account, this resulted in a net loss of EUR -186.2 million. The Executive Board and the Supervisory Board will propose to the Annual Shareholders' Meeting that the Company carry forward this amount to new account.

E. NOTES TO THE STATEMENT OF FINANCIAL POSITION

1. Intangible assets

EUR'000	Franchises, intellectual property rights and similar rights and licenses	Other intangible assets	Advance payments	Total
Acquisition costs, 1/1/2019	**23,795**	**102,468**	**3,035**	**129,298**
Currency translation	1	0	0	1
Acquisitions	150	10,474	37	10,661
Disposals	-4	0	0	-4
Transfers	0	20	0	20
Balance as of 12/31/2019	**23,942**	**112,962**	**3,072**	**139,976**
Amortization, 1/1/2019	**-15,142**	**-80,165**	**-3,035**	**-98,342**
Currency translation	-1	0	0	-1
Acquisitions	-97	-7,783	0	-7,880
Disposals	4	0	0	4
Balance as of 12/31/2019	**-15,236**	**-87,948**	**-3,035**	**-106,219**
Net carrying amount 12/31/2019	**8,706**	**25,014**	**37**	**33,757**
Net carrying amount 12/31/2018	**8,654**	**22,303**	**0**	**30,958**
Acquisition costs, 1/1/2018	**23,563**	**102,471**	**3,045**	**129,079**
Currency translation	-6	0	0	-6
Acquisitions	233	8,791	0	9,024
Disposals	-5	-8,794	0	-8,799
Transfers	10	0	-10	0
Balance as of 12/31/2018	**23,795**	**102,468**	**3,035**	**129,298**
Amortization, 1/1/2018	**-14,296**	**-81,665**	**-3,035**	**-98,996**
Currency translation	5	0	0	5
Acquisitions	-856	-7,294	0	-8,150
Disposals	5	8,794	0	8,799
Balance as of 12/31/2018	**-15,142**	**-80,165**	**-3,035**	**-98,342**
Net carrying amount 12/31/2018	**8,654**	**22,303**	**0**	**30,957**
Net carrying amount 12/31/2017	**9,267**	**20,806**	**10**	**30,083**

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

EUR'000	12/31/2019	12/31/2018
Brand names	8,399	8,399
Patents	0	0
Franchises	307	255
Total	**8,706**	**8,654**

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

At the reporting date, the brand name Gigaset was presented in the amount of EUR 8.4 million (PY: EUR 8.4 million). The brand name "Gigaset" is assigned to the operating Gigaset Group, as the smallest cash-generating unit. The brand name was subjected to an impairment test as of December 31, 2019 on the basis of the fair value less costs to sell. The calculation was conducted on the basis of a three-year cashflow plan (PY: three-year plan). The planning was prepared using the established planning process and is based both on historical information and on estimates regarding future developments. It is not possible to reconcile it with external information. For the planning period, EBIT margins from operations were calculated as being between 2.8 % p.a. and 3.9 % p.a. (PY: 4.5 % und 4.9 % p.a.). Appropriate growth rates were applied for the period beyond the detailed planning period. The applied discount factor after taxes was 6.8 % p.a. (PY: 7.9 % p.a.). The discount rate was calculated based on current market data using a risk surcharge based on Gigaset's peer group. The peer group was comprehensively redesigned in this financial year, which was reflected positively and substantially in the planning. Based on the detailed business plan, the growth discount was set at 1.0 % (PY: 1.0 %). In accordance with IFRS 13, the calculation of the achievable value is assigned to Level 3 of the measurement categories for the determination of fair values. 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 losses.

In the review of the intrinsic value of the brand, adjustments were made in the determination of the cost of capital as well as in the derivation of the recoverable amount due to the introduction of IFRS 16.

The franchises in the amount of EUR 0.3 million (PY: EUR 0.3 million) mainly consisted of software licenses held in the Gigaset Group.

Capitalized development expenses are presented within the item of other intangible assets in the amount of EUR 25.0 million (PY: EUR 22.3 million). They were allocated exclusively to Gigaset Communications GmbH. The development activities of the Gigaset Group represent capitalized product developments. Research and development

expenses of EUR 1.1 million (PY: EUR 1.2 million) were recognized as expenses in the 2019 financial year, primarily at Gigaset Communications GmbH.

No capitalized goodwill existed as of the reporting date.

In addition, borrowing costs of EUR 0.1 million (PY: EUR 0.2 million) were capitalized in the reporting year. The underlying interest rate is 2.56 % (PY: 2.48 %).

2. Property, plant and equipment

EUR'000	Land, leasehold rights	Buildings, including buildings on non-owned land	Technical equipment, plant and machinery	Other equipment, operational and office equipment	Advance payments and assets under construction	Total
Acquisition costs, 1/1/2019	**4,025**	**19,652**	**2,487**	**21,253**	**80**	**47,497**
Currency translation	0	0	1	14	0	15
Acquisitions	0	93	171	4,970	6	5,240
Disposals	0	0	-394	-4,772	0	-5,166
Transfers	0	0	0	137	-41	96
Balance as of 12/31/2019	**4,025**	**19,745**	**2,265**	**21,602**	**45**	**47,682**
Depreciation, 1/1/2019	**0**	**-11,610**	**-1,445**	**-11,123**	**0**	**-24,178**
Currency translation	0	0	-1	-12	0	-13
Acquisitions	0	-1,079	-296	-3,995	0	-5,370
Disposals	0	0	394	4,769	0	5,163
Balance as of 12/31/2019	**0**	**-12,689**	**-1,348**	**-10,361**	**0**	**-24,398**
Net carrying amount 12/31/2019	**4,025**	**7,056**	**917**	**11,241**	**45**	**23,284**
Net carrying amount 12/31/2018	**4,025**	**8,042**	**1,042**	**10,130**	**80**	**23,319**
Acquisition costs, 1/1/2018	**4,025**	**20,427**	**2,284**	**24,449**	**476**	**51,661**
Currency translations	0	0	-2	-27	0	-29
Acquisitions	0	0	357	5,112	0	5,469
Disposals	0	-775	-152	-8,677	0	-9,604
Transfers	0	0	0	396	-396	0
Balance as of 12/31/2018	**4,025**	**19,652**	**2,487**	**21,253**	**80**	**47,497**
Depreciation, 1/1/2018	**0**	**-11,307**	**-1,250**	**-15,791**	**0**	**-28,348**
Currency translation	0	0	2	23	0	25
Acquisitions	0	-1,078	-349	-4,030	0	-5,457
Disposals	0	775	152	8,675	0	9,602
Balance as of 12/31/2018	**0**	**-11,610**	**-1,445**	**-11,123**	**0**	**-24,178**
Net carrying amount 12/31/2018	**4,025**	**8,042**	**1,042**	**10,130**	**80**	**23,319**
Net carrying amount 12/31/2017	**4,025**	**9,120**	**1,034**	**8,658**	**476**	**23,313**

There were no leased assets in property, plant and equipment as of the previous year's reporting date. Leased assets are recognized as rights of use pursuant to IFRS 16 starting in the 2019 financial year and disclosed separately. See Section 3, Right of use assets and lease liabilities.

As in the previous year, no impairments were recognized on property, plant and equipment in 2019.

In the current year, as in the previous year, no borrowing costs were capitalized as property, plant and equipment.

3. Right of use assets and liabilities under leases

The following items are presented in the statement of financial position in connection with leases pursuant to IFRS 16. The column for the previous year is omitted due to the initial application of IFRS 16, since it would not contain any values for 2018:

EUR'000	12/31/2019
Right of use asset land	14
Right of use asset buildings	2,946
Right of use asset other plant and office equipment	1,371
Total	**4,331**
Lease liabilities - current	1,563
Lease liabilities - noncurrent	2,827
Total	**4,390**

In the previous year, all existing leases were treated as operating lease obligations, which is the reason that the rental expenses were recognized on a straight-line basis as expenses in the income statement pursuant to IAS 17. With the introduction of IFRS 16 starting January 1, 2019, all lease obligations are recognized in the statement of financial position using a right of use asset that must be capitalized. To balance this, a lease liability is recognized on the liabilities side that corresponds to the present value of the future lease payments. Gigaset makes use of the option of modified retroactive application of IFRS 16, according to which no adjustment of values from the previous year is necessary. Therefore, the comparison figures from the previous year are not shown due to the initial application of the new Standard on leases in 2019.

The additions to the rights of use assets during the 2019 financial year amounted to EUR 1.0 million.

Gigaset makes use of the transitional regulations of IFRS 16 and does not carry out new assessments of existing agreements as to whether they satisfy the definition of a lease under IFRS 16. The existing lease assessments will be continued. The rights of use will in principle be capitalized in the amount of the corresponding lease liability within the framework of initial application of IFRS 16 at Gigaset. The lease liabilities were measured using the incremental borrowing rate of 3.98 % relevant to Gigaset at the time of initial application.

The income statement shows the following expenses in connection with leases.

EUR'000	12/31/2019
Depreciation of right of use assets - land	41
Depreciation of right of use assets - buildings	946
Depreciation of right of use assets - plant and office equipment	534
Total depreciation of right of use assets	**1,521**
Interest expenses on lease liabilities	169
Lease expenses for low-value assets	5
Lease expenses for short-term assets	788
Payments for recognized lease liabilities in the current period	1,621

At EUR 0.8 million, the portfolio of current lease contracts in 2019 is significantly higher than what can be expected for future periods due to the initial application of IFRS 16. This is attributable to the residual terms of existing contracts at the time of initial application, which were less than 12 months.

Subsequent contracts generally have a longer term, which will subsequently be recognized on the statement of financial position as a right of use asset.

The Gigaset Group concludes lease contracts for the use of office space for various foreign companies as well as domestic German companies. In addition, the vehicle fleet and the warehouse vehicles for internal company logistics are leased.

4. Financial assets

The noncurrent financial assets include the carrying amount for the investment in Gigaset Mobile Pte. Ltd., Singapore, which was assigned to the category "At fair value through other comprehensive income (FVOCI)". Since the shares in Gigaset Mobile Pte. Ltd. are equity instruments, Gigaset exercised the option pursuant to IFRS 9.5.7.5 and irrevocably assigned these financial assets to the category "At fair value through other comprehensive income (FVOCI)".

New information was available from Gigaset Mobile Pte. Ltd. in the 2019 financial year. Due to the circumstance that no current planning was provided, Gigaset decided to measure the fair value based on the company's most recent audited annual financial statements and the derived claim to proportional equity of the 14.98 % investment. Due to the circumstance that this is a company operating in a foreign currency, the effects of changed exchange rates consequently also had to be factored in. The changed measurement of Gigaset Mobile Pte. Ltd. led to an impairment including foreign currency effects of EUR 1.0 million, which was recognized directly in other comprehensive income due to its classification as FVOCI. In accordance with IFRS 13, the calculation of the fair values must be assigned to Level 3 of the measurement categories for the determination of fair values.

5. Inventories

Inventories break down as follows:

EUR'000	12/31/2019	12/31/2018
Raw materials and supplies	13,373	10,288
Semi-finished goods, semi-finished services	1,308	1,252
Finished goods, trading stock and finished services	19,931	20,363
Advance payments	634	817
Total	**35,246**	**32,720**

Inventories are measured at the lower of acquisition or production cost and the net realizable value less costs to sell as of the reporting date. The value adjustments comprised within purchased goods and services amounted to EUR 0.9 million at the reporting date (PY: EUR 2.3 million). The value adjustments 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.

6. Trade receivables

EUR'000	12/31/2019	12/31/2018
Receivables before value adjustments	49,749	44,579
Individual value adjustments	-4,332	-3,763
Carrying amount of receivables	**45,417**	**40,816**

The value adjustments charged against trade receivables showed the following development:

EUR'000	2019	2018
1/1	**3,763**	**3,813**
Addition	730	318
Consumption	-160	-121
Reversal	-1	-247
12/31	**4,332**	**3,763**

No interest income was collected in the reporting period on trade payables against which value adjustments 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 40.0 million (PY: EUR 40.0 million) for Germany and France, and CHF 2.2 million (PY: CHF 2.2 million) for Switzerland. The credit volume includes the purchased receivables less the purchase price retention. Receivables in the amount of EUR 53.9 million (PY: EUR 56.0 million) were sold. The trade receivables are derecognized upon being 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 IFRS 9, therefore, the companies recognized a so-called “continuing “involvement” of EUR 0.2 million (PY: EUR 0.2 million), which was composed of the remaining interest rate risk in the amount of EUR 0.2 million (PY: EUR 0.2 million). The expenses in connection with factoring amounted to EUR 0.6 million in the financial year (PY EUR 0.7 million), which includes the factoring fees as well as interest expenses for factoring. There were no cash inflows to the factoring company from the purchase price retentions in connection with the factoring, either in the current year or in the previous year.

In addition, the trade payables also comprised receivables due from factoring companies from clearing accounts in the amount of EUR 9.2 million (PY EUR 6.5 million).

The age structure of trade receivables as of December 31, 2019 is presented in the table below:

EUR'000	2019	2018
Carrying amount	**45,417**	**40,816**
Thereof: neither value-adjusted nor past due as of the reporting date	32,600	30,379
Thereof: Value-adjusted as of the reporting date	4,332	3,763
Thereof: not value-adjusted, but past due by the following time intervals as of the reporting date	8,485	6,674
Past due up to 90 days	2,854	3,427
Past due 90 days to 180 days	2,090	1,501
Past due more than 180 days	3,540	1,746

For Group companies that use factoring, the unsold trade accounts receivable will be assigned to the category of fair value through profit or loss (FVTPL) since most of the receivables in these partial stocks are sold and thus it is not possible to assume either a pure intention to hold or a hybrid hold-and-sell business model. This does not result in any effects from the fair value measurement since they are short-term receivables and it can be assumed that the market value and the nominal value are generally the same. Material changes in value caused by defaults would certainly reduce the market value, but are already recognized in profit or loss as impairments. Therefore, no effect from initial application results from the assignment to the fair value category. The trade accounts receivable not subject to factoring are measured at amortized cost (AC). The impairments are determined on the basis of an impairment model using the simplified approach that can be done without assignment to levels; expected credit losses are also anticipated and risk provisions are recognized for them. This model measures the trade receivables that are neither individually value adjusted nor collateralized. The expected impairment is calculated using historically observable cumulative receivables from items past due, actual defaults from items past due, and past due receivables that have recovered. This data is used to calculate probabilities of default that are based on a complete adjustment to macroeconomic expectations. The receivables without valuation adjustments and not past due at the reporting date are not subjected to any impairment according to the simplified approach since the measurement model does not result in any significant need for impairment.

2019 in EUR'000	Not past due	Past due 0 days to 30 days	Past due 31 days to 90 days	Past due 91 days to 180 days	Past due more than 180 days	Total
Expected loss rate	0.0%	0.0%	2.6%	36.9%	8.7%	
Trade receivables	37,041	2,604	250	2,090	7,764	49,749
Expected loss	0	0	0	3	1	5

2018 in EUR'000	Not past due	Past due 0 days to 30 days	Past due 31 days to 90 days	Past due 91 days to 180 days	Past due more than 180 days	Total
Expected loss rate	9.0%	27.0%	1.0%	2.0%	23.0%	
Trade receivables	34,701	2,713	725	1,501	4,932	44,572
Expected loss	15	2	0	0	0	17

The application of the impairment model is not material for the Gigaset Group since the majority of the portfolio of trade accounts receivable is tendered for sale within the framework of factoring.

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 19.7 million (PY: EUR 22.8 million) as security for trade receivables and outstanding invoices in financial year 2019.

By reason of the international activity of the Gigaset Group, the following receivables denominated in foreign currencies were converted to the Group currency (EUR) as of December 31, 2019:

	12/31/2019		12/31/2018	
Foreign currency	**EUR'000**	**%**	**EUR'000**	**%**
RUB (Russian ruble)	3,644	36.5	2,297	28.3
TRL (Turkish lira)	2,712	27.4	2,095	26.1
GBP (British pound)	1,393	14.0	1,690	20.9
CNY (Chinese renminbi yuan)	1,235	12.4	1,022	12,7
USD (US dollar)	621	6.2	496	6.1
PLN (Polish zloty)	261	2.6	253	3.1
SEK (Swedish krona)	45	0.5	144	1.8
Other	35	0.4	81	1.0
Total	**9,946**	**100.0**	**8,078**	**100**

7. Other assets

The following amounts were comprised within the item of other assets:

EUR'000	12/31/2019	12/31/2018
Receivables from factoring	11,476	14,209
Tax receivables	8,083	5,076
Receivables from pension liability insurance	2,147	2,950
Derivatives	0	2,086
Recourse receivable	1,350	1,350
Accural	539	542
Security deposits	421	432
Debit balances in vendor accounts	48	288
Personnel receivables	52	43
Other asstes	2,554	2,040
Total	**26,670**	**29,016**

The receivables from factoring in 2019 consisted of both the outstanding portion of the purchase price receivables in the amount of EUR 11.5 million (PY: EUR 12.1 million) and receivables from offsetting in the amount of EUR 0.0 million (PY: EUR 2.1 million).

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 value sales tax refund claims in the amount of EUR 7.7 million (PY: EUR 4.1 million).

The portfolio of positive market values from hedging amounts to EUR 0.0 million (PY: EUR 2.1 million) as of the reporting date. Gigaset consistently used forward exchange contracts as an instrument for foreign currency hedging.

The recourse receivable relates to a former investment by the Group in Oxy Holding GmbH in the amount of EUR 1.4 million (PY: EUR 1.4 million).

8. Tax refund claims

This item in the amount of EUR 0.3 million (PY: EUR 0.5 million) was composed exclusively of income tax refund claims, including an amount of EUR 0.3 million (PY: EUR 0.5 million) attributable to the Gigaset Group.

9. Cash and cash equivalents

This item comprises cash on hand and cash in banks for deposits that are due in less than three months. The restricted cash consists primarily of funds deposited in an escrow account for partial retirement obligations as well as security for granted credit facilities.

EUR'000	12/31/2018	12/31/2017
Cash in banks	34,203	33,842
Restricted cash	2,354	3,097
Total	**36,557**	**36,939**

10. Equity

Subscribed capital

The Company's share capital totals EUR 132,455,896.00 (PY: EUR 132,455,896.00) and is divided into 132,455,896 (PY: 132,455,896) no par value shares. It has thus remained unchanged from the previous year. The shares are bearer shares. Thus, every no-par share represents EUR 1.00 of the Company's share capital.

No treasury shares were held as of the reporting date of December 31, 2019 and none were held as of December 31, 2018.

Additional paid-in capital

Additional paid-in capital as of December 31, 2019 amounted to EUR 86.1 million and has therefore not changed compared to the additional paid-in capital presented in the previous year.

Retained earnings

Retained earnings were unchanged from the previous year at EUR 69.0 million.

Authorized Capital / Contingent Capital

Authorized Capital 2016

The Annual Shareholders' Meeting of August 12, 2016 resolved to create an authorized capital account (Authorized Capital 2016). The Executive Board is authorized to increase the Company's capital stock by issuing new shares in the period through August 11, 2021, with the consent of the Supervisory Board, by a total of up to EUR 44,200,000.00, 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 2016). The existing shareholders are fundamentally entitled to a subscription right, but it can be excluded under certain circumstances. The new shares may also be accepted by one or more financial institutions with the obligation to offer them to the existing shareholders for purchase (indirect subscription right). The Executive Board was authorized to decide upon the content of the stock rights and the terms of the stock issue with the consent of the Supervisory Board and to specify the details of implementation of the capital increase. The Supervisory Board was authorized to amend the wording of the Articles of Incorporation in accordance with the specific scope of the capital increase from the Authorized Capital 2016. As of December 31, 2019, the Authorized Capital 2016 remained unchanged at EUR 44,200,000.00.

Authorized Capital 2019

The authority from 2014 to create authorized capital was not used. This authority expired as of August 11, 2019. This Authorized Capital was therefore cancelled and replaced by a new Authorized Capital within the framework of the Annual Shareholders' Meeting on August 14, 2019. The Executive Board is authorized to increase the Company's capital stock with the consent of the Supervisory Board by issuing new shares in the period through August 13, 2024, by a total of up to EUR 22,000,000.00, 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 2019). The existing shareholders are fundamentally entitled to a subscription right, but it can be excluded under certain circumstances. The new shares may also be accepted by one or more financial institutions with the obligation to offer them to the existing shareholders for purchase (indirect subscription right). The Executive Board was authorized to decide upon the content of the stock rights and the terms of the stock issue with the consent of the Supervisory Board and to specify the details of implementation of the capital increase. The Supervisory Board was authorized to amend the wording of the Articles of Incorporation in accordance with the specific scope of the capital increase from the Authorized Capital 2019. As of December 31, 2019, the Authorized Capital 2019 remained unchanged at EUR 22,000,000.00.

Contingent Capital 2016

The Annual Shareholders' Meeting resolved on August 12, 2016, that the Company is authorized, with the consent of the Supervisory Board, to issue option bonds and/or convertible bonds once or multiple times until August 11, 2021, with or without limitation of maturities, for a total nominal amount of up to EUR 150,000,000.00 ("bonds") or to grant the bond holders or creditors option and/or conversion rights to a total of up to 29,700,000 bearer no-par-value shares of the Company with a proportional share of the capital stock of up to EUR 29,700,000.00 after further specification of the terms and

conditions of the individual bonds. The shareholders are fundamentally entitled to a subscription right. However, it can be excluded under certain circumstances. The new shares may also be accepted by one or more financial institutions with the obligation to offer them to the existing shareholders for purchase (indirect subscription right). The Executive Board was authorized to decide upon the content of the stock rights and the terms of the stock issue with the consent of the Supervisory Board and to specify the details of implementation of the capital increase. The Annual Shareholders' Meeting of August 12, 2016, likewise resolved to create a new contingent capital account (Contingent Capital 2016), by means of which the Company's share capital can be increased by up to EUR 29,700,000.00. This Contingent Capital is intended to be used to grant shares to the holders or creditors of option bonds and/or convertible bonds that are issued by the Company. The Executive Board is authorized, with the consent of the Supervisory Board, to determine the other details for carrying out the conditional capital increase. As of December 31, 2019, the Contingent Capital 2016 remained unchanged at EUR 29,700,000.00.

Contingent Capital 2019

The authority from 2014 to create contingent capital was not used. This authority expired as of August 11, 2019. The Contingent Capital 2014 was therefore cancelled and replaced by a new Contingent Capital within the framework of the Annual Shareholders' Meeting on August 14, 2019.

The Executive Board is authorized, with the consent of the Supervisory Board, to issue option bonds and/or convertible bonds once or multiple times until August 13, 2024, with or without limitation of maturities, for a total nominal amount of up to EUR 150,000,000.00 ("bonds") or to grant the bond holders or creditors option and/or conversion rights to a total of up to 35,000,000 bearer no-par-value shares of the Company with a proportional share of the capital stock of up to EUR 35,000,000.00 after further specification of the terms and conditions of the individual bonds. The shareholders are fundamentally entitled to a subscription right. However, it can be excluded under certain circumstances. The new shares may also be accepted by one or more financial institutions with the obligation to offer them to the existing shareholders for purchase (indirect subscription right). The Executive Board was authorized to decide upon the content of the stock rights and the terms of the stock issue with the consent of the Supervisory Board and to specify the details of implementation of the capital increase. The Annual Shareholders' Meeting of August 14, 2019, likewise resolved to create a new contingent capital account (Contingent Capital 2019), by means of which the Company's share capital can be increased by up to EUR 35,000,000.00. This Contingent Capital 2019 is intended to be used to grant shares to the holders or creditors of option bonds and/or convertible bonds that are issued by the Company. The Executive Board is authorized, with the consent of the Supervisory Board, to determine the other details for carrying out the conditional capital increase. As of December 31, 2019, the Contingent Capital 2019 remained unchanged at EUR 35,000,000.00.

11. Pension obligations

11.1 Description of pension commitments

11.1.1 Geographical distribution of pension commitments

The pension obligations of Gigaset AG and its subsidiaries are distributed over four countries: Germany, Switzerland, Italy, and Austria. In addition, plan assets still exist in Germany and Switzerland. The amount of the obligations and the plan assets are broken down by country in the following table:

Pension obligations and plan assets at 12/31/2019 (in EUR'000):

Country	Pension obligation	Plan assets	Net obligation
Germany	127,268	36,167	91,102
Switzerland	3,203	1,956	1,247
Italy	107	0	107
Austria	45	0	45
Total	**130,623**	**38,123**	**92,501**

Pension obligations and plan assets at 12/31/2018 (in EUR'000):

Country	Pension obligation	Plan assets	Net obligation
Germany	111,293	38,035	73,258
Switzerland	2,477	2,416	61
Italy	106	0	106
Austria	32	0	32
Total	**113,908**	**40,451**	**73,457**

Because Germany's share of the pension obligations is about 97 % (PY about 98 %) and its share of the net obligations is about 98 % (PY about 99 %), only the German pension plans and the risk factors for the German obligations will be described in more detail.

11.1.2 Description of pension commitments in Germany

Because their legal predecessors originally belonged to the Siemens Group, the vast majority of the pension obligations held by Gigaset AG and its German subsidiaries (the Gigaset Group) were created based on Siemens promises. Siemens AG converted its guaranteed pension payments from pension benefits to a capital-based system in 2003. All employees who were already employed at a legal predecessor of the Gigaset Group received vested rights in the form of a benefit obligation in the course of this conversion. In addition, all employees can receive contributions to the new capital account plan, if funds are allocated to it by the Company. The Company can make a new decision on an allocation annually. For 2019, as in the previous year, no employer-financed contributions were paid into the capital account plan. Salary conversion also exists, which is likewise capital-based. It has been closed since 2007 and contributions are no longer being paid in. A death benefit is paid, as well as a transitional payment (six months of continued pay in case of an insured event) for some of the employees. A few retirees still receive installment payments according to another closed system for salary conversion (supplementary benefits option). In addition, two vested benefit obligations still exist under another pension plan (GOH). The payments from the capital account plan earn interest at 0.9 % (PY: 0.9 %).

New pension obligations are thus only generated by inclusion in the capital account plan as well as by vested rights in a death benefit. All other plans are closed to new hires and are no longer being serviced with contribution payments.

11.1.3 Significant risk factors

The primary risk consists of the pension obligations from vested rights, since they constitute about 85 % (PY: about 84 %) of the total German pension obligations. They are sensitive to the discount rate, inflation, and changes in life expectancy, but not to changes in wages and salaries. Only the death benefit and transitional payments are dependent on wages and salaries. Since this risk is not very significant (about 2 % (PY: about 3 %) of the pension obligations), however, no calculation was made of the sensitivities to projected salary increases. For all other risks, significant actuarial assumptions and sensitivity analyses are shown in Chapter 11.2.

11.1.3.1 Longevity risk factor

Pension plans such as the vested rights system react sensitively to any change in life expectancy. An increase in life expectancy thus represents a significant risk to the pension obligation. Since the obligation is distributed over a group of more than 1000 people, as in the previous year, there are no concentration risks. For all other plans, the longevity risks are negligible or do not exist.

11.1.3.2 Inflation risk factor

Pension plans are likewise susceptible to inflation risk through the pension adjustment. A review to determine whether a pension adjustment is necessary is conducted every three years and is based on the consumer price index. All other plans are not subject to inflation risk.

11.1.3.3 Discount rate risk factor

Pension obligations depend very strongly on the discount rate. Since the discount rate is calculated at a reporting date and is based on the capital market, it has been subject to strong fluctuations since the financial crisis occurred. This means that it is very likely that the obligation will change by more than 10 % from one year to the next. According to the current IAS 19 as revised in 2011, the actuarial gains and losses occurring (due inter alia to changes in parameters) must be recognized as losses against the Company's equity. While large actuarial losses do not affect cashflow, they can have a negative effect on equity.

11.2 Significant actuarial assumptions and sensitivity analysis

The sensitivity analysis is intended to show the effects of changes in measurement assumptions that could reasonably occur until the next reporting date (IAS 19.145 and IFRS 7).

A Defined Benefit Obligation (DBO) in Germany at 12/31/2019: EUR 111.5 million

B Weighted average duration of the obligation (Macaulay duration based on best-estimate assumptions): 20.0 years

C Significant actuarial assumptions at 12/31/2019

Parameter	Initial value	Sensitivity analysis	DBO in EUR'000
Discount rate	1,05%	+0,50%	101,235
Discount rate	1,05%	-0,50%	123,404
Inflation (pension trend)	1,80%	+0,25%	115,506
Inflation (pension trend)	1,80%	-0,25%	107,790
Longevity	Heubeck 2018 G	+1 Year	116,177
Longevity	Heubeck 2018 G	-1 Year	106,933

D Defined Benefit Obligation (DBO) in Germany at 12/31/2018: EUR 111.3 million

E Weighted average duration of the obligation (Macaulay duration based on best-estimate assumptions): 17.0 years

F Significant actuarial assumptions at 12/31/2018

Parameter	Initial value	Sensitivity analysis	DBO in EUR'000
Discount rate	1,85%	+0,50%	102,586
Discount rate	1,85%	-0,50%	121,269
Inflation (pension trend)	1,80%	+0,25%	114,493
Inflation (pension trend)	1,80%	-0,25%	108,253
Longevity	Heubeck 2018 G	+1 Year	114,705
Longevity	Heubeck 2018 G	-1 Year	107,849

The sensitivity analysis above is based on changing one assumption while all other assumptions remain constant. It is improbable for this to occur in reality, and changes in some assumptions may correlate. When calculating the sensitivity of the defined benefit obligation to actuarial assumptions, the same method was used as was used to determine the pension provisions in the statement of financial position (the present value of the defined benefit obligations was calculated using the projected unit credit method at the end of the reporting period).

11.3 Development of pension provisions in the Gigaset Group

Provisions for pensions and similar obligations have been recognized for a total of six (PY: seven) Group companies. One of the affected companies merged into another in 2019 in the context of a merger, whereby the pension claims were likewise transferred. The total amount of pension provisions was divided up among the following companies:

EUR'000	12/31/2019	12/31/2018
Gigaset Group	91,484	72,616
Holding company	1,017	841
Total	**92,501**	**73,457**

The increase in the pension provision compared to the previous year resulted mainly from the reduction in the weighted interest rate from 1.83 % in the previous year to 1.03 % in 2019. The parameters for the projected salary increase or projected pension increase remained approximately at the same level.

The revaluation effects from defined benefit plans are recognized in "accumulated other comprehensive income" within equity, while the ongoing change in the period is disclosed separately in the Statement of Changes in Equity.

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	2019	2018
Balance at 1/1	**113,908**	**123,116**
Current service cost	1,083	1,513
Employee contributions	120	174
Interest expenses	2,058	2,213
Pension benefits paid	-2,593	-2,971
Actuarial gains/losses from demographic assumptions	0	-4,176
Actuarial gains/losses from financial assumptions	17,135	-3,165
Actuarial gains/losses from experience values	-961	-2,181
Transfer of claims	-235	-707
Foreign currency effects	109	92
Balnace at 12/31	**130,624**	**113,908**

The pension expenses recognized in the current financial year were composed of the following elements:

EUR'000	2019	2018
Current service cost	1,083	1,513
Net interest on net liability	1,351	1,486
Total pension expenses	**2,434**	**2,999**

Pension expenses are presented as personnel expenses in the item of social security, pension and other benefits. The current income on plan assets was EUR -0.4 million (PY: EUR 1.2 million).

The revaluation effects from defined benefit plans are recognized in the item "accumulated other comprehensive income" within equity.

EUR'000	2019	2018
Balance at 1/1	**-45,963**	**-55,765**
Revaluation effects in current year	-16,939	9,802
Balance at 12/31	**-62,902**	**-45,963**

The plan assets showed the following development:

EUR'000	2019	2018
Fair value of plan assets at 1/1	**40,599**	**41,684**
Expected net interest income	707	727
Difference between expected net interest income and actual net interest income	-1066	428
Employer contributions	67	62
Employee contributions	123	178
Benefits paid	-2147	-1848
Transfer of claims	-242	-725
Foreign currency effects	82	93
Fair value of plan asstes at 12/31	**38,123**	**40,599**

The plan assets for the current financial year break down as follows:

EUR'000	2019	2018
Special funds	35,670	37,476
Fixed-income securities	892	1,106
Equities	443	596
Real estate and real estate funds	455	539
Miscellaneous	663	882
Total	**38,123**	**40,599**

The special funds primarily contain bonds, corporate bonds, and stocks. The plan assets must be primarily assigned to measurement category 1, i.e., the plan assets are traded on active markets. Only the real estate and real estate funds are measured at current market value (using the DCF method). The plan assets do not contain any real estate that is used by Gigaset itself.

The expected contributions to plan assets for the following year totaled EUR 0.2 million (PY: EUR 0.2 million). The expected benefit payments in the following year are expected to total EUR 3.1 million (PY: EUR 2.9 million).

The current employer's contributions to the statutory pension insurance system are recognized as operating expenses in the respective year. In the current financial year, they amounted to EUR 4.4 million (PY: EUR 4.4 million) for the Group.

No payments were made in respect of defined-contribution plans, as in the previous year.

The calculation was based on the following weighted actuarial assumptions:

in %	2019	2018
Discount rate	1.03	1.83
Salary trend	2.24	2.24
Pension trend	1.75	1.76
Mortality tables:		
Germany	Heubeck 2018 G	Heubeck 2018 G
Switzerland	BVG 2005	BVG 2005
Italy	ISTAT 2017	ISTAT 2017
Austria	Pagler 2018, Generation Table, Salaried Employees	Pagler 2018, Generation Table, Salaried Employees

The provision for pension obligations was measured as follows:

EUR'000	2019	2018
Projected unit credit value of pension obligations	130,624	113,908
- internally financed	3,069	3,275
- externally financed	127,555	110,633
Fair value of plan assets	-38,123	-40,599
Assets not recognized	0	148
Total pension provisions	**92,501**	**73,457**

The provision showed the following development over time:

EUR'000	2019	2018
Pension provision at 1/1	**73,457**	**81,432**
Current service cost	1,083	1,513
Net interest expenses/income	1,351	1,486
Actuarial gains/losses from demographic assumptions	0	-4,176
Actuarial gains/losses from financial assumptions	17,135	-3,165
Actuarial gains/losses from experience values	-961	-2,181
Difference between expected net interest income and actual net interest income from plan assets	1066	-428
Pension benefits paid	-446	-1,123
Employer contributions	-67	-62
Employee contributions	-3	-4
Change in assets not recognized	-148	148
Carryover of claims	7	18
Foreign currency effects	27	-1
Pension provision 12/31	**92,501**	73,457

12. Provisions

EUR'000	Balance as of 1/1/2019	Utilization	Reversal	Addition	Reclassi-fication	Currency/ Interest effects	Balance as of 12/31/2019
Personnel	3,042	-1,490	0	515	0	0	2,067
Warranties	2,847	-852	0	758	0	1	2,754
Onerous contracts	528	-68	-19	30	0	0	471
Customer bonus	7,383	-6,667	-395	7,764	5	72	8,162
License costs	2,166	-888	-627	1,133	-28	0	1,756
Other	6,162	-1,528	-3,892	1,224	544	33	2,544
Total	**22,128**	**-11,493**	**-4,933**	**11,424**	**521**	**106**	**17,753**

Miscellaneous other provisions particularly include costs for external audits, provisions for retention costs, annual general meeting expenses, and annual report expenses, as well as Supervisory Board compensation and legal disputes. In addition, interest on taxes in the amount of EUR 0.5 million from the tax liabilities was taken into account in the reclassification.

The **warranty provisions** of EUR 2.8 million (PY: EUR 2.8 million) pertained exclusively to the Gigaset Group and were calculated on the basis of experience values and estimates of future occurrence probabilities.

The **personnel provisions** for the past two financial years break down as follows:

EUR'000	12/31/2019	12/31/2018
Partial early retirement	1,370	2,287
Service anniversary bonuses	697	755
Total	**2,067**	**3,042**

The **provisions for onerous contracts** related mainly to disadvantageous rental, usage and service agreements. They break down as follows:

EUR'000	12/31/2019	12/31/2018
Gigaset Group	30	68
Holding company	441	460
Total	**471**	**528**

The maturity structure of provisions is presented in the table below:

EUR'000	12/31/2019	12/31/2018
Noncurrent provisions	2,983	3,773
Current provisions	14,770	18,355
Total	**17,753**	**22,128**

Noncurrent provisions, which have a maturity of more than one year, were divided among the various categories as follows:

EUR'000	12/31/2019	31/21/2018
Personnel	1,496	1,995
Warranties	403	414
Onerous contracts	440	460
Environmental risks	140	132
Other	504	772
Total	**2,983**	**3,773**

13. Noncurrent financial liabilities

In April 2018, the Group signed a new credit facility in the amount of up to EUR 20.0 million. The funds available on this basis are intended to be used both to finance investments and also to cover the Company's financing needs. The disbursements accrued to date amount to EUR 15.9 thousand as of December 31, 2019 (PY: EUR 13.5 thousand). Starting in January 2020, repayment of the loan amount outstanding on that date will begin, in 58 monthly installments. Interest payments must be made at the end of each month. The current loan balance in the amount of EUR 15.9 million has a maturity of less than 1 year in the amount of EUR 5.7 million and a maturity of more than 1 year and less than 5 years in the amount of EUR 10.2 million.

The fixed-interest loan is granted in euros and has an effective annual interest rate of 3.98 % p.a.; it is measured at amortized cost. Accordingly, it has no effect on the Group's items with regard to foreign currency and interest rate risks. Please see the discussion under Section C. Notes on Financial Instruments, for further discussion regarding the required statements for financial liabilities.

14. 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	12/31/2019	12/31/2018
Deferred tax assets		
Intangible assets	58	51
Property, plant and equipment	0	1
Inventories	61	12
Receivables and other current assets	53	166
Provisions	19,798	20,790
Liabilities	1,457	447
Derivatives	41	55
Tax loss carry-forwards	235	196
Total deferred tax assets	**21,703**	**21,718**
thereof current	1,685	768
thereof noncurrent	20,018	20,950
Deferred tax liabilities		
Intangible assets	9,569	9,138
Right of use assets	6	0
Property, plant and equipment	2,411	2,546
Inventories	173	164
Receivables and other current assets	180	88
Provisions	704	337
Liabilities	46	72
Derivatives	0	663
Total deferred tax liabilities	**13,089**	**13,008**
thereof current	1,590	1,243
thereof noncurrent	11,499	11,765
Net balance of deferred tax assets and liabilities	12,329	11,568
Stated amount of deferred tax assets	**9,374**	**10,150**
Stated amount of deferred tax liabilities	**760**	**1,440**

No deferred tax assets were recognized in respect of corporate income tax loss carry-forwards totaling EUR 54.2 million (PY: EUR 54.9 million) and trade tax loss carry-forwards totaling EUR 36.9 million (PY: EUR 36.9 million). Of the non-recognized corporate income tax loss carry-forwards, an amount of EUR 15.6 million related to foreign companies (PY: EUR 16.2 million), of which, in turn, EUR 0.0 million (PY: EUR 0.0 million) 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 % fundamentally lead to the complete loss of existing tax loss carry-forwards. The deferred tax assets for tax loss carry-forwards primarily relate to the Austrian and Spanish subsidiaries (PY: Austrian subsidiary).

Gigaset did not recognize deferred tax assets on temporary differences in the amount of EUR 4.7 million (PY: EUR 1.7 million).

No deferred taxes were recognized in respect of differences between IFRS and the tax balance sheet related to interests in subsidiaries in the amount of EUR 73.0 million (PY: EUR 64.3 million).

For more information on this subject, please refer to the presentation of accounting and valuation methods and the explanations provided in Section D.10 Income Taxes.

15. 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	12/31/2019	12/31/2018
Carrying amount	**51,247**	**47,355**
thereof due in the following time periods:		
< 30 days	38,087	35,351
30 - 90 days	12,641	12,002
90 - 180 days	39	2
180 days - 1 year	480	0

The largest amounts of trade payables were owed by the following corporate groups:

EUR'000	12/31/2019	12/31/2018
Gigaset Group	50,600	47,155
Holding company	647	200
Total	**51,247**	**47,355**

By reason of the international activity of the Gigaset Group, the trade payables at December 31, 2019, included the following amounts denominated in foreign currencies, which have been translated to the euro, as the Group currency:

	12/31/2019		12/31/2018	
Foreign currency	**EUR'000**	**%**	**EUR'000**	**%**
USD (US dollar)	25,005	85.7	20,442	84.4
CNY (Chinese renminbi yuan)	2,020	6.9	2,241	9.3
CHF (Swiss franc)	691	2.4	434	1.8
TLR (Turkish lira)	491	1.7	332	1.4
GBP (British pound)	253	0.9	297	1.2
PLN (Polish zloty)	179	0.6	126	0.5
JPY (Japanese yen)	294	1.0	89	0.4
SEK (Swedish krona)	44	0.2	73	0.3
Other	164	0.6	165	0.7
Total	**29,141**	**100.0**	**24,199**	**100.0**

16. Tax liabilities

This item in the amount of EUR 4.9 million (PY: EUR 15.0 million) was composed exclusively of current income tax liabilities, including an amount of EUR 4.7 million (PY: EUR 14.9 million) attributable to Gigaset Communications GmbH and its subsidiaries. The large reduction in tax liabilities results from the completion of external audits for previous years.

17. Current other liabilities

EUR'000	12/31/2019	12/31/2018
Customs liabilities	6,745	2,940
Other personnel-related liabilities	5,086	5,805
Other taxes	2,587	3,752
Social security contributions	508	569
Advance payments received	188	218
Derivatives	128	172
Wages and salaries	120	85
Miscellaneous other liabilities	1,214	1,627
Total	**16,576**	**15,168**

The other current liabilities did not bear interest in the reporting year. Due to the fact that they are due in less than one year, it can be assumed that the carrying amounts of the liabilities essentially correspond to their fair values. 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	12/31/2019	12/31/2018
Vacation leave not taken	1,932	1,659
Work time accounts	1,176	1,195
Profit-based bonuses and other bonuses	1,036	1,799
Miscellaneous personnel-related liabilities	942	1,152
Total	**5,086**	**5,805**

F. OTHER INFORMATION

1. Segment report

The segment report is based on geographical segments, in accordance with the Group's internal reporting system. The holding company is presented separately from Gigaset's operating activities. Within operating activities, a distinction is made in the geographical regions between "Germany," "EU," and "Rest of World." The reportable segment "EU" contains multiple geographical regions including the "France" geographical region as an operating segment, which have been aggregated to form this segment. The individual segments were aggregated into the "EU" segment because the products and services sold, the customer structures, sales structures and regulatory conditions are comparable. With respect to economic criteria, the individual geographical segments have been aggregated particularly by reason of comparable gross margins.

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

- "Germany"

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

- "EU"

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

- "Rest of World"

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

The transfer prices charged between the segments are the same as those that could be achieved with third parties. Administrative services are charged to the Group companies as cost allocations.

For purposes of internal segment reporting, revenues by country are reported both on the basis of the receiving entities and the registered head office of the respective company ("country of domicile").

Revenues by receiving entities represent the amounts invoiced in the respective regions, regardless of the domicile of the invoicing entity. If, for example, a German company issues an invoice to a company in the Netherlands, such revenues are assigned to the region of "Europe – EU (excluding Germany)" in the presentation by receiving entities. In the table below, revenues are presented according to the regions of the receiving entities within the meaning of IFRS 8.33 a), as described in the preceding paragraph, for financial year 2019 and the comparison period:

EUR'000	**2019**	**2018**
Germany	121,242	124,445
France	38,548	47,273
Europe (excluding Germany and France)	80,851	92,935
Rest of World	17,222	15,678
Total	**257,863**	**280,331**

For purposes of current segment reporting within the Group, the attribution to individual geographical regions is additionally done according to the country of domicile of the respective legal entity. If, for example, a German company issues an invoice to a company in the Netherlands, such revenues are assigned to the “Germany” region for purposes of the presentation by country of domicile. Revenues classified by country of domicile are presented in the following tables.

There were no significant individual customers, neither in the current year nor in the previous year, whose revenue share reached or exceeded 10 % of total revenues.

January 1 to December 31, 2019 in EUR'000	**Germany**	**EU**	**Rest of World**	**Gigaset TOTAL**	**Holding company**	**Group**
Revenues	141,232	90,924	25,707	257,863	0	257,863
Segment result / EBITDA	**21,341**	**2,905**	**737**	**24,983**	**3,519**	**28,502**
Depreciation and amortization	-13,677	-880	-213	-14,770	-1	-14,771
EBIT	**7,664**	**2,025**	**524**	**10,213**	**3,518**	**13,731**
Other interest and similar expenses						2,344
Interest and similar expenses						-1,559
Financial result						**785**
Result from ordinary activities						**14,516**
Income taxes						-3,209
Consolidated net income						**11,307**

January 1 to December 31, 2018 in EUR'000	**Germany**	**EU**	**Rest of World**	**Gigaset TOTAL**	**Holding company**	**Group**
Revenues	148,340	104,784	27,207	280,331	0	280,331
Segment result / EBITDA	**22,869**	**1,725**	**577**	**25,171**	**-3,041**	**22,130**
Depreciation and amortization	-13,497	-97	-13	-13,607	0	-13,607
EBIT	**9,372**	**1,628**	**564**	**11,564**	**-3,041**	**8,523**
Other interest and similar expenses						179
Interest and similar expenses						-1,244
Financial result						**-1,065**
Result from ordinary activities						**7,458**
Income taxes						-4,064
Consolidated net income						**3,394**

The profit or loss effects of deconsolidations, where they exist, have been assigned to the respective segments.

In 2019, revenues break down essentially into operating revenues from the Phones segment in the amount of EUR 176.4 million (PY: EUR 193.3 million) and the Professional segment in the amount of EUR 56.6 million (PY: EUR 59.9 million) as well as the Smartphones segment in the amount of EUR 21.2 million (PY: EUR 23.9 million) and the Smart Home segment in the amount of EUR 3.7 million (PY: EUR 3.2 million).

In accordance with IFRS 8.33 b), noncurrent assets were divided among the following regions in financial year 2019 and the comparison period:

EUR'000	**2019**	**2018**
Noncurrent assets		
Germany	56,818	54,089
Europe (excluding Germany)	221	183
Rest of World	2	4
Total	**57,041**	**54,276**

2. Cashflow statement

The cashflow statement presents the changes in net funds of the Gigaset Group in the reporting year and in the previous 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.

EUR'000	**2019**	**2018**
Cashflow statement		
Cash inflow (+)/outflow (-) from operating activities	17,212	-9,588
Cash outflow from investing activities	-16,056	-14,489
Free cashflow	1,156	-24,077
Cash inflow (+)/outflow (-) from financing activities	-1,608	11,970
Change in cash and cash equivalents	**-452**	**-12,107**

In accordance with IAS 7, cashflows are classified as cash inflow / outflow from operating activities, investing activities and financing activities.

The cashflow 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, if applicable, and transactions recognized in equity. For these reasons, the changes in items of the statement of financial position presented in the cashflow statement cannot necessarily be reconciled with the statement of financial position.

No investments in companies were acquired or sold in the 2019 financial year, as in the previous year.

The cash outflow from investing activities amounted to EUR 16.1 million in 2019, after EUR 14.5 million in the previous year, and break down as follows:

EUR'000	**2019**	**2018**
Cash outflows for investments in noncurrent assets		
Cash outflows for intangible assets	10,661	9,034
Cash outflows for property, plant and equipment	5,444	5,455
Total	**16,105**	**14,489**

In the past financial year, the cash inflow/outflow from financing activities amounted to EUR -1.6 million, after EUR 12.0 million in the previous year. The interest paid in 2019 amounted to EUR -2.6 million, and EUR -1.5 million in the previous year. In the previous year, the interest paid from factoring in the amount of EUR -0.4 million was particularly presented in this item, which amounted to EUR -0.5 million in the current reporting year. The cash inflow from the borrowing of noncurrent financial liabilities amounted to EUR 2.4 million (PY: EUR 13.5 million) resulting from the credit facility taken out in 2018. There were no transactions affecting cashflow within financing activities. There were also no changes in the consolidation group or foreign currency effects that would have had to have been recognized in the cash inflow from financing activities.

2019	Financial liabilities	Leases
1/1	13,500	0
Cash-borrowing	2,400	0
Non cash addition	0	5,827
- thereof first time adjustments IFRS 16	0	4,909
- thereof new additions reporting year	0	1,011
- thereof disposals reporting year	0	-107
- thereof foreign currency effects	0	14
Cash repayment	0	-1,423
Non-cash foreign currency effects	0	-14
12/31	**15,900**	**4,390**

2018	Financial liabilities
1/1	0
Cash-borrowing	13,500
Non cash addition	0
Cash repayment	0
Non-cash foreign currency effects	0
12/31	**13,500**

Cash and cash equivalents as of December 31, 2019 amounted to EUR 34.2 million (PY: EUR 33.8 million). This item comprises immediately available cash in banks, checks and cash on hand. Restricted cash, which mainly consisted of funds deposited in an escrow account for partial retirement agreements and collateral for granted credit lines, amounted to EUR 2.4 million as of December 31, 2019 (PY: EUR 3.1 million). Thus, the total amount of cash and cash equivalents according to the consolidated statement of financial position amounted to EUR 36.6 million (PY: EUR 36.9 million).

3. Other financial commitments

The other financial commitments as of the reporting date of December 31, 2019 resulted from service agreements that cannot be terminated until the end of their terms (PY: rental, lease and service agreements), which have been entered into by the Group and its subsidiaries in the ordinary course of business. In the table below, the total future payments to be made under these agreements are broken down by due dates, as follows:

2019 in EUR'000	Up to 1 year	1-5 years	More than 5 years	Total
Rental and lease commitments	0	0	0	0
Other commitments	791	1,179	58	2,028
Total	**791**	**1,179**	**58**	**2,028**

2018 in EUR'000	Up to 1 year	1-5 years	More than 5 years	Total
Rental and lease commitments	1,720	3,740	2	5,462
Other commitments	1,195	156	0	1,351
Total	**2,915**	**3,896**	**2**	**6,813**

Due to the introduction of IFRS 16, the resulting commitments are accounted for in accordance with this Standard beginning in the past financial year (PY: rental and lease commitments of EUR 5.5 million).

The other financial commitments in the amount of EUR 2.0 million (PY: EUR 1.4 million) resulted from maintenance and service agreements for machinery and equipment, software and other operational and office equipment.

As in the previous year, the Group was not subject to any significant commitments for capital expenditures as of the reporting date of December 31, 2019.

The leases expenses in the past financial year totaled EUR 1.0 million (PY: EUR 3.1 million). The lease expenses in 2019 consisted mainly of expenses for short-term leases and interest expenses for discounting to present value in accordance with IFRS 16. In the previous year, lease expenses consisted of all the Group's operating lease liabilities.

3.1 Contingent liabilities

As of the reporting date of December 31, 2019, contingent liabilities were related to the following matters:

In connection with sales of subsidiaries in earlier years, the Company issued guarantees, including for the corporate relationships of these subsidiaries. The probability that these guarantees will be utilized is considered to be very low.

4. Executive Board and Supervisory Board of Gigaset AG

The following persons served on the Executive Board in the 2019 financial year:

- **Klaus Weßing**, engineer, Borken (Executive Board Chairman, sole Executive Board Chairman from December 13, 2018 to August 13, 2019, Executive Board member in charge of Product Development, New Business Fields, Supply Chain, Quality, Service Assurance, Sales, Marketing, Strategy & Innovation, Human Resources, Investor Relations, Communication & Digital since August 13, 2019), since December 15, 2015.

- **Thomas Schuchardt**, businessman, Dorsten (Executive Board member in charge of Finance, Taxes and Legal) since August 13, 2019.

The other executive activities of the Executive Board members Weßing and Schuchardt mainly consist of serving on the executive boards or chief executive positions of affiliated companies and subsidiaries of Gigaset AG.

In the reporting period, the following persons served on the Supervisory Board that was elected by the annual shareholders' meeting of August 17, 2017 and August 14, 2019:

Bernhard Riedel (Chairman) from 12/19/2013 to 01/24/2019

Hau Yan Helvin Wong (Vice Chairman until 02/28/2019, Chairman since 02/28/2019) since 12/19/2013

Ulrich Burkhardt since 12/03/2014

Paolo Vittorio Di Fraia (Vice Chairman from 02/28/2019 to 08/14/2019) since 08/14/2013

Prof. Xiaojian Huang since 12/19/2013

Barbara Münch (Vice Chairwoman since 08/14/2019) since 01/24/2019

Flora (Ka Yan) Shiu since 12/19/2013

The Chairman of the Supervisory Board, Mr. Bernhard Riedel, passed away on January 24, 2019. On the same day, the substitute member elected at the annual shareholders' meeting on August 17, 2017, Ms. Barbara Münch, was automatically placed on the Company's Supervisory Board. On February 28, 2019, at its first meeting after the death of Chairman Bernhard Riedel, the Supervisory Board elected Mr. Helvin Wong as Chairman and Mr. Paolo Vittorio Di Fraia as Vice Chairman. The aforementioned members were re-elected to the Supervisory Board at the annual shareholders' meeting on August 14, 2019. In addition, Mr. Rainer Koppitz was elected as a substitute member of the Supervisory Board. Consequently, the Supervisory Board at the time of preparation of these notes consisted of Mr. Hau Yan Helvin Wong (Chairman), Mr. Paolo Vittorio Di Fraia, Mr. Ulrich Burkhardt, and Prof. Xiaojian Huang as well as Ms. Barbara Münch (Vice Chairwoman) and Ms. Flora Shiu. The Supervisory Board members were elected by the 2019 annual shareholders' meeting for the time until the close of the annual shareholders' meeting that will resolve to ratify their actions in the first financial year after the beginning of their terms of office. The financial year during which the term of office began is not counted for this purpose.

The members of the Supervisory Board listed below held the following seats on additional supervisory boards and similar boards during their terms on the Supervisory Board of the Company during the reporting period:

Bernhard Riedel, Chairman of the Supervisory Board until January 24, 2019, attorney, Munich

- Member of the Supervisory Board of Gigaset Communications GmbH from March 29, 2013 to January 24, 2019

Hau Yan Helvin Wong, lawyer, Brisbane, Australia, Vice Chairman since February 28, 2019

- No seats were held on other supervisory boards and similar boards within the meaning of Section 125 (1) AktG.

Ulrich Burkhardt, tax consultant, auditor, Fürstenfeldbruck

- No seats were held on other supervisory boards and similar boards within the meaning of Section 125 (1) AktG.

Paolo Vittorio Di Fraia, businessman and corporate consultant, Paris, France

- No seats were held on other supervisory boards and similar boards within the meaning of Section 125 (1) AktG.

Xiaojian Huang, businessman, Beijing, People's Republic of China

- No seats were held on other supervisory boards and similar boards within the meaning of Section 125 (1) AktG.

Barbara Münch, attorney, businesswoman, Managing Director at AssetMetrix GmbH, Munich, Vice Chairwoman since 08/14/2019

- Chairwoman of the Supervisory Board of Gigaset Communications GmbH since April 4, 2019 (member of the Supervisory Board of Gigaset Communications GmbH since March 1, 2019)

Flora Ka Yan Shiu, businesswoman, consultant at Goldin Real Estate Financial Group, Hong Kong, Special Administrative Region, People's Republic of China

- No seats were held on other supervisory boards and similar boards within the meaning of Section 125 (1) AktG.

5. Compensation of Executive Board and Supervisory Board members

The Compensation Report (pursuant to Section 4.2.5. of the German Corporate Governance Code in the version of February 7, 2017) 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 (see the following section).

Compensation of Executive Board members

The responsibilities and contributions of each Executive Board member are taken into account for purposes of setting the compensation. Their compensation in the 2019 financial year comprises a fixed annual salary as well as success-related components (bonuses, variable compensation). The individual components are as follows:

- The fixed compensation is paid in the form of a monthly salary in 12 equal parts.
- The variable compensation of Executive Board members is based on company and/or target bonus agreements.
- Personal targets are agreed with Executive Board members based on qualitative milestones.

Thus, variable compensation agreements exist for the Executive Board members based on company and/or target bonus agreements, and partially also based on personal targets with qualitative milestones. The goals were discussed with the Company's Supervisory Board or the Chairwoman of the Audit Committee and with the Executive Board members at the beginning of the financial year or at the beginning of work as an Executive Board member. The Supervisory Board decides the respective target attainment on the basis of the agreements made with Executive Board members.

In addition to the compensation components described above, a pension claim was also granted to one Executive Board member under the existing pension plan for the overall company. Please refer to our comments in Note E.11, Pension obligations, for details on this subject. The pension claim was granted several years before the person in question was appointed to the Executive Board and was not separately granted for exercising the position of Executive Board member, but must also be disclosed in the presentation of total compensation according to applicable regulations. The expenses incurred in each financial year are presented within the item of "Pension expenses."

Based on a resolution of the annual shareholders' meeting according to Section 286 (5) HGB and Section 314 (3) HGB old version on August 11, 2015, the itemized disclosures to be made in the notes according to Section 285 No. 9a Sentences 5 to 8 and Section 314 (1) No. 6a Sentences 5 to 8 HGB old version were omitted in the preparation of the separate financial statements of Gigaset AG and the consolidated financial statements of the Group. This resolution applies to the preparation of the separate financial statements of Gigaset AG and the consolidated financial statements for the financial years commencing January 1, 2015, and the next four financial years, but no longer than until August 10, 2020. According to Article 83 of the Introductory Act to the German Commercial Code (HB), Sections 285, 286, 289a, 289f, 291, 314, 315a, 324, 325, 325a, 329 and 341s of the German Commercial Code in the version applicable as of January 1, 2020 are applicable to separate and consolidated financial statements and separate and Group management reports for the first time in financial years that begin after December 31, 2020. In the following paragraphs, therefore, the information relating to compensation of the Executive Board is be provided as a single sum in each case, without specifying the individual Executive Board members by name.

Following the requirements of the German Corporate Governance Code (effective February 2017), Sample Table 1 for Number 4.2.5 Paragraph 3, the potential total compensation granted to the members of the Executive Board for the 2019 financial year is presented in the table below:

Compensation granted to Executive Board members, in EUR	**2018 (actual)**	**2019 (actual)**	**2019 (min)**	**2019 (max)**
Fixed compensation	617,209	527,622	0	0
Fringe benefits	25,202	50,280	0	0
Total fixed compensation components	642,411	577,902	0	0
Single-year variable compensation	50,000	50,000	0	275,000
Multiyear variable compensation	0	0	0	0
Total fixed and variable compensation	692,411	627,902	577,902	852,902
Pension expenses	11,592	3,549	3,549	3,549
Total compensation	**704,003**	**631,451**	**581,451**	**856,451**

The recognized expenses for members of the Executive Board for the 2019 financial year in accordance with the requirements of German Financial Accounting Standard (DRS) 17 (Reporting on the Remuneration of Members of Governing Bodies) and IAS 24, Related Party Disclosures break down as follows:

EUR	**Fixed compensation**		**Fringe benefits**		**Single year variable compensation**		**Pension expenses**		**Total**	
Financial year	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
All Executive Board members	527,622	617,209	50,280	25,202	50,000	50,000	3,549	11,592	631,451	704,003

The pension expenses stated in the table above include the service cost for the respective period. The projected unit credit value of the pension commitments to Executive Board members according to the provisions of IAS 19 Employee Benefits amounted to EUR 0.9 million (PY: EUR 0.8 million).

No expenses were recognized in connection with the termination of employment contracts with Executive Board members in the past financial year (PY: EUR 0.1 million). From the provision established in the previous year, an amount of EUR 0.1 million was paid, but is not included in the following table as inflows to Executive Board members for their overall compensation due to the nature of the payment related to the termination of an employment contract.

The total expenses for Executive Board compensation amounted to EUR 0.7 million in the past financial year. Including the establishment of provisions, the total expenses for Executive Board compensation amounted to EUR 0.8 million. in the previous year.

Following the requirements of the German Corporate Governance Code (effective February 2017), Sample Table 2 for Number 4.2.5 Paragraph 3, the inflows to the members of the Executive Board in financial year 2019 are presented in the table below:

Total inflow to Executive Board members, in EUR	**2019**	**2018**
Fixed compensation	527,622	617,209
Fringe benefits	50,280	25,202
Total fixed compensation components	577,902	642,411
Single-year variable compensation	50,000	50,000
Multiyear variable compensation	0	0
Total fixed and variable compensation	627,902	692,411
Pension expenses	3,549	11,592
Total compensation	**631,451**	**704,003**

No further compensation was granted to the Executive Board members for their work on the governing bodies of subsidiaries or affiliated companies.

The inflows from the total compensation of the Executive Board amounted to EUR 0.6 million in the reporting year (PY: EUR 0.7 million).

Compensation of Supervisory Board members

By resolution of 12/19/2013, with retroactive effect to 08/15/2013, the compensation of the Supervisory Board was resolved as follows, which was amended by resolution of the annual shareholders' meeting on 08/17/2017, in No. 1, Base Compensation, as well as with regard to its period of validity. The compensation regulation now reads as follows:

1. **Base Compensation.** Each member of the Supervisory Board shall receive fixed compensation of EUR 5,000.00 ("Base Compensation") for each started month in office ("Settlement Month"). The beginning and end of each Settlement Month are determined in accordance with Sections 187 (1) and 188 (2) of the German Civil Code (BGB). The claim to Base Compensation shall arise at the end of the Settlement Month.

2. **Compensation for meeting attendance.** Each member of the Supervisory Board shall receive compensation of EUR 1,000.00 (the "Meeting Fee") for participating in a meeting of the Supervisory Board or a committee thereof (a "Meeting") called in accordance with the Articles of Incorporation. Participation in the meeting by telephone as well as voting in writing pursuant to Article 9 (3)(2) of the Articles of Incorporation shall be equivalent to participating in the meeting. Multiple meetings of the same body on a single day shall be compensated as a single meeting. The claim to a Meeting Fee shall arise when the Chairman or the committee chairman signs the minutes. The prerequisites to making a claim can only be proven by the minutes of the meeting according to Section 107 (2) of the German Stock Corporation Act (AktG).

3. **Compensation for adoption of resolutions outside of meetings.** Each member of the Supervisory Board shall receive compensation of EUR 1,000.00 ("Resolution Fee") for casting his vote in the context of adopting a resolution outside of a meeting according to Article 9 (4) of the Articles of Incorporation ("Adoption of Resolutions Outside of a Meeting") ordered on a case-by-case basis by the Chairman and carried out in writing, by telegraph, telephone, fax, or using other means of telecommunications or data transfer. If multiple resolutions are adopted on the same day outside of meetings, then the claim to the Resolution Fee shall only be established once. The claim to a Resolution Fee shall arise when the Chairman or the committee chairman signs the minutes on the adoption of resolutions. The prerequisites to making a claim can only be proven by the minutes of the adoption of resolutions.

4. **Compensation of the Chairman.** The Chairman of the Supervisory Board shall receive a bonus of 100 % and the Deputy Chairman of the Supervisory Board shall receive a bonus of 50 % on all compensation specified in Nos. 1 to 3.

5. **Expense reimbursement.** The Company shall reimburse the Supervisory Board members for the expenses incurred in performing their duties, as well as any sales tax accruing on the compensation and the expense reimbursement. The claim to reimbursement of expenses shall arise as soon as the Supervisory Board member has paid the expenses himself.

6. **Creation and due date of claims.** All payment claims shall be due 21 days after receipt of an invoice by the Company that satisfies the requirements for orderly invoicing. When expense reimbursement is claimed, the invoice must include copies of receipts for the expenses. The Company is entitled to pay advances before the claims are due.

7. **Insurance.** The Company shall conclude public liability insurance for the benefit of the Supervisory Board members that covers statutory liability arising from their activities as Supervisory Board members.

8. **Applicability Period.** This compensation regulation shall enter into force with retroactive effect as of 8/15/2013, and shall remain in force until an Annual Shareholders' Meeting adopts a new regulation. This compensation regulation replaces the compensation regulation adopted by the Annual Shareholders' Meeting on 8/14/2013, which is simultaneously rescinded with retroactive effect. Insofar as compensation was already paid based on the rescinded compensation regulation, such compensation shall be applied to compensation claims under the new regulation.

The amendment to Base Compensation adopted for No. 1 shall become effective on 8/18/2017 and applies only to Settlement Months beginning after 8/18/2017. It shall remain in force until the Annual Shareholders' Meeting adopts a new regulation.

The compensation granted to members of the Supervisory Board of Gigaset AG in the 2019 financial year pursuant to Section 314 (6a) HGB is presented in the table below:

EUR	Settled	Provisions	Total expenses
Bernhard Riedel	10,000	0	10,000
Hau Yan Helvin Wong	130,500	19,500	150,000
Ulrich Burkhardt	68,000	6,000	74,000
Paolo Vittorio Di Fraia	71,500	28,500	100,000
Barbara Münch	61,000	22,500	83,500
Huang Xiaojian	62,000	7,000	69,000
Flora Shiu Ka Yan	31,000	42,000	73,000
Total	**434,000**	**125,500**	**559,500**

Accordingly, the total compensation granted to the Supervisory Board according to IAS 24 amounted to EUR 559,500.00 (PY: EUR 583,500.00).

The compensation granted to members of the Supervisory Board in subsidiaries of Gigaset AG in the 2019 financial year pursuant to Section 314 (6a) HGB is presented in the table below:

EUR	Settled	Provisions	Total expenses
Bernhard Riedel	10,000	0	10,000
Barbara Münch	17,000	5,000	22,000
Total	**27,000**	**5,000**	**32,000**

Accordingly, the total compensation granted to the Supervisory Board of Gigaset Communications GmbH, Bocholt, according to IAS 24 amounted to EUR 32,000.00 (PY: EUR 128,000.00).

No further commitments have been made in the event of termination of mandates. No loans or advances were extended to members of the Executive Board or Supervisory Board of Gigaset AG. No contingent liabilities have been assumed in favor of these persons.

6. Shareholdings of Executive Board and Supervisory Board members

The Company asked the members of its Executive and Supervisory Boards how many shares of Gigaset AG they hold.

According to their own statements, the members of the Executive Board did not hold any shares of Gigaset AG at the balance sheet date or on the date of their retirement. According to their own statements, the current members of the Supervisory Board hold 20,000 shares of Gigaset AG as of the balance sheet date. This corresponds to a share of approximately 0.1 per thousand of the issued shares.

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

	Number of shares at 12/31/2019 or at the resignation date	Number of shares at the date of preparation of the financial statements	Number of options at 12/31/2019 or at the resignation date	Number of options at the date of preparation of the financial statements
Executive Board				
Klaus Weßing	0	0	0	0
Thomas Schuchardt	0	0	0	0
Supervisory Board	0	0	0	0
Bernhard Riedel (until 01/24/2019)	3,264	0	0	0
Ulrich Burkhardt	0	0	0	0
Paolo Vittorio Di Fraia	15,000	15,000	0	0
Hau Yan Helvin Wong	5,000	10,000	0	0
Flora Ka Yan Shiu	0	0	0	0
Xiaojian Huang	0	0	0	0
Barbara Münch (as of 01/24/2019)	0	0	0	0

Disclosures concerning stock option rights and similar incentives

Any stock options of Supervisory Board and Executive Board members presented in the table above are stock options that can be purchased in the open market. Gigaset AG did not grant stock options to the members of the Supervisory Board, nor to members of the Executive Board.

7. Disclosures concerning dealings with related parties

Disclosures concerning the parent company according to IAS 24.13:

On January 15, 2016, Goldin Fund Pte. Ltd., Singapore, notified the Company on behalf of Mr. Pan Sutong, Hong Kong, in a notification of existing voting rights pursuant to Section 127 (10) WpHG that the voting rights share of Mr. Sutong represented 79.16 % of the total quantity of 122,979,286 voting rights on November 26, 2015. Of these voting rights, 71.57 % (88,019,854 voting rights) originated from shares (DE0005156004). Another 7.59 % (9,337,935 voting rights) resulted from instruments within the meaning of Section 38 (1) No. 2 German Securities Trading Act (WpHG) (mandatory convertible bond, maturing on January 23, 2016). To aid in understanding this information, the Company points out that the instruments which when exercised will create new voting rights are not yet included in the total quantity of voting rights. When the instruments are exercised, new voting rights will be created, thereby increasing the total quantity of voting rights and necessitating a recalculation of voting rights shares.

On January 23, 2016, the final maturity of the aforementioned mandatory convertible bond increased the total quantity of voting rights to 132,455,896, of which Mr. Sutong now held 73.50 % (97,357,789 voting rights). The conversion of instruments (Section 38 (1) WpHG) into voting rights (Sections 33, 34 WpHG) caused a shift within the shareholder's reportable voting rights according to Section 39 WpHG, accompanied by a concurrent increase in the total quantity of voting rights, which caused the holdings of one shareholder to fall below a threshold without action on his part. On this subject, the Company received a notification pursuant to Section 40 WpHG on January 27, 2016 and a corrected notification pursuant to Section 40 WpHG on January 28, 2016.

To the knowledge of the Executive Board, the ultimate economic beneficiary or highest-ranking person of Goldin Investment (Singapore) Limited. is Mr. Pan Sutong.

In accordance with IAS 24 Related Party Disclosures, the business dealings with Gigaset Mobile Pte. Ltd., Singapore, are to be disclosed as business dealings with related parties in 2019. In this context, Gigaset Mobile Pte., Ltd., Singapore, acts as a supplier to Gigaset. Gigaset in turn charges contractually agreed upon services and fees to Gigaset Mobile Pte. Ltd. From a Group perspective, the transactions and balances for the reporting periods and as of the reporting date break down as follows:

EUR'000	Expenses 1/1 - 12/31/2019	Revenues/ Income 1/1 - 12/31/2019	Receivables 12/31/2019	Liabilities 12/31/2019
Gigaset	0	0	1,341	0
Gigaset Mobile Pte. Ltd.	0	0	0	1,341

EUR'000	Expenses 1/1 - 12/31/2018	Revenues/ Income 1/1 - 12/31/2018	Receivables 12/31/2018	Liabilities 12/31/2018
Gigaset	0	387	1,335	-6
Gigaset Mobile Pte. Ltd.	387	0	-6	1,335

According to IAS 24 Related Party Disclosures, the business dealings with Gigaset Mobile Europe GmbH, Düsseldorf, must be disclosed as business dealings with related parties since financial year 2016. This company is another related entity according to IAS 24.19 (g). In this context, Gigaset Mobile Europe GmbH, Düsseldorf, acts as a supplier to Gigaset. Gigaset in turn charges contractually agreed upon services and fees to Gigaset Mobile Europe GmbH, Düsseldorf. From a Group perspective, the transactions and balances for the reporting periods and as of the reporting date break down as follows:

EUR'000	Expenses 1/1 - 12/31/2019	Revenues/ Income 1/1 - 12/31/2019	Receivables 12/31/2019	Liabilities 12/31/2019
Gigaset	0	0	124	0
Gigaset Mobile Europe GmbH	0	0	0	124

EUR'000	Expenses 1/1 - 12/31/2018	Revenues/ Income 1/1 - 12/31/2018	Receivables 12/31/2018	Liabilities 12/31/2018
Gigaset	0	96	114	-10
Gigaset Mobile Europe GmbH	96	0	-10	114

The business dealings mainly consist of purchases and sales of goods according to IAS 24.21 b and services according to IAS 24.21 c.

According to IAS 24 Related Party Disclosures, business dealings with Gigaset Digital Technology, Shenzhen, China, must be disclosed as related party transactions since 2016. This company represents another related entity according to IAS 24.19 (g). From a Group perspective, the transactions and balances for the reporting period and as of the reporting date break down as follows:

EUR'000	Expenses 1/1 - 12/31/2019	Revenues/ Income 1/1 - 12/31/2019	Receivables 12/31/2019	Liabilities 12/31/2019
Gigaset	0	0	345	0
Gigaset Digital Technology	0	0	0	345

EUR'000	Expenses 1/1 - 12/31/2018	Revenues/ Income 1/1 - 12/31/2018	Receivables 12/31/2018	Liabilities 12/31/2018
Gigaset	0	0	345	0
Gigaset Digital Technology	0	0	0	345

The business dealings mainly consist of services provided according to 24.21 (c).

No significant dealings were conducted between the Group and related parties beyond those listed above.

8. Professional fees of the independent auditor

The following professional fees were incurred for the services of the independent auditor in financial year 2019:

EUR'000	2019	2018
Financial statement audit services	332	441
Other certification services	0	5
Other services	37	0
Total	**369**	**446**

The financial statement audit services primarily include the fees for the audit of the consolidated financial statements and the audits of Gigaset AG and Gigaset Communications GmbH required by law. In the previous year, the fees for other certification services related to activities related to loan financing. The other services consisted of consulting services related to the implementation of a software program.

9. Employees

	Reporting date		Average	
EUR'000	12/31/2019	12/31/2018	2019	2018
Salaried employees	882	883	879	841
Apprentice-trainees	13	5	8	3
Total	**895**	**888**	**887**	**844**

The Gigaset Group had an average of 887 employees in financial year 2019 (PY: 844 employees). The number of employees as of the reporting date of December 31, 2019 was 895 (PY: 888 employees).

10. Declaration of Conformity with the German Corporate Governance Code

As required by Section 161 of the Stock Corporations Act (AktG), the Executive Board and Supervisory Board of Gigaset AG issued the Declaration of Conformity with the German Corporate Governance Code in the version of February 7, 2017, which was applicable at this time, and made it permanently

available to shareholders at the company's website (http://www.Gigaset.com/de_de/cms/Gigaset-ag/investor-relations/unternehmen/corporate-governance.html) on February 28, 2020. In this declaration, the Executive Board and Supervisory Board of Gigaset AG state that the Company was in compliance with the conduct recommendations of the Code Commission on corporate management and monitoring published in the Federal Gazette, with a few exceptions, and will comply with them in the future. The Declaration of Conformity itself and the statements on the exceptions are reproduced verbatim at the specified location.

11. Shareholder structure

No notifications as per Section 33 or Section 38 of the German Securities Trading Act (WpHG) were received by the Company in 2019.

The Group's parent company Goldin Investment (Singapore) Limited, Tortola/British Virgin Islands, registered in the Registry of Corporate Affairs of the British Virgin Islands under the number 1713467, prepares consolidated financial statements for the largest group of companies, in which the separate financial statements of Gigaset AG will presumably be included. These consolidated financial statements will presumably not be published. The consolidated financial statements of Gigaset AG, Munich (smallest consolidation group) will be published in the German Federal Gazette (Bundesanzeiger).

12. Legal disputes and claims for damages

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

In July 2009, the European Commission imposed a total administrative fine of EUR 61.1 million on various European companies in the calcium carbide sector in connection with an anti-trust law investigation. In this context, a fine totaling EUR 13.3 million was imposed jointly and severally on the parent SKW Stahl-Metallurgie Holding AG as well as its subsidiary SKW Stahl-Metallurgie GmbH (hereinafter collectively “SKW”) as direct cartel participants. The European Commission held the current Gigaset AG, as the Group parent company at that time, jointly and severally liable for the fine imposed on SKW on the basis of the assumption that, as the Group parent company, it formed an “entrepreneurial unit” with SKW. By virtue of the administrative order assessing the fine, Gigaset AG paid an amount of EUR 6.7 million in 2009 and 2010 on a provisional basis (i.e. for the duration of the appeal) to the European Commission. Gigaset also filed an appeal against the assessment of the Commission. The European court of first instance handed down a decision on January 23, 2014, partially upheld the action brought by Gigaset AG (formerly Arques Industries AG) against the administrative order of the EU Commission imposing a fine in the SKW cartel case and reduced the fine imposed on Gigaset AG by EUR 1.0 million. The action brought by SKW was refused, i.e., the fine imposed on it was not reduced. SKW filed an appeal against this judgment, which was dismissed by the European Court of Justice by judgment of June 16, 2016. Parallel to the legal dispute that has been decided, Gigaset AG filed a suit against SKW in a civil court for reimbursement of the antitrust fine paid by Gigaset on the grounds that SKW alone should bear the fine as the originator of the cartel and consequently should reimburse Gigaset AG for the fine it has already proportionally paid. In the litigation on this matter between Gigaset and SKW, Gigaset considers its position to have been affirmed by the judgment of the Federal Court of Justice dated November 18, 2014, which has remanded the case to the lower court for renewed arguments and decision. At the beginning of 2015, the Higher Regional Court that is now hearing the case again suspended Gigaset’s action against SKW until the European Court of Justice’s decision regarding the validity (or non-validity) of the fine imposed on SKW. As justification, it stated that the reimbursement by way of recourse to joint and several debtors pursued by Gigaset depends on the logical prior question of whether (and to what extent) SKW and Gigaset are at all jointly and severally liable debtors, and consequently on whether the fine imposed on Gigaset and SKW becomes final and enforceable. This prior question was decided in Gigaset’s favor by the judgment of the European Court of Justice on June 16, 2016 (see above).

Thereupon, the Munich Higher Regional Court has already resumed the proceedings. By a decision of September 28, 2017, the Munich Local Court initially ordered preliminary self-administration with a protective shield proceeding pursuant to Section 270a (1) of the Insolvency Code (InsO) with respect to SKW Stahl-Metallurgie Holding AG, and commenced insolvency proceedings by a further decision of December 1, 2017. This led to a suspension of the present civil proceedings pursuant to Section 240 Sentence 1 of the Code of Civil Procedure (ZPO) with regard to SKW Stahl-Metallurgie Holding AG, but not with regard to SKW Stahl-Metallurgie GmbH. In the meantime, Gigaset AG has resumed the litigation suspended according to Sec. 240 ZPO with respect to SKW Stahl-Metallurgie Holding AG. On April 11, 2019, the Munich Higher Regional Court ruled that SKW Stahl-Metallurgie Holding GmbH is obligated to pay a total amount of approximately EUR 4.77 million (EUR 3.55 million plus interest) to Gigaset AG. To avoid a continuation of the legal dispute, Gigaset und SKW agreed on a settlement to finally end the legal dispute, under which SKE will waive the pursuit of legal remedies and quickly pay a total amount of EUR 4.6 million to Gigaset. Gigaset received the settlement amount in due time in two installments in May and July 2019. The costs of the legal dispute are not covered by the settlement and must still be paid by the litigants.

In the legal dispute with Evonik Degussa GmbH regarding a penalty for breach of contract in the amount of EUR 12.0 million, in November 2013 an arbitration tribunal rejected the suit and otherwise sentenced Gigaset AG to pay an amount of EUR 3.5 million plus interest to Evonik. On March 4, 2015, Gigaset paid the amount in the principal matter of EUR 3.5 million plus interest to Evonik. Due to the amounts paid under the guarantee, Gigaset now has taken recourse against the principal debtor, OXY Holding GmbH and the additional indemnification debtor, StS Equity Holding UG. After failing to reach an agreement out of court, Gigaset filed a lawsuit against the principal debtor OXY Holding GmbH and the indemnification debtor StS Holding UG for reimbursement of this amount in a request for arbitration and payment order dated June 29, 2015. In the further course of affairs, insolvency proceedings were commenced on the assets of both OXY Holding GmbH and StS Equity Holding UG. Gigaset is the principal creditor in both these proceedings. In the meantime, the distribution of the insolvency estate has been largely completed; Gigaset expects – not least based on an agreement with the insolvency administrator regarding the matter – to receive up to EUR 3.5 million from the insolvency estate. Of this amount, EUR 2.0 million of which has already flowed to the Company as an advance distribution in the second quarter of 2016 in the course of an advance distribution in the insolvency proceedings on the assets of OXY Holding GmbH, as well as about EUR 0.2 million in the fourth quarter of 2018 from the final distribution in the insolvency proceedings on the assets of StS Equity Holding UG. The Company expects an additional EUR 1.3 million as part of the final distribution in the insolvency proceedings of OXY Holding GmbH. In the final result, the Company will incur a net loss of EUR 1.3 million, primarily representing the interest paid to Evonik from the principal amount.

13. Significant events after the reporting date

It is to be expected that the spread of the coronavirus will affect Gigaset in terms of delivery processes, consumer behavior, the quality of trade receivables and liquidity management. The financial effects cannot yet be estimated. Gigaset is continually assessing the developments and taking measures to minimize risks.

Please refer to the description in the Group management report for additional details.

14. Release for publication of the consolidated financial statements

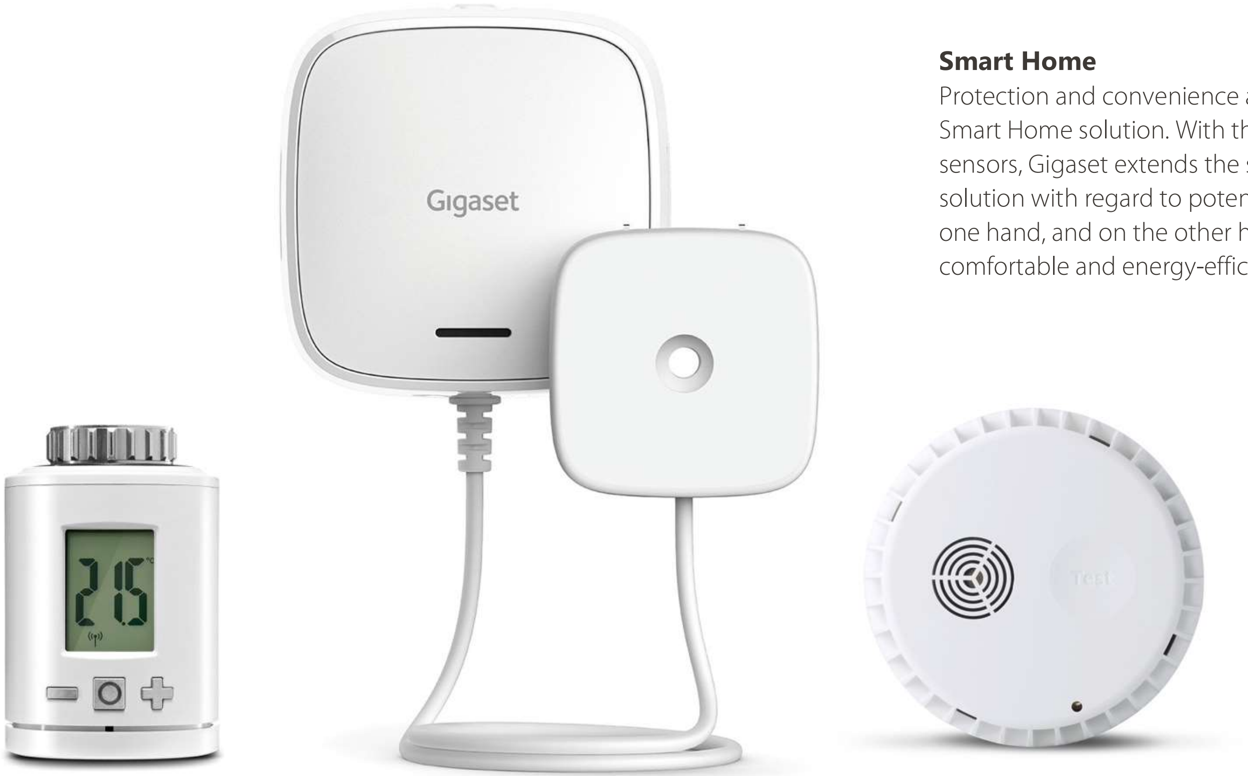
The present consolidated financial statements of Gigaset AG were released for publication by the Executive Board on March 20, 2020. The Company's shareholders will have the right and option of amending the consolidated financial statements at the annual shareholders' meeting.

Munich, March 20, 2020

The Executive Board of Gigaset AG

Klaus Weßing	Thomas Schuchardt
CEO	CFO

FURTHER INFORMATION



Smart Home

Protection and convenience are the hallmarks of the Gigaset Smart Home solution. With the new "water" and "thermostat" sensors, Gigaset extends the scope of protection of the solution with regard to potential elemental damage, on the one hand, and on the other hand, heating control and thus comfortable and energy-efficient heating is now possible.

GIGASET LIST OF SHAREHOLDINGS

	Location		Equity share direct	Equity share indirect	currency in thsds	Local equity share 2018	Local profit/ loss 2018
Gigaset AG	Munich	Germany			EUR	104,037[1]	5,315[1]
CFR Holding GmbH	Munich	Germany	100%		EUR	2	0
GOH Holding GmbH	Munich	Germany	100%		EUR	307	-62
Gigaset Industries GmbH	Vienna	Austria	100%		EUR	1,238	-5,275
GIG Holding GmbH	Munich	Germany	100%		EUR	59,083	-9,858
Gigaset Online GmbH	Bocholt	Germany		100%	EUR	19	-2
Gigaset Communications GmbH	Bocholt	Germany		100%	EUR	49,117	6,042
Gigaset Communications Schweiz GmbH	Solothurn	Switzerland		100%	CHF	1,957	125
Gigaset Communications Polska Sp. z o.o.	Wroclaw	Poland		100%	PLN	3,667	996
Gigaset Communications UK Limited	Chester	Great Britain		100%	GBP	879	45
Gigaset İletişim Cihazları A.Ş	Istanbul	Turkey		100%	TRL	15,390	3,082
OOO Gigaset Communications	Moskow	Russia		100%	RUR	95,176	7,497
Gigaset Communications Austria GmbH	Vienna	Austria		100%	EUR	153	160
Gigaset Communications (Shanghai) Limited	Shanghai	PR China		100%	CNY	-1,159	-1,075
Gigaset Communications France SAS	Courbevoie	France		100%	EUR	7,062	330
Gigaset Communications Italia S.R.L.	Milan	Italy		100%	EUR	786	36
Gigaset Communications Nederland B.V.	Arnhem	Netherlands		100%	EUR	1,069	190
Gigaset Communications Iberia S.L.	Madrid	Spain		100%	EUR	515	117
Gigaset Communications Sweden AB	Stockholm	Sweden		100%	SEK	2,090	29
Gigaset elements GmbH	Bocholt	Germany		100%	EUR	-16,822	0
Hortensienweg Management GmbH	Munich	Germany	100%		EUR	624	39

[1] 2019 figures

INDEPENDENT AUDITOR'S REPORT

To Gigaset AG, Munich

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

Audit Opinions

We have audited the consolidated financial statements of Gigaset AG, Munich, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2019, consolidated income statement and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cashflows for the financial year from 1 January to 31 December 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Gigaset AG, which is combined with the Company's management report, for the financial year from 1 January to 31 December 2019. In accordance with the German legal requirements, we have not audited the content of the statement on corporate governance pursuant to § [Article] 289f HGB [Handelsgesetzbuch: German Commercial Code] and § 315d HGB.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315e Abs. [paragraph] 1 HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2019, and of its financial performance for the financial year from 1 January to 31 December 2019 and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of the statement on corporate governance referred to above.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matter of most significance in our audit was as follows:

Pension provisions

Our presentation of this key audit matter has been structured as follows:

① Matter and issue

② Audit approach and findings

③ Refererences to further information

Hereinafter we present the key audit matter:

Pension provisions

① In the consolidated financial statements of the Company a total amount of € 92,5m (41,6 % of consolidated total assets) is reported under the "Pension obligations" balance sheet item. The pension provisions comprise the obligations from defined benefit pension plans amounting to € 130,6m and the plan assets of € 38,1m. Obligations under defined benefit plans are measured using the projected unit credit method. This requires assumptions to be made in particular about long-term rates of growth in salaries and pensions, average life expectancy and staff turnover. The discount rate must be determined by reference to market yields on high-quality corporate bonds with matching currencies and consistent maturities. This usually requires the data to be extrapolated, since sufficient long-term corporate bonds do not exist. The plan assets are measured at fair value, which in turn involves making estimates that are subject to estimation uncertainties.

From our point of view, these matters were of particular significance in the context of our audit because the recognition and measurement of this significant item in terms of its amount are based to a large extent on estimates and assumptions made by the Company's executive directors.

② As part of our audit we evaluated the actuarial expert reports obtained and the professional qualifications of the external experts. We also examined the specific features of the actuarial calculations and assessed the numerical data, the actuarial parameters and the valuation methods on which the valuations were based for compliance with the standard and appropriateness, in addition to other procedures. In addition, we analyzed the development of the obligation and the cost components in accordance with actuarial expert reports in the light of changes occurring in the valuation parameters and the numerical data, and assessed their plausibility. For the purposes of our audit of the fair value of the plan assets we obtained bank and fund confirmations.

Based on our audit procedures, we were able to satisfy ourselves that the estimates and assumptions made by the executive directors are substantiated and sufficiently documented.

③ The Company's disclosures relating to the pension provisions are contained in note E.11 to the consolidated financial statements.

Other Information

The executive directors are responsible for the other information. The other information comprises the statement on corporate governance pursuant to § 289f HGB and § 315d HGB, which we obtained prior to the date of our auditor's report.

The annual report and the separate non-financial report pursuant to § 289b Abs. 3 HGB and § 315b Abs. 3 HGB are expected to be made available to us after the date of the auditor's report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or

- otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further Information pursuant to Article 10 EU Audit Regulation

We were elected as group auditor by the annual general meeting on 14 August 2019. We were engaged by the supervisory board on 24 November 2019. We have been the group auditor of the Gigaset AG, Munich, without interruption since the financial year 2005.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Antje Schlotter.

Düsseldorf, 20. March 2020

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Antje Schlotter	ppa. Denis Varosi
Wirtschaftsprüferin	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

REPORT OF THE EXECUTIVE BOARD

The Executive Board of Gigaset AG is responsible for the preparation of the consolidated financial statements and the information contained in the Group management report. This information has been reported in accordance with the accounting regulations promulgated by the International Accounting Standards Committee. The Group management report has been prepared in accordance with the provisions of the German Commercial Code.

By implementing Group-wide reporting in accordance with uniform guidelines, using reliable software, selecting and training qualified personnel, and continually optimizing processes in the consolidated 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 extent necessary, appropriate and objective estimates have been applied.

In accordance with a resolution adopted at the annual shareholders' meeting, the Supervisory Board has engaged PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Düsseldorf, to audit the consolidated financial statements of the Group in the capacity of independent auditors. The Supervisory Board discussed the consolidated financial statements and the Group management report with the independent auditors during its meeting. The result of this examination is presented in the Report of the Supervisory Board.

Responsibility statement

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

Munich, March 20, 2020

The Executive Board of Gigaset AG

FINANCIAL CALENDAR 2020 (REMAINING)[41]

April 28, 2020	Financial statements press conference 2020
May 26, 2020	Interim financial report for Q1 2020
June 4, 2020	Annual general meeting 2020
August 25, 2020	Semiannual financial report 2020
November 24, 2020	Interim financial report for Q3 2020

[41] Subject to change

PUBLICATION DETAILS

Published by

Gigaset AG
Bernhard-Wicki-Str. 5
80636 Munich, Germany

Phone: +49 (0) 89 / 444456-866
info@gigaset.com, www.gigaset.ag

Edited by

Gigaset AG
Investor Relations & Corporate Communications

Concept, Layout, Production

The Growth Group AG
Phone: +49 (0) 89 / 21557680-0
info@growth-group.com
www.growth-group.de

2019

ANNUAL REPORT

Gigaset

Gigaset AG · Bernhard-Wicki-Str. 5, 80636 Munich, Germany · Phone: +49.89.444456.928 · info@gigaset.com · www.gigaset.ag