ANNUAL REPORT 2012

We said it.
We did it.

QSC AG

Key Data

All amounts in € million	2012	2011	2010	2009	2008
Revenues	481.5	478.1	422.1	420.5	413.3
EBITDA	77.9	79.9	78.1	76.9	67.3
Depreciation/amortization [1]	53.4	53.7	57.2	67.2	61.2
EBIT	24.6	26.2	20.9	9.7	6.1
Net profit	19.0	28.0	24.2	5.5	0.8
Earnings per share [2] (in €)	0.14	0.20	0.18	0.04	0.01
Return on revenue (in percent)	3.9	5.9	5.7	1.3	0.2
EBITDA margin (in percent)	16.2	16.7	18.5	18.3	16.3
EBIT margin (in percent)	5.1	5.5	5.0	2.3	1.5
Equity [3]	180.2	207.3	184.0	159.7	153.7
Long-term liabilities [3]	96.0	79.6	7.2	54.2	76.4
Short-term liabilities [3]	110.9	104.4	140.9	97.3	122.4
Balance sheet total [3]	387.1	391.3	332.2	311.3	352.5
Equity ratio (in percent)	46.6	53.0	55.4	51.3	43.6
Return on equity (in percent)	10.5	13.5	13.2	3.4	0.5
Free cash flow	23.6	41.0	27.7	12.9	(32.3)
Liquidity [3]	35.2	24.1	46.6	41.3	49.2
Capital expenditures	37.9	35.6	29.2	42.2	91.4
Capex ratio [4] (in percent)	7.9	7.4	6.9	10.0	22.1
Xetra closing price [3] (in €)	2.11	2.09	3.30	1.70	1.24
Number of shares [3]	137,307,152	137,256,877	137,127,532	136,998,137	136,998,137
Market capitalization [3]	289.7	286.7	452.5	232.9	169.9
Employees [3]	1,485	1,334	608	664	678

Consolidated Financial Statements 2008 to 2012 in accordance with IFRS

[1] including non-cash share-based remuneration

[2] basic

[3] as of December 31

[4] ratio of capital expenditures to revenues

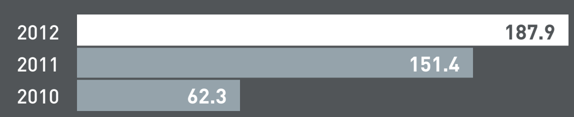
Well on the way to becoming a full-fledged ICT provider

The QSC Group is in the midst of a process of transforming itself from a telecommunications (TC) network operator into a full-fledged information technology and telecommunications provider (ICT). The best way to see the progress that has already been made is by comparing the three business units: While Direct and Indirect Sales focus on ICT business, the Resellers Business Unit predominantly generates conventional TC revenues.

DIRECT SALES

Following the acquisitions of INFO AG and IP Partner, direct business with larger enterprises has developed into the growth engine of the QSC Group: In 2012, revenues advanced by 24 percent to € 187.9 million. Despite considerable investments in future growth, Direct Sales earned an EBITDA margin of 14 percent in 2012.

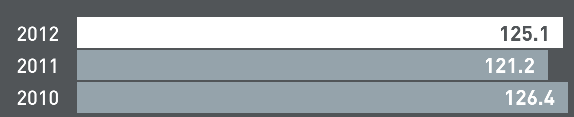
REVENUES, DIRECT SALES (in € million)



INDIRECT SALES

Revenues with sales partners rose by 3 percent to € 125.1 million in 2012. The fact that QSC has traditionally also offered conventional TC products to its sales partners prevented an even stronger rise. Nevertheless, this business unit's EBITDA margin stood at 27 percent in 2012.

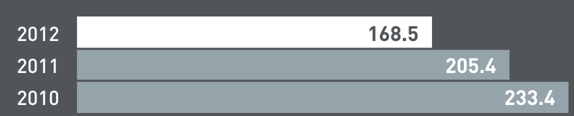
REVENUES, INDIRECT SALES (in € million)



RESELLERS

The stiff price war in the conventional TC market, coupled with heightened regulation, once again drove down revenues in business with resellers by 18 percent to € 168.5 million in the past fiscal year. The EBITDA margin stood at 11 percent – with a downward trend.

REVENUES, RESELLERS (in € million)



We said it. We did it. » The current fiscal year is a year of preparation for QSC in implementing its Vision 2016, « said the Management Board in early 2012 – and acted accordingly. One year later, all of the preparatory work has made good progress; the QSC Group has done much to achieve its full strength and power as an ICT provider.

FISCAL YEAR 2012

1. POINT OF DEPARTURE

The ambitious goals in $\boxed{\text{Vision 2016:}}$

- revenues of € 800 million to € 1 billion
- an EBITDA margin of 25 %
- a free cash flow of € 120 to € 150 million

2. APPROACH . METHOD . SOLUTION

2012 = A year of preparation
for implementing the Vision

6 key challenges to master!!!

3. RESULT

The foundation
for Vision 2016 is in place!

We said it.
We did it.

TASK 1

BOOST OUR ICT REVENUES

1. POINT OF DEPARTURE

43% of revenues came from resellers in 2011 = predominantly conventional TC business (DSL/call by call)

↳ Price war + heightened regulation

2. APPROACH . METHOD . SOLUTION

=> Transform ourselves into an ICT provider
=> Focus on expanding ICT business:
- new products
- new customers

=> Be cautious about TC business

3. RESULT

ICT 2012: + €40.4m

(Revenues, Direct/Indirect Sales)

Great progress in ICT business!
Congratulations to everyone involved!!!

BOOST OUR ICT REVENUES 1
DEVELOP OUR OWN PRODUCTS 2
WIN MAJOR ICT PROJECTS 3
STREAMLINE OUR STRUCTURES 4
BROADEN OUR SALES NETWORK 5
STRENGTHEN OUR IT KNOW-HOW 6

TASK → 2

→ DEVELOP OUR OWN PRODUCTS

1. POINT OF DEPARTURE

High margins in the ICT market come from our own intellectual property (IP)!

↳ QSC Group has to build development competence!!!

2. APPROACH . METHOD . SOLUTION

- Anchor the innovation idea throughout the entire Group
- Let small teams do the visionary thinking
  => Everyone makes a contribution
- Collaborate closely with industrial partners and universities

3. RESULT

4 self-developed innovations in a single year:

=> QSC-Cospace business
=> QSC-Analyser
=> QSC-Housing
=> App for IPfonie centraflex

TASK 3

WIN MAJOR ICT PROJECTS

1. POINT OF DEPARTURE

Each QSC Group company on its own is too small for multimillion projects!!!

2. APPROACH . METHOD . SOLUTION

Collaborate across corporate borders:
- INFO AG: IT and Outsourcing competence
- QSC: Industrialization, network and service know-how
- IP Exchange: Data center competence

3. RESULT

New contracts run for 3–5 years!

=> Sustained revenue stream + Opportunity for follow-on projects

TASK 4

STREAMLINE OUR STRUCTURES

1. POINT OF DEPARTURE

In 2011, QSC acquires INFO AG + IP Partner
↳ 2 IT subsidiaries with Outsourcing competence
↳ 2 administrations of publicly traded corporations (QSC + INFO AG)

2. APPROACH . METHOD . SOLUTION

1. Merge INFO AG with IP Partner
2. Delist INFO AG

March 13	May 24	July 17
Merger agreed	INFO shareholders meeting agrees	Done!

3. RESULT

Merger increases ~~the~~ our freedom of action
=> Consistent leadership structures
=> Faster decisions
=> Lower costs

A pioneering achievement!!!!
Germany's 2nd ever conversion law squeeze-out!

TASK 5

BROADEN OUR SALES NETWORK

1. POINT OF DEPARTURE

- A close-knit sales network in the TC sector
- A lack of sales partners with IT know-how

2. APPROACH . METHOD . SOLUTION

1. Systematically win IT service providers and systems houses
2. Expand network through
   - 12 in-house shows
   - 10 roadshows
   - 24 workshops

3. RESULT

Sharp rise in the number of sales partners

300	350	380	389	450
2011	Original goal for 2012	~~Higher goal~~ for 2012	Dec. 2012	2016

Good foundation for sustained growth in Indirect Sales!

BROADEN OUR SALES NETWORK 5
STRENGTHEN OUR IT KNOW-HOW 6

TASK → 6

→ STRENGTHEN OUR IT KNOW-HOW

1. POINT OF DEPARTURE

"War for talent" in full swing in the IT market
=> You can't participate in the growth
if you don't win enough qualified people!

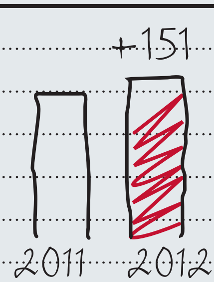
2. APPROACH . METHOD . SOLUTION

1. Train!!! Train!!! Train!!!
QSC employs 102 trainees

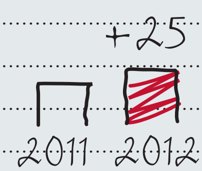
2. HR marketing: Advertise with our
– high level of self-direction
– entrepreneurial environment
– career opportunities

3. RESULT

Number of employees:



Trainees:



Some 100 jobs are still vacant! We're hiring!

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WE SAID IT.

»Only with scalable, self-developed products and services can we achieve our growth targets.«

WE DID IT.

In fiscal 2012, QSC expanded its development competence, brought initial innovations to market and readied the launch of further Cloud services.

Dr. Bernd Schlobohm, Chief Executive Officer

Dear Shareholders,

Fiscal 2012 was a year of preparation for implementing our Vision 2016. That's what we said at the outset of 2012, and since then we have made every effort to swiftly drive the QSC Group's evolution into a high-growth ICT provider. Twelve months later, the preparations have made great progress: QSC today has more ICT products, more ICT development competence, more sales partners and more staff. The sum total of all this serves as a sound foundation for achieving our highly ambitious growth targets for fiscal 2016; they include a revenue rise to between € 800 and € 1 billion, an EBITDA margin of 25 percent and a free cash flow of between € 120 and 150 million.

Record for order backlogs posted in fiscal 2012

One number, in particular, illustrates the advances we made during the year of preparation 2012: With an order backlog of € 193.1 million, our Company was able to win new orders on a magnitude that had never before been seen in its history. These are predominantly contracts having a term of 3 to 5 years, under which QSC assumes and operates major elements of its customers' ICT infrastructures. It was only possible to win requests for proposals, such as those from power grid operator Amprion or medical technology and entertainment electronics player Olympus Europa, thanks to collaboration between experts from the various QSC Group companies: INFO AG contributed its extensive IT Outsourcing and IT Consulting know-how; process optimization and network connection expertise came from QSC AG; and IP Exchange brought experience in operating data centers.

Significantly simplifying collaboration across corporate boundaries was one of the focuses of our activities during the past fiscal year. The merger of INFO AG ahead of schedule in the summer of 2012 afforded considerable simplification. It was then possible to lend consistency to leadership structures, to streamline processes, and to drive cross-locational and cross-departmental collaboration earlier than had been planned. A common value system was created as the basis for a Group-wide corporate culture. We would like to take this opportunity to thank all of the people of the QSC Group for their tremendous enthusiasm, commitment and willingness to play an active role in shaping this change.

Last year, we were able to significantly broaden our team: The QSC Group succeeded in winning some 150 further employees. The majority of them are IT experts for our high-growth Outsourcing and Consulting business. QSC is facing stiff competition in recruiting them, because there are considerably more job vacancies than there are job-seeking IT professionals in Germany. QSC is therefore engaged in a variety of ways to assure new blood for the future, and sees the training of young adults as a key element in this endeavor. At year-end 2012, the QSC Group therefore was employing 102 trainees – some 30 percent more than the year before.

Another focus of preparations during the past fiscal year was expansion of our own development competence. Only with self-developed, scalable innovations will it be possible to achieve the desired growth rates in the coming years. Even in fiscal 2012, we had already brought a number of our own developments to market, including QSC-Housing and QSC-Cospace business. At the

CeBIT trade show in early March 2013, these were then followed by QSC-tengo, the workplace from the Cloud. From online access to Office applications right through to the matching end-user device, it offers everything that's needed today for a flexible and mobile workplace – from a desktop to Office programs to telephony as well as video- and telephone conferencing functions.

This latest innovation runs on either desktop computers or smartphones, on tablets as well as on notebooks. And employees' personal end-user devices can also be effortlessly integrated; QSC-tengo is thus responding early on to the BYOD trend – BYOD stands for Bring Your Own Device – and thus to the widespread wish on the part of younger employees, in particular, to be able to use their own end-user devices at work as well. This modern workplace from the Cloud was created in close partnership with Microsoft and represents a successful combination of international software standards and German ICT know-how. The individual workplaces are linked via the QSC infrastructure; all services and data are located at our data centers in Hamburg, Nuremberg and Munich, and are thus subject to Germany's strict data protection regulations.

Cloud services are developing into a key revenue driver

In the years to come, Cloud services "Made and hosted in Germany" will be developing into a key revenue driver for the QSC Group. QSC-tengo is just the first of any number of innovative services. A first pilot test of a "virtual power plant," among others, is expected to go live during the current fiscal year. Together with partners from science and industry, QSC is working on a platform to control and optimize feed-in of regeneratively produced energy to the power grid. At the same time, we are concluding preparations for a "Smart Energy Box" – a Cloud-based platform that enables residential households to see and optimize their electricity consumption.

Nor is it by chance that we are at this point presenting a number of highly promising development projects for the energy sector. Like virtually no other ICT provider, the QSC Group possesses extensive knowledge about this industry, which numbers among the largest industrial sectors in Germany. In fiscal 2012, by the way, this know-how helped us win a number of major Outsourcing contracts from energy and gas suppliers. With each new customer, our knowledge of the specifics of this industry is growing, and this knowledge, in turn, is flowing into development projects – step by step, we are broadening our competitive edge.

But by no means are the QSC Group's innovation activities limited to the energy industry. QSC experts, for example, are also working on a publicly supported project for linking electric cars to the Cloud as well as on utilizing the Cloud to capture and process measurement data from machines. Others, in turn, are dealing with efficient communications solutions for mobile work and with standardizing data center services. It is the progress we are making in these and further projects that enables us to be optimistic about the future, with a view to Vision 2016.

WE SAID IT.

»The Company's financial strength and profitability remain high during the ongoing transformation process. We definitely want our shareholders to participate in this.«

WE DID IT.

In 2012, QSC paid its first dividend – in the amount of € 0.08 – and successfully concluded the first share buy-back program in the Company's history.

Jürgen Hermann, Chief Financial Officer

WE SAID IT.

» We need strong sales partners with IT know-how in order to successfully market our innovations to small and mid-size enterprises. «

WE DID IT.

In 2012, QSC expanded its sales network by 89 new partners with IT backgrounds to a total of nearly 400 companies, and trained them intensively.

Arnold Stender, Member of the Management Board

Fiscal 2012 was a year of preparation aimed at implementing this Vision. However, these tremendous advances are not yet manifesting themselves in corresponding revenue growth. Our significantly higher ICT revenues in fiscal 2012 were offset by declining conventional TC revenues, first and foremost at the Resellers Business Unit. Conventional TC business has been characterized by stiff price competition for years now, and is additionally suffering from increasingly unfavorable regulation. A number of decisions by the German Federal Network Agency in the autumn of 2012 will lead to a revenue shortfall of some € 30 million at QSC this year, along with an EBITDA loss in the amount of between € 3 and € 4 million.

Dividend of 9 cents per share proposed

Due to this heightened regulation and the stiff price competition that prevails in the conventional TC market, we anticipate that total revenues for fiscal 2013 will be down from the year before. However, since those revenues generated by forward-looking and higher-margin ICT business are seeing strong growth, we anticipate that our EBITDA margin and free cash flow will rise year on year. With a view to our sustained strong financial position and profitability, as well as the advances made during the year of preparation 2012, we and the Supervisory Board will therefore propose to the Annual Shareholders Meeting that the dividend be increased to 9 cents per share.

This is the second measure within a matter of months aimed at enabling you, our shareholders, to participate more fully in the success of your Company. In the autumn of 2012, QSC successfully concluded the first share buy-back program in its history, acquiring nearly 10 percent of QSC shares on the open market. In January 2013, we withdrew these nearly 13.7 million shares from circulation; mathematically, each of your shares thus now represents a nearly 10-percent higher portion of QSC's assets.

QSC's success is based upon the capital its owners have invested in it. At this point, we would like to thank all of our shareholders for their trust and their willingness to accompany QSC as it travels the road toward becoming a full-fledged ICT provider. And this strategy is also garnering growing interest on the capital market: Since the outset of the year, QSC shares have gained 24 percent. The more visible our progress on the way toward Vision 2016 becomes, the greater the potential for our shares becomes. In the year of preparation 2012, we have merely laid the foundation.

Cologne, March 19, 2013

Dr. Bernd Schlobohm
Chief Executive Officer

Jürgen Hermann

Arnold Stender

From left to right: Arnold Stender, Dr. Bernd Schlobohm, Jürgen Hermann

The Management Board

Dr. Bernd Schlobohm (*1960), Chief Executive Officer

This postgraduate engineer founded QSC in the year 1997 together with Gerd Eickers and has never sold a single share since QSC went public in the year 2000. On the contrary: Like Eickers, he acquired further shares in May 2012 and January 2013, and together with his co-founder is now the Company's largest shareholder. As Chief Executive Officer, he drove his Company in its evolution into a full-fledged ICT provider in fiscal 2012 and in doing so, as he himself says, "did a lot of homework." This included broadening the Company's ICT competence as well as developing its own products and creating a consistent QSC culture. His responsibilities on the Management Board focus on Strategy, Corporate Communications, Marketing, Quality and Complaint Management, Information Technology, Voice and Data Services, as well as the Direct Sales Business Unit since September 1, 2012.

Jürgen Hermann (*1964)

This QSC man right from the very beginning shouldered two offices in fiscal 2012: He was QSC's Chief Financial Officer and, since April 1, 2012, served simultaneously as the chief executive officer of INFO AG, the largest subsidiary in the QSC Group. At INFO AG, he was responsible for further broadening operating business and, at the same time, for merging this company with a wholly-owned QSC subsidiary within the framework of a conversion squeeze-out. This merger was concluded only 14 months after acquiring a majority stake in INFO AG, enabling Hermann to already initiate numerous measures aimed at greater integration of the subsidiary into the QSC Group in fiscal 2012. His attention on the QSC Management Board also focused on such core corporate operations as Human Resources, Legal Affairs and Purchasing, along with Finance and Investor Relations.

Arnold Stender (*1964)

Since September 1, 2011, this postgraduate physicist has been augmenting the Management Board, where he is responsible for the Indirect Sales and Resellers Business Units, as well as TC Operations. His key tasks in fiscal 2012 included broadening the Company's partner marketing and portfolio, as well as further industrialization of processes in his business units. In addition, he was also responsible for any number of ramp-up activities for new products and services that are expected to stimulate business with resellers and sales partners in the coming years. Stender had already been responsible for building new lines of business and for the sale of innovative products at freenet, Bertelsmann and Mediaways. In 2004, he was appointed to the management board of Broadnet AG, which QSC acquired in fiscal 2006.

The Supervisory Board

With Ina Schlie, QSC was again able to win a female in September 2012 for a seat on the Supervisory Board. Her term of office, like those of the other Supervisory Board members, will end upon adjournment of the Annual Shareholders Meeting for fiscal 2012 on May 29, 2013.

Herbert Brenke, Chairman
An independent telecommunications consultant, he has been a member of the Supervisory Board since QSC's initial public offering. In the 90s, he had built mobile communications provider E-Plus, and was in charge of its business from 1993 to 1998. Prior to that, he had been in charge of Thyssen Rheinstahl Technik and had been a member of the management board of Thyssen Handelsunion since 1983. // **Other mandates:** Chairman of the Supervisory Board, ASKK Holding AG, Hamburg; Member of the Supervisory Board, SHS VIVEON AG, Munich (through May 31, 2012).

John C. Baker, Vice Chairman (through May 31, 2012)
Until the spring of 2012, the founder and general partner of U.S.-based investment fund Baker Capital had represented QSC's largest shareholder on the Supervisory Board. Baker Capital had already invested in QSC in 1999, prior to its initial public offering. // **Other mandates:** Chairman of the Supervisory Board, Interxion NV, Schiphol-Rijk, Netherlands.

Gerd Eickers, Vice Chairman (from August 22, 2012)
After three years on the Management Board, the second QSC co-founder returned to the Supervisory Board in June 2004. From February 2005 through February 2013, this postgraduate economist additionally served as president of the VATM, the most important telecommunications industry association in Germany. // **Other mandates:** Chairman of the Supervisory Board, Contentteam AG, Cologne; Member of the Supervisory Board, Amisco NV, Brussels, Belgium.

David Ruberg
Since November 2007, this postgraduate information technology professional has been the CEO of Netherlands-based Interxion, a leading European provider of data centers and managed services. A native of the United States, he has been a member of the QSC Supervisory Board since 2000. // **No other mandates.**

Ina Schlie (from September 3, 2012)
In September 2012, the head of the global tax department at SAP was appointed to the Supervisory Board to succeed John C. Baker. A finance and tax expert, she has since also chaired the Audit Committee. // **No other mandates.**

Klaus-Theo Ernst
In May 2008, the QSC workforce elected the Head of Project Management at network operating company Plusnet as one of its two representatives on the newly formed QSC Supervisory Board. Klaus-Theo Ernst has been with QSC since early 2001.

Jörg Mügge
In May 2008, the QSC workforce elected the Head of Processes and Projects at network operating Plusnet as its second representative on the QSC Supervisory Board. Jörg Mügge has been with QSC since April 2002.

Herbert Brenke

Report of the Supervisory Board on the 2012 fiscal year regarding the Company and the corporate Group

Dear Shareholders,

Acceleration of its transformation process into becoming a full-fledged ICT provider as well as swift integration of the two IT providers acquired in fiscal 2011, INFO AG and IP Partner AG, were what characterized the 2012 fiscal year for the QSC Group. Collaboration across previously accustomed corporate borders and far-reaching changes within the QSC Group posed a special challenge for our people. At this point, we would like to express our thanks to all of our employees for their commitment and willingness to embrace change. We also wish to thank the members of the Management Board for their consistent implementation of their strategy and for their work.

Tasks of the Supervisory Board • In fiscal 2012, the Supervisory Board again satisfied all of its responsibilities required by and in accordance with applicable legislation and the Articles of Association and Bylaws. It advised and oversaw the Management Board in its management of the QSC Group. One particular focus of the deliberations was the Company's first dividend payment, as well as the first share buy-back program in its history. The Supervisory Board was directly involved in these and all other decisions and measures of fundamental importance, in particular those relating to the Company's net worth, financial position and profitability. After careful consideration, the Supervisory Board approved all measures for which its consent is required by law, the Articles of Association and Bylaws or the Rules of Procedure of the Management Board.

Share buy-back and dividend were major topics in fiscal 2012

The Supervisory Board was informed regulary, promptly and comprehensively

The Management Board regularly, promptly and comprehensively informed the Supervisory Board in written and oral form on the development of business, utilizing monthly and quarterly financial reports, in particular, as well as rolling actual vs. target comparisons. The Management Board reports also contained all relevant information on strategic development and corporate planning, on the Company's risk position, risk management and compliance. Inquiries and requests by the Supervisory Board for additional information were always answered promptly and thoroughly by the Management Board.

Issues of the Supervisory Board • In joint meetings, the Supervisory and Management Boards discussed key aspects of the Company's business policies and strategies, as well as its corporate development and planning. Moreover, the Chairs of both boards conducted regular conversations to discuss current issues arising between Supervisory Board meetings. In justified cases, the decisions of the Supervisory Board were also obtained in the form of written votes.

The main focuses of the Supervisory Board's meetings and resolutions in fiscal 2012 were:

1. Payment of a dividend • At the regular Supervisory Board meeting on March 22, 2012, the Management and Supervisory Boards thoroughly discussed the question of whether and in what amount to propose to the Annual Shareholders Meeting that a dividend be paid for the 2011 fiscal year. In this connection, the Supervisory Board dealt, in particular, with the Company's financial position, and on March 22, 2012, approved the Management Board's proposal to pay a dividend in the amount of € 0.08 Euro per share. Due to newly created shares stemming from conversion of convertible bonds in the wake of this resolution, the proposed appropriation of retained earnings was again modified on May 15, 2012, with a view to the total amount to be paid. The Annual Shareholders Meeting on May 16, 2012, approved this proposal by a sweeping majority.

2. Acquisition of treasury shares • On May 11, 2012, the Supervisory Board consented to the Management Board resolution to acquire treasury shares in the amount of up to 10 percent of the capital stock, i.e. up to 13,699,913 QSC shares, on the stock exchange during the period from May 21 through December 31, 2012, under the authorization approved by the Annual Shareholders Meeting on May 20, 2010. At the regular meetings of the Supervisory Board on May 15, 2012, August 22, 2012, and November 20, 2012, the Supervisory Board had the Management Board report extensively on the status and course of the buy-back program. By November 5, 2012, QSC had acquired 13,699,913 treasury shares of the Company at an average price of € 2.117 per share on the stock exchange, thus fully utilizing the corresponding authorization by the Annual Shareholders Meeting.

3. Concrete objectives for the composition of the Supervisory Board • In conformity with the corresponding recommendation contained in the German Corporate Governance Code, at its regular meeting on August 22, 2012, the Supervisory Board set itself concrete objectives for its composition. Among other things, these objectives call for the Supervisory Board to comprise at

least two independent members in the sense of the Code in addition to the two independent employee representatives, and at least one female member from the shareholder representatives. The Nominating Committee and the full Supervisory Board have taken these objectives into consideration in preparing and adopting the slate of candidates for election to seats on the Supervisory Board at the 2013 Annual Shareholders Meeting.

4. **Resignation of Thomas Stoek** • At the request of former Management Board member Thomas Stoek, the Supervisory Board agreed to the resignation of his seat on the Management Board effective August 31, 2012, and resolved an appropriate termination contract with Thomas Stoek. No settlement was paid. The Supervisory Board would like to thank Thomas Stoek for his work.

Moreover, in fiscal 2012 the Supervisory Board dealt with QSC's internal control mechanisms, and in this connection especially with its risk management system as well as its corporate management and compliance in accordance with statutory requirements. The Supervisory Board reviewed these factors on the basis of submitted documents and Management Board reports and discussed these issues with the Management Board. It is the opinion of the Supervisory Board that the internal control and early risk identification systems are operating reliably.

Composition of the Supervisory Board • Supervisory Board Chairman Herbert Brenke, Vice Chairman John C. Baker, Gerd Eickers and David Ruberg were the four shareholder representatives on the Supervisory Board through May 31, 2012; Klaus-Theo Ernst and Jörg Mügge represented the employees. After John C. Baker had resigned his seat on the Supervisory Board effective May 31, 2012, Ms. Ina Schlie was court-appointed to a seat on the Supervisory Board on September 3, 2012, as proposed by the Management and Supervisory Boards. The Supervisory Board would like to thank John C. Baker for his long years of collaboration in a spirit of trust. At its meeting on August 22, 2012, the Supervisory Board elected Gerd Eickers to serve as Vice Chairman of the Supervisory Board.

Following the conclusion of the 2012 fiscal year, Management Board Chairman and Chief Executive Officer Dr. Bernd Schlobohm requested that the Supervisory Board not extend his term of office on the Management Board, which was set to expire on April 30, 2013, beyond the Annual Shareholders Meeting planned for May 29, 2013. The Supervisory Board complied with this request on January 22, 2013. As shareholders who together hold more than 25 percent of the voting rights, Gerd Eickers and Dr. Bernd Schlobohm proposed that Dr. Schlobohm be elected to the Supervisory Board of QSC AG following his retirement from the Management Board. At the recommendation of its Nominating Committee, the Supervisory Board agreed to this proposal and will submit a corresponding nomination to the upcoming Annual Shareholders Meeting. Dr. Schlobohm would thus succeed the present Supervisory Board Chairman Herbert Brenke, whose term of office will end as scheduled upon the adjournment of the upcoming Annual Shareholders Meeting and who will not stand for re-election due to his reaching the age limit.

Dr. Schlobohm was proposed to be elected to the Supervisory Board

Meetings of the Supervisory Board and its committees • There were four regular meetings of the Supervisory Board in fiscal 2012. Two members did not attend one meeting each. Otherwise, all members attended all meetings in 2012. In fiscal 2012, the committee members attended all meetings of their committees.

The Supervisory Board has established three committees to support it in its work: The Human Resources Committee, the Audit Committee and the Nominating Committee. The chairs of the respective committees regularly report to the full Supervisory Board on the work of their committees.

The Human Resources Committee met once during the year under review. The members of this Committee are its Chairman, Herbert Brenke, Jörg Mügge and, since August 22, 2012, Gerd Eickers. Gerd Eickers succeeded John C. Baker, who had resigned his seat on the Supervisory Board effective May 31, 2012. In addition to preparing the decision by the Supervisory Board relating to attainment of targets by the members of the Management Board in fiscal 2011, the Human Resources Committee also dealt with the proposals for the target agreements with members of the Management Board for fiscal 2012.

Ina Schlie now chair of the Audit Committee

The Audit Committee comprises Herbert Brenke, Gerd Eickers and, since September 10, 2012, Ina Schlie as Chairwoman and independent financial expert in the sense of §§ 100, Para. 5, 107, Para. 4, German Stock Corporation Act ("AktG"). Ina Schlie assumed the chair from John C. Baker. The Audit Committee monitors the accounting process, deals with the effectiveness of the internal control and risk management systems, internal controlling and the annual audit, as well as with compliance issues, and readies required decisions for the full Supervisory Board. It additionally oversees the annual audit, and here the requisite independence of the auditor, and deals with any additional services which might be provided by the independent auditor.

The Audit Committee met four times during the past fiscal year. It conducted a preliminary review of the annual financial statements for the 2011 fiscal year, thoroughly deliberated both these documents as well as the accompanying audit reports in the presence of the independent auditor, and adopted recommendations for the full Supervisory Board resolution relating to the Annual Financial Statements documents and their audit. The Audit Committee discussed the interim financial reports to be published with the Management Board. The Audit Committee stipulated the focuses of the audit for fiscal 2012 and negotiated and agreed upon the audit fees with the independent auditor. The Audit Committee recommended to the full Supervisory Board that KPMG AG Wirtschaftsprüfungsgesellschaft, domiciled in Berlin and with a branch office in Cologne, again be proposed to the Annual Shareholders Meeting as the independent auditor for QSC AG and the corporate Group for the 2013 fiscal year. On the basis of this recommendation, at its meeting on March 19, 2013, the Supervisory Board resolved to make a corresponding proposal to the Annual Shareholders Meeting.

The task of the Nominating Committee is to submit to the full Supervisory Board suitable candidates to be nominated at the Annual Shareholders Meeting in connection with an upcoming election of shareholder-representative members of the Supervisory Board. Since April 27, 2012, the members of the Nominating Committee have been Gerd Eickers, its Chairman, and Herbert Brenke. This committee had previously comprised John C. Baker (Chairman) and Gerd Eickers. The Nominating Committee met once in fiscal 2012 to deliberate on candidates to succeed John C. Baker on the Supervisory Board. It proposed to the full Supervisory Board and the Management Board that the court be petitioned to appoint Ina Schlie.

Corporate governance • The Supervisory Board continuously monitors the evolution of the German Corporate Governance Code and its implementation at QSC. In August 2012, the Supervisory Board dealt intensively with the changes in the recommendations contained in the German Corporate Governance Code as amended May 15, 2012. Its assessment was that an appropriate number of independent members belong to the Supervisory Board in its present composition. Pursuant to the Code, during the past fiscal year the Supervisory Board also reviewed the efficiency of its own activities. No deficits were identified. At its meeting on November 20, 2012, the Supervisory Board reviewed and confirmed that QSC was in compliance with the recommendations of the German Corporate Governance Code during the preceding year pursuant to the Declaration of Compliance that had been adopted the year before. At the same time, the Management and Supervisory Boards jointly issued an updated Declaration of Compliance pursuant to § 161 of the German Stock Corporation Act ("AktG"), and made this statement permanently available on the Company's website.

Appropriate number of independent members on the Supervisory Board

The Management Board – also acting on behalf of the Supervisory Board – reports on corporate governance in the Corporate Governance Report, which is contained in the Group Management Report. During the year under review, there were no conflicts of interest, which must be disclosed without delay to the Supervisory Board, with information thereon being provided to the Annual Shareholders Meeting.

Annual audit • KPMG AG Wirtschaftsprüfungsgesellschaft, domiciled in Berlin and with a branch office in Cologne, audited both the Annual Financial Statements of QSC AG for the year ended December 31, 2012, which were prepared by the Management Board in accordance with the accounting principles set forth in the German Commercial Code ("HGB"), along with the Consolidated Financial Statements for the year ended December 31, 2012, which were prepared in accordance with International Financial Reporting Standards (IFRS) and the supplementary regulations under German commercial law whose application is mandatory pursuant to § 315a of the German Commercial Code, as well as the Management Reports relating to the Company and the Consolidated Group. The audit commission had been awarded by the Audit Committee in accordance with the resolution adopted by the Annual Shareholders Meeting on May 16, 2012.
The major focus areas of the fiscal 2012 audit included: An audit of goodwill and the accounting of other long-term assets, the impact of new INFO AG Outsourcing contracts, the valuation of Ventelo GmbH, including its subsidiary Plusnet GmbH & Co. KG, the balance sheet consequences stemming from the merger of INFO AG with INFO Holding AG (formerly IP Partner AG), as well as potential balance sheet consequences stemming from self-created intangible assets.
The independent auditor issued an unqualified opinion both on the Company's Annual Financial Statements presented in accordance with HGB accounting principles as well as on the Consolidated Financial Statements presented in accordance with IFRS for the 2012 fiscal year.
The above-mentioned documents, including the audit reports from the independent auditor, were available in a timely fashion to all members of the Supervisory Board for review. At its meeting on March 19, 2013, taking into consideration the results of the preliminary review conducted by the Audit Committee, the Supervisory Board discussed all of the above-mentioned

documents as well as the independent auditor's reports – including the practicality of utilizing accounting and valuation latitude as well as the potential risks resulting from future developments – with the Management Board and the independent auditor, and additionally reviewed and discussed the Management Board's proposed disposition of unappropriated retained earnings. At this meeting, the independent auditor reported on the key findings of his audit and, in particular, that no major weaknesses had been identified in the internal control and risk management systems relating to the accounting process. He also informed the Supervisory Board about additionally provided services and noted that there were no circumstances that could give rise to concerns about any biases he might have.

Having conducted its own examination, the Supervisory Board has no objections to the Annual Financial Statements of QSC AG for the 2012 fiscal year presented in accordance with HGB accounting principles, and no objections to the Consolidated Financial Statements presented in accordance with IFRS or the Management Report regarding QSC AG and the Management Report regarding the consolidated Group, and concurs with the findings of the audit conducted by the independent auditor. In accordance with the recommendation of the Audit Committee, the Supervisory Board approves both the Consolidated Financial Statements presented in accordance with IFRS as well as the Annual Financial Statements presented in accordance with HGB accounting principles, with the latter thereby being formally adopted. With due consideration to the interests of the shareholders and of QSC AG, the Supervisory Board concurs with the Management Board's proposal relating to the disposition of unappropriated retained earnings. At the Annual Shareholders Meeting on May 29, 2013, the Management and Supervisory Boards will propose that a dividend in the amount of € 0.09 per dividend-entitled share be distributed.

Both Boards propose payment of a € 0.09 dividend per share

Cologne, March 19, 2013
On behalf of the Supervisory Board of QSC AG

Herbert Brenke
Chairman of the Supervisory Board

QSC Share Performance

The TecDAX advanced by 21 percent in the past fiscal year

German stock exchanges withstand sustained euro crisis and weak economy • In 2012, stock exchanges in Germany recovered from their previous year's losses. Although the euro crisis continued to smolder and the economy weakened as the year drew on, Germany's lead index, the DAX, gained 29 percent to close at 7,612 points on December 28, 2012. The TecDAX advanced by 21 percent to 828 points; this 30-issue lead index for technology issues in Germany also includes QSC shares.
The capital market saw considerable share price volatility during the course of the year. After getting off to a friendly start, the mood quickly clouded over during the second quarter of 2012 in view of the heightening euro crisis. In the second half of the year, the optimist camp again gained the upper hand, anticipating the continued existence of the common currency given the efforts of governments and the European Central Bank. The positive climate was additionally fuelled by good earnings reports, especially from corporations with strong exports.

QSC recovers from sharp decline in the spring • On December 28, 2012, the trading price of QSC shares stood at € 2.11, only one percent higher than its level at the outset of the year. Yet following their disappointing year on stock exchanges in 2011, QSC shares had begun the new year with strong gains, seeing trading prices rise by 29 percent during the first weeks of 2012 and reaching their high for the year of € 2.70 on February 7. Then in March, U.S.-based investment company

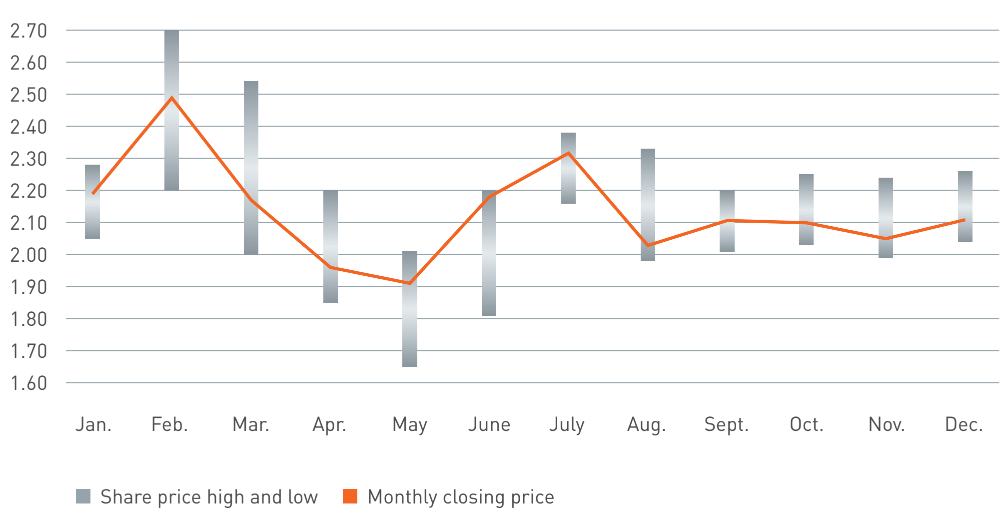
SHARE PRICE PERFORMANCE IN 2012 (indexed)

Baker Capital announced that it had transferred all of the some 25.2 million QSC shares still in its possession to the investors in its fund, which had been in existence for far more than ten years. Many of these investors then sold off shares that they viewed as being a small-cap German security, thus putting trading prices under considerable pressure. The oversupply depressed QSC shares to their low for the year of € 1.65 in May 2012. Only in June 2012 did QSC shares pick up speed again. And after the Company had firmed up its guidance for the full 2012 fiscal year in publishing its Semiannual Report, trading prices went on to remain within a corridor of between € 2.00 and € 2.30 through to year end.

QSC shares picked up speed again in June

QSC views as a success the fact that the exit of its largest investor far and away was only able to temporarily burden trading prices. Nevertheless, QSC share price performance in a friendly capital market environment has not been satisfactory. The Company has not yet succeeded in sufficiently communicating the medium-term potential stemming from its transformation process into a full-fledged ICT provider to either institutional or private investors. Instead, the majority of them assess QSC only on the basis of current numbers, where successes in ICT business are still being overshadowed by declining revenues in conventional TC business. The stronger the successes in forward-looking ICT business come to manifest themselves in improved profitability and financial position, the more the mood is likely to change.

QSC SHARES: MONTHLY SHARE PRICE DEVELOPMENT IN FY 2012 (in €)



First share buy-back program successfully concluded • In this environment, the first share buy-back program in the Company's history had a stabilizing effect. Between May 21 and November 5, 2012, the Company acquired a total of 13.7 million shares at an average purchase price of € 2.117 per QSC share. On no day was the purchase price more than 5 percent higher or lower than the average trading price of the shares as determined by the final Xetra trading auction on the five trading days preceding each buy obligation. On January 9, 2013, the Supervisory Board approved the Management Board's resolution to withdraw the acquired shares and reduce the capital stock accordingly.

Dividend of € 0.08 per share • The Company's first dividend distribution in the amount of € 0.08 per share following the Annual Shareholders Meeting contributed to the trading price recovery in May and June 2012. Because on the basis of the closing trading price of € 1.82 on May 16, 2012, this dividend represented a return of 4.3 percent. At this point in time, the Management Board already announced its intention of continuing to pay a dividend of at least this amount in the coming years as well.

Proposal calls for increasing the dividend to € 0.09

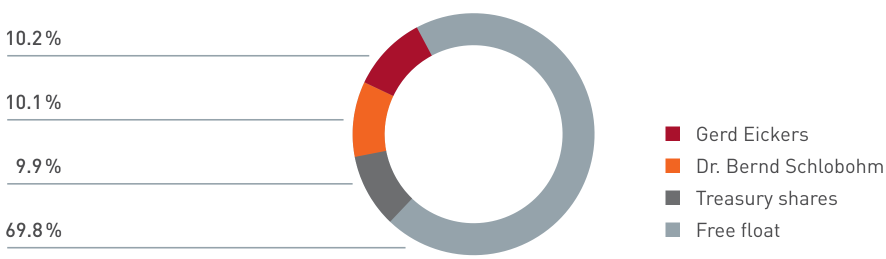
On March 4, 2013, the Management Board submitted a dividend proposal for fiscal 2012: In spite of the ongoing transformation process, this proposal calls for the distribution of an increased dividend of € 0.09 for fiscal 2012. The Supervisory Board approved this proposal at its meeting on March 19, 2013. Both Boards are therefore proposing that the Annual Shareholders Meeting on May 29, 2013, resolve to distribute a dividend in the amount of € 0.09 per share. Measured on the basis of the shares' 2012 year-end closing price, this represents a return of 4.3 percent, which is significantly higher than the returns on many fixed-interest investment vehicles.

High trading volumes on OTC platforms • Weaker share price performance by comparison with the overall market could again be seen in trading volumes during 2012. According to statistics from Deutsche Börse, 527,000 QSC shares changed hands each day on Xetra and the trading floor; the year before, this metric had stood at 943,000. However, these numbers do not including trading on over-the-counter platforms, where institutional investors, in particular, are active. Statistics from Close Brothers Seydler Bank from the summer of 2012 show that 41 percent of QSC share trades were already being accounted for by alternative platforms at that point in time. Since these platforms are taking on increased relevance for all shares, declining trading volumes on Xetra and the trading floor of German stock exchanges are not having any impact on QSC's position as one of the 30 most-traded technology issues in Germany; in addition to market capitalization, this is one of the key criteria in the composition of the TecDAX.

Growing weight of institutional investors • Alternative platforms are preferred trading platforms for large institutional investors. And they broadened their position during the past fiscal year, regardless of where these investors traded shares. In July 2012, London-based J O Hambro Capital Management Limited notified QSC that this company held more than 3 percent of QSC shares. The Register of Shares shows that a total of 60 percent of the free float was in the hands of institutional investors at year-end 2012; one year earlier, this metric had stood at 55 percent. Private investors thus accounted for 40 percent of the free float at year-end 2012. Since institutional investors traditionally acquire larger blocks of shares, the number of shareholders declined from 30,105 at the outset of the year to 27,762 on December 31, 2012.

J O Hambro holds more than 3 percent of QSC shares

SHAREHOLDER STRUCTURE AS OF DECEMBER 31, 2012



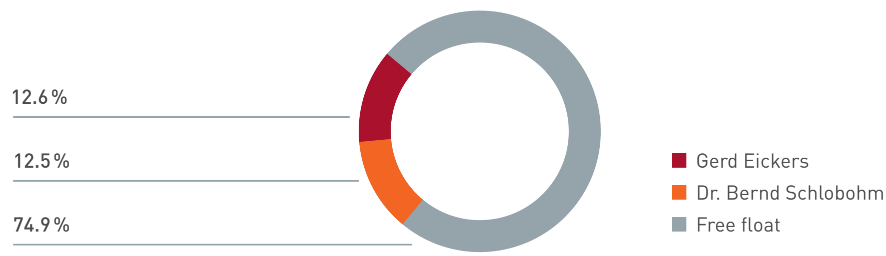
At this point in time, a total of 69.8 percent of QSC shares were widely held – an increase of 8.4 percentage points year on year. This higher free float stemmed from Baker Capital's exit in March 2012; at the end, this investment company, which had already invested in QSC prior to its IPO, still held 18.4 percent of all shares. Following the successful conclusion of the share buy-back program in November 2012, QSC itself held 9.9 percent of QSC shares – this percentage is not part of the free float.

Founders again strengthen their commitment • At year-end 2012, the Company's two largest shareholders were its two founders, Dr. Bernd Schlobohm and Gerd Eickers. They held 10.1 and 10.2 percent, respectively, of QSC shares. Neither founder has ever sold a single share since the Company went public in the year 2000. On the contrary: Each of them acquired 100,000 additional shares on the stock exchange on May 18, 2012.

As a result of the resolution from January 9, 2013, to withdraw treasury shares from circulation, there was a further rise in the percentage holdings of these two founders: Each then held 11.3 percent of the Company's shares. On January 30, Dr. Schlobohm and Eickers again increased their shareholdings: Each of them acquired 1,575,000 QSC shares over the counter at a price of € 2.25 per share. The percentage holding of Eickers thus rose to 12.6, while the percentage holding of Dr. Schlobohm rose to 12.5 percent of all QSC shares. 74.9 percent of QSC shares are now widely held.

SEE PAGE 84 UNDER SUBSEQUENT EVENTS

SHAREHOLDER STRUCTURE AS OF JANUARY 30, 2013



Analysts sustain keen attention • Interest on the part of institutional investors often stems from analysts' studies and recommendations. At year-end 2012, 13 financial institutions were regularly publishing studies on QSC, with a least one bank likely to follow suit during the current fiscal year. Hauck & Aufhäuser and Independent Research, two houses that have traditionally been strong in German small- and midcap issues, started analyst coverage during the past fiscal year. On the other hand, Exane BNP Paribas, Silvia Quandt Research and WestLB ended their research in 2012, as either the focus of their business activities had changed or they had withdrawn from the market. At year-end 2012, five institutions viewed QSC shares as a Buy, six recommended them as a Hold and two as a Sell. These differing recommendations reflect investor opinions: While the ones focus on the opportunities for the Company to evolve into an ICT provider and the resulting earnings potential, the others view QSC first and foremost on the basis of historical data. The skeptics additionally stress the risks that still exist for a TC provider in a declining market, and their models do not yet reflect the opportunities offered by marketing Cloud-based services.

FINANCIAL INSTITUTIONS THAT PUBLISH STUDIES ON QSC

Berenberg Bank	Hauck & Aufhäuser	Kepler Capital Markets
Close Brothers Seydler Research	HSBC Trinkaus & Burkhardt	Landesbank Baden-Württemberg
Commerzbank	Independent Research	Metzler Equities
Deutsche Bank	JPMorgan Cazenove	Warburg Research
DZ Bank		

Intensive capital market communication • The skepticism that continues to exist with respect to the success of QSC's transformation process was the key challenge in Investor Relations (IR) work in fiscal 2012. An analyst conference in Frankfurt on March 5, 2012, sparked numerous talks. The Management Board presented the Company, its current position and its strategy at capital market conferences conducted by such leading financial institutions as Berenberg Bank, Commerzbank, Deutsche Bank and UniCredit. Roadshows took the Management Board to all major European financial hubs. Moreover, the members of the Management Board conducted

numerous individual talks in Cologne and Hamburg, and additionally fielded questions during conference calls and within the framework of major events like the German Equity Forum.
One major instrument for capital market communication consists of conference calls on the day quarterly numbers are announced. QSC posts the presentations and recordings of members of the Management Board on its IR website, thus enabling all interested parties to obtain first-hand information. Moreover, the presentations are also available on SlideShare, the world's largest platform for these kinds of documents.
SlideShare is but one of the social media that QSC utilizes in its Investor Relations work. The Company additionally enables its latest news to be followed on Twitter. The IR website serves as the key information platform. It contains all relevant information for capital market players, such as financial reports, IR press releases, a financial calendar, analyst assessments and detailed documents relating to the Annual Shareholders Meeting. In fiscal 2012, every interested party could also use the website to obtain information about the course of the share buy-back program.

FOR FURTHER INFORMATION:
WWW.SLIDESHARE.NET/QSCAG

FOR FURTHER INFORMATION:
WWW.QSC.DE/EN/QSC-AG/
INVESTOR-RELATIONS

BASIC INFORMATION ON QSC SHARES

Trading symbol	QSC
ISIN	DE0005137004
Bloomberg symbol	QSC GR
Reuters symbol	QSCG.DE
Market segment	Prime Standard
Stock exchanges	Xetra and regional German stock exchanges
Index membership	TecDAX, HDAX, CDAX,
	Midcap Market, Technology All Share,
	Prime All Share, DAX International Mid 100,
	DAXplus Family,
	DAXsector All Telecommunication,
	DAXsector Telecommunication,
	DAXsubsector All Fixed-Line Telecommunication,
	DAXsubsector Fixed-Line Telecommunication
Designated sponsorship	Close Brothers Seydler Bank AG
Shares outstanding as of December 31, 2012	137,307,152
Share class	No-par-value registered shares of common stock
Xetra closing price on December 30, 2011	€ 2.09
Xetra share price high in 2012	€ 2.70
Xetra share price low in 2012	€ 1.65
Xetra closing price on December 28, 2012	€ 2.11

We said it. We did it. »The Company anticipates revenues of between € 480 and € 490 million, an EBITDA margin of 16 percent and a free cash flow of between € 22 and € 26 million. « This was the way the Management Board firmed up its full-year targets in the summer of 2012 – and achieved them completely. In fiscal 2012, QSC generated revenues in the amount of € 481.5 million, an EBITDA margin of 16 percent and a free cash flow of € 23.6 million.

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The Company

BUSINESS OPERATIONS

Comprehensive ICT services for SMEs • QSC AG ("QSC," "the QSC Group" or "the Company") offers small and mid-size enterprises (SMEs) comprehensive information and telecommunications services (ICT services). Together with its subsidiaries, IT full-service provider INFO AG and Housing and Hosting specialist IP Exchange, the QSC Group numbers among the leading mid-size providers of ICT services in Germany. In order to be able to specifically address the needs of various customer groups, the Company's organizational structure comprises three business units.

THREE BUSINESS UNITS, ONE MARKET: GERMANY'S "MITTELSTAND"

QSC-GROUP

- **Direct Sales**
  Target customers:
  > 8,000 larger enterprises
- **Indirect Sales**
  Target customers:
  nearly 900,000
  SME companies
- **Resellers**
  Target customers:
  sales partners with
  a focus on residential
  customers

Direct Sales • Direct Sales focuses on more than 8,000 larger and mid-size enterprises in Germany and – in addition to the corresponding areas at QSC AG – also includes the business of INFO AG and IP Exchange. Its portfolio comprises national and international site networking, Outsourcing solutions, data center services, such as Housing and Hosting, as well as Cloud-based services to an increasing extent. IT Consulting is an additional important element of this business unit's portfolio; QSC is a consulting partner for SAP and Microsoft solutions.

Direct Sales includes the business of INFO AG and IP Exchange

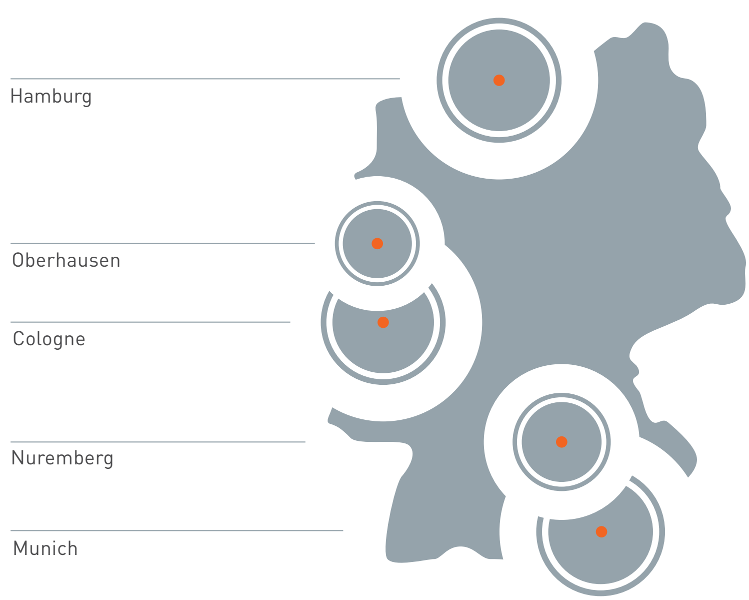
Indirect Sales • Indirect Sales addresses nearly 900,000 smaller and mid-size companies in Germany that typically do not have employees of their own on staff for information and communications technology, obtaining their ICT services from regional partners instead. QSC is therefore focusing on partnering with regional marketing partners and distributors. Some of the Company's offerings for them include Internet connections, conventional voice telephony, Voice-over-IP products and standardized Cloud services.

Resellers • This third business unit is where QSC bundles its conventional TC business with service providers that address residential customers, first and foremost; they include telecommunications carriers, cable network operators and Internet service providers. QSC makes a variety of preliminaries available for their customers, along with such conventional voice services as call-by-call offerings and unbundled DSL lines. Moreover, this business unit also includes Managed Outsourcing, under which QSC operates the conventional landline business of alternative telecom providers.

QSC's Next Generation Network is the basis for the Group's ICT services

QSC's own infrastructure assures end-to-end quality • The QSC Group offers its ICT services on the basis of its own Next Generation Network (NGN), which assures the convergence of various technologies for voice and data transmission via the IP protocol. Furthermore, the Company also possesses a proprietary Open Access platform, which interlinks various broadband technologies. In addition, QSC has traditionally operated a nationwide DSL network, a nationwide IP-based voice network, as well as one of the largest Wireless Local Loop (WLL) Access networks in Germany. The QSC Group further possesses its own data centers. The Company provisions Housing, Hosting and Outsourcing solutions on more than 15,000 square meters of floor space at locations in Hamburg, Munich, Nuremberg and Oberhausen. These cutting-edge data centers also serve as the foundation for a growing portfolio of Cloud-based services. The portfolio of offerings already includes such Software-as-a-Service solutions as a virtual telephone system, for example, as well as network-based provision of SAP and Microsoft programs.
The QSC Group's own ICT infrastructure enables it to offer its customers a consistently high level of quality along the entire value chain ("end-to-end quality") in connection with all solutions; QSC numbers among the few players that are able to cover the entire spectrum of ICT products and services, from data centers right through to the operation of telephone systems.

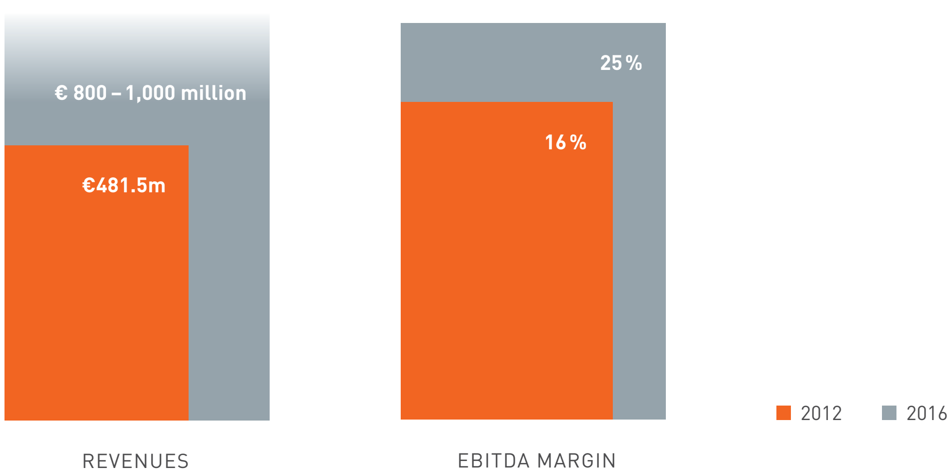
THE QSC DATA CENTERS



STRATEGY

QSC going with growth in the ICT market • Fiscal 2012 was a year of preparation for the QSC Group as it travels the road toward implementing its Vision 2016. In the autumn of 2011, the company had for the first time announced its mid-term strategy for achieving revenues of between € 800 million and € 1 billion, an EBITDA margin of 25 percent and a free cash flow of between € 120 and € 150 million by the year 2016. QSC sees considerable growth potential stemming from the convergence of information technology (IT) and telecommunications (TC) into a consistent ICT market and from the fact that the ability to handle data in the Cloud, independently of location or end-user device, is playing a growing role in this market. At the heart of the transformation process that was initiated in fiscal 2010 are therefore the Company's evolution from a TC network operator into a full-fledged ICT provider, along with expansion of its Cloud competence.

VISION 2016



One milestone in this transformation process was the merger of INFO AG on INFO Holding (formerly IP Partner) ahead of schedule and termination of the stock exchange listing for this company, in which a majority stake had not been acquired until 2011. Further information is contained in "Organizational Structure" on pages 30f. This merger is simplifying collaboration within the QSC Group. In fact, this enabled the Company to institute measures aimed at greater integration as early as in the third quarter of 2012, although they had originally not been planned until 2013. (Further information in this connection is contained in "Course of Business" on pages 60 – 64.)

SEE PAGES 30f.
ORGANIZATIONAL STRUCTURE

SEE PAGES 60ff.
COURSE OF BUSINESS

From the QSC Group to a single enterprise • In order to increase the organization's strength and power, QSC will continue to drive the integration of all of its subsidiaries during the current fiscal year. The medium-term planning calls for any remaining legal barriers to be overcome and for

INFO AG to be merged with QSC AG. Short-term, involving all of our subsidiaries, along with all of our people, in the ongoing changes, as well as establishing a consistent corporate culture, enjoy high priority. Measures that had already been initiated in 2012 aimed at cross-locational collaboration throughout all areas of the organization and consolidating these areas under consistent leadership will be sustained during the current fiscal year. The integration process is slated to be concluded by year end.

Integration process to be concluded by year-end 2013

While the Company's focus in fiscal 2013 and beyond will be on further expansion of its ICT business, the transformation process will nevertheless be able to be seen in its profitability, net worth and financial position. Because QSC is still generating considerable conventional TC revenues in its Resellers Business Unit, in particular. However, these revenues will continue to decline as a result of stiff price competition, the penetration of alternative offerings and heightened regulation, and will thus still conceal some of the ICT business successes for the time being. But this two-track development of revenues underscores the need for QSC's transformation into a full-fledged ICT provider.

Expanding ICT competence • Marketing for an innovative product bundle for the Cloud-based workplace of the future is already beginning during the first half of fiscal 2013. It contains all of the customary functionalities of a workplace – from a broadband Internet connection and a telephone connection to a Microsoft Office package right through to central data storage – and enables the user to work in their accustomed ICT environment, regardless of their location. Moreover, QSC plans to complement the portfolio to include additional self-developed Cloud-based services.
As in fiscal 2012, this growing ICT competence is expected to enable the Company to win requests for proposals for Outsourcing projects at larger enterprises. And Consulting business serves as a good door-opener. Direct Sales can demonstrate its ICT know-how in implementing SAP and Microsoft solutions and can offer its services in connection with comprehensive Outsourcing and Cloud projects.

Innovations for new industries • Medium-term, the development of the Company's own products and services will serve as a major element of Vision 2016. During the past two years, QSC had already been involved in developing innovative Cloud services within the framework of consortia, including services for the automotive and energy industries. QSC will be sustaining this engagement in fiscal 2013 and beyond. The first innovations could be ready for market by 2014. However, in its traditional telecommunications business, too, QSC is also placing greater emphasis on network-independent in-house developments that offer attractive margins. Further information on current innovation projects is contained in "Research and Development" on pages 35 – 36.

SEE PAGES 35f.
RESEARCH AND DEVELOPMENT

Entire Company aligned toward customer needs • In developing new products, QSC rigorously includes the needs of its customers in all of its thinking and activities right from the very beginning. And this alignment toward customer needs will be characterizing the Company even more strongly in the years to come. The planned spin-off of new activities into separate subsidiaries will be conducive to QSC's transformation from a technology- into a sales-driven enterprise.

KEY MARKETS AND COMPETITIVE POSITION

Focusing on the German Market • QSC is an ICT provider serving enterprises of every size – from trade contractors right through to large corporations. However, its activities focus on small and mid-size customers, as the Company – itself a mid-size company – enjoys particular credibility here and can collaborate with these customers at eye level. Although all three business units focus on working the German market, Direct Sales is increasingly implementing transnational site networking and international Outsourcing and Consulting projects.

The QSC Group enjoys a good market position in all three business units: Direct Sales is going up against Arvato, Atos Origin, Hewlett Packard and T-Systems, in particular. In addition, the Company is also competing against such national IT providers as Bechtle, Cancom and Datagroup. In this competitive environment, QSC is benefiting from its ability to offer one-stop shopping for ICT solutions, especially among larger mid-size enterprises.

QSC's competitive edge: One-stop shopping for ICT solutions

In Indirect Sales, QSC sees itself competing, on the one hand, against such traditional TC providers as Deutsche Telekom, Vodafone and Telefónica. On the other, the Company is in competition with IT systems houses and software makers. In this environment, QSC is scoring points, in particular, with its broad ICT portfolio and the quality of service offered by a mid-size provider. In the Reseller segment, the Company is competing against other alternative network operators, first and foremost Telefónica and Vodafone.

Uniquely positioned in the Cloud market • QSC has established a good point of departure for itself in the forward-looking market for Cloud-based services, which all three business units will increasingly be addressing in the coming years. Because all of the Company's data centers are located in Germany and are subject to strict German data protection regulations. This is a plus point for small and mid-size enterprises, in particular, that shy away from having their ICT, and thus one of the core elements of their business, operated in foreign locations with unknown legal environments. Moreover, QSC is one of the few providers that can speak at eye level with small and mid-size enterprise customers, while simultaneously being able to assure them the kind of end-to-end quality that is otherwise available from only a few major corporations.

ORGANIZATIONAL STRUCTURE

INFO AG merger comes earlier than anticipated • In fiscal 2011, QSC had acquired two publicly traded IT providers, INFO AG and IP Partner, adding them to the organizational structure in the form of new subsidiaries. During the past fiscal year, the Company streamlined its organizational situation under corporate law. In July 2012 – and thus earlier than had been anticipated – INFO AG was merged with INFO Holding, formerly IP Partner. Upon being entered in the Commercial Register on July 17, 2012, INFO AG became defunct in its previous form. All INFO AG shares held

INFO AG delisted from the stock exchange

by minority shareholders were transferred in consideration of a cash settlement, with this company's stock exchange listing then being terminated. A non-recurring amount of € 5.8 million was incurred for this cash settlement.
Following the merger, INFO Holding is continuing the former INFO AG corporate name and brand. For this purpose, the name of former INFO Holding was changed to INFO AG on July 17, 2012, as well. Headquartered in Hamburg, this company is QSC's largest subsidiary. It numbers among the leading providers of IT Outsourcing and IT Consulting in Germany and possesses several wholly-owned subsidiaries, including INFO Customer Service GmbH, INFO Business Systems GmbH, IP Colocation GmbH and IPX-Server GmbH. Moreover, it holds 100 percent of the shares of Nuremberg-based IP Exchange GmbH, which offers Housing and Hosting services for small and mid-size enterprises.

QSC AG bundling corporate functionalities • Cologne-based QSC AG is the parent corporation of INFO AG as well as all other subsidiaries; this is where all major corporate functions are bundled. In addition to Headquarters in Cologne, QSC AG also maintains sales offices throughout Germany. Aside from INFO AG, QSC AG additionally possesses two major direct and indirect investments:

- Ventelo GmbH, which was fully acquired in fiscal 2002; its offerings for mid-size and larger enterprises include direct landline connections, Preselect and Call by Call, as well as value added services.
- Ventelo holds 100 percent of the shares of network operating company Plusnet GmbH & Co. KG, which was founded in fiscal 2006. Plusnet operates a nationwide DSL network.

SEE NOTE 37 PAGES 139ff. (NOTES)

A full overview of the consolidated companies as of December 31, 2012, is contained in Note 37 on pages 139 – 142 of the Notes to the Consolidated Financial Statements.

STEERING

Three key steering parameters • The QSC Group is steered centrally on the basis of revenues, EBITDA margin and free cash flow. EBITDA is defined as earnings before interest, taxes, amortization of deferred non-cash share-based remuneration, as well as depreciation/amortization of property, plant and equipment, and intangible assets; the EBITDA margin reflects the EBITDA-to-revenues ratio. Free cash flow reflects the change in net liquidity/debt from operating business. These three parameters – revenues, EBITDA margin and free cash flow – assure that well-balanced decisions concerning liquidity, profitability and growth are being made throughout the organization. The three business units, Direct Sales, Indirect Sales and Resellers, operate as autonomous profit centers and are steered by means of the metrics of revenues and EBITDA margin; this combination assures a focus on sustained profitable growth, as well as on products and services that offer sufficient contribution margins in the Resellers Business Unit. The following table provides an overview of the development of these key steering parameters:

	2012	2011
Revenues (in € million)	**481.5**	**478.1**
Revenues, Direct Sales (in € million)	187.9	151.4
Revenues, Indirect Sales (in € million)	125.1	121.2
Revenues, Resellers (in € million)	168.5	205.4
EBITDA margin	**16 %**	**17 %**
EBITDA margin, Direct Sales	14 %	19 %
EBITDA margin, Indirect Sales	27 %	22 %
EBITDA margin, Resellers	11 %	12 %
Free cash flow (in € million)	**23.6**	**41.0**

In addition to these financial parameters, QSC uses other non-financial performance indicators internally: Regular surveys are employed to measure the strategic goal of customer satisfaction; the strategic goal of employee satisfaction is operationalized by means of the parameter of personnel turnover as well as an employee survey.
Another major element of the steering system in fiscal 2012 consisted of multiple milestones in preparation for the implementation of Vision 2016. In particular, these included bringing four to six in-house product developments to market, winning at least 50 additional sales partners with an IT focus, growing faster than the market in Direct Sales, as well as swift integration of INFO AG. QSC achieved or surpassed all of these milestones during the course of the year.

QSC achieved all milestones in 2012

Metrics-based steering system • The central instrument for steering QSC AG and all of its subsidiaries consists of monthly reports that contain all relevant metrics and target/actual comparisons. These monthly reports serve as a major basis for discussion at the bi-weekly meetings of the Management Board, as well as for the monthly reports to the Supervisory Board. Moreover, current target/actual comparisons are utilized as the basis for regularly updating the rolling planning for all areas of the organization; this serves as an early warning system for any variances, enabling corrections to be made early on. As described beginning on page 75 of this Group Management Report, the risk management system is an integral element of reporting. This assures that any changes in opportunities and risks will be directly integrated into the steering system.

SEE PAGES 75f.
RISK MANAGEMENT SYSTEM

INFORMATION RELATING TO ACQUISITION LAW

Customary rules for a publicly traded corporation • The following overview contains comments on the mandatory statements pursuant to § 315, Para. 4, of the German Commercial Code ("HGB"). Overall, these are rules that are typical and customary at publicly traded corporations. The following information presents an overview of the conditions that prevailed on the balance sheet date.

Composition of capital stock • The capital stock of QSC as of December 31, 2012, amounted to € 137,307,152, and was classified into 137,307,152 no-par bearer shares of common stock. According to the Register of Shares, the capital stock was divided among 27,762 shareholders as of December 31, 2012. As of December 31 of the past fiscal year, QSC itself held 13,629,913 treasury shares. Further information relating to the capital stock is offered by the "Report on Subsequent Events" on page 84.

SEE PAGE 84 REPORT ON SUBSEQUENT EVENTS

Limitations of voting rights or transfers of shares • Each share possesses one vote. The Management Board is not aware of either limitations to voting rights or restrictions on the transfer of shares.

Direct or indirect holdings of more than 10 percent of capital • As of December 31, 2012, QSC's two founders, Dr. Bernd Schlobohm and Gerd Eickers, held 10.1 and 10.2 percent, respectively, of all shares. Considering the fact that QSC itself holds 9.9 percent of all shares, this results in a proportion of voting rights of 11.3 percent, respectively.

Holders of shares with special rights granting controlling authority • There are no special rights that grant controlling authority.

Controlling authority over voting rights enabling employees to share in capital • There are no controlling authorities with respect to voting rights.

Appointment and dismissal of members of the Management Board • The appointment and dismissal of members of the Management Board is governed by §§ 84, 85, German Stock Corporation Act ("AktG"), as well as by § 7 of the Articles of Association and Bylaws, as amended January 15, 2013. Pursuant to § 7 of the Articles of Association and Bylaws, the Management Board can comprise one or more individuals. The Supervisory Board determines the number of members of the Management Board. Even though the capital stock of the Company amounts to more than 3 million euros, the Supervisory Board can stipulate that the Management Board consist of only one individual. The appointment of deputy members of the Management Board is permissible.

Amendments to the Articles of Association and Bylaws • Pursuant to § 179, German Stock Corporation Act, in conjunction with § 20, Para. 1, of the Articles of Association and Bylaws, as amended January 15, 2013, amendments to the Articles of Association and Bylaws require a resolution adopted by a majority of at least 75 percent of the share capital represented at the Annual Shareholders Meeting. Pursuant to § 15 of the Articles of Association and Bylaws, the Supervisory Board is authorized to resolve amendments to the Articles of Association and Bylaws that relate only to matters of form and do not involve any changes to the actual content thereof.

Acquisition and buy-back of QSC shares • The resolution of the Annual Shareholders Meeting on May 20, 2010, authorized the Management Board pursuant to § 71, Para. 1, No. 8, German Stock Corporation Act, to acquire QSC shares totaling up to 10 percent of the capital stock of the Company by May 19, 2015. The Management Board utilized this authorization in fiscal 2012, acquiring a total of 13,699,913 QSC shares during the period from May 21 through November 5; this represents 9.98 percent of the capital stock. Pursuant to the Management Board resolution and approval by the Supervisory Board on January 9, 2013, to reclassify these shares as treasury shares and correspondingly reduce the capital stock, QSC intends to request that the Annual Shareholders Meeting on May 29, 2013, resolve a new authorization to acquire QSC shares in the amount of up to 10 percent of the capital stock.

QSC acquired nearly 13.7 million treasury shares in 2012

Authorized capital • The Management Board is authorized, subject to the approval of the Supervisory Board, to increase the capital stock on one or several occasions through May 19, 2015, to a total of € 65,000,000 (authorized capital) through the issuance of new no-par bearer shares against contributions in cash or kind. In utilizing the authorized capital, the Management Board can, with the consent of the Supervisory Board, preempt the shareholders' right of subscription in the following four cases: (1) for rounding purposes resulting from the subscription ratios; (2) if the new shares are issued against contributions in kind, especially in conjunction with corporate acquisitions; (3) if, pursuant to § 186, Para. 3, Sent. 4, German Stock Corporation Act, the new shares are issued against contributions in cash, and if, at the time of final stipulation, their issue price is not materially lower than the trading price of shares already issued; and (4) in order to ensure, if necessary, that shareholders and / or the creditors of option and / or convertible bond issues retain a right of subscription to new shares.

The purpose of authorized capital is to enable QSC to respond swiftly and flexibly to opportunities that present themselves on the capital market and to obtain equity capital at favorable terms, if needed. It was not used during the past fiscal year.

Conditional capital • The Company's conditional capital as of the balance sheet date totaled € 31,673,222, and was classified as follows: Conditional Capital III, amounting to € 440,943; Conditional Capital IV, amounting to € 25,000,000; Conditional Capital VII, amounting to € 1,232,279; as well as Conditional Capital VIII, amounting to € 5,000,000.

With the exception of Conditional Capital IV, the conditional capital is employed to secure the conversion rights of holders of convertible bonds that QSC has issued or can issue within the framework of existing stock option plans to members of the Management Board, to the managing directors of affiliated companies, to employees, and to other individuals involved in the Company's success. The Management Board can utilize Conditional Capital IV to create publicly tradable option and / or convertible loans that will allow it to make available an additional, low-interest financing option for the Company, given favorable capital market conditions. Only in the following three cases is the Management Board authorized, with the consent of the Supervisory Board, to preempt the shareholders' right of subscription to these option and / or convertible loans: (1) for rounding purposes resulting from the subscription ratios; (2) to ensure the right of subscription for the holders / creditors of previously issued conversion and option rights; and (3) if, pursuant to § 186, Para. 3, Sent. 4, German Stock Corporation Act, their issue price is not materially lower than their trading price. The Management Board has thus far not utilized the authorization to issue publicly tradable option and / or convertible loans.

The preemption of the shareholders' right of subscription and acquisition, which pursuant to § 186, Para. 3, Sent. 4, German Stock Corporation Act, is justified only in the case of a price that is similar to the stock market trading price, may apply only to an aggregate total of not more than 10 percent of the capital stock for treasury shares, authorized capital, option and convertible loans during the term of the respective authorization.

Major agreements in conjunction with the condition of a change in control resulting from an acquisition offer • In fiscal 2011, QSC entered into an agreement with seven financial institutions for a line of credit in the amount of € 150 million; this contract provides the financial institutions with the option of special termination should a natural or legal person, acting either alone or together with others, gain control over QSC. No further agreements exist for a situation in which a change of control results from an acquisition offer.

Indemnification agreements in the event of an acquisition offer • No indemnification agreements covering the event of an acquisition offer are in force with either the members of the Management Board or employees.

RESEARCH AND DEVELOPMENT

Development dovetails closely with operating business • As it travels the road toward becoming a full-fledged ICT provider, the QSC Group is increasingly utilizing in-house developments and driving in-house activities in this field. Major impetus for the Company's innovation activities stems from its operating business, in particular from direct customer contact. Working together with the sales force, developers, product managers and other experts then drive work on new products and services. Moreover, quality and process innovations are an important aspect; they enable QSC to assure integration of its customers' complex ICT systems and observance of the most stringent security standards. Given the major significance of such process innovations and the close linkage of innovation activities within the entire organization, QSC does not record Research and Development expenses separately in their own line item, but as an element of the three major cost blocks (cost of revenues, sales and marketing expenses, general and administrative expenses).

QSC plans a suite of offerings related to Outsourcing

Focusing on network-independent services • Innovations typically consist of network-independent services that QSC can utilize to win new customers and broaden its share of existing customers' ICT budgets. In the second quarter of 2012, the Company debuted QSC-Housing, the first product in an entire range of planned new Outsourcing offerings. In developing network-independent services, the focus is on Cloud-based products and solutions. In September 2012, INFO AG, for example, was one of the first players in the German-speaking region of Europe to also offer software giant SAP's mobile business applications from the Cloud.

A good example of integrated development work at QSC is offered by the cospace Cloud-based communications solution. Since being brought to market in fiscal 2011, a small team has been responsible not only for its ongoing evolution, but also for marketing it through a variety of channels. cospace simplifies both cross-enterprise as well as location- and device-independent communication by utilizing Cloud services, and thus addresses corporate staff who are increasingly working not only at a conventional workplace, but also in multiple locations and from their homes. This ability to work from any location is also the focus on an expanded range of offerings from QSC relating to the workplace of the future. The Company did the necessary preparatory work in 2012, with marketing set to begin during the current fiscal year. With this innovation, QSC is positioning itself even more strongly than in the past as a pioneer in the Cloud market.

Small team developing and marketing cospace

Longer-term projects in collaboration with internal and external experts • In addition, development activities also include various projects that have a longer-term time horizon. Staff from various departments at QSC, for example, are working together with external experts on Cloud-based solutions for energy management. Following the realignment of energy policy in Germany, decentralized sources of electricity, such as photovoltaic arrays and biomass power plants, have taken on greater importance; this has also led to a rise in the complexity of grid control in the electricity market, and thus in the need for innovative solutions.

Another example of a longer-term project consists of work on a highly scalable platform that offers new cross-industry opportunities for capturing, storing and processing measurement data. QSC rigorously includes internal and external experts in these kinds of projects, which are conducted in collaboration with leading universities and industrial enterprises. The in-house lead is in the hands of a small team of visionaries whose mission extends far beyond merely coordinating the actual development work. On the contrary, the primary tasks of this 15-person team include tracking the market, scouting out trends early on and networking QSC with potential partners from the science and industrial communities.

CORPORATE SOCIAL RESPONSIBILITY

Focusing on initiatives within the Company and its environment • The QSC Group lives up to its social responsibility in connection with three major issues that are consolidated within Corporate Social Responsibility (CSR): Responsible corporate management, social commitment and sustainable business practices. Further information on corporate management can be found beginning on page 38 of this Annual Report.

SEE PAGES 38ff. CORPORATE MANAGEMENT

Itself a mid-size enterprise, the QSC Group traditionally focuses its social commitment on initiatives within the company and its immediate environment. Among other things, concentration is on in-company training, even over and above QSC's own needs, as well as on assuring compatibility between family and work for QSC's some 1,500 people. Further information in this regard is contained in "Human Resources" beginning on page 52 of this Annual Report.

SEE PAGES 52ff. HUMAN RESOURCES

Sponsoring the KITA21 project • QSC subsidiary INFO AG is engaged as a partner in the "Hamburg Way" initiative, which assumes social responsibility for people in the city of Hamburg. Within the framework of the Hamburg Way, the QSC Group has assumed sponsorship of the KITA21 project, which supports daycare staff in designing educational initiatives. In fiscal 2012, the Company equipped a total of 20 selected daycare facilities with PC workstations within the framework of its sponsorship. The computers and the requisite software are delivered and installed by INFO AG trainees under their own direction. The QSC Group is convinced that with these kinds of initiatives, the Company is making a greater contribution to the evolution of society than by focusing on environmental issues.

This is because ICT services, themselves, are making a major contribution toward sustainable business practices in all industries. They enable work-at-home workstations to be set up, for example, thus reducing commuter traffic, videoconferencing to be substituted for business travel and people in differing locations to work on projects jointly thanks to modern collaboration tools.

Raising resource efficiency • However, the QSC Group naturally pays attention to the conservation of resources. QSC AG has already been procuring the lion's share of its electricity from renewable energy sources since 2009. All companies within the Group are instructed to continuously optimize their energy inputs, with particular attention being paid to the data centers.

The Purchasing Department monitors the lifecycles of all resources and ensures that materials are largely reused within the framework of statutory regulations and beyond. This department additionally ensures that the fundamental ideas of sustainable business practices and energy efficiency are given appropriate consideration when purchasing new hardware or company cars.

Corporate Governance Report and Declaration of Corporate Management

Corporate governance constantly evolving • QSC places the utmost emphasis on good corporate governance, and thus on responsible management and oversight of the Company with the objective of sustained value creation. Both the Management and Supervisory Boards therefore also deal intensively with the respectively applicable recommendations set forth in the German Corporate Governance Code ("Code") and its evolution. The pertinent government commission issued the most recent revision on May 15, 2012. Some points give greater consideration than in the past to the situation of entrepreneurially led small and mid-size enterprises and for the first time expressly state that a well-substantiated variance from a Code recommendation might be in the interest of good corporate management. The Management and Supervisory Boards of QSC see this as a confirmation of the position they have previously followed of largely complying with all recommendations, yet intentionally deviating from them in the case of several points. The current Declaration of Compliance, dated November 20, 2012, is an element of this Report; as in the case of all previous Declarations, it is made permanently available on the QSC website.

Evolution of the German Corporate Governance Code welcomed by the Boards

Speaking on both its own behalf and on behalf of the Supervisory Board, the Management Board reports below on corporate governance pursuant to Item 3.10 of the Code. This Report also integrates the Compensation Report called for by Item 4.2.5 of the Code, and additionally contains information pursuant to § 289a of the German Commercial Code ("HGB") regarding corporate management.

MANAGEMENT AND OVERSIGHT

Dual leadership structure • As a publicly traded stock corporation organized under German law, QSC AG possesses a dual leadership structure. The Management Board manages the Company under its own direction; the Supervisory Board appoints the Management Board, oversees it and advises it. The members of both corporate bodies are committed solely to the interests of the Company; there were no disclosable conflicts of interest in fiscal 2012.

Changes on the Management Board • Since September 1, 2012, the QSC Management Board has comprised three members: Dr. Bernd Schlobohm (Chair), Jürgen Hermann and Arnold Stender. Following a one-year term of office, Thomas Stoek left the Company effective August 31, 2012. Pursuant to the Rules of Procedure promulgated for the Management Board by the Supervisory Board, Management Board resolutions require a simple majority of the votes cast. All resolutions relating to measures and transactions that are of major significance to the Company or that involve a greater economic risk are adopted by the full Management Board; given QSC's SME structure, the Management Board refrains from forming committees.

A division-of-responsibilities plan governs the areas of responsibility of the members of the Management Board. Each Management Board member manages these areas of responsibility under his own direction within the framework of Management Board resolutions. The following table offers an overview of the division of responsibilities at the close of the 2012 fiscal year:

	Areas of Responsibility
Dr. Bernd Schlobohm, Chair (Holding office through adjournment of the Annual Shareholders Meeting on May 29, 2013)	Strategy, Corporate Communications, Marketing, Quality and Complaint Management, Information Technology, Voice and Data Services, Direct Sales Business Unit
Jürgen Hermann (Holding office through March 31, 2015)	Finance, Investor Relations, Human Resources, Legal Affairs, Purchasing
Arnold Stender (Holding office through August 31, 2014)	Indirect Sales and Resellers Business Units, TC Operations

The Supervisory Board typically appoints the members of the Management Board for a term of three years. In staffing the Management Board, it is guided solely by the qualifications of the individuals in question and does not give any preferential decision-making relevance to gender in this regard.

Supervisory Board sets concrete objectives relating to its composition • The Supervisory Board intensively deals with the current discussions relating to corporate governance and the social responsibility of publicly traded corporations in Germany. Against this background, it regularly scrutinizes its own opinions. At its meeting on August 22, 2012, the Supervisory Board for the first time set itself the following concrete objectives for its composition on the basis of the Code and the German Stock Corporation Act:

1. Overall, the members of the Supervisory Board should possess the requisite knowledge, skills, abilities and professional experience to properly execute their duties. In this regard, the individual knowledge, skills, abilities and experiences of the individual members of the Supervisory Board should complement one another in such a manner as to assure that sufficient specific professional expertise is available at all times for the work of the Supervisory Board, as such, as well as for every major corporate operation, in order to sustainably assure professional and efficient supervision of and consultation to the Management Board.
2. The Supervisory Board should have at least one member who is independent in the sense of § 100, Para. 5, of the German Stock Corporation Act ("AktG") and possesses professional expertise in the fields of accounting or auditing. Under the assumption that the employee representatives, too, fundamentally satisfy the criteria of independence in the sense of Point 5.4.2, Sentence 2, of the German Corporate Governance Code, the Supervisory Board overall should have at least two independent shareholder representatives in the sense of Point 5.4.2, Sentence 2, of the German Corporate Governance Code, in addition to the two employee representatives.
3. No member who exercises a function on a corporate body or a consulting function at major competitors of the Company or the Group should hold a seat on the Supervisory Board.
4. No more than two former members of the Management Board should sit on the Supervisory Board.

5. The involvement of women is fundamentally viewed as a joint responsibility of both the shareholder and employee sides. At least one seat on the Supervisory Board should typically be held by a female. Since the Supervisory Board has no influence whatsoever over the election of the employee representatives, the shareholder representatives will assume the task of being guided by this objective in drawing up the list of shareholder candidates proposed to the Annual Shareholders Meeting.
6. As a general rule, only candidates who are younger than 75 years of age should be nominated as candidates for election to the Supervisory Board.
7. In preparing and adopting the nominations to be proposed to the Annual Shareholders Meeting for election to the Supervisory Board, the Supervisory Board will be guided in all instances by the best interests of the Company. The objectives set forth in Points (5) and (6) are therefore conditional upon the objectives set forth in Points (1) through (4) always being assured and upon appropriately qualified candidates for election to the Supervisory Board being available when needed.
8. The Supervisory Board will regularly review these objectives. It will publish its goals and the status of their implementation annually in the Corporate Governance Report.

All objectives of the Supervisory Board were achieved in 2012

As of December 31, 2012, all of the above objectives had been achieved. Only one former Management Board member sits on the Supervisory Board, QSC co-founder Gerd Eickers. Upon petition by the Management Board, Ina Schlie was court-appointed to a seat on the Supervisory Board effective September 3, 2012. Since this point in time, a female has also held a seat on the Supervisory Board who is additionally independent in the sense of § 100, Para 5, German Stock Corporation Act. Ms. Schlie, who heads up Corporate Taxation at Walldorf-based SAP AG, has additionally chaired the Supervisory Board's Audit Committee since September 10, 2012, contributing her proven expertise in the fields of accounting and auditing both here and within the context of the full Supervisory Board. Ms. Schlie replaced longstanding Supervisory Board member John C. Baker, who had resigned his office effective May 31, 2012.
All four shareholder representatives on the Supervisory Board are independent in the sense of Item 5.4.2, Sentence 2, of the Code, as they do not have any personal or business relations with the Company, its corporate bodies, a controlling shareholder or an enterprise affiliated with a controlling shareholder that could substantiate a material conflict of interest that is more than temporary. No member of the Supervisory Board exercises a function on any corporate body or a consulting function at major competitors of the Company or the Group.

Supervisory Board elections • Pursuant to the Articles of Association and Bylaws, the QSC Supervisory Board comprises six members. Since the Company employs more than 500 people, the German One-Third Participation Act ("Drittelbeteiligungsgesetz") is applicable. This means that the shareholders elect two thirds of the members of the Supervisory Board, the employees one third. The terms of office of all Supervisory Board members will end upon adjournment of the regular Annual Shareholders Meeting for the 2012 fiscal year. New elections for all shareholder representatives will consequently be conducted at the Annual Shareholders Meeting on May 29, 2013, with the QSC employees electing their representatives to this oversight body prior to that date.

Unless otherwise mandated by legislation or the Company's Articles of Association and Bylaws, the Supervisory Board and its committees adopt resolutions by a simple majority vote. During the past fiscal year, there were three committees: the Nominating, Audit and Human Resources Committees. All committees report regularly to the full Supervisory Board and prepare its resolutions. Detailed information relating to the work of the Supervisory Board and its committees is contained in the Report of the Supervisory Board on pages 11 – 16.

SEE PAGES 11ff. REPORT OF THE SUPERVISORY BOARD

Regular dialogue between corporate bodies • The Management Board informs the Supervisory Board promptly and comprehensively as to issues having corporate relevance relating to strategy, planning, business development, risk position, risk management, as well as compliance. The Management Board's Rules of Procedure require the consent of the Supervisory Board prior to concluding any major business transactions, such as stipulation of the annual planning, major capital investments, acquisitions and financial measures. These kinds of decisions by the Supervisory Board, in particular relating to transactions for which its approval is mandatory, are intensively prepared and deliberated in the committees and by the full Supervisory Board.

RELEVANT CORPORATE MANAGEMENT PRACTICES

Integrity the foundation for business activities • QSC views corporate governance as the framework for managing and overseeing the entire Company; its internal policies are therefore in harmony with the Code. Moreover, management of the Company is based upon a common value system, with integrity playing a key role. The Company views integrity as a role model and standard for proper corporate management and strictly observes compliance with all laws and internal Group rules. In this connection, QSC counts strongly on the self-direction and personal integrity of all of its people. QSC expects their everyday business actions to be legal and ethical in order to avoid harm to the Company and the general public.

The focus in this connection is on prevention: Improper behavior should be prevented right from the very beginning. Seminars and training sessions serve to sensitize all employees to such issues as legality and professionalism in their dealings with third parties. QSC strictly observes compliance with the four-eyes principle and the division of responsibilities. Policies on such critical points as insider trading law, information security, travel expenses and purchasing provide the necessary clarity for correct behavior in everyday operations.

Yet even in this kind of environment, it is not possible to entirely preclude the risk of improper behavior on the part of some individuals. Should there be breaches in this connection in individual instances, in spite of all preventive measures, the facts will be ascertained and any breaches punished, without regard to the individual or his or her position.

Compliance a key leadership responsibility

QSC views compliance as a major leadership responsibility that necessitates the ongoing attention of its leadership bodies. The Management Board, the Supervisory Board and its Audit Committee regularly deal with this issue; in doing so, they draw upon the quarterly risk reports and internal controlling, among other things. These discussions produce major impetus for evolving the compliance management system.

DIALOGUE WITH SHAREHOLDERS

Equal treatment of all shareholders • Transparency and a frank dialogue are what characterize QSC's capital market communication. The Company utilizes its own website to report promptly and comprehensively on all relevant developments. Interested parties will find ad-hoc and press releases there, along with Quarterly and Annual Reports, current presentations as well as a financial calendar. This website is also where QSC provides all relevant documents for the Annual Shareholders Meeting.

The regular Annual Shareholders Meeting (ASM) represents the central event for a dialogue with shareholders. Nearly 42 percent of the capital stock were in attendance at the 2012 Annual Shareholders meeting, which was conducted in Cologne on May 16 last year. Shareholders who did not attend in person were able to have their voting rights exercised either by a proxyholder of their choice or by a proxyholder bound by the shareholder's instructions; the latter was available until the conclusion of the general debate. The shareholders agreed to all items on the agenda with sweeping majorities.

During the course of the year, meetings with investors and analysts within the framework of roadshows and individual talks, as well as conference calls on the day the quarterly results are announced, serve to further the dialogue with shareholders, assuring them current information. QSC makes the respective presentations, as well as a recording of the comments made by members of the Management Board, available to all shareholders. Further information relating to the Company's investor relations activities can be found in "QSC Share Performance" on pages 17 – 22 of this Annual Report.

SEE PAGES 17ff.
QSC SHARE PERFORMANCE

Baker Capital transfers some 25.2 million QSC shares • One element of the Company's transparent and frank communication is prompt information relating to the acquisition or sale of QSC shares by members of the Management and Supervisory Boards, as well as persons close to them, pursuant to § 15a, German Securities Trading Act ("Wertpapierhandelsgesetz"). In March 2012, U.S.-based investment company Baker Capital reported that it had transferred all QSC shares still in its possession at this point in time (approximately 25.2 million shares) to the investors in its fund, which had been in existence for far more than ten years. These investors are U.S. institutional investors and Family Offices. Further information relating to this transaction is contained in "QSC Share Performance" on pages 17 – 22. The following table provides an overview of this transaction, as well as further reportable securities transactions during the year covered by this Annual Report.

SEE PAGES 17ff.
QSC SHARE PERFORMANCE

Trading Day / Stock Market	Name / Status	Type of Transaction	Par-Value in € / Quantity	Volume in €	Remarks
January 30, 2012	Thomas Stoek	Purchase	2.190	25,020.75	
Xetra	Management Board		11,425		
March 14, 2012	Baker Communications	Distribution	-	-	Retired through
Over the counter	Fund (Cayman), L.P.		25,257,242		transfer
	Legal entity				
March 14, 2012	Baker Capital	Distribution	-	-	Added through
Over the counter	Partners (Anguilla), LLC		252,572		acquisition
	Legal entity				
March 14, 2012	Baker Capital	Distribution	-	-	Retired through
Over the counter	Partners (Anguilla), LLC		256,754		transfer
	Legal entity				
March 14, 2012	Baker Capital	Distribution	-	-	Retired through
Over the counter	Partners II (Anguilla), LLC		8,363		transfer
	Legal entity				
March 14, 2012	John C. Baker	Distribution	-	-	Added through
Over the counter	Supervisory Board member		150,937		acquisition
March 21, 2012	Jürgen Hermann	Purchase	2.191	54,775.63	
Xetra	Management Board		25,000		
March 30, 2012	Thomas Stoek	Purchase	2.157	25,016.79	
Xetra	Management Board		11,600		
May 11, 2012	Jürgen Hermann	Purchase	1.897	37,944.00	
Xetra	Management Board		20,000		
May 18, 2012	Dr. Bernd Schlobohm	Purchase	1.860	186,017.00	
Xetra	Management Board		100,000		
May 18, 2012	Gerd Eickers	Purchase	1.860	186,017.00	
Xetra	Supervisory Board member		100,000		

Declaration of Compliance

Declaration Pursuant to Section 161 of the German Stock Corporation Act ("Aktiengesetz") regarding QSC AG's Compliance with the German Corporate Governance Code ("Deutscher Corporate Governance Kodex") as amended May 26, 2010, respectively as of its validity as amended May 15, 2012.

Since its formation, QSC AG ("QSC") has been committed to good corporate governance and has viewed transparency and value-driven management as essential. Consequently, the company implements nearly all recommendations set forth in the German Corporate Governance Code ("Deutscher Corporate Governance Kodex") and adheres to them in its daily work. Since the submittal of its last Declaration of Compliance, the company has complied and continues to comply with the recommendations of the Government Commission "German Corporate Governance Code" in its version dated May 26, 2010, respectively as of its validity in its version dated May 15, 2012, with the following exceptions:

- **No sending of the notification of the convening of the General Meeting together with the convention documents to all domestic and foreign financial services providers, shareholders and shareholders' associations by electronic means (Item 2.3.2 of the Code)** • There are two reasons why QSC sends the convention documents only by mail: Firstly, experience has shown that an invitation provided by mail leads to a higher attendance of the shareholders at the General Meeting. Secondly, as QSC is in possession of all postal addresses of its shareholders due to the fact that QSC has issued registered shares, QSC refrains from collecting e-mail addresses of its shareholders for reasons of efficiency.

- **No agreement regarding a deductible in the D&O insurance for members of the Supervisory Board (Section 93, Paragraph 2 of the German Stock Corporation Act ("Aktiengesetz") mutatis mutandis) (Item 3.8, Paragraphs 2 and 3 of the Code)** • QSC accepts the recommendation of the German Corporate Governance Code insofar as the D&O insurance policy will include a deductible for Supervisory Board members of 10 percent of the respective damages per damage event as of July 1, 2010. However, and contrary to the recommendation, the deductible will be limited to 100 percent of the fixed annual remuneration of the Supervisory Board members, as QSC deems inappropriate a deductible which exceeds the annual remuneration.

- **No periodic review of the Management Board members' compensation system by the Supervisory Board's plenum (Item 4.2.2, Paragraph 1 of the Code as amended May 26, 2010)** • The periodic review of the compensation system is carried out by the Compensation Committee of the Supervisory Board. It is QSC's opinion that the Compensation Committee is, because of its competencies, best prepared to deal with the Management Board's remuneration. The company thus continues to adhere to this proven principle to the extent that this is compatible with applicable laws. With effect from the date that the new version of the Code came into force, QSC's approach no longer constitutes a deviation from the Code.

- **Until February 27, 2012, no stipulation of demanding, relevant comparison parameters for share-based elements of compensation regarding the members of the Management Board (Item 4.2.3, Paragraph 3, Sentence 2 of the Code)** • The commitment to provide QSC shares to individual members of the Management Board was based on the condition that multi-year targets of the Management Board are achieved, with those targets being based exclusively on company-related parameters. Since the shares were provided only in case of long term targets having been achieved, the Supervisory Board is of the opinion that a sustainable development of the company had been adequately ensured. With effect from February 27, 2012, there are no longer any commitments of this kind to the Management Board. QSC will therefore comply with the recommendation in the future.

- **The contracts of the Management Board members do not contain a cap on severance payments in case of premature termination (Item 4.2.3, Paragraph 4 of the Code)** • To postulate a cap regarding severance payments would be contrary to the spirit of the Management Board contract, which is usually concluded for a fixed term and does, in principle, not provide for the possibility of an ordinary termination by notice. Moreover, it would be difficult for QSC, at least, to actually enforce a contractual severance payment cap against a Management Board member in the circumstances where it would be relevant. Furthermore, such advance stipulation would be unfeasible to reasonably take into account the particular facts and the surrounding circumstances that later actually give rise to the premature ending of a Management Board member's contract.

- **No aiming for an appropriate consideration of women when appointing the Management Board (Item 5.1.2, Paragraph 1, Sentence 2 of the Code)** • The Supervisory Board does not follow this recommendation insofar as its decisions when filling Management Board positions are guided solely by the qualifications of the persons available as it has been in the past. In this respect the Supervisory Board does not give decision priority to gender.

- **Until August 22, 2012, no stipulation of concrete objectives regarding the composition of the Supervisory Board that, whilst considering the specifics of the company, take into account the international activities of the company, potential conflicts, the number of independent Supervisory Board members within the meaning of item 5.4.2 of the Code and diversity, as well as an appropriate degree of female representation, in particular. Until August 22, 2012, no publishing of such objectives in the Corporate Governance Report (Item 5.4.1, Paragraphs 2 and 3 of the Code)** • QSC was previously of the opinion that candidates for election at the Annual General Meeting only required to be selected by the Supervisory Board on the basis of their professional competence and experience and that other criteria such as gender or independence were of secondary importance. The Supervisory Board did not therefore consider it appropriate to stipulate a fixed quota system. Accordingly, the Supervisory Board did not in the past - with the exception of an age limit for its members - stipulate any specific objectives for the composition of the Supervisory Board, as a result of which no such objectives were stated in the Corporate Governance Report. At its meeting on August 22, 2012, the Supervisory Board rethought its position and - partly in consideration of the current debate taking place in society - set itself concrete objectives within the meaning of item 5.4.1, Paragraph 2 of the Code, so that from that point onwards, QSC complies with the relevant Code recommendation.

- **No disclosure of the private and business relationships of a candidate with the company, its representative bodies and any significant shareholder of the company when that person is proposed for election at the Annual General Meeting. (Item 5.4.1, Paragraphs 4 to 6 of the Code as amended May 15, 2012)** • In QSC's opinion, the recommendation of the German Corporate Governance Code does not specify clearly enough which relationships of a candidate must be disclosed and the extent to which such disclosures are required to be made for proposed elections at the Annual General Meeting, in order to comply with the recommendation. In the interests of legal certainty with respect to future elections to the Supervisory Board, the Management Board and Supervisory Board have decided to declare a deviation from the recommendation. QSC is of the opinion that the existing disclosure requirements contained in Section 124, Paragraph 3, Sentence 4 and in Section 125, Paragraph 1, Sentence 5 of the German Stock Corporation Act ("Aktiengesetz") are sufficient to meet the informational needs of the shareholders and will, at an appropriate date in the future, investigate and decide - voluntarily and without tying itself to the Code's recommendation - whether to disclose additional information about candidates proposed for election at the Annual General Meeting.

- **No consideration of the performance of the company regarding the compensation of the Supervisory Board members (Item 5.4.6, Paragraphs 1 and 2 of the Code as amended May 26, 2010)** • QSC does not believe that the Supervisory Board members' motivation and responsibility with regards to their duties will be improved by considering the performance of the company regarding the compensation of the members of the Supervisory Board. QSC feels itself vindicated by the removal of this recommendation from the most recent version of the Code.

Cologne, November 20, 2012

For the Management Board
Dr. Bernd Schlobohm

For the Supervisory Board
Herbert Brenke

Compensation Report

Individualized presentation of Management Board compensation • One major element of good corporate governance consists of a transparent presentation of the total compensation paid to members of the corporate bodies. The fundamental compensation system for members of the Management Board has been evolved in recent years with a view to modified statutory requirements (e.g. the German Appropriateness of Management Board Compensation Act ("VorstAG")) and was most recently adopted by the Annual Shareholders Meeting on May 16, 2012. Pursuant to § 315, Para. 2, No. 4, of the German Commercial Code ("HGB"), QSC reports below on the principles of this compensation system, with individualized presentation of the compensation paid to members of the Management Board.

Performance-based compensation system • The Supervisory Board stipulates the total compensation to be paid to members of the Management Board, taking into consideration the responsibilities and personal achievements of the respective Management Board member, the Company's economic and financial positions, as well as sustainable development of the Company, the usual and customary nature of the compensation, taking into consideration the environment at comparable companies, as well as the compensation structure that is otherwise in place at QSC. The design of the variable compensation element takes into consideration both positive and negative developments. Moreover, in determining the compensation the Supervisory Board takes pains to assure that it is structured in such a manner as to be competitive in the marketplace and offer highly qualified executives an incentive to sustainably develop the Company and its value in a dynamically changing environment.

A maximum of 50 percent of MB's target compensation is fixed

Compensation paid to members of the Management Board comprises fixed and variable elements • The fixed salary elements fundamentally account for a maximum of 50 percent of the target compensation for each member of the Management Board (MB). This fixed salary is paid in monthly cash installments as base compensation. Moreover, the Management Board members additionally receive fringe benefits, in particular in the form of the use of a company car or the utilization of a car allowance, as well as pension commitments, which can be for old-age, survivors and disability benefits and are secured by reinsurance coverage, and, in part, defined contribution commitments for benefits provided by insurance companies and welfare relief funds. Moreover, QSC maintains liability indemnification insurance coverage that includes the members of the Management Board. Since July 1, 2010, the policy has provided for a corresponding deductible for members of the Management Board, in accordance with the requirements of the German Stock Corporation Act. Management Board members do not receive any separate compensation for assuming further offices within the corporate Group.

The variable compensation element is committed in the form of a fixed amount for each year in office in the event that 100 percent of the targets are achieved and is based upon annual and multiple-year targets agreed annually in target agreements. These targets can include such key corporate performance indicators as free cash flow and consolidated net income, as well as individual parameters that result from non-quantifiable strategic targets. The target agreements are made on the basis of the planning for the coming fiscal years; in the case of Company-based metrics, they can contain minimum targets that are more ambitious than the outlook communicated externally.

Management Board members must achieve minimum targets • In entering into the annual target agreements, the Supervisory Board takes pains to assure that the portion of the variable target compensation attributable to the attainment of the multiple-year target represents at least the percentage attributable to the attainment of the annual target. The Supervisory Board defines upper and lower limits for each individual target, with the upper limit serving to cap the variable compensation element in the event of out-of-the-ordinary developments at not more than 1.5 times the target compensation attributable to the variable compensation element at 100 percent target attainment, and the lower limit stipulating the minimum target. If this minimum target is not attained, the Management Board member will not receive any variable compensation element for the corresponding target. Failure to attain the lower limit for the multiple-year target that is determined in a fiscal year will additionally result in the reduction or elimination of the variable compensation element for the subsequent fiscal years in a multiple-year period that is attributable to the multiple-year target.

Supervisory Board defines upper/lower limits for each target

The Supervisory Board can commit to paying the entire Management Board or individual Management Board members an appropriate further bonus in cash or in the form of shares or stock options, with waiting, holding and exercise terms being agreed upon, in recognition of the attainment of multiple-year targets and to foster sustained corporate development, as well as to acknowledge exceptional achievements.

The variable compensation element is due and payable following adoption of the Annual Financial Statements relating to the respective target agreement.

Lower Management Board compensation for fiscal 2012 • The total compensation to members of the Management Board for the 2012 fiscal year amounted to K€ 1,061, by comparison with K€ 2,568 the year before (of which only K€ 1,924 was payable in fiscal 2011). No non-period compensation elements were granted for the 2012 fiscal year.

The decrease in the total compensation was essentially attributable to the fact that Management board members did not have any entitlement to a variable compensation element for fiscal 2012. Moreover, the year before non-cash compensation entitlements to two Management Board members in the form of convertible bonds totaling K€ 644 had been recorded as an element of the total compensation; in addition, three Management Board members held office the full year in fiscal 2012, with Management Board member Thomas Stoek remaining in office only until August 31, 2012, while five Management Board members had been active at times in fiscal 2011.

The following table shows the compensation to the individual members of the Management Board:

in K€	Cash Compensation				Non-Cash Share-Based Remuneration *	Total Compensation
	Fixed Salary Elements	Variable Salary Elements	Fringe Benefits	Total		
Fiscal year 2012						
Dr. Bernd Schlobohm	350	(29)	19	340	-	340
Jürgen Hermann	292	(18)	16	290	-	290
Arnold Stender (from Sept. 1, 2011)	254	(6)	11	259	-	259
Thomas Stoek (Sept. 1, 2011 through Aug. 31, 2012)	167	(6)	11	172	-	172
Total	1,063	(59)	57	1,061	-	1,061

in K€	Cash Compensation				Non-Cash Share-Based Remuneration *	Total Compensation
	Fixed Salary Elements	Variable Salary Elements	Fringe Benefits	Total		
Fiscal year 2011						
Dr. Bernd Schlobohm	350	371	19	740	322	1,062
Jürgen Hermann	259	251	16	526	322	848
Arnold Stender (from Sept. 1, 2011)	77	77	3	157	-	157
Thomas Stoek (Sept. 1, 2011 through Aug. 31, 2012)	83	83	5	171	-	171
Joachim Trickl (through Aug. 31, 2011)	189	131	10	330	-	330
Total	958	913	53	1,924	644	2,568

* fair value of convertible bonds at grant date

Due to failure to fully attain the targets for fiscal 2011 that had been agreed with the Supervisory Board, the provision formed for the variable compensation of the Management Board the year before in the amount of K€ 59 was able to be returned; this amount reduced the recorded compensation paid to members of the Management Board.

The elimination of the variable compensation elements was due to the highly ambitious target agreements that had been entered into for fiscal 2012, with all Management Board members having agreed to identical annual and multiple-year targets. The annual target for fiscal 2012 was linked to free cash flow and EBITDA. The multiple-year target is geared toward maintaining, stabilizing and increasing the Company's sustainable dividend position out of income from ordinary business operations that was achieved in fiscal 2011.

As stipulated in the 2012 target agreements, failure to attain the lower limit for the annual target resulted in the complete elimination of the variable compensation for fiscal 2012. Failure to attain the lower limit for the multiple-year target in fiscal 2012 would have led to elimination of the entire variable compensation for fiscal 2013, and in fiscal 2014 to elimination of the variable compensation attributable to the multiple-year target for fiscal 2014. The multiple-year target was attained in fiscal 2012.
With a view toward additionally aligning the compensation system toward stabilizing the Company's sustainable dividend position, in fiscal 2012 the Supervisory Board set a special free cash flow target for the period through the close of fiscal 2014 (special multiple-year target), and in this connection utilized the option of committing to an additional bonus for the attainment of the special multiple-year target. The Supervisory Board was to decide at its own discretion on the details of this bonus following the close of the 2014 fiscal year. However, this would have necessitated that certain intermediate annual targets for which no special compensation is paid be attained in fiscal 2012, 2013 and 2014 as the Company travels its sustainability path to this special multiple-year target. Since the corresponding target for fiscal 2012 was not attained, the Management Board members will not receive the bonus in question.
The following table presents individualized information relating to the number of shares and conversion rights held by members of the Management Board:

	Shares		Conversion Rights	
	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2012	Dec. 31, 2011
Dr. Bernd Schlobohm	13,918,372	13,818,372	200,000	200,000
Jürgen Hermann	225,000	180,000	200,000	200,000
Arnold Stender	-	-	25,000	25,000
Thomas Stoek (through Aug. 31, 2012)	30,385	7,360	-	-

Dr. Bernd Schlobohm, Jürgen Hermann and Thomas Stoek increased their shareholdings in calendar year 2012 through additional stock exchange purchases (see also our notifications relating to transactions by executive staff pursuant to § 15a, German Securities Trading Act ("WpHG")). No loans were granted to Management Board members.

Information relating to retired Management Board members • The compensation paid to Management Board member Thomas Stoek, who sat on the Management Board through August 31, 2012, is included in the table containing the individualized information. He did not receive any special compensation for his retirement. The total paid to other Management Board members who had retired in previous years amounted to K€ 10.

New compensation structure for Supervisory Board members • The Annual Shareholders Meeting on May 16, 2012, resolved to amend the compensation paid to Supervisory Board members as set forth in the Articles of Association and Bylaws effective the 2012 fiscal year. Under the amendment, each member of the Supervisory Board will receive fixed annual compensation in

Each Supervisory Board member receives fixed compensation of K€ 35 p.a.

the amount of K€ 35 (previously K€ 25), payable subsequent to the close of the fiscal year; the Chair and his or her Vice Chair will receive K€ 70 and K€ 50, respectively (formerly K€ 30 each). In addition to compensation for service on the Supervisory Board, each Supervisory Board member will receive special compensation in the amount of K€ 5 for his or her work on a Supervisory Board committee (with the exception of the Nominating Committee), and the committee chair K€ 10. The total compensation for their committee work paid to members serving on multiple committees will not exceed K€ 25 per member. Supervisory Board members who sat on the Supervisory Board or a committee for only a portion of the fiscal year will receive the compensation on a pro rata basis.
For their activities in the 2012 fiscal year, the members of the Supervisory Board received aggregate compensation in the amount of K€ 272, compared to K€ 148 in fiscal 2011. The table below presents individualized information relating to the compensation paid to, and the number of shares held by, members of the Supervisory Board.

	Compensation ** (in K€)		Shares	
	2012	2011	Dec. 31, 2012	Dec. 31, 2011
Herbert Brenke	85 (15*)	30	187,820	187,820
John C. Baker (through May 31, 2012)	17 (6*)	30	203,072	52,135
Gerd Eickers	45 (5*)	25	13,977,484	13,877,484
David Ruberg	35	13	14,563	14,563
Ina Schlie (from September 3, 2012)	15 (3*)	-	-	-
Klaus-Theo Ernst	35	25	500	500
Jörg Mügge	40 (5*)	25	4,000	4,000
Total	**272 (34*)**	**148**	**14,387,439**	**14,136,502**

* of the total compensation for committee work ** pursuant to § 10, Para. 5, of the Articles of Association and Bylaws

With the exception of reimbursed travel and other out-of-pocket expenses, no member received any further compensation or other advantages for personal services rendered over and above the remuneration set forth herein. Nor were any loans granted to members of the Supervisory Board. QSC maintains liability indemnification insurance coverage, in which the members of the Supervisory Board are included.

Human Resources

HUMAN RESOURCES MANAGEMENT

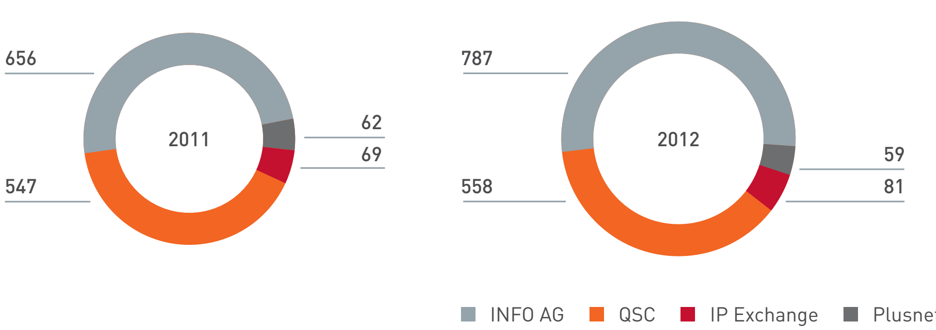
Committed QSC team the basis for success today and in the future • The success of the QSC Group is based upon the commitment and will to succeed of all of its people. Their loyalty and their further development are crucial prerequisites in being able to achieve the Company's ambitious growth target for the year 2016. As it traveled the road toward becoming a full-fledged ICT provider with revenues of between € 800 million and € 1 billion, QSC strengthened its existing team in fiscal 2012 to include further ICT experts.

EMPLOYEES (as of December 31)

Strong growth in Direct Sales necessitates workforce expansion

Workforce grows by 11 percent • During the past fiscal year, the workforce rose by 151 people to a total of 1,485 (measured on the basis of full-time equivalencies). Given the strong growth in Direct Sales, the QSC Group expanded the workforce at INFO AG, in particular, to 787 people, by comparison with 656 one year earlier. Housing and Hosting specialist IP Exchange employed 81 experts at the close of the past fiscal year, in contrast to 69 one year earlier. QSC AG itself increased its workforce modestly from 547 to 558 people as of December 31, 2012. In view of the continued automation of network operations and optimization of its infrastructure, on the other hand, network operating company Plusnet reduced its headcount slightly to 59 people, compared to 62 as of December 31, 2011.

EMPLOYEES BY COMPANY (as of December 31)



Due to the strong expansion of the INFO workforce, a total of 750 employees of the QSC Group were working at INFO AG's headquarters in Hamburg at year end. 428 employees were working in Cologne. The remaining employees were distributed among sales and business offices throughout Germany, as well as at the Nuremberg headquarters of IP Exchange.

INITIAL AND CONTINUING TRAINING AND EDUCATION

QSC increases number of trainees by 25 to 102 • The QSC workforce is being broadened in a difficult labor market environment, with the shortage of professionals noticeably tightening, especially in the IT industry. In this environment, the QSC Group is increasingly opting to train its own new blood. As of December 31, 2012, 102 young adults were undergoing training at the QSC Group; one year earlier, this number had stood at 77. The training ratio thus amounted to 7 percent.

NUMBER OF TRAINEES (as of December 31)

At QSC, potential trainees can choose between two ways of entering the working world: In-house traineeships as information technologists in systems integration and applications development and as computer, IT systems, and business operations specialists, or a work-study program. At year-end 2012, 29 A-level ("Abitur") graduates were taking advantage of this kind of integrated theoretical and practical training with either a technical or business focus.

QSC Group intensively recruiting trainees

In order to present these attractive training options to the largest possible number of young people, especially at the Company's two large locations in Hamburg and Cologne, the QSC Group is involved in numerous regional events and initiatives. The QSC Group participates, for example, in recruitment fairs like "Einstieg" and the Hamburg Chamber of Commerce's TALENT DAY Media + IT, as well as the Internet Week in Cologne. A further event in Cologne is Speed Day, which offers interested young people on-site information about training opportunities at QSC as well as other companies in the region. Further opportunities for contact early on consist of pupil internships, school partnerships and involvement in Germany's nationwide Girls' & Boys' Day.

Specifically recruiting university graduates • In addition to trainees, university graduates are another attractive target group for human resources marketing. As of December 31, 2012, nine graduate trainees were working in business and sales operations, and four in the Microsoft and project management environments. Plus 10 participants in an SAP graduate trainee program. QSC also collaborates with universities to spark interest in this kind of qualified entry into working life early on. In Hamburg, the Company is a major sponsor of the IT Management and Consulting Master's curriculum; and in Cologne there is close collaboration with the technical university there. Over and above this commitment in connection with places of initial training, the QSC Group also has a presence at continuing education facilities. It offers internships for re-trained employees, for example. In fiscal 2012, INFO AG offered regular employment to the majority of these interns.

23 graduate trainees were working at QSC at year-end 2012

Lifelong learning the new normal • The breathtaking pace of technological advances in the ICT world necessitates ongoing continuing education and development on the part of all employees. In this connection, the QSC Group focuses first and foremost on in-house offerings and a sharing of experiences across departmental borders. The INFOAcademy, for example, offers an in-house seminar program that is competence and career oriented and includes professional- and behavioral-specific modules. The newly introduced systematic analysis of educational needs simplifies selection of the appropriate modules as well as the design of additional offerings.

COMPENSATION

Market-based compensation system • The QSC Group pays all of its people competitive compensation. It is not subject to any collective bargaining agreements, preferring instead to utilize a compensation system and fringe benefits that are geared toward both individual and company-specific needs as well as market standards.

In addition to a fixed salary, employees also receive a variable compensation element that rewards the achievement of individual and corporate targets. As leadership responsibility rises, this compensation element is increasingly based upon corporate targets. Moreover, stock options serve to promote long-term loyalty.

All employees are entitled to the customary fringe benefits, such as wealth accumulation matching contributions and support in connection with private old-age retirement insurance. Depending upon their activities, company cars are also provided to professionals and executives. Detailed information relating to the compensation paid to members of the Management Board is contained on pages 47ff.

SEE PAGES 47ff.
COMPENSATION REPORT

CORPORATE CULTURE

One culture and value system for all companies • During the past fiscal year, the QSC Group lent consistency to its value system. Since the new IT subsidiaries, too, had already been cultivating their own entrepreneurial cultures and had positioned themselves in the SME segment prior to their acquisition by QSC, this process was harmonious. QSC has condensed its revised value system into five principles:

1. **We want to win**
2. **We are shaping change**
3. **We pay attention to one another**
4. **We work results driven**
5. **We interact with respect and appreciation**

These principles stand for a corporate culture that is characterized by respect and appreciation, as well as for an orientation toward achievement and results in our daily work.

Flexible working hours throughout for all QSC employees

Appreciation for every employee • This value-based corporate culture includes an understanding for the personal situation of every employee and takes his or her wishes into consideration within the framework of the opportunities offered by a mid-size employer. The use of flexible working hours throughout the organization facilitates compatibility between family and work; there are no core working hours, and all employees are free to handle a portion of their work from home, as coordinated with their supervisors. Time accounts enable salary elements to be saved up for sabbaticals.

The QSC Group offers professional assistance in organizing the needs of work and family; the prestigious Fürstenberg Institute, which has been active at the Company since fiscal 2011, offers an extensive range of advisory services. Parents' re-entry into working life is also eased through part-time work options and home workplaces, as far as this is possible.

Economic Report

GENERAL AND INDUSTRY CONDITIONS

Development of German ICT market outpaces overall economy in 2012 • QSC focuses on the German ICT market, which was able to largely avoid the weakening economy during the course of 2012. Calculations by the German Federal Office of Statistics show that German gross domestic product rose by only 0.7 percent during the past fiscal year, in contrast to 3.0 percent the year before, and was even negative in the fourth quarter of 2012. Yet the German economy nevertheless developed on a better note than the euro zone, which had been posting negative growth rates since February 2012. However, rising exports and higher consumer spending, first and foremost, prevented Germany from slipping into recession; capital spending on plant and equipment, on the other hand, declined by 4.4 percent.

CHANGE IN GERMANY'S GROSS DOMESTIC PRODUCT

Although ICT projects also number among capital spending on plant and equipment, the German ICT market continued its growth course in 2012, developing even better than industry association BITKOM had expected at the outset of the year. According to BITKOM, ICT revenues in Germany during the past fiscal year did not advance by the originally anticipated 1.6 percent, but by 2.2 percent to € 151.2 billion. Differentiated on the basis of the two major submarkets, IT revenues rose by 2.7 percent to € 73.4 billion and TC revenues by 1.9 percent to € 65.4 billion. The IT market saw sales growth, in particular, in tablets, software and Cloud applications.

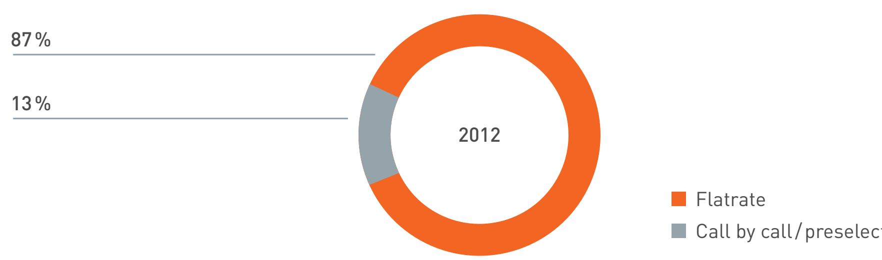
THE GERMAN ICT MARKET (value in € billion)

The surprising growth in the TC market was attributable to rapidly rising smartphone sales and the correspondingly greater usage of mobile data services. Revenues with mobile voice services, on the other hand, declined by 5.0 percent to € 12.7 billion, while fixed-network revenues sank by 7.5 percent to € 11.3 billion. In addition to stiff competition, BITKOM also cites aggressive interventionary action on the part of government regulatory authorities as the reason for this slump. Further information in this regard is available in "General Regulatory Conditions" on pages 58ff.

SEE PAGES 58ff.
GENERAL REGULATORY CONDITIONS

Use of voice services on the decline • The changes in the TC market are illustrated by a study from VATM, an association of alternative TC providers in Germany. According to this study, the fixed-network market is dominated by connections for which customers typically pay only a flat rate. Their share of daily voice volume rose moderately to 87 percent in 2012, compared to 86 percent in 2011. On the other hand, there was a further decline in the importance of call-by-call and preselect offerings, which charge by the minute. Lower use of voice services can be observed, regardless of the type of connection; total voice call minutes per day in Germany declined by 4 percent in 2012.

PRECENTAGE SHARE OF VOICE VOLUME IN GERMANY'S FIXED-NETWORK MARKET



This change in communications is strengthening data services; VATM reports that the number of broadband connections again rose by 0.8 million to 28.1 million during the past fiscal year. However, cable network operators, who are advertising very high bandwidths and all-inclusive connections at affordable prices, are the ones who are primarily benefiting from this. And in the coming years, the demand for bandwidths in excess of 50 megabits per second is likely to also be increasingly covered by means of fiber optic connections. At year-end 2012, nearly 350,000 German households were using this kind of connection; and some 800,000 residential owners already have access to this technology. With its own nationwide Open Access platform, QSC created an opportunity early on for making this local infrastructure available to providers that operate on a nationwide scale.

QSC platform makes fiber optic connections available nationwide

More than 40 percent of enterprises already outsourcing ICT services • While the majority of enterprises in Germany already have a broadband connection, their need for utilizing modern ICT solutions to optimize their value chains is still far from being satisfied. This was shown by a study entitled "ICT Perspectives 2020 – SME Trend Radar," which was conducted by QSC subsidiary INFO AG together with the IMWF Institute for Management and Economic Research, as well as CIO magazine.

Given the strong pressure to deliver innovations and the growing complexity of processes, the study shows, more and more small and mid-size enterprises are entrusting their ICT to external service providers. More than 40 percent of the respondents in the study had already outsourced ICT services; the most popular services include hosting the enterprise website, Voice over IP, providing and supporting virtual private networks (VPN), as well as developing applications and server features. The majority of enterprises view one-stop shopping as a major benefit – and this is precisely what the QSC Group enables.

Cloud computing a growth market • Enterprises are increasingly opting for Cloud applications in optimizing their value chains and organizing their routine workflows. Web- and videoconferencing, in particular, enjoy great popularity; and there is also keen interest in complete virtualized workplace solutions. These were the results of a PAC study entitled "Communication & Collaboration from the Cloud," which was supported by QSC and in which over 200 ICT chiefs at enterprises in Germany with at least 20 employees were queried in 2012. According to the study, one out of every two enterprises is interested in workplace solutions from the Cloud. And one in ten enterprises is already utilizing network-based Collaboration solutions at the workplace.

Keen interest in workplace solutions from the Cloud

BITKOM numbers also document the growing interest in Cloud applications. They show that total revenues with Cloud-based products and services rose by 47 percent in Germany last year to € 5.3 billion. More than one half of these revenues were attributable to enterprise customers. According to "Cloud-Monitor 2013," nearly one in four companies in Germany were already utilizing at least individual aspects of Cloud computing last year. Given this backdrop, QSC will be making every effort to drive the development and marketing of innovative Cloud-based services during the current fiscal year and beyond.

THE GERMAN CLOUD MARKET (value in € billion)

GENERAL REGULATORY CONDITIONS

Regulation primarily impacting conventional TC business • Even as an ICT provider, QSC continues to be active in the German TC market. Large areas of this market are subject to regulation by the German Federal Network Agency with the aim of assuring fair competition in this market, which was not liberalized until 1998. Up until then, Deutsche Telekom had operated as a monopolist on the German market; in fact, it still possesses a nationwide infrastructure into all households that dates back to those days. In connection with the subscriber line (local loop)

– the distance between the central office or cable branch and the respective customer connection –, alternative providers continue to be dependent upon this infrastructure, which was built during Deutsche Telekom's time as a monopoly. Nor can the fiber optic networks that have recently been built in several cities serve to bring about any fundamental change in this situation. During the past fiscal year, the German Federal Network Agency issued the following rulings that are of relevance to QSC's business operations.

VDSL contingent model approved with modifications • In January 2012, Deutsche Telekom informed the German Federal Network Agency of a new pricing model for VDSL bitstream acquisition. In consideration for an 8-year commitment to acquire a significant contingent of connections, high price rebates would be granted on fees that have thus far not been contested. Due to the risk to infrastructure competition, which QSC is also fostering with its Open Access model, the German Federal Network Agency provisionally prohibited this model on April 2, 2012. As a result of such improvements as the avoidance of cost-cost scissors on unbundled local loops and special termination options in connection with migration to alternative infrastructures, the regulatory authority on July 4, 2012, provisionally ruled to no longer prohibit the model, subject to a challenge by the European Commission. QSC's wholesale partners, such as 1&1 and Telefónica Germany, signed corresponding agreements in the subsequent months.

Non-recurring fees for access to unbundled local loops • In this approval process, which includes provisioning and termination fees, in particular, the German Federal Network Agency issued a provisional ruling on June 29, 2012, finalizing it on October 22, 2012, following consultation and consolidation proceedings. While there were increases of between 1 and 10 percent on the formerly approved provisioning fees, the interconnection fees were lowered by between 24 and 46 percent. This ruling will remain in effect through June 30, 2014.

Mandatory fee approval eliminated for some leased lines

Partial deregulation and price increases for leased lines • In the question of leased line products that are subject to regulation, following a consultation and consolidation proceeding, the German Federal Network Agency on July 25, 2012, eliminated mandatory fee approval for leased lines with bandwidths of less than 2 MBit/s and more than 155 MBit/s. With a regulatory order on August 22, 2012, the regulatory body broadened mandatory approval for the other bandwidths to also include Ethernet-based leased lines. During the subsequent fee approval proceedings, the German Federal Network Agency issued a provisional ruling on November 14, 2012. It adjusted the fees for Ethernet leased lines that had previously been contractually agreed to reflect the pricing system for SDH (Synchronous Digital Hierarchy) leased lines, and increased the prices to a level that is higher than the applicable SDH fees. As a result, in many cases the fees are significantly higher than those contractually agreed with Deutsche Telekom. The extent to which the European Commission will concur with this decision by the German regulatory authority in the sensitive business customer market remains to be seen.

Mobile interconnection fees lowered by more than 45 percent • On November 19, 2012, the German Federal Network Agency issued a provisional ruling on mobile interconnection fees. Under this initial partial ruling, the fees were notified within the framework of a consultation and consolidation process pursuant to § 12, German Telecommunications Act; they went into force retroactively effective December 1, 2012. The German Federal Network Agency's ruling includes reductions of between 45 percent and 47 percent on the previously applicable fees, thus representing a greater reduction than had originally been anticipated. QSC handles inbound and outbound mobile calls over its Next Generation Network and bills the third-party costs incurred in this connection to its customers.

Sharp reduction in fees for utilizing third-party networks • On November 30, 2012, the German Federal Network Agency issued a provisional ruling on Deutsche Telekom's routing and interconnection fees in regulated submarkets; the national consultation process was concluded effective January 30, 2013. This will reduce the fees by 20 to 40 percent. For the first time, the fees were determined on the basis of IP-based voice traffic, utilizing an analytical cost model. However, only some of the stipulations in the European Commission's recommendation on interconnection fees came to bear; in particular, overheads continue to be taken into consideration. In addition, the structure of the fees for utilizing third-party fixed-network infrastructures was also modified.

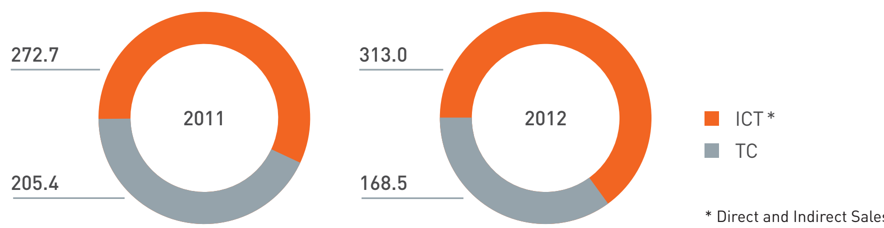
Fixed-network fees will decline by 20 to 40% effective Dec 1, 2012

Regulatory impact produces € 30 million in revenue shortfalls • The German Federal Network Agency's rulings lowering the mobile and fixed-network routing and interconnection fees are likely to result in annual revenue shortfalls of € 30 million at QSC. For December 2012, alone, this represents more than € 2 million in regulatory-induced revenue shortfalls. Heightened regulation had already led to revenue shortfalls in previous years. However, since QSC typically passes on these kinds of fees to its customers, there will be only limited impact, with the exception of the effect on revenues. However, for QSC as a fixed-network operator, the change in the structure of the fees in fixed-network operations will reduce profitability by € 3 to € 4 million annually.

COURSE OF BUSINESS

Focus on ICT business paying off • During the past fiscal year, the Company's rigorous evolution into a full-fledged ICT provider played a major role in enabling the QSC Group to further avoid the negative trend in the German TC market and participate in the growth of such forward-looking markets as Cloud computing. Overall, revenues in fiscal 2012 rose only modestly by € 3.4 million to € 481.5 million. In this connection, revenue growth in the two ICT lines of business (€ 36.5 million in Direct Sales and € 3.9 million in Indirect Sales) was offset by a € 36.9-million decline in predominantly conventional TC revenues with resellers.

REVENUES (in € million)



The Company's transformation into a full-fledged ICT provider also characterized the development of business over the course of the year. In fiscal 2012, revenues rose from € 116.0 million in the first quarter to € 128.3 million in the fourth quarter. A good portion of this increase was attributable to the seasonal course of Consulting and Outsourcing business, where customers often tend to be cautious at the outset of the year, while increasingly eyeing swift project completion and timely invoicing as the year draws to a close.

2012 REVENUES BY QUARTER (in € million)

Highest level of new orders in the company's history • New orders in Direct Sales during the past fiscal year document the Company's advances in its transformation process toward becoming a full-fledged ICT provider. At € 193.1 million, QSC won more new orders in fiscal 2012 than ever before in its history. In particular, winning three large multiple-year Outsourcing projects played a major role in this success.

ORDER BACKLOG (in € million)

In late February 2012, Olympus Europa Holding GmbH, one of the world's leading manufacturers of optical and digital products, signed a contract involving a term of at least five years and a volume of some € 27 million for outsourcing its European-wide IT infrastructure. And in May 2012, QSC was able to announce another major contract, this time with Amprion GmbH, one of Europe's leading power grid operators. The solution plan for this former RWE subsidiary includes transitioning its entire IT infrastructure, its IT systems, as well as all of its data, and then assuming responsibility for all IT operations. And in the third quarter of 2012, finally, the Company succeeded in winning a request for proposals from a nationwide energy service provider involving a volume of over € 60 million. QSC is assuming this customer's ICT infrastructure and in the future will be responsible for its information and communications technology.

QSC wins contract valued at more than € 60 million

Multiple-year contracts necessitate lead times • All three contracts have a minimum term of five years. Given the complexity of the projects, under which QSC sometimes also takes on and integrates IT employees from the respective customer, these orders are not expected to generate significant ongoing revenues until the course of fiscal 2013.
Over and above these three major projects, Direct Sales was also able to win numerous SME Outsourcing, Consulting and Managed Services projects during the course of fiscal 2012. In this connection, staff from QSC, INFO AG and IP Exchange operated jointly, enabling them to utilize the typical characteristics of a mid-size enterprise – flexibility, quality and communication at eye level – to score points in competing against such corporate giants as Deutsche Telekom, Hewlett-Packard and IBM. Moreover, specifically broadening the Company's industry competence in Direct Sales proved to be highly promising: The Company was able to convince several new customers from the energy industry, for example, as well as to renew and broaden numerous existing contracts.
Growth in Direct Sales is necessitating that the workforce be steadily expanded; the number of employees at INFO AG, alone, rose by 131 people to 787 in fiscal 2012. While these investments in future growth do reduce margins near term, they serve as the prerequisite for being able to provide high-quality support to existing customers and to successfully address new ones.

Cloud projects with SAP and Microsoft • Cloud solutions are playing a growing role in Outsourcing and Consulting business. Since September 2012, INFO AG has been one of the first players in the German-speaking regions of Europe to provide the mobile business applications from software concern SAP from the Cloud, as well. With their partnership in the field of Managed Mobility, these two companies have further expanded their longstanding collaboration. At the same time, INFO AG intensified its strategic partnership with Microsoft. At the Microsoft Worldwide Partner Conference in Toronto, Canada, in July 2012, both companies announced the market launch of their first joint hybrid Cloud offerings in Germany.

QSC bringing self-developed products to market • In Indirect Sales, QSC broadened its portfolio in fiscal 2012 to include largely self-developed innovations. In May 2012, the Company debuted QSC-Housing. This modular design enables Housing solutions to be swiftly and individually assembled in accordance with the customer's needs. In its data centers, QSC assures smooth server operations – from installation and maintenance to electricity and air conditioning right through to fire protection and comprehensive security plans.

With QSC-Cospace business, the Company has been offering business customers a Collaboration service that utilizes Cloud-based fax, mailbox, conferencing and storage functions since October 2012. The functionalities exceed what is offered in the free basic version, enabling multiple workplaces to be integrated on one and the same communications platform, for example. Overall, QSC began marketing four in-house developments during the past fiscal year, and additionally optimized the functionalities and performance of a number of additional products and services.

Industrialization of processes affords attractive margins

At the same time, the Company drove the industrialization of processes and standardization of products and services, thus creating the basis for attractive margins in Indirect Sales. And the other business units, too, will benefit from this industrialization know-how.

Partner network expanded to 389 distribution partners • One of the focuses of business operations in fiscal 2012 was on growing partner distribution. QSC systematically augmented its traditionally strong partner distribution operations in the TC environment to include regional IT service providers and IT systems houses that possess different access to the expanded ICT portfolio and, in particular, to the new Cloud-based services and data center solutions. During the course of the fiscal year, a total of 89 new partners decided to add QSC products to their portfolios; the partner network thus totaled 389 companies as of December 31, 2012. This significantly exceeded the original goal of recruiting 50 new partners within the space of twelve months.

NUMBER OF QSC'S SALES PARTNERS (as of December 31)

However, these partners necessitate comprehensive training before they can generate revenues. At roadshows, which were also conducted jointly with partners, at trade shows and on-site, QSC staff brought all partners up to date during the course of 2012, enabling them to make a greater contribution to the Company's overall success during the current fiscal year.

Caution prevails in conventional TC market • Operating business in fiscal 2012 focused on expanding ICT business. In its conventional TC business, in the Resellers Business Unit, QSC adhered to the principle that every product and service should earn a sufficient contribution margin. The Company prefers to incur revenue shortfalls rather than to fully engage in the stiff pricing competition that prevails in the call-by-call/preselect and DSL markets. Moreover, conventional TC business with resellers was impeded by rulings by the German Federal Network Agency. (Further information is contained in "General Regulatory Conditions" on pages 58 – 60.)

SEE PAGES 58ff.
GENERAL REGULATORY CONDITIONS

Accelerating the transformation process • The market- and regulatory-induced revenue shortfalls in conventional TC business, on the one hand, and growth in ICT business, on the other, underscore the strategic importance of the transformation process. From quarter to quarter in fiscal 2012, QSC reduced its dependence upon conventional TC business, while at the same time increasingly participated in the growth of the IT market. Parallel to this, the Company broadened its IT competence by recruiting further professionals, and with its new products and distribution partners laid the foundation for sustained growth in the coming years.
One milestone in fiscal 2012 along the road toward becoming a full-fledged ICT provider was the conclusion of the merger of INFO AG with INFO Holding (formerly IP Partner) ahead of schedule. (Further information on the legal measures involved is offered in "Organizational Structure" on pages 30 – 31.) Following registration of the merger, QSC initiated any number of measures aimed at increased integration, which had originally not been planned until the current fiscal year. Among other things, the Company began to lend consistency to the processes and structures in such downstream areas as Human Resources, Purchasing and Finance, as well as consolidating infrastructure locations.

SEE PAGES 30f.
ORGANIZATIONAL STRUCTURE

First share buy-back program in QSC's history • In addition to concluding the acquisition of INFO AG ahead of schedule, the first share buy-back program in the history of QSC also had effects on the Company's profitability, financial position and net worth during the past fiscal year, which deserve mention. On May 11, 2012, the Management Board had resolved to acquire treasury shares amounting to up to 10 percent of the capital stock on stock exchanges beginning May 21, 2012. The Management Board thus utilized the authorizing resolution adopted by the Annual Shareholders Meeting on May 20, 2010, which had authorized the Management Board to acquire treasury shares in the amount of up to 10 percent of the capital stock through May 19, 2015.
QSC concluded this share buy-back program on November 5, 2012. By then, the Company had acquired a total of 13,699,913 treasury shares, representing 9.98 percent of the capital stock at that point in time. The average purchase price amounted to € 2.117 per QSC share. The buy-back cost QSC a total of € 29.0 million, exclusive of attendant costs. On January 9, 2013, the Company announced the Management Board's decision to utilize the simplified procedure pursuant to § 71, Para. 1, No. 8, Sent. 6, German Corporation Act ("AktG"), to withdraw from circulation all treasury shares acquired, while reducing the Company's capital stock. This decreased the Company's capital stock to € 123,677,239.00.

QSC withdraws from circulation all shares acquired in 2012

PROFITABILITY

Regulatory-induced revenue shortfalls • The QSC Group generated revenues of € 481.5 million during the past fiscal year, compared to € 478.1 million in fiscal 2011. In addition to € 31.3 million stemming from the consolidation effect of INFO AG, which has only been a consolidated company since May 2011, regulatory-induced revenue shortfalls must also be taken into consideration in connection with this comparison. A € 6-million revenue decline was attributable to a ruling by the German Federal Network Agency calling for a reduction of the interconnection fees effective July 1, 2011. And mobile interconnection fees, in addition to fixed-network routing fees, were also again significantly lowered by the regulatory authority effective December 1, 2012. These rulings lead to an additional revenue shortfall of more than € 2 million per month at QSC.

REVENUES (in € million)

Gross margin stable at 25 percent • During the past fiscal year, QSC generated modestly higher revenues on modestly lower cost of revenues, enabling the Company to increase gross profit to € 122.3 million, in contrast to € 117.6 million in fiscal 2011. Gross margin remained constant at 25 percent.

GROSS PROFIT (in € million)

Cost of revenues totaled € 359.2 million in fiscal 2012, in contrast to € 360.5 million the year before. In fiscal 2012, the lion's share of these expenses was again attributable to cost of materials; as a result of declining conventional TC business, revenue-based costs, in particular for utilizing third-party lines, were reduced to € 225.0 million, compared to € 240.7 million the year before. The costs for building, operating and maintaining QSC's own infrastructure continued to decline to € 43.5 million, in contrast to € 47.2 million in fiscal 2011. This decrease was attributable to ongoing optimization of resources as well as a high degree of cost discipline. At € 38.9 million, depreciation expense, which QSC includes in the individual expense line items in the Annual Financial Statements – in contrast to the quarterly reports and pursuant to IFRS –, remained virtually unchanged from its level of € 38.1 million the year before. As an element of cost of revenues, personnel expenses, on the other hand, rose from € 34.4 million to € 51.7 million. This rise was attributable to the full-year consolidation of INFO AG, as well as to expansion of this subsidiary's workforce. In viewing the development of cost of revenues, it should be noted that, as in fiscal 2011, this line item includes a positive effect from the partial return of deferred income in the amount of € 20.9 million. QSC utilizes this line item to record the payment received in fiscal 2011 from former Plusnet co-shareholder TELE2 for premature termination of the contract, which had originally been scheduled to run through year-end 2013, and returns them on a periodic basis.

INFRASTRUCTURE COSTS (in € million)

Temporarily higher administrative expenses • Sales and marketing expenses remained virtually constant in fiscal 2012 at € 56.2 million, compared to € 56.7 million the year before. They essentially record personnel expenses, commission payments, advertising expenses, as well as depreciation expense. While personnel costs rose in 2012, commissions remained below their previous year's level.

At € 39.0 million for the past fiscal year, general and administrative expenses were up from the previous year's level of € 35.1 million. This was essentially attributable to the need to operate two administrations for publicly traded corporations until the merger of INFO AG went into effect in July 2012, as well as to non-recurring expenses in connection with this merger.

Two administrations of publicly traded corporations in 2012

Other operating expenses rose to € 3.5 million in fiscal 2012, compared to € 1.4 million the year before. This line item essentially records provisions for litigation in the amount of € 2.6 million. Further information on this is contained in Point 42 of the Notes to the Consolidated Financial Statements. At € 1.0 million, other operating income, on the other hand, remained below the previous year's level of € 1.8 million.

SEE PAGES 150ff.
NOTES

Stable profitability during the transformation process • It is possible to get a better grasp of the sustained profitability of the QSC Group if, in conformity with customary international practice, depreciation, amortization and non-cash share-based remuneration are recorded as separate line items in the Statement of Income, as the Company does in its Quarterly Reports. However, in these Consolidated Financial Statements, these metrics are included in the line items for cost of revenues, sales and marketing, as well as general and administrative expenses. The following abbreviated statement of income presents depreciation/amortization separately:

In € million	2012	2011
Revenues	481.5	478.1
Cost of revenues*	(320.2)	(322.3)
Gross profit	**161.3**	**155.7**
Sales and marketing expenses*	(46.7)	(44.5)
General and administrative expenses*	(34.1)	(31.8)
Other operating income	1.0	1.8
Other operating expenses	(3.5)	(1.4)
EBITDA	**77.9**	**79.9**
Depreciation/amortization (including non-cash share-based remuneration)	(53.4)	(53.7)
Operating profit (EBIT)	**24.6**	**26.2**

*excluding depreciation/amortization and non-cash share-based remuneration

EBITDA margin stands at 16 percent • As a result of temporarily higher administrative expenses and higher other operating expenses, EBITDA totaled € 77.9 million for the past fiscal year, in contrast to € 79.9 million in fiscal 2011. The EBITDA margin reached its planned target of 16 percent.

2012 EBITDA BY QUARTER (in € million)

Depreciation expense declined modestly in fiscal 2012 to € 53.4 million, compared to € 53.7 million the year before. Consequently, at € 24.6 million operating profit was down from the previous year's level of € 26.2 million. The EBIT margin continued to amount to 5 percent.
The financial loss amounted to € -3.9 million, in contrast to € -2.8 million in fiscal 2011, as net debt rose during the course of the year. Earnings before income taxes thus amounted to € 20.7 million, in contrast to € 23.4 million the year before.

Consolidated net income totals € 19.0 million • Tax profit amounted to € -1.7 million in fiscal 2012, compared to € 4.6 million the year before, when QSC, in accordance with IFRS rules, had recorded a significantly positive effect from deferred taxes. Consolidated net income, therefore, totaled € 19.0 million in fiscal 2012, compared to € 28.0 million the year before. Undiluted earnings per share stood at € 0.14 in fiscal 2012, in contrast to € 0.20 the year before.

PROFITABILITY BY SEGMENT

Direct Sales revenues rose from quarter to quarter in 2012

Direct Sales develops into highest-revenue business unit • Revenues in Direct Sales advanced by 24 percent in fiscal 2012 to € 187.9 million. Over and above the consolidation effect stemming from the first full-year inclusion of INFO AG in the Consolidated Financial Statements, this growth stems from successes in operating business. Thanks to the collaboration between the people of INFO AG, QSC AG and IP Exchange in this business unit, it was possible to broaden business with existing customers and win new customers. The quarter-to-quarter development of revenues in Direct Sales illustrates its growth dynamic: Revenues rose from € 42.1 million in the first quarter of 2012 to € 50.4 million in the final quarter of 2012. As a result of this dynamic, Direct Sales, which is active in the ICT market, for the first time generated higher sales for the full fiscal year than the Resellers Business Unit, which is predominantly active in the conventional TC market – no other development better illustrates the QSC Group's successes and advances in its transformation process toward becoming a full-fledged ICT provider.

REVENUES, DIRECT SALES (in € million)

Direct Sales investing in future growth • In fiscal 2012, cost of revenues rose by € 30.5 million to € 120.6 million in Direct Sales, while revenues improved by € 36.5 million during the same period. Since Direct Sales includes all of the business of the two IT subsidiaries INFO AG and IP Exchange, this business unit also bears all of these companies' marketing, selling and administrative expenses. It was necessary for INFO AG, alone, to maintain all of the functionalities of a publicly traded corporation until INFO shares were delisted in July 2012.
Consequently, general and administrative expenses of € 20.2 million in Direct Sales were up from the previous year's level of € 16.1 million. During the same period, sales and marketing expenses increased from € 16.1 million to € 20.0 million. In addition to the effect stemming from the full-year consolidation, in making a comparison it should also be noted that given the sustained growth dynamic, INFO AG, in particular, expanded its workforce to include 131 additional IT experts in fiscal 2012. Overall, EBITDA of € 26.2 million was down from the previous year's level of € 29.4 million as a result of these higher operating expenses. The EBITDA margin stood at 14 percent, compared to 19 percent the year before.
Since Direct Sales invested in expanding the data centers, in particular, in fiscal 2012, depreciation expense in this business unit rose to € 23.3 million, compared to € 18.2 million in fiscal 2011. Operating income therefore amounted to € 2.7 million, by comparison with € 11.1 million in fiscal 2011. This decline in profitability was essentially attributable to capital investments in future growth in what is the QSC Group's business unit with the highest revenues and strongest growth.

Indirect Sales makes turnaround during course of the year • In fiscal 2012, Indirect Sales generated revenues of € 125.1 million, by comparison with € 121.2 million the year before. In this connection, the business unit succeeded in utilizing standardized ICT products and services to make a turnaround during the course of the fiscal year. After this business unit had to put up with several quarters of stagnating or even declining revenues due to the development of the conventional TC market, it returned to a growth course in the second half of the year, with revenues rising from € 28.9 million in the second quarter to € 35.3 million in the fourth quarter of fiscal 2012. This business unit benefited from the growing demand on the part of its ICT partners for high-bandwidth DSL lines as well as for IP-based voice services, in particular.

Growing demand from marketing partners in second half of year

REVENUES, INDIRECT SALES (in € million)

Partner business offers especially high margins • QSC had initiated an industrialization of processes and products early on in Indirect Sales, and is now benefiting from this preparatory work. While revenues rose, cost of revenues decreased by € 2.5 million in fiscal 2012 to € 67.5 million. Since the other cost line items also declined, EBITDA in this business unit improved by 30 percent during the past fiscal year to € 34.0 million. During this same period, the EBITDA margin rose from 22 percent to 27 percent. Operating income, too, advanced significantly in 2012: Indirect Sales earned an EBIT of € 22.9 million, by comparison with € 14.5 million in fiscal 2011.

Stiff price competition in conventional TC business also in 2012

Sustained decline in revenues with resellers • In fiscal 2012, revenues in the Resellers segment dropped by 18 percent year on year to € 168.5 million. This decline was attributable to sustained stiff pricing and shakeout competition in the ADSL2+ and call-by-call/preselect markets. The contracting market volume in conventional voice telephony also impacted Managed Outsourcing business, in which QSC handles the narrowband fixed-network business of other TC providers. This negative development overall in conventional TC business confirms QSC's strategy of focusing on forward-looking, high-growth ICT business.

REVENUES, RESELLERS (in € million)

Price war narrows margin • Given declining revenues, cost of revenues also fell by 19 percent to € 132.1 million in fiscal 2012. While proportionate sales and marketing expenses, as well as general and administrative expenses, also declined, an EBITDA of € 17.8 million in fiscal 2012 was down sharply from the previous year's level of € 24.3 million. In the face of stiff pricing competition, the EBITDA margin decreased from 12 percent in fiscal 2011 to 11 percent. An even greater decline was prevented by a non-recurring transaction in the fourth quarter of 2012, in which the QSC Group sold IP addresses no longer required for its TC business as planned for a low single-digit million price, without incurring any appreciable costs.

Since Reseller business utilizes the QSC Group's network infrastructure to a relatively high degree, it will have to continue to shoulder considerable depreciation expense, amounting to € 18.7 million in fiscal 2012, by comparison with € 23.5 million the year before. As a result, the operating result of € -1.0 million was down from the previous year's level of € 0.6 million.

FINANCIAL POSITION AND NET WORTH

Conservative financial management • Financial management of the QSC Group serves to assure smooth financing of operating business and upcoming capital expenditures. There are three major objectives in connection with financing and investments of capital:

- Efficient management of available liquidity
- Maintaining and optimizing financeability
- Reducing financial risks

QSC invests its surplus liquidity exclusively in money market and low-risk investments; consequently, as in previous years, the Company did not have to make any write-downs on investments of capital. Foregoing the use of derivative financial instruments also helps minimize financial risks. The QSC Group is not subject to any foreign-currency exchange rate risks, as it operates virtually exclusively within the euro zone. No guaranties existed outside the balance sheet. Further information on financial risk management is contained beginning on page 154 in the Notes to the Consolidated Financial Statements.

SEE PAGES 154ff.
FINANCIAL RISK MANAGEMENT

QSC Group earns free cash flow of € 23.6 million • Free cash flow is a key parameter in steering the entire QSC Group and the key metric in Finance. The following table shows the amounts of all parameters as of December 31, 2012, and 2011.

In € million	Dec. 31, 2012	Dec. 31, 2011
Cash and short-term deposits		
Cash and short-term deposits	34.8	23.8
Available-for-sale financial assets	0.3	0.3
Liquidity	**35.2**	**24.1**
Liabilities under financing arrangements	(11.3)	(13.6)
Liabilities due to banks	(79.2)	(43.6)
Interest-bearing liabilities	**(90.5)**	**(57.2)**
Net debt	**(55.3)**	**(33.1)**

Liquidity improved by € 11.1 million to € 35.2 million during the past fiscal year. During the same period, interest-bearing liabilities rose by € 33.3 million to € -90.5 million. This increased net debt by € 22.2 million to € -55.3 million.

This rise resulted from three developments outside the scope of operating business:
- In May 2012, QSC paid a dividend of € 0.08 per share for fiscal 2011; the Company expended a total of € 11.0 million for this purpose.
- The buy-back of treasury shares during the course of fiscal 2012 resulted in expenditures in the amount of € 29.0 million, exclusive of attendant costs.
- In the third quarter of fiscal 2012, QSC concluded the conversion squeeze-out of INFO AG, acquiring the outstanding shares of INFO AG for a total of € 5.8 million.

Since free cash flow reflects the financial strength of operating business, these cash outflows totaling € 45.8 million are left out of consideration. The result was a free cash flow of € 23.6 million.

Operating cash flow of € 61.0 million in 2012

Strong cash flows from operating activities • The financial strength of the Company's operating business is documented by cash flow from operating activities in the amount of € 61.0 million in fiscal 2012. The decline from the previous year's level of € 76.8 million was due to a special effect in connection with the acquisition of all Plusnet shares in 2010, as there was still a claim in the amount of € 28.4 million against a legacy shareholder in the first quarter of 2011. Without this effect, there would have been a sharp rise in cash flow from operating activities.
At € -33.2 million, cash used in investing activities remained far below the previous year's level of € -85.3 million, as QSC recorded in this line item the payments for the acquisition of INFO AG and IP Partner, net of liquid assets acquired. Amounting to € -16.7 million, net cash used in financing activities was up from the previous year's level of € -13.9 million, as the QSC Group took up an increased volume of loans during the past fiscal year.

Moderate capital expenditures total 8 percent of revenues • In the past fiscal year, the QSC Group invested a total € 37.9 million, compared to € 35.6 million the year before; this represents a capital expenditure ratio of 8 percent. 46 percent of these capital expenditures were customer-related, serving primarily to connect new customers to the QSC infrastructure. 35 percent of the capital expenditures were attributable to the procurement of new technology, with the focus here on expanding the data centers. Merely € 2.6 million went toward modernizing and maintaining the network infrastructure. The remaining 19 percent of capital expenses went toward operational and office equipment, as well as toward the development of the proprietary Q-loud platform for innovative Cloud-based services.

CAPITAL EXPENDITURES (in € million)

High percentage of long-term assets • As a result of moderate capital expenses in new property, plant and equipment, the long-term assets in the amount of € 279.4 million recorded in the Consolidated Balance Sheet for the year ended December 31, 2012, remained below the previous year's level of € 291.4 million. However, this means that long-term assets still accounted for 72 percent of the balance sheet total of € 387.1 million as of December 31, 2012; the year before, on a balance sheet total of € 391.3 million, this ratio had stood at 74 percent. On the other hand, the weighting of short-term assets rose modestly by 2 percentage points to 28 percent. On the Shareholders' Equity and Liabilities side, 47 percent of these assets are financed through shareholders' equity, and 53 percent through outside capital. The 6-percentage-point decline in the equity ratio by comparison with December 31, 2011, was primarily attributable to the effects of the share buy-back program and the dividend payment.

Transformation into an ICT provider decreasing the importance of property, plant and equipment • Long-term assets essentially contain four major line items: Property, plant and equipment; land and buildings; goodwill; as well as other intangible assets. As a result of scheduled depreciation on infrastructure, the value of property, plant and equipment declined to € 107.6 million as of December 31, 2012, by comparison with € 116.7 million one year earlier. The valuation of land and buildings (including the self-utilized INFO AG corporate headquarters in Hamburg) decreased moderately to € 27.3 million, compared to € 28.3 million as of December 31, 2011. Goodwill remained unchanged at € 76.3 million; further information on its valuation is contained in Note 16 to these Consolidated Financial Statements. As a result of scheduled depreciation, the value of other intangible assets declined to € 50.5 million from € 56.3 million as of December 31, 2011.

SEE PAGES 124f.
NOTES

Higher liquidity as of December 31, 2012 • Within current assets, trade accounts receivable totaling € 63.8 million as of December 31, 2012, were down slightly from their level of € 65.7 million at the balance sheet date of the previous fiscal year. Further information on the value of these accounts receivable can be found in Note 18 to these Consolidated Financial Statements. The second major line item within current assets, cash and short-term deposits, improved significantly to € 34.8 million as of December 31, 2012, in contrast to € 23.8 million at year-end 2011.

SEE PAGES 129ff.
NOTES

Share buy-back program and dividend payment impact shareholders' equity • On the Shareholders' Equity and Liabilities side of the Consolidated Balance Sheet, shareholders' equity declined to € 180.2 million as of December 31, 2012, compared to € 207.3 million as of December 31, 2011. As a result of the first share buy-back program, capital stock decreased to € 123.7 million as of December 31, 2012, in contrast to € 137.3 million as of December 31, 2011. As of December 31, 2012, QSC recorded 13,629,913 treasury shares; mathematically, each share represented one euro of the capital stock, thus reducing capital stock by € 13.6 million. The Company recorded that portion of the acquisition price over and above this amount directly in cumulative consolidated income, resulting in neither profit nor loss. Cumulative consolidated income declined by € 15.4 million as a result of the share buy-backs. QSC also recorded the Company's first dividend distribution in the amount of € 11.0 million directly under cumulative consolidated income or loss.

Dividends to be distributed in the future as well

The third line item to influence cumulative consolidated income was net income for the 2012 fiscal year in the amount of € 19.0 million. Taking into consideration all three of these effects, accumulated deficit as of December 31, 2012, rose by € 10.7 million to € -82.8 million, compared to € -72.1 million at year-end 2011. Since QSC plans to distribute dividends for the coming fiscal years, as well, any reduction in accumulated deficit will continue to be offset by an increase in this metric due to dividend payments as a result of ongoing profitability.

Deferred income partially returned • Within the category of outside capital, long-term liabilities recorded an increase of € 16.4 million as of December 31, 2012, to € 96.0 million, while short-term liabilities increased by € 6.5 million to € 110.9 million.
This increase in long-term liabilities was essentially attributable to a rise in liabilities due to banks to € 74.8 million, compared to € 40.3 million as of December 31, 2011. In September 2011, QSC had arranged for a five-year line of credit with a banking consortium in the amount of € 150 million at favorable terms, utilizing only a portion thereof in fiscal 2012 to finance the Company's transformation as well as measures aimed at enabling shareholders to participate in the Company's success. Overall, the Company had utilized € 77.1 million of this line of credit by year-end 2012, including € 15.1 million for guaranties. 49 percent of the consortial line of credit thus remained unused.
Long-term deferred income, by contrast, declined by € 20.0 million to € 0.9 million as of December 31, 2012. QSC utilized this line item primarily to record payments from former Plusnet co-shareholder TELE2 for premature termination of the contract, whose original term was to run through year-end 2013, that were not returned during the respective current year. The amount of € 20.9 million still to be returned in fiscal 2013 comprises a major element of the short-term deferred income item totaling € 23.5 million as of December 31, 2012. In addition, trade accounts payable constitute the second major line item within short-term liabilities: They rose to € 52.5 million as of December 31, 2012, in contrast to € 46.6 million one year earlier.

SEE PAGE 70 FINANCIAL POSITION AND NET WORTH

Moderate debt • The QSC Group's sound financing position can also be seen with a view to its net debt. While this metric did rise by € 22.2 million to € -55.3 million as of December 31, 2012, as detailed on page 70 of this Annual Report, QSC continues to far surpass the industry average and the values of other technology companies with a 0.7 ratio between net debt and EBITDA. Given large influx of cash from operating activities and moderate capital expenditures, the Company continues to view itself as being very well and soundly financed.

COMPARISON BETWEEN ACTUAL AND FORECAST COURSE OF BUSINESS

QSC Group achieves corporate targets • For QSC, fiscal 2012 was a year of preparation for achieving its full strength and power as a full-fledged ICT provider following the acquisitions of the two IT providers INFO AG and IP Partner. Swift integration of these new companies, along with acceleration of the ongoing transformation process, were to serve this purpose. At the outset of the year, the Company had planned total revenues of between € 480 and € 510 million, an EBITDA margin of at least 16 percent, as well as a free cash flow in the amount of between € 22 and € 32 million. Further declining revenues in conventional TC business were to be offset by sharply rising ICT revenues.

2012 characterized by two-track development of operating activities

This two-track development of operating business was what characterized the year 2012, again underscoring the importance of the transformation process, which had been initiated early on. QSC was able to conclude the merger of INFO AG with INFO Holding (formerly IP Partner) earlier than had been anticipated, thus driving integration even more swiftly than had been planned at the beginning of the year. In spite of this, the Company attained all of the targets it had announced at the outset of the year: The QSC Group generated revenues of € 481.5 million, an EBITDA margin of 16 percent and a free cash flow of € 23.6 million. A stronger-than-expected decline in conventional TC business prevented an even greater rise. However, this market- and regulatory-induced decline makes it easier for the QSC Group to focus on ICT business, and is therefore not viewed as being detrimental to its future development.

GENERAL REMARKS

Advances in the transformation process • In fiscal 2012, the QSC Group made great progress as it traveled the road toward becoming a full-fledged ICT provider, and was able to conclude some of the preparations necessary for this earlier than had originally been planned. While conventional TC business did decline more strongly than had been anticipated at the outset of the year, strong revenue growth in ICT business and in Direct Sales, first and foremost, assured that QSC was again able to achieve all of its targets in fiscal 2012 and successfully conclude this year of preparation.

Report on Risks

RISK STRATEGY

Consistent risk management throughout the QSC Group • The QSC Group has set ambitious goals for itself with its Vision 2016. A forward-looking system of managing opportunities and risks is needed in order to achieve these goals in constantly changing markets. During the course of the 2012 fiscal year, the Company consolidated and harmonized the autonomous risk management system that INFO AG had maintained through to the discontinuation of its capital market listing with that of QSC AG.

Balance between avoiding risks and utilizing opportunities

Consistent risk management serves as the basis for decision-making at all companies in the QSC Group. The purpose of the risk strategy is to achieve an optimum balance between avoiding and/or minimizing existing and potential risks and swiftly utilizing opportunities. Systematically dealing with potential opportunities and risks while fostering a culture of risk-based thinking and behavior represent a key element in securing and shaping the future of the entire QSC Group.

MANAGEMENT OF OPPORTUNITIES

Decentralized responsibility for opportunity management • The management of opportunities and the management of risks are closely linked. Opportunities can arise from internal and external developments. The responsibility for identifying and taking advantage of them rests with the business units and subsidiaries. They primarily utilize market and competition analyses, internal studies and market research results in order to identify opportunities early on. They regularly report on opportunities that arise and the measures needed to utilize them. The Outlook Report that begins on page 85 contains an overview of the opportunities that will be of particular relevance for the QSC Group during the coming two fiscal years.

SEE PAGES 85ff.
OUTLOOK REPORT

MANAGEMENT OF RISKS

Focus on avoiding, reducing and securing against risks • The risk management system at the QSC Group comprises intercoordinated rules, measures and procedures for dealing with risks that arise from internal and external events, acts or omissions that could pose a potential threat to the success or even the very survival of all companies within the corporate Group. The risk management system is intended to identify, analyze, assess, control and monitor these kinds of risk-laden developments as early on as possible in order to ensure the Company's success over the long term. The risk management system focuses on:

- Avoiding risks through prevention
- Employing suitable measures to reduce existing risks
- Securing against existing risks through the formation of accruals/provisions and by taking out insurance coverage
- Creating an awareness for existing residual risks

The risk management system (RMS) is an integral element of the decision-making process at the QSC Group. It assures that risk assessments are taken into consideration in connection with all decisions and that measures to reduce any risks are initiated early on. Regular reporting helps to raise the awareness for risk management on the part of all individuals who bear responsibility. The RMS is accompanied by guidelines, standard operating procedures and process instructions, which ensure its implementation in everyday operations.
Risk Management and Finance play a key role in the RMS: Corporate risk management, which reports to the Chief Executive Officer, is responsible for both the annual risk inventory as well as for the quarterly risk reports and is in constant contact with all areas throughout the organization. Finance is responsible for monitoring risks on the basis of operating and financial performance indicators.
Ongoing monitoring and assessment of risks that arise is in the hands of decentral risk coordinators. With this decentralized organizational structure, QSC ensures that it will be able to identify potential risks in its operating business as early on as possible. The risk coordinators regularly review their areas of responsibility to determine whether previously unidentified risks have arisen and whether there has been a change in existing risks. They regularly report to the Management Board, if necessary on an ad-hoc basis, on the risks and challenges in their areas.

Risks monitored and assessed decentrally

Existing risks consolidated into quarterly risk reports • Corporate Risk Management oversees the introduction of and compliance with all risk-avoidance and risk-reduction measures. It additionally handles consolidation and documentation of the decentrally assessed risks, and uses this information to produce a quarterly risk report for the Management Board. At least once a year, the Management Board informs the Supervisory Board in the form of a detailed risk report, while additionally using the RMS as the basis for also informing the Supervisory Board about all newly arising major risks and opportunities. Moreover, the entire early-detection system for risks is reviewed within the framework of the audit of the Company's Annual Financial Statements.
Beginning on page 154, the Notes to the Consolidated Financial Statements contain further information on the RMS concerning the disclosure requirements relating to financial instruments in accordance with IFRS 7.

SEE PAGES 154ff. NOTES

SUPPLEMENTARY INFORMATION PURSUANT TO § 315, Para. 2, No. 5 German Commercial Code ("HGB")

Accounting process an integral element of the RMS • Accounting-related risk management is an integral element of the RMS. The billing and accounting risks are constantly monitored, with the results being included in the Group-wide reporting. Within the framework of the audit of the Annual Financial Statements, the auditor also reviews the accounting process and the IT systems that are employed for this purpose. On the basis of the auditor's observations, both the Supervisory Board's Audit Committee as well as the full Supervisory Board deal with the accounting-related internal control system.

Major characteristics of the accounting-related RMS • QSC details the major characteristics of this RMS below:

- QSC possesses a clear management and corporate structure. The accounting for all subsidiaries is handled either by QSC AG, itself, on the basis of contracts for services or work or it is handled in close collaboration with the subsidiaries. The individuals at the subsidiaries who are responsible for the individual processes are clearly named.
- Among other things, QSC assures strict compliance with both statutory requirements as well as International Financial Reporting Standards (IFRS) through the employment of qualified professionals, specific and ongoing continuing education for these professionals, the strict observance of the four-eyes principle through the organizational separation of execution, billing and approval functions, as well as through a clear separation of roles in creating and posting documents, as well as in Controlling.
- QSC uses a suite of standard software from SAP at all Group companies, although differing versions are presently still in use; plans call for employing consistent versions throughout the Group in the near future. The accounting software is comprehensively safeguarded against unauthorized access. It ensures that all major business transactions at all companies are recorded consistently, properly and in a timely manner.
- A set of Accounting Principles serves as the basis for accounting and consolidation at all companies. After being drawn up, the individual financial statements are transferred to a consistent consolidation system that ensures elimination of intercompany transactions. This system then provides the basis for the Consolidated Financial Statements as well as the major information in the Notes to the Consolidated Financial Statements.

Monthly reporting assures early risk identification

- Monthly Group-wide reporting ensures early identification of potential risks during the course of the year. It includes all accounting processes that are of relevance for the corporate Group, such as consolidation of capital, debt, expense and earnings.

With these measures, QSC provides the required transparency in its accounting and prevents to the greatest possible extent the occurrence of potential risks in this process, in spite of the enormous complexity of IFRS.

INDIVIDUAL RISKS

Detailed on the following pages are those strategic, operating, regulatory and other compliance risks that the QSC Group today views as being of major significance with respect to its business operations.

STRATEGIC RISKS

Residential DSL market becoming saturated • The German DSL market is increasingly nearing the saturation point, which is leading to stiff price competition. Moreover, residential customers, in particular, are showing increased interest in alternative broadband offerings, including cable TV and fiber optic connections. In addition to this, future changes in access rights in favor of Deutsche Telekom (Vectoring) may continue to worsen the competitive environment for alternative providers. The QSC Group is therefore no longer pushing its ADSL2+ business with resellers and is accepting declining revenues.
At the same time, the growing importance of alternative technologies is opening up new opportunities for the QSC Group. Cable TV network operators, for example, must by necessity collaborate with TC providers in connection with voice telephony; major cable TV network operators number among QSC's customers in wholesale voice business.
In addition, QSC was the first player to create a nationwide Open Access platform for providers and users of fiber optic connections, so-called FTTX connections. FTTX is an over-arching term that denotes running fiber either to end users (Fiber to the Home, FTTH), to their cellars (Fiber to the Basement, FTTB) or to the nearest cable branch (Fiber to the Curb, FTTC). Given the resulting potential, the QSC Group views the risk arising from its existing DSL business, which is relatively low-margin compared to the ICT lines of business, as being moderate, as any potential negative effect stemming from this would primarily impact revenues and only to a lesser degree profitability.

Replacement of legacy voice telephony • Fiscal 2012 saw a continuation of stiff price competition within the legacy voice telephony market. QSC combats the corresponding shortfalls in conventional voice business with call-by-call and preselect rates through revenue growth in VoIP telephony and other IP-based services on the basis of its Next Generation Network. The Company therefore does not anticipate that this risk will have any major impact on its business operations.

Integration of acquisitions • In the future, too, the QSC Group does not preclude the possibility of broadening its own spectrum of products, solutions and services through targeted acquisitions, especially smaller ICT specialists. In the case of acquisitions, the fundamental risk exists that integration might pose a particular challenge due to the need to harmonize differing corporate philosophies or that the acquisition might not live up to the expectations that have been placed in it. Especially in the recent past, QSC has been able to successfully manage these kinds of integration processes. The Company therefore views this risk as being manageable in the event of a further potential acquisition.

QSC has been able to successfully manage integration processes

Lack of demand for new products and services • In its transformation process, QSC is increasingly relying on in-house innovations, with a particular focus on the development of Cloud-based products and services. In this connection, there is a risk, on the one hand, that demand for these innovations might fall short of expectations or set in later than planned. On the other, development work always involves the risk that the market launch of new products and services might be delayed, or that it might be found during the course of the development process that the selected approach will not be successful. In this case, the QSC Group's future revenues and profitability could fail to live up to expectations, and might necessitate that assets be written down within the framework of the annual impairment test.

QSC utilizes measures in various operations to combat this risk: Strategic Marketing continuously analyzes the target markets for new products and services, pointing to potential changes early on. Moreover, ongoing interaction with marketing-related operations assures that the development work does not stray from the needs of the market. Setting milestones and regularly reviewing the progress made, including assessments by the Management Board, assure that each and every innovation project is guided and steered very closely. Given these measures and the fact that studies conducted by renowned market researchers are repeatedly pointing out the enormous growth potential that is offered by Cloud services, QSC views the risk of a lack of demand for new products and services as being manageable.

Ongoing dialog between developers and Sales

Revenues as a subscriber network operator • In recent years, QSC has built a nationwide infrastructure, with which it generates a considerable portion of its revenues from voice and data services. The emergence of new technologies or heightened competitive pressure from other network operators could severely restrict this QSC business. Thanks to its NGN, though, the Company is already able today to offer favorable prices that are geared toward this market, without endangering its margin position. From today's vantage point, QSC therefore views this risk as being moderate.

Availability of personnel • QSC's success is based upon the achievements of its qualified people. One risk in this area is that achievers could leave the Company at short notice, and another is that it might not be possible to recruit new talent from the market at the planned terms and conditions. This applies with respect to high-growth Outsourcing and Consulting business in Direct Sales, in particular, and also to product development. QSC combats this risk through extensive staff retention measures. In-house training and education, university partnerships and a number of networking activities ensure that QSC possesses a sufficient number of young new staff. The Company therefore views this risk as being under control, since it will continue to sustain its human resources recruiting activities at a high level.

OPERATING RISKS

Loss of licenses for telephone numbers • QSC operates numerous telephone numbers in its voice business. There is a risk that the Company's licenses for these numbers could be revoked as a result of breaches of statutory or regulatory provisions and/or failure to comply with regulations, in which case the Company would have to pay significant amounts of money for the deactivation of these numbers. QSC therefore utilizes numerous measures to ensure that it is in compliance with all regulations. Given this security system in voice business, which has thus far functioned very well, the Company views this risk as being controllable.

Dependence upon individual customers • QSC generates high revenues with relatively few customers in both its Reseller business as well as in Direct Sales. This entails the risks of becoming dependent upon one or only very few major enterprises. QSC constantly monitors this risk. However, since QSC and the respective customer are mutually dependent upon one another and QSC is highly involved in its customer's value chain, the Company views this risk as being manageable.

Potential penalties • Within the framework of larger projects, QSC enters into contracts that ensure certain service levels, some of them involving potential penalties. This results in the risk of high recourse entitlements and expenses stemming from operational interruptions. This risk is minimized through intensive service level management and consistent monitoring of the entire value chain, including the networks. Ongoing certification, such as INFO AG's under review standards ISO 9001:2008 (Quality Management) and ISO/IEC 27001:2005 (IT Security), document the security and reliability of the IT systems and infrastructure employed. Since, in the past, the QSC Group has been able to satisfy nearly all service level agreements, it therefore views this risk as being manageable.

Outage of the QSC infrastructure • The risk of a network outage or a data center going down is constantly monitored. In addition to a loss of reputation, indemnification claims or high penalties, in particular, following extended, widespread outages could result in corresponding expenses. Consequently, maintaining and continuously improving security and reliability throughout the ICT infrastructure is given the utmost priority within the framework of business operations. In its network operations, QSC therefore embraces collaboration with prominent and dependable telecommunications partners and employs redundancies within its infrastructure, which include both grid-independent power supply as well as mirrored server capacities at backup data centers. Air conditioning equipment prevents potential heat-induced hardware defects, while strictly defined access authorizations to all colocation rooms prevent misuse or sabotage. Because of these and a number of additional measures, the Company sees itself as being well equipped to continue smooth operations.

Maintaining and improving security enjoys top priority

Criminal intrusions into systems • Unauthorized intrusions into QSC's ICT infrastructure could result in considerable damage. The same also applies with respect to insufficient data protection and uncontrolled access to QSC's data centers. In the event of an outage of the operating IT systems, it would not be possible to handle orders or resolve system interruptions; the resulting monetary damage and loss of reputation could be significant.
To mitigate these kinds of risks, QSC has appointed special security coordinators in its IT operations, whose leaders report directly to the Chief Executive Officer. These Heads of Security bear the primary responsibility for a sophisticated security system, which includes the latest firewalls and a multi-tier virus protection system, virtually eliminating the above-described risks. In addition, the Group-wide IT security policy provides all employees with concrete guidance on avoiding security risks. As a result of all of these measures and according to reasonable standards, QSC views these IT security risks as being manageable.

QSC has a sophisticated IT security system in place

Loss of data • Operating errors, hardware defects or the destruction of a data center through attack or natural disaster can result in a loss of business-critical data. Growing volumes of data accumulated as a result of the Company's fast-paced growth could additionally push the capacities of the Company's data storage and backup systems to their limits. In any event, a loss of operating data would make it impossible for QSC to operate.
QSC addresses these risks through extensive data backup measures. The Company archives, within legally permissible limits, its complete backups for multiple years and stores the monthly backups in separate physical locations. Central data inventories are automatically backed up on a daily basis; in addition, the Company maintains a backup data center. Thanks to these extensive measures, as well as the Company's disaster recovery plan, QSC views the risk of data loss as being under control.

REGULATORY RISKS

An end to regulation • Even as an ICT provider, the QSC Group continues to be active on the regulated German telecommunications market (TC market). There is a trend here on the part of the political community and the German Federal Network Agency to end regulation of various markets and to restrict themselves in the future to monitoring these markets so as to intervene retroactively under general fair competition legislation if necessary. There is a risk that the coming years will see a further decline in the number of regulated markets, which would mean that the pricing latitude of Deutsche Telekom (DTAG) could rise in markets that have already been removed from regulation. In its pronouncements, the European Commission, in particular, is pushing for a paradigm shift and for increased efforts to promote investments through less regulation.

Previous experiences with the end of regulation in various markets show that public monitoring of DTAG's competitive behavior will not be sufficient to keep it from exploiting its newly won freedom. However, QSC anticipates that a sustained public discussion in combination with public disclosure of pertinent cases will foster behavior that is in conformity with the rules of fair competition, and that the German Federal Network Agency or the German Cartel Office will otherwise make use of their legal options. QSC is keenly monitoring this risk, as its ramifications for the Company could be considerable should regulation fail.

Competitive behavior of Deutsche Telekom • The QSC Group is significantly less dependent upon former monopolist DTAG's resale prices for voice and data services than most other ICT providers. Nevertheless, an aggressive pricing policy on the part of DTAG vis-à-vis both the required preliminaries as well as the end-user market, in particular, in those areas that lie outside the boundaries set by cartel law and regulations or in markets that are no longer being regulated could have a negative impact on the margin situation in the German TC market. This was seen to be the case in several situations in fiscal 2012.
This being so, QSC is counting on viable oversight by the German Federal Network Agency and the European Commission. The Company is limiting the potential risks by intensively monitoring the regulatory landscape as well as through its ongoing participation in the discussion of and by commenting on various proceedings. Taking these factors into consideration and assuming viable regulation in conformity with the rules of fair competition, QSC views these risks as being moderate.

OTHER COMPLIANCE RISKS

Financing the QSC Group • The QSC Group operates in a capital-intensive environment. An extended recession, aggressive price competition in major markets, potential acquisitions or the need to finance infrastructure investments by winning new and additional customer business could necessitate additional funding. QSC therefore very precisely monitors financing and liquidity risks. As of December 31, 2012, the QSC Group possessed liquid assets totaling € 35.2 million and a line of credit in the amount of € 150 million, of which only 51 percent had been utilized by then, and thus views itself as being well financed. This floating-interest line of credit runs through September 2016; a rise in the interest-rate level of 100 basis points would lead to higher expenses of € 0.3 million here. Further information on financial risk management is contained in Point 44 of the Notes to the Consolidated Financial Statements. Moreover, the QSC Group also utilizes financial opportunities offered by selling accounts receivable to prominent partner banks. Some financing contracts contain agreed financial performance indicators which, if not attained, enable the respective creditor to prematurely terminate the loan contracts. As of December 31, 2012,

The QSC Group sees itself as being well financed

SEE PAGES 154ff. NOTES

these financial performance indicators had been attained. The QSC Group combats this risk through strict control of the financial performance indicators that are of relevance in securing the financing and through forward-looking financial planning. Against the backdrop of the significantly positive cash flow that the Company has earned, QSC views the risk of a financing bottleneck as being minor and the financing risk overall as being under control.

Risks stemming from responsible corporate management • Due to the trend toward increasingly complex rules, the need to observe legal and industry-specific requirements (relating to data protection, social law, labor, tax and emissions laws, for example) is taking on increasing importance. In particular, the QSC Group combats these rising demands by strengthening the risk-awareness of its people on all organizational levels as well as by creating behavior policies and monitoring compliance with them. To the extent that they are meaningful, changes in the legal environment that affect the QSC Group are analyzed as early and extensively as possible in collaboration with external experts to assess their impact on the QSC Group. There is therefore only a low risk of not being able to respond appropriately to major developments in these areas.

QSC strengthens risk awareness on all organizational levels

GENERAL REMARKS

No major identifiable risks • Given the potential scope of damage and the likelihood that these and further potential risks could occur, no risks can presently be seen that could lead to a sustained material impairment of net worth, financial position or profitability in the coming two years. Organizationally, all meaningful and reasonable prerequisites have been put in place so that the Company can be informed early on in the event of potential risk situations and thereby take appropriate action.
Nevertheless, due to these or other risks and incorrect assumptions, QSC's actual future results could vary materially from the expectations of the Company and its management. All statements contained in these Consolidated Financial Statements that are not historical facts are forward-looking statements. They are based upon current expectations and projections of future events, and are subject to regular review within the context of the risk management system.

Subsequent Events

Treasury shares withdrawn from circulation, reducing capital stock • On January 9, 2013, the Management Board, with the consent of the Supervisory Board and on the basis of the authorizing resolution under Item 5 of the agenda, which was adopted by the Annual Shareholders Meeting on May 20, 2010, decided to withdraw from circulation treasury shares already acquired utilizing the simplified procedure pursuant to § 71, Para. 1, No. 8, Sent. 6, German Stock Corporation Act ("AktG"), thus reducing the Company's capital stock. Through this resolution, all 13,629,913 bearer shares held by QSC at this point in time and mathematically accounting for € 1.00 per share of the capital stock were withdrawn from circulation. The withdrawal of treasury shares from circulation reduced the capital stock of € 137,256,877.00 entered in the Commercial Register by € 13,629,913.00 to € 123,626,964.00.

Change in Management Board Chair effective May 30, 2013 • Given the scheduled expiration of his term of office as Chief Executive Officer of QSC AG effective April 30, 2013, Dr. Bernd Schlobohm on January 22, 2013, requested that the Supervisory Board not extend his term of office beyond the Company's Annual Shareholders Meeting planned for May 29, 2013. The Supervisory Board complied with this request at its meeting on January 22, 2013. At the same meeting, the Supervisory Board appointed Jürgen Hermann to succeed Bernd Schlobohm as the new Chief Executive Officer effective May 30, 2013. The Company's former Chief Financial Officer intends to conclude the integration process and continue the strategy of the QSC Group.

Jürgen Hermann will become the new CEO effective May 30, 2013

Acquisition of further shares by the two QSC founders • On January 30, 2013, each of the two QSC founders, Gerd Eickers and Dr. Bernd Schlobohm, acquired 1,575,000 QSC shares over the counter at a price of € 2.25 per share, thus further increasing their shareholdings again. Eickers now holds 12.6 percent, and Dr. Schlobohm 12.5 percent of all QSC shares. On March 4, 2013, these two founders notified QSC that they had entered into a voting pool agreement and thus now jointly accounted for 25.1 percent of QSC shares. This agreement, they noted, did not serve to implement strategic goals or to achieve trading gains, but was entered into exclusively in order to be able to utilize certain benefits under inheritance and gift tax law.
Moreover, the two founders stated that they did not intend to acquire further voting rights through the purchase or other acquisition of a significant volume within the next twelve months and that they were not striving for any significant change in QSC's capital structure, in particular with a view to the ratio between equity and outside financing or the dividend policy. In addition to exercising voting rights at the QSC Annual Shareholders Meeting in connection with any pending elections to the Supervisory Board, they were also striving for a seat on the supervisory Board. On the other hand, they were not seeking to exercise any further influence on the staffing of administrative, management and supervisory bodies at the present point in time.

Aside from this, QSC is not aware of any reportable events of particular importance subsequent to the close of the fiscal year.

Report on Opportunities and Outlook

GENERAL REMARKS ON FURTHER DEVELOPMENT

Profitability of the QSC Group on the rise in 2013 • A two-track development, the Management Board is convinced, is what will characterize the QSC Group's operating business during the current fiscal year: Sharply rising ICT revenues will continue to be offset by further decreases in TC revenues. Moreover, various rulings by the German Federal Network Agency that were issued in the autumn of 2012 will result in an additional revenue shortfall of some € 30 million in TC business, thus reducing EBITDA by € 3 to € 4 million year on year.

Against this backdrop, the Company is planning overall revenues of at least € 450 million for fiscal 2013. While this does mean that revenues will be down by about € 30 million from the previous year's level, QSC anticipates rising profitability and greater financial strength: The EBITDA margin is expected to rise from 16 percent to at least 17 percent in fiscal 2013; and planning calls for free cash flow to increase from € 23.6 million in 2012 to at least € 24 million. This rising profitability and financial strength will enable the Company to increase the dividend for the past fiscal year: The Management and Supervisory Boards will propose that the Annual Shareholders Meeting resolve a dividend of € 0.09 per share, in contrast to € 0.08 per share the year before, and view this dividend level as the minimum for the years to come. Moreover, QSC expects to see a further rise in its profitability and financial strength for fiscal 2014, along with a significant rise in revenues. Medium-term, too, the Company has set highly ambitious goals for itself with Vision 2016.

Proposal of a higher dividend of 9 cents per Company share

FUTURE ENVIRONMENT

ICT market growing in spite of the weak economy • In its annual economic report, the German federal government is assuming that German gross domestic product will grow only modestly by 0.4 percent in 2013. Since the effects of the crisis in confidence in the euro zone are now waning and economic development outside Europe is again taking on greater dynamics, growth during the course of the year is anticipated to increase noticeably following a weak first quarter of 2013. The annual economic report feels that a 1.6-percent rise in German GDP is conceivable.

DEVELOPMENT OF GERMANY'S GROSS DOMESTIC PRODUCT

ICT market outpaces overall economy again

Growth in the ICT market is outpacing the overall economy, even in this difficult environment. Industry association BITKOM expects to see ICT revenues rise by 1.4 percent to € 153.3 billion in 2013. With a forecast of revenue rise of 2.2 percent to € 75.0 billion, the IT market, in particular, is developing on a positive note; on the other hand, BITKOM is forecasting growth of only 1.3 percent to € 66.3 billion for the TC market. Given the fact that these revenues also include booming business with smartphones and mobile data services, it is clear to see that the conventional TC market will continue its process of contraction in 2013. In addition to the persistent price war, the heightened regulation since December 1, 2012, will also lead to a significant drop in revenues.

THE GERMAN ICT MARKET (value in € billion)

Further reductions in routing and interconnection fees • The sharp reduction in fixed-network and mobile routing and interconnection fees by the German Federal Network Agency effective December 1, 2012, was merely provisional in nature. Industry observers assume that the European Commission would like to prevail in the notification proceeding with a further significant decrease in these fees. Although a decision of this kind would involve further revenue shortfalls at QSC, it would not have any impact on the Company's profitability or financial strength.

Modest rise in usage fees • The fees for utilizing unbundled local loops will be redefined in fiscal 2013. Moreover, the European Commission is planning to adopt a recommendation that is said to contain a change in the calculation method as well as a target corridor. If no changes were made to the calculation method, at least modest rises in these usage fees would be expected. In this case, QSC would record slightly higher revenues in the Resellers Business Unit, as the higher usage fees would be fully passed on to customers.

Strong growth in the Cloud • Cloud computing is increasingly developing into the key growth driver in the ICT market. According to BITKOM forecasts, Cloud computing revenues in Germany will advance by 47 percent to € 7.8 billion during the current fiscal year; in 2012, the growth rate also stood at 47 percent. The industry association assumes that the strong growth in this forward-looking market will be sustained in 2014, as well: BITKOM is forecasting revenues of € 10.8 billion for that year.

THE GERMAN MARKET FOR CLOUD SERVICES (value in € billion)

An increasingly greater share of revenues in the Cloud market is attributable to business customers: By 2014, their share of the total market is likely to stand at nearly two thirds; that correlates to overall revenues of € 6.9 billion. Enterprises are increasingly overcoming their reservations about outsourcing their ICT and are utilizing both software-as-a-service, platform-as-a-service and infrastructure-as-a-service offerings as well as integration and consulting services.

ANTICIPATED PROFITABILITY

Heightened regulation slowing down the QSC Group • The QSC Group anticipates revenues of at least € 450 million for the current fiscal year. As in previous years, declining revenues in conventional TC business are likely to be offset by significantly rising ICT revenues. In comparing revenues with the past fiscal year, it should be noted that the QSC Group will be losing revenues of some € 30 million in fiscal 2013 as a result of heightened regulation of the TC market by the German Federal Network Agency.
As in 2012, QSC anticipates quarter-to-quarter growth this fiscal year. Outsourcing and Consulting business, in particular, traditionally get off to a slow start in the year, which means that the first quarter of 2013 is expected to be the lowest-revenue quarter in the current fiscal year. The QSC Group expects to see higher revenues first and foremost during the second half of 2013, with the Company then potentially being able to benefit from a recovering economy.

QSC planning an EBITDA margin of at least 17 percent

Rigorous cost management strengthening profitability • Although there will be a decline in planned revenues in fiscal 2013, the QSC Group expects to see its profitability rise: The Company is planning for the EBITDA margin to increase to at least 17 percent. This rise will result, on the one hand, from the Company's evolution into a full-fledged ICT provider, and thus from a shift in revenues from low-margin conventional TC business toward higher-margin ICT lines of business. On the other hand, this rising profitability also stems from sustained rigorous cost management. In fiscal 2012, for example, QSC had already laid the foundation for significantly lowering the cost of operating and maintaining its own nationwide infrastructure through a long-term contract with another network operator.

Swift pace of integration • After having initiated numerous measures aimed at integration within the QSC Group in 2012, the Company will sustain this process during the current fiscal year, and accelerating it where necessary. As it travels this road, QSC is striving to eliminate any legal barriers that still exist and merge INFO AG with QSC AG. This will make it even easier to form a consistent enterprise with consistent management and organizational structures.

ANTICIPATED PROFITABILITY BY SEGMENT

Strong growth in Direct Sales • QSC anticipates further significant revenue growth in Direct Sales for the coming two fiscal years. A good foundation was laid for this with the new order record that was set in 2012, as these contracts typically involve a minimum term of three to five years. Winning further customers in IT Outsourcing and IT Consulting, as well as broadening business relationships with existing customers, offers additional opportunities for increasing revenues. At the same time, QSC is driving the industrialization of processes in this business unit, and consequently anticipates rising EBITDA margins.

QSC expects to see stable revenue development in Indirect Sales. As a result of regulation, sharply rising ICT revenues with new and existing sales partners will be offset by declining conventional TC revenues. Beginning in fiscal 2014, the positive effects from additional ICT revenues are likely to predominate, inasmuch as the Company is making more and more self-developed products and services available to its sales partners. Considerable revenue potential, for example, is offered by the "Cloud Workplace," which QSC debuted to a wide audience under the QSC-tengo brand name at the 2013 CeBIT trade show. These new products and services are characterized by a high degree of scalability, enabling QSC to continue to earn high EBITDA margins in Indirect Sales – in fiscal 2012, the EBITDA margin in Indirect Sales stood at 27 percent.

QSC-tengo debuted at the CeBIT 2013 trade show

In its business with resellers, on the other hand, QSC anticipates a significant decrease in revenues in fiscal 2013 as a result of the regulatory and market situations. This business unit still includes conventional TC revenues, first and foremost. However, beginning in fiscal 2014, this business unit, too, will benefit from the Company's broader development competence and the possibilities this affords for marketing innovative Cloud-based services. The QSC Group is currently working on various highly promising projects within the framework of consortia, including software to steer decentral energy generation systems and to link electric cars to Cloud-based services. It builds upon the Company's self-developed Q-loud platform as the basis for modular, scalable applications. The Company assumes that pilot projects will be launched during the current fiscal year, enabling initial services to be marketed beginning in fiscal 2014. During the second half of 2014, these new services will begin to offset the decline in TC revenues, which continues to be expected, and will produce significantly rising revenues in subsequent years, including the Resellers Business Unit. Given the scalability of these new services, QSC expects the decline in profitability for the current fiscal year to initially be followed by stabilization and then by a significant rise in this business unit's EBITDA margin.

ANTICIPATED FINANCIAL POSITION AND NET WORTH

High cash influxes from operating business • QSC expects to see operating activities generate high levels of cash in fiscal 2013 and 2014, as well. On the other hand, the cash burn for investment activities is likely to be only moderate, as no major capital investments in the network infrastructure are planned, with the exception of replacement and modernization investments. Instead, the Company will be making further investments in expanding its data centers, especially in the run-up to the launch of new Outsourcing projects, as well as in connecting new customers. Against this backdrop, the capex ratio overall is likely to vary between 6 and 10 percent of revenues during the course of the current fiscal year and to average 8 percent.
Moderate capital expenditures (capex), on the one hand, and a strong influx of cash from operating activities, on the other, will enable the Company to earn a sustained positive free cash flow in the coming two years, as well. Following the free cash flow of at least € 24 million that is planned for the current fiscal year, QSC anticipates a significant rise for 2014. Beginning that year, the Company is likely to benefit from the impact of the long-term contract with another network operator, thus producing a sustained rise in free cash flow. QSC will thus be able to compensate for the impending additional burdens following former co-shareholder TELE2's exit from network operating company Plusnet, or even to increase its financial strength. In January 2011, QSC had received a non-recurring settlement payment from TELE2 for the years 2011 through 2013. This income was deferred over the original term of the contract through December 31, 2013, and was returned on a periodic basis.

QSC anticipates significantly rising cash flow for 2014

Positive free cash flow assures independence and creates financial latitude • The positive free cash flow will increase the Company's freedom of action in financial matters during the current fiscal year and beyond. It will strengthen QSC's ability to finance from within, and medium-term is thus likely to help reduce the Company's net debt, which is moderate by industry comparison. It also gives the QSC the latitude to continue to enable its shareholders to participate in its success and to include in its strategic considerations acquisitions of any potential candidates in the ICT market that might present themselves. Moreover, a line of credit in the amount of € 150 million, of which only one half has been utilized, affords the necessary financial strength for both internal and external growth. Consequently, QSC views itself as being well financed for implementing its ambitious growth strategy over the course of the coming two years.

OPPORTUNITIES

The focus is on expanding ICT business • The current fiscal year and beyond will see the following opportunities, in particular, for the QSC Group stemming from the Company's evolution into a full-fledged ICT provider:

- **A greater share of existing customers' ICT budgets** • QSC has steadily been broadening its portfolio and intensifying collaboration within the Group. By specifically addressing customers and sales partners, the Company can utilize this basis to increase its own share of the ICT budgets of small and mid-size customers. In particular, the growing range of Cloud-based services and, first and foremost, of the product bundle for the Workplace of the Future are likely to meet with interest on the part of existing customers and offer a good opportunity to increase revenue per customer.

- **Winning new customers** • Winning a variety of major Outsourcing projects during the past fiscal year has shown that the QSC Group need have no fear of competing against international industry giants. On the contrary: In large projects, too, the Company is scoring points with flexibility, speed and communication at eye level. QSC will continue to utilize these competitive advantages and thus win new customers in connection with both major requests for proposals or in direct contact.

- **Broadening industry competence** • Especially in Direct Sales, QSC is benefiting from having focused early on such attractive industries as energy services and logistics. The more customers the Company wins here, the greater its specific industry know-how, and thus its opportunities for winning further requests for proposals in these markets. QSC's involvement in research projects, such as those aimed at energy management, is additionally helping to enable the Company to position itself as the go-to partner of choice in selected industries.

- **Marketing Cloud services** • QSC will be systematically broadening its portfolio of Cloud-based services. Planned for fiscal 2013, among other things, is the launch of marketing for a product bundle for the Workplace of the Future. With this user-friendly innovation, QSC is underscoring its pioneering role in this growth market.

- **Strategic partnerships for the Cloud era** • In developing Cloud-based services, QSC collaborates closely with market leaders in their respective industries. Over and above the direct know-how transfer, these kinds of strategic partnerships will also pave the way for bringing new services to market, especially in the Resellers Business Unit.

- **Close collaboration with sales partners** • Opportunities for the QSC Group also arise from intensified collaboration with new and existing sales partners. Intensive training and other sales-support activities serve to increase willingness on the part of systems houses and IT service providers, in particular, to equip their customers with QSC products and services.

- **Increasing value creation through acquisitions** • Although the focus of the QSC Group is on organic growth, the Company does not preclude the possibility of continuing to specifically acquire smaller ICT providers with the aim of increasing its own competence in software development for Cloud services, for example, or of intensifying specific industry experience, such as in the energy market. QSC's sustained positive free cash flow as well as its unutilized lines of credit will enable the Company to swiftly and efficiently utilize potential purchase opportunities.

Cologne, March 19, 2013

QSC AG
The Management Board

Dr. Bernd Schlobohm Chief Executive Officer	Jürgen Hermann	Arnold Stender

We said it. We did it. »We consider a dividend of 8 cents per QSC share as a minimum, which we are striving to steadily increase in the coming years,« is what the Management Board stated in the spring of 2012 – and together with the Supervisory Board is now proposing to the Annual Shareholders Meeting in May 2013 that it be raised to 9 cents per share for fiscal 2012. The foundation for this consists of the QSC Group's sustained strong financial position and profitability.

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CONSOLIDATED STATEMENT OF INCOME

Euro amounts in thousands (K€)

	Note	2012	2011
Net revenues	6	**481,496**	**478,079**
Cost of revenues	7	(359,150)	(360,472)
Gross profit		**122,346**	**117,607**
Sales and marketing expenses	8	(56,226)	(56,680)
General and administrative expenses	9	(38,998)	(35,122)
Other operating income	10	965	1,839
Other operating expenses	10	(3,503)	(1,417)
Operating profit		**24,584**	**26,227**
Financial income	11	756	506
Financial expenses	11	(4,621)	(3,334)
Net profit before income taxes		**20,719**	**23,399**
Income taxes	41	(1,698)	4,583
Net profit		**19,021**	**27,982**
thereof attributable to non-controlling interests		145	371
thereof attributable to owners of QSC AG		18,876	27,611
Earnings per share (basic) in €	12	**0.14**	**0.20**
Earnings per share (diluted) in €	12	**0.14**	**0.20**

CONSOLIDATED STATEMENT OF CASH FLOWS

Euro amounts in thousands (K€)

	Note	2012	2011
Cash flow from operating activities	34		
Net profit before income taxes		20,719	23,399
Depreciation and amortization of fixed assets	14, 17	52,926	53,262
Non-cash share-based remuneration		(676)	(157)
Loss from disposal of long-term assets		1	993
Changes in provisions	29, 31	(934)	(1,376)
Changes in receivables from former shareholders		-	28,358
Changes in trade receivables	18	989	(413)
Changes in trade payables	30	5,334	(140)
Changes in other assets and liabilities		(17,387)	(27,172)
Cash flow from operating activities	34	**60,972**	**76,754**
Cash flow from investing activities	35		
Purchase from acquisition of subsidiary less liquid assets acquired		-	(57,629)
Proceeds from sale of subsidiary less liquid assets		-	1,429
Purchase of intangible assets		(11,993)	(13,336)
Purchase of property, plant and equipment		(21,165)	(15,803)
Cash flow from investing activities	35	**(33,158)**	**(85,339)**
Cash flow from financing activities	36		
Dividends paid		(10,985)	-
Disbursements for share buy-back		(29,072)	-
Redemption of convertible bonds		(2)	(5)
Purchase of additional interest in subsidiary following acquisition		(5,812)	(15,514)
Proceeds from issuance of common stock		59	240
Repayment of other short- and long-term liabilities	28	-	(576)
Proceeds of loans granted	28	35,583	10,795
Repayment of liabilities under financing arrangements		(6,520)	(8,833)
Cash flow from financing activities	36	**(16,749)**	**(13,893)**
Change in cash and short-term deposits		**11,065**	**(22,478)**
Change in cash and short-term deposits as of January 1	23	23,755	46,233
Cash and short-term deposits as of December 31		**34,820**	**23,755**
Interest paid		3,047	1,843
Interest received		738	307
Income tax paid		5,625	750

CONSOLIDATED BALANCE SHEET

Euro amounts in thousands (K€)

	Note	Dec. 31, 2012	Dec. 31, 2011[1]
ASSETS			
Long-term assets			
Property, plant and equipment	14	107,614	116,740
Land and buildings	14	27,259	28,313
Goodwill	15	76,265	76,265
Other intangible assets	17	50,525	56,289
Trade receivables	18	4,525	3,622
Prepayments	19	1,976	1,718
Other long-term assets		707	518
Deferred tax assets	41	10,539	7,961
Long-term assets		279,410	291,426
Short-term assets			
Trade receivables	18	63,814	65,705
Prepayments	19	4,413	4,526
Inventories	20	1,365	1,563
Other short-term assets	21	2,963	3,944
Available-for-sale financial assets	22	343	341
Cash and short-term deposits	23	34,820	23,755
Short-term assets		107,718	99,834
BALANCE SHEET TOTAL		387,128	391,260

	Note	Dec. 31, 2012	Dec. 31, 2011 [1]
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Equity attributable to owners of QSC AG			
Capital stock	24/26	137,307	137,257
Nominal value of treasury shares from share buy-back		(13,630)	-
Capital stock		123,677	137,257
Capital surplus	25	140,542	140,095
Other capital reserves	27	(1,207)	(362)
Consolidated retained earnings (Accumulated deficit)		(82,776)	(72,069)
Equity attributable to owners of QSC AG		180,236	204,921
Equity attributable to non-controlling interests		-	2,378
Shareholders' equity		180,236	207,299
Liabilities			
Long-term liabilities			
Long-term liabilities under financing and finance lease arrangements	28	7,200	6,879
Liabilities due to banks	28	74,817	40,304 [1]
Convertible bonds	39	13	15
Accrued pensions	29	6,905	5,339
Other provisions	31	856	1,036
Deferred income	32	932	20,914
Deferred tax liabilities	41	5,306	5,065
Long-term liabilities		96,029	79,552
Short-term liabilities			
Trade payables	30	52,452	46,617
Short-term liabilities under financing and finance lease arrangements	28	4,147	6,698
Liabilities due to banks	28	4,351	3,281 [1]
Other provisions	31	6,452	2,879
Accrued taxes	31	3,505	5,764
Deferred income	32	23,500	24,781
Other short-term liabilities	33	16,456	14,389
Short-term liabilities		110,863	104,409
Liabilities		206,892	183,961
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		387,128	391,260

[1] See Note 28 on the adjustment relating to liabilities due to banks

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Euro amounts in thousands (K€)

	Note	Equity attributable to equity holders of QSC AG				
		Capital stock	Capital surplus	Other capital reserves	Consolidated retained earnings / (Accum. deficit)	Total
Balance as of January 1, 2012		**137,257**	**140,095**	**(362)**	**(72,069)**	**204,921**
Net profit for the period		-	-	-	18,876	18,876
Other comprehensive income						
for the period, net of tax	27	-	-	(845)	-	(845)
Total comprehensive income		**-**	**-**	**(845)**	**18,876**	**18,031**
Transactions with owners directly recognized in equity						
Acquisition of non-controlling interests						
(squeeze-out)		-	-	-	(3,290)	(3,290)
Conversion of convertible bonds	39	50	9	-	-	59
Non-cash share-based remuneration	39	-	438	-	-	438
Acquisition of treasury shares		(13,700)	-	-	(15,372)	(29,072)
Issuance of shares to employees		70	-	-	64	134
Dividends		-	-	-	(10,985)	(10,985)
Total contributions from and distributions to owners		**(13,580)**	**447**	**-**	**(29,583)**	**(42,716)**
Balance as of December 31, 2012		**123,677**	**140,542**	**(1,207)**	**(82,776)**	**180,236**
Balance as of January 1, 2011		**137,128**	**139,593**	**(47)**	**(92,626)**	**184,048**
Net profit for the period		-	-	-	27,611	27,611
Other comprehensive income						
for the period, net of tax	27	-	-	(315)	-	(315)
Total comprehensive income		**-**	**-**	**(315)**	**27,611**	**27,296**
Transactions with owners recognized in equity						
Acquisition with non-controlling interests		-	-	-	-	-
Acquisition of non-controlling interests						
following initial consolidation		-	-	-	(7,054)	(7,054)
Conversion of convertible bonds	39	129	111	-	-	240
Non-cash share-based remuneration	39	-	391	-	-	391
Total contributions from and distributions to owners		**129**	**502**	**-**	**(7,054)**	**(6,423)**
Balance as of December 31, 2011		**137,257**	**140,095**	**(362)**	**(72,069)**	**204,921**

Equity attributable to non-controlling interests	Total share-holders' equity	
2,378	**207,299**	**Balance as of January 1, 2012**
145	19,021	Net profit for the period
		Other comprehensive income
-	(845)	for the period, net of tax
145	**18,176**	**Total comprehensive income**
		Transactions with owners directly recognized in equity
		Acquisition of non-controlling interests
(2,523)	(5,813)	(squeeze-out)
-	59	Conversion of convertible bonds
-	438	Non-cash share-based remuneration
-	(29,072)	Acquisition of treasury shares
-	134	Issuance of shares to employees
-	(10,985)	Dividends
(2,523)	**(45,239)**	**Total contributions from and distributions to owners**
-	**180,236**	**Balance as of December 31, 2012**
-	**184,048**	**Balance as of December 31, 2012**
371	27,982	Net profit for the period
		Other comprehensive income
(54)	(369)	for the period, net of tax
317	**27,613**	**Total comprehensive income**
		Transactions with owners recognized in equity
10,521	10,521	Acquisition with non-controlling interests
		Acquisition of non-controlling interests
(8,460)	(15,514)	following initial consolidation
-	240	Conversion of convertible bonds
-	391	Non-cash share-based remuneration
2,061	**(4,362)**	**Total contributions from and distributions to owners**
2,378	**207,299**	**Balance as of December 31, 2011**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Euro amounts in thousands (K€)

	2012	2011
Other comprehensive income		
Defined-benefit pension plans	(1,247)	(551)
Changes in unrealized fair values		
of available-for-sale financial assets	2	3
Tax effect, total	400	179
Other comprehensive income	**(845)**	**(369)**
Net profit for the period	19,021	27,982
Total comprehensive income for the period	**18,176**	**27,613**
thereof attributable to non-controlling interests	145	317
thereof attributable to owners of QSC AG	18,031	27,296

Auditor's Report

We have audited the consolidated financial statements prepared by the QSC AG, Cologne, comprising the consolidated statement of income, the consolidated statement of cash flows, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated statement of comprehensive income and the notes to the consolidated financial statements , together with the group management report for the business year from 1. January 2012 to 31. December 2012. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB is the responsibility of the parent company`s management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Cologne, March 19, 2013

KPMG AG
Wirtschaftsprüfungsgesellschaft

Pütz
Wirtschaftsprüfer

Gall
Wirtschaftsprüfer

Notes to the Consolidated Financial Statements for Fiscal Year 2012

CORPORATE INFORMATION

QSC AG (hereinafter also called "QSC," "QSC AG" or "the Company") offers small and mid-size organizations comprehensive information and telecommunications services ("ICT services" – from telephony, data transfer, Housing and Hosting to IT Outsourcing and IT Consulting. Together with its subsidiaries, INFO Gesellschaft für Informationssysteme Aktiengesellschaft ("INFO AG"), a full-service IT provider domiciled in Hamburg, and IP Exchange GmbH ("IP Exchange"), a Housing and Hosting specialist domiciled in Nuremberg, the QSC Group numbers among the leading mid-size providers of ICT products, solutions and services in Germany. QSC offers custom-tailored Managed Services for individual ICT requirements as well as a comprehensive product portfolio for customers and marketing partners that can be modularly adapted to suit the communications and IT needs in question. QSC offers its services on the basis of its own Next Generation Network (NGN) and operates an Open Access platform that unites a wide range of different broadband technologies.
QSC is a stock corporation registered in the Federal Republic of Germany. Its legal domicile is Mathias-Brüggen-Strasse 55, 50829 Cologne, Germany. The Company is carried on the Register of Companies of the Local Court of Cologne under Number HRB 28281. QSC has been listed on the Deutsche Börse Stock Exchange since April 19, 2000, and on the Prime Standard since the beginning of 2003 following the reorganization of the equity market. On March 22, 2004, QSC was added to the TecDAX index, which includes the 30 largest and most liquid technology issues in the Prime Standard.

GENERAL PRINCIPLES

1 Basis of preparation

According to the article 4 of the regulation (EG) number 1606/2002 of the European Parliament and the council dated July 19, 2002, the Company is required to prepare the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS), and according to the rules of § 315a (1) of the German Commercial Code ("HGB") is thus exempt from preparing the consolidated financial statements in accordance with the German Commercial Code. QSC prepares the consolidated financial statements on a historical cost basis, except for available-for-sale financial assets, which have been measured at fair value. QSC prepares the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), which became mandatory as of December 31, 2012, and which are required to be applied in the EU. The Company also prepares the consolidated financial statements in accordance with the supplementary rules of § 315a (1) "HGB". The Company took into consideration all International Financial Reporting Standards (IFRS) as well as their interpretation by the International Financial Reporting

Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC) that became mandatory for the 2012 fiscal year.
The financial year of QSC and its subsidiaries (hereinafter also called "the Group") corresponds to the calendar year. The consolidated financial statements are presented in euros, and all amounts, except when otherwise indicated, are rounded to the nearest thousand (K€).
No events or transactions which would have a material effect on the Group's profitability, financial position and net worth as well cash flows for the period then ended occurred prior to March 19, 2013 (which is the date of the consolidated financial statements' approval by the Management Board for handover to the Supervisory Board).

2 Basis of consolidation

The consolidated financial statements comprise the financial statements of QSC AG and its subsidiaries as of December 31 each year. QSC prepares the subsidiaries' financial statements for the same reporting year as the parent company, using consistent accounting policies. All intra-group balances, transactions, income and expenses, and profits and losses resulting from intra-group transactions that are recognized in assets, are eliminated by the Company in full. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated by means of full consolidation until the date that such control ceases. The subsidiaries and associated companies that are included in the consolidated financial statements are listed in Note 37.

3 Significant judgments and estimates

The application of accounting policies requires the use of judgments as well as of forward-looking assumptions and estimates. Actual results may differ from those assumptions and estimates, with the result that there is a risk that a significant adjustment to the carrying amounts of assets and liabilities could become necessary within the coming fiscal year. The use of judgments, assumptions and estimates was necessary in particular for the accounting treatment of the following items:

Impairment of non-financial assets • At each reporting date, the Group assesses whether there are any indicators of impairment in all non-financial assets. Goodwill and other intangible assets with indefinite useful lives are tested for impairment at least once a year and at other times when such indicators exist. Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit ("CGU"), which is measured as the present value of the expected future cash flows from the cash-generating unit. The CGUs correspond to the reportable segments. Where the recoverable amount of the CGU is less than their carrying amount, an impairment loss is recognized. As of December 31, 2012, goodwill totaling K€ 76,265 (2011: K€ 76,265) was recognized. Further details are given in Note 15 – 16.

Deferred tax assets • QSC recognizes deferred tax assets for all temporary differences, as well as for unused tax losses to the extent that it is probable that taxable income will be available against which the loss carry forwards can be utilized.
Estimates by management are required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with underlying future tax planning strategies. As of December 31, 2012, the carrying value of recognized corporation tax losses was € 415 million (2011: € 429 million), and the carrying value of recognized municipal trade tax losses was € 412 million (2011: € 426 million). As of December 31, 2012, deferred tax assets amounting to K€ 10,539 (2011: K€ 7,961) are recorded. Further details are contained in Note 41.

Pension and other post-employment benefits • The cost of defined benefit pension plans and other post-employment medical benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Management has exercised the option stipulated in IAS 19 that actuarial gains and losses are recognized directly in other income in other reserves. As of December 31, 2012, provisions for pensions and similar commitments amounted to K€ 6,905 (2011: K€ 5,339). Further details are given in Note 29.

Share-based remuneration • QSC measures the expense recognized for share-based remuneration in cases where equity instruments are used to remunerate work performed, using an appropriate option price model. The computation is done using assumptions relating to the risk-free interest rate relevant for the duration of the option, the expected dividend to be paid and the shares' expected market price volatility. Due to the long-term nature of these remuneration agreements, the estimates used are subject to significant uncertainties. Further details relating to this are presented under Note 39.

Trade receivables • QSC presents trade receivables in the balance sheet net of allowances. Allowances for doubtful debts are measured on the basis of regular reviews and assessments which are performed in conjunction with credit monitoring. The assumptions applied to reflect future payment behavior and customer creditworthiness are subject to significant uncertainties. As of December 31, 2012, trade receivables totaling K€ 68,339 (2011: K€ 69,327) were recognized on trade receivables. Further details relating to this are presented under Note 18.

Provisions • A provision is recognized when the Group has a legal or constructive obligation as a result of a past event, when it is likely that an outflow of resources embodying economic benefits will be required to settle such an obligation, and when the obligation's amount can be reliably estimated. Such estimates are subject to significant uncertainties. As of December 31, 2012, provisions totaling K€ 10,813 (2011: K€ 9,679) were recognized in the balance sheet. Further details relating to this are presented under Note 31.

Leases • QSC determines whether an agreement represents or involves a lease on the basis of the economic content of the agreement at the time of its conclusion. Discretion is used in determining whether an agreement grants rights to usage of an asset and the extent to which fulfillment of the contractual agreement depends on usage of one or more specific assets. As of December 31, 2012, lease liabilities totaled K€ 11,347 (2011: K€ 13,577).

Construction contracts • Accounts receivable under construction contracts were accounted for under the percentage of completion (PoC) method pursuant to IAS 11 in the case of a customer-specific construction order. In this connection, proportional income recognition follows the stage of completion, which is based upon estimates. As of December 31, 2012, accounts receivable under construction contracts totaled K€ 1,571 (2011: K€ 1,042).

4 Summary of significant accounting policies

Expense and revenue recognition • QSC recognizes revenue to the extent that it is probable that the economic benefits will flow to the Group, and when revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognized:

- Revenue from services is recognized when the services have been provided. QSC recognizes services that have not been provided completely or throughout the entire reporting period, respectively, at balance sheet date on a time-apportioned basis with regard to the stage of completion.
- QSC defers revenue from the installation of customer lines on a time-apportioned basis over an average contractual term of 24 months.
- Construction contracts are accounted for under the percentage of completion (POC) method. Reference is made to the comments contained under 'Construction contracts.'
- QSC recognizes revenue as interest accrues (using the effective interest method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset). Addition of accrued interest on finance lease receivables from multi-component contracts are also presented under interest accrues (see below).
- Multi-component contracts consist of a service portion and a hardware lease. The two components each have their own values and a present value that can be reliably determined. Applying the requirements of IFRIC 4 to hardware leasing means that the Group's IT Outsourcing unit functions as lessor in certain multi-component contracts. The lease agreements concern identifiable assets usable exclusively by the customer. Revenue for services performed under the service contract is distributed pro rata over the contract term. Revenue from contracts classified as finance leases is recognized at the contract start date, and the interest portion is calculated on a monthly basis. In these cases amounts owed by customers (lessees) under a finance lease are recorded as discounted receivables. Revenue from contracts classified as operating leases is calculated on a monthly basis over the contract term. Total contract income is attributed to the respective components applying the relative fair value method.

Foreign currency translation • QSC presents the consolidated financial statements in euros. Transactions in currencies other than the Euro are originally recorded at the exchange rate at the day the transaction is made between the Euro and the respective foreign currency. The differences between the exchange rate at the day the transaction was closed and the exchange rate at balance sheet date, or at the day the transaction is finally closed, if sooner, are included in the income statement. The functional currency for all Group companies is the euro.

Property, plant and equipment • QSC states property, plant and equipment at cost of acquisition or construction less accumulated depreciation and accumulated impairment in value. Replacement part costs for property, plant, and equipment are added to the carrying value of the asset in question at the time of replacement. Costs incurred after the commissioning of plants or first use of equipment are also capitalized if their incurrence enhances or significantly expands the asset in question; otherwise, the company recognizes them through profit and loss. The estimated useful lives of the assets are used as a basis for the application of straight-line depreciation.
Property, plant, and equipment are depreciated in straight-line fashion over the estimated useful lives shown in the table below.

	Useful life in years
Fixed assets	
Buildings	20 to 50
Networks and plant and machinery	2 to 25
Building improvements	4 to 20
Network components	2 to 10
Operational and office equipment	3 to 13

Borrowing costs • Borrowing costs are recognized as an expense when incurred.

Business combinations and goodwill • QSC accounts business combinations using the acquisition accounting method. It involves recognizing identifiable assets and liabilities, as well as contingent liabilities of the acquired business at fair value. Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.
Following initial recognition, QSC measures goodwill at cost, less any accumulated impairment losses. QSC tests goodwill and other indefinite life intangibles for impairment annually, and at other times when there are indicators of a potential impairment in the carrying amount.

Other intangible assets • Intangible assets are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination corresponds to the fair value as of the date of acquisition. Internally generated intangible assets are capitalized if capitalization conditions according to IAS 38 are met. Expenses that are not intended to be recognized are recorded under profit or loss in the period in which they are incurred. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and additionally assessed for impairment whenever there is an indication that the intangible asset may be impaired. Such a review of the amortization period and the amortization method for such an intangible asset with a finite useful life is done at least at each financial year end.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment at least annually.

QSC's other intangible assets primarily include software, licenses and similar rights as well as nonrecurring provisioning costs for activating customer connections. Moreover, brands and customer bases have been capitalized in connection with initial consolidations.

The Company amortizes licenses over a period of five to ten years and software over a period of four years. Non-recurring provisioning costs for activating customer connections are amortized over an average contractual period of 24 months. Following the conclusion of the development phase, internally generated intangible assets (development costs) are depreciated over a period of from three to five years.

	Useful Life in Years
Intangible Assets	
Licenses	5 to 10
Software	3 to 5
Provisioning costs for customer connections	2
Capitalized development costs	3 to 5

The useful lives of the intangible assets identified within the scope of the initial consolidations of IP Partner and INFO AG in fiscal 2011 are 5 years for brands, 10 to 20 years for customer bases, 1.5 to 3 years for electricity contracts and 3 to 4 years for software.

Investments and financial assets • QSC classifies financial assets within the scope of IAS 39 as either financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, or available-for-sale financial assets, as appropriate. QSC determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end. A transfer is done if permitted and necessary. Upon initial recognition, QSC designates financial assets at fair value. QSC recognizes directly in equity all regular way purchases and sales of financial assets on the trade date, which is the date that the Group committed itself to purchasing the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in active market. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in income when the receivables are derecognized or impaired, as well as through the amortization process.
Payment due notices are sent out immediately when receivables become overdue. Uncollected receivables outstanding for more than six months are reviewed for default risk. When receivables are overdue by 60 – 90 days, this represents an objective indication that impairment testing is called for in accordance with IAS 39.58. Impairments are only made when there are objective indications, in accordance with IAS 39.59, that receivables may be uncollectible or result in the need for impairment.
Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition, QSC measures these at fair value, unrealized gains and losses being directly recorded as other income under other reserves. When the investment is disposed of, the cumulative gain or loss previously recorded in equity is recognized in the income statement.
Other assets representing reinsurance claims on life insurance policies not classifiable as plan assets within the meaning of IAS 19 are recognized based on the insurance company's actuarial reserve per business plan. Additionally, other assets are reported at nominal value. They are recorded under 'Long-term assets' and 'Short-term assets,' respectively, based on due date.

Construction contracts • Future accounts receivable under construction contracts were accounted for under the percentage of completion (PoC) method pursuant to IAS 11 in the case of a customer-specific construction order. In this connection, proportional income recognition was effected in accordance with the stage of completion if it was possible to reliably determine the stage of completion, the total costs and the total income from the respective orders in the sense of IAS 11. The stage of completion of the individual orders is determined on the basis of the cost to cost method (IAS 11.30a). Given the above prerequisites, the total order income is recognized proportionally in accordance with the state of completion. Order costs include both costs directly attributable to the order as well as manufacturing overheads. If it is likely that the total order costs will exceed the total order proceeds, the anticipated losses are immediately expensed. Prepayments received will be deducted from the receivables from construction contracts.

Inventories • QSC values inventories at average amortized cost. As at balance sheet date, goods are stated at the lower of cost and net realizable value.

Cash and short-term deposits • Cash and short-term deposits in the balance sheet and statements of cash flow comprise cash at banks and at hand and short-term deposits with an original maturity of three months or less.

Provisions • Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

Pensions • As stipulated in IAS 19, the valuation of provisions for pensions is based on the benefit entitlement procedure for defined benefit pension plans and is determined on the basis of an actuarial expertise. The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognized directly in 'Other comprehensive income' under 'Other reserves.' The assumptions that were made by the Company to evaluate the actuarial obligations are specified in Note 29.

Stock option programs • QSC's employees may also receive share-based remuneration in the form of equity instruments in return for work performed. QSC measures the expense of issuing such equity instruments on the basis of the fair value of the equity instrument at the grant or provision date (based on the stock option programs resolved or modified after November 7, 2002), respectively, using an appropriate option price model. Further details are provided in Note 39. The expense recognized for granting equity instruments (as well as the corresponding increase in equity) is spread over the vesting period of the options.
QSC recognizes no expense for remuneration entitlements which cannot be exercised. If the terms and conditions of a share-based remuneration agreement are modified, QSC recognizes as a minimum the level of expense that would have arisen if the terms and conditions had not been modified. If a share-based remuneration agreement is cancelled, QSC accounts for the remuneration agreement as if it had been exercised on the cancellation date. Any previously deferred expense is recognized immediately as an expense in the income statement.

Leases • QSC determines whether an arrangement is or contains a lease on the basis of the substance of the arrangement at inception date. This requires judgment as to whether the fulfillment of the arrangement is dependent on the use of a specific asset, or assets, or the arrangement conveys a right to use the asset.

- **Finance lease – lessee** • Pursuant to IAS 17, items attributable to the Group as their economic owner are recognized as assets and depreciated over their typical useful life, or over the lease term if shorter. The liability arising from the lease is recognized accordingly and amortized over the lease term by the principal portion of lease installment payments. Contracts classifiable as finance leases are primarily agreements for computing hardware and data center technology. Leased assets are carried at the lower of market value or the present value of lease payments, for the term of the basic, non-terminable lease period. In the case of rent-to-own and financing arrangements, the payments are divided into their constituent elements of financing expense and redemption in accordance with the effective interest rate method, which means that the residual book value of the leasing obligation is discounted at a constant interest rate. Financing expenses are recorded immediately as a charge against income. QSC's financing arrangements predominantly consist of rent-to-own arrangements with terms of between two to three years.

- **Operating lease – lessee** • QSC classifies lease arrangements which do not transfer substantially all the risks and rewards incidental to ownership from the Group to the lessee as operating leases. Operating lease payments are recognized as an expense in the income statement on a straight line basis over the lease term.

- **Group as lessor** • Pursuant to the regulations of IFRIC 4, the Group is lessor in certain multi-component contracts. In such cases, amounts owed by the lessee under finance leases are recorded as discounted receivables in the amount of the net investment value from Group leases and reported under 'trade receivables.' For multi-component contracts, the overall contract with the customer is divided up into a service contract for services to be rendered and a trade transaction for the leased hardware. Service revenue is recorded pro rata over the contract term. In the case of finance lease, trade transaction revenue is recognized in full in the year in which the contract is concluded. Operating lease income is recognized as income through profit and loss on a straight line basis over the lease term.

Financial liabilities • QSC measures all interest-bearing loans on initial recognition at fair value, less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in the income statement when the liabilities are derecognized as well as through the amortization process.

Deferred income and prepaid expenses • QSC defers one-time income from installation of customer lines, applying an average contract term of 24 months.
In January 2011, Communication Services TELE2 GmbH ("TELE2") paid a total of € 66.2 million euros for early termination of its contract with QSC originally expiring at the end of 2013. This amount was recorded under deferred income and prepaid expenses, and is being amortized through profit and loss over the period November 1, 2010, through December 31, 2013. As of December 31, 2012, the carrying amount for the prepaid expense arising from early termination was K€ 20,914 (2011: K€ 41,827). It is presented as a liability under short-term / long-term deferred income and prepaid expenses.

Taxes • QSC recognizes current income tax assets and liabilities for the current and prior periods at the amount expected to be recovered from or paid to the taxation authorities. To compute the amount, QSC uses the tax rates and tax laws that are enacted or substantively enacted by the corresponding assessment period. Actual income tax relating to items recognized directly in equity is recognized in equity.
Deferred taxes are provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. QSC recognizes deferred income tax liabilities for all taxable temporary differences, except

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

QSC recognizes deferred tax assets for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the reported result for the period nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available for which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Thus far unrecognized deferred income tax assets are also reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.
QSC measures deferred income tax assets and liabilities at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.
Deferred taxes in connection with items recorded directly in equity as other income are likewise recorded directly in equity as other income, not through profit and loss.
Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred tax assets and deferred income tax liabilities relate to the same taxable entity and the same taxation authority.
Revenues, expenses and assets are recognized net of the amount of sales tax except

- where QSC is unable to recover the sales tax incurred on a purchase of assets or services from the taxation authority, in which case the Company recognizes the sales tax as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables (with the exception of provisions) that are stated with the amount of sales tax included.

QSC includes the net amount of sales tax recoverable from or payable to the taxation authority in the balance sheet under 'Other short-term financial assets' or 'Other short-term liabilities,' respectively.

5 Changes in accounting policies

QSC AG has observed the following amendments in accounting principle pronouncements whose application was mandatory for the first time in fiscal 2012. None of the amendments described below had any major impact on the Consolidated Financial Statements of QSC AG.

Amendments to IFRS 7 – Mandatory Disclosures Relating to the Transfer of Financial Assets • The amendments to IFRS 7 relate to broader disclosure obligations in connection with the transfer of financial assets. The purpose is to lend greater understanding to the relationships between financial assets that have not yet been fully written down and the corresponding financial liabilities. A further aim is to enable both the nature as well as the risks, in particular, of a continuing involvement to be better assessed in connection with financial assets that have been written down. These amendments also mandate additional disclosures if an unreasonably large number of transfers with continuing involvement occur at around the end of a reporting period, for example. These rules have been applied (see Note 18 under 'Trade receivables').

Amendments to IAS 12 – Measurement of Deferred Tax Assets and Liabilities on the Basis of Refutable Presumed Sale of the Underlying Assets • In the case of real estate held as a financial investments, it is often difficult to assess whether the existing temporary tax differences will reverse within the scope of continued use or in connection with a sale. The amendment to IAS 12 now clarifies that measurement of the deferred tax assets and liabilities must be made on the basis of a refutable presumption that the reversal will be effected through sale.
The amendments have no influence on the Consolidated Financial Statements.

Amendments to IFRS 1 – Severe Hyperinflation and Removal of Fixed Dates for First-Time IFRS Adopters • This amendment to IFRS 1 substitutes the "time of transition to IFRS" for the previously employed reference to the date of January 1, 2004, as the defined transition point.
In addition, provisions have now been added to IFRS 1 that govern cases in which an enterprise was unable to comply with IFRS rules for a certain period of time because its functional currency was subject to severe hyperinflation.
The amendments have no influence on the Consolidated Financial Statements.

Recently published accounting endorsements – not yet implemented • Application of the following new or amended standards and interpretations, whose key content is described below, will not be mandatory until subsequent fiscal years.

Standard	Endorsement on Dec. 31, 2012
Improvements to IFRS 2009 – 2011	No
Amendments to IFRS 1 – Government Loans	No
Amendments to IFRS 7 – Disclosures in Notes – Netting Financial Assets and Liabilities	Yes
Amendments to IFRS 9 and IFRS 7 – Mandatory Point of Applicability and Transition Information	No
Amendments to IFRS 10, IFRS 11 and IFRS 12 – Transition Rules	No
Amendments to IFRS 10, IFRS 11 and IFRS 12 – Investment Companies	No
Amendments to IAS 1 – Presentation of the Other Income Items	Yes
IAS 19 (Revised 2011) – Employee Benefits	Yes
Amendments to IAS 27 – Separate Financial Statements	Yes
Amendments to IAS 28 – Investments in Associates and Joint Ventures	Yes
Amendments to IAS 32 – Netting Financial Assets and Liabilities	Yes
IFRS 9 – Financial Instruments	No
IFRS 10 – Consolidated financial statements	Yes
IFRS 11 – Joint Arrangements	Yes
IFRS 12 – Disclosure of Interests in Other Entities	Yes
IFRS 13 – Fair Value Measurement	Yes
IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine	No

QSC does not plan any early adoption. The impact on QSC's Consolidated Financial Statements is currently being reviewed.

Improvements to IFRS – 2009 – 2011 • Amendments were made to five standards within the framework of the annual improvement project. The purpose of modifying the formulations in individual IFRS is to clarify the existing rules. Moreover, there are changes that affect accounting, recognition and measurement, as well as information in the notes. The affected standards are IAS 1, IAS 16, IAS 32, IAS 34 and IFRS 1.
The amendments are to be applied for the first time – subject to their adoption under EU law – in fiscal years beginning on or after January 1, 2013.

Amendments to IFRS 1 – Government Loans • This amendment relates to a first-time IFRS user's accounting for a government loan bearing a below-market interest rate. The measurement under previous accounting can be retained for government loans existing at the point of transition. The measurement rules in accordance with IAS 20.10A in conjunction with IAS 39 thus apply only to those government loans entered into subsequent to the point of transition.
The amendments are to be applied for the first time – subject to their adoption under EU law – in fiscal years beginning on or after January 1, 2013.

Amendments to IAS 32 and IFRS 7 – Netting Financial Assets and Liabilities • This amendment to IAS 32 clarifies which prerequisites must existing for netting financial instruments. The amendment explains the importance of the current legal entitlement to offset and clarifies which procedures with a gross offset can be viewed as a net offset in the sense of the standard. Together with these clarifications, the rules in IFRS 7 governing information in the notes have been broadened. The amendment to IAS 32 is to be applied for the first time in fiscal years beginning on or after January 1, 2014.
The amendment to IFRS 7 is to be applied for the first time in fiscal years beginning on or after January 1, 2013.

Amendments to IFRS 9 and IFRS 7 – Mandatory Point of Applicability and Transition Information •
These amendments enable the presentation of adjusted prior-year numbers to be waived on initial adoption of IFRS 9. This simplification had initially only been possible if IFRS 9 had been applied prior to January 1, 2012.
Pursuant to IFRS 7, this simplification necessitates additional information in the notes at the point of transition.
Analogously to the rules in IFRS 9, these amendments are to be applied for the first time – subject to their adoption under EU law – in fiscal years beginning on or after January 1, 2015.

Amendments to IFRS 10, IFRS 11 and IFRS 12 – Transition Rules • These amendments contain a clarification and additional simplifications in transitioning to IFRS 10, IFRS 11 and IFRS 12. Adjusted comparison information, for example, is only required for the preceding comparison period. Moreover, the obligation to provide comparison information for periods prior to the initial adoption of IFRS 12 has been eliminated in connection with information in the notes relating to unconsolidated structured entities.
The amendments to IFRS 10, IFRS 11 and IFRS 12 are to be applied for the first time – subject to their adoption under EU law – in fiscal years beginning on or after January 1, 2014.

Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment Companies • The amendments include a definition of the term "investment company" and remove such entitles from the applicability of IFRS 10, Consolidated Financial Statements.
This means that investment companies do not consolidate entities controlled by them in their IFRS consolidated financial statements; this waiver of general principles should not be taken to be an elective right. Instead of a full consolidation, they measure the equity investments held for investment purposes at their fair market values and record periodic changes in valuation as gains or losses.
The amendments do not affect consolidated financial statements that include investment companies unless the parent corporation, itself, is an investment company.
The amendments are to be applied for the first time – subject to their adoption under EU law – in fiscal years beginning on or after January 1, 2014.

Amendments to IAS 1 – Presentation of Items of Other Comprehensive Income • This amendment changes the presentation of other comprehensive income items in the overall statements of income. In the future, those other comprehensive income items that will subsequently be reclassified in the statements of income ("recycling") will be presented separately from those other comprehensive income line items that will never be reclassified. If the items are presented gross, i.e. without being offset against effects from deferred taxes, the deferred taxes can now no longer be presented as a single total, but must be allocated to the two groups of line items.
Initial application of this amendment will be mandatory in fiscal years beginning on or after July 1 of fiscal year 2012.

IAS 19 – Employee Benefits (Revised 2011) • In addition to more extensive mandatory disclosures relating to employee benefits, the revised standard results in the following changes, in particular: An option presently exists as to how unexpected fluctuations in pension obligations, so-called actuarial gains or losses, can be presented in the financial statements. They can be recorded either in (a) the statement of income, (b) other comprehensive income (OCI) or (c) can be deferred in accordance with the so-called corridor approach. The revised version of IAS 19 eliminates this choice with the aim of providing a more transparent and comparable presentation, which means that in the future it will only be permissible to recognize such fluctuations immediately as other comprehensive income. Moreover, subsequently offset business expense must now be recorded directly in the income statement in the year incurred.
Moreover, at the outset of the accounting period, anticipated plan asset earnings are currently being measured on the basis of Management's subjective expectations relating to the development of the value of the portfolio of assets. With the application of IAS 19 (Revised 2011), only a typifying plan asset interest rate in the amount of the discount rate for pension obligations at beginning of period will be permissible.
The anticipated amount of administrative costs for the plan assets have thus far been recorded under interest expense. Under the amendments, administrative costs for the plan assets must be recorded under other income as an element of the new measurement component, while the other administrative costs are attributable to operating profit at the time they are incurred.
Since QSC is presently already recording actuarial gains and losses in other income, this amendment will not have any effect on the Consolidated Balance Sheet.
The amended definition of employment termination benefits will affect the way additional amounts promised within the framework of old-age part-time employment agreements will be accounted. In the past, the additional amounts were classified as termination benefits, with a provision being formed for the entire amount at the time an old-age part-time employment agreement is entered into. As a result of the change in the definition of termination benefits, the additional amount no longer satisfies the prerequisites for the existence of termination benefits under application of IAS 19 (Revised 2011). On the contrary, these are fundamentally other long-term benefits to employees, which are accrued ratably over the employee's time of employment.
Initial application of this amendment will be mandatory in fiscal years beginning on or after January 1, 2013.

Amendments to IAS 27 – Separate Financial Statements • Within the context of the adoption of IFRS 10, Consolidated Financial Statements, the rules relating to the control principle and requirements for presenting consolidated financial statements were removed from IAS 27 and conclusively treated in IFRS 10 (see comments on IFRS 10). The net result is that, in the future, IAS 27 will contain only rules for accounting for subsidiaries, jointly controlled entities and associates in individual IFRS financial statements.
Initial application of this amendment will be mandatory in fiscal years beginning on or after January 1, 2014.

Amendments to IAS 28 – Investments in Associates and Joint Ventures • Within the context of the adoption of IFRS 11, Joint Arrangements, amendments were also made to IAS 28. As in the past, IAS 28 governs the application of the equity method. However, the range of applicability has been significantly broadened through the adoption of IFRS 11, as in the future not only investments in associates will be able to be measured under the equity method, but also investments in joint ventures (see IFRS 11). This eliminates the application of proportional consolidation for joint ventures.
In the future, potential voting rights and other derivative financial instruments must also be taken into consideration in assessing whether an entity has a significant influence and/or in determining the investor's share of the entity's assets.
A further amendment relates to accounting under IFRS 5 if only a portion of holdings in an associated company or a joint venture is intended for sale. IFRS 5 must then be partially adopted if only a share or a fraction of a share in an associated company (or a joint venture) satisfies the "held for sale" criterion.
Initial application of this amendment will be mandatory in fiscal years beginning on or after January 1, 2014.

IFRS 9 – Financial Instruments • The accounting and measurement procedures for financial instruments under IFRS 9 will replace IAS 39. In the future, financial assets will be classified and measured in only two categories: Those measured at amortized cost and those measured at fair value. The category of financial assets that are carried at amortized cost consists of those financial assets that provide only for interest and redemption payments at predefined points in time and that are additionally held within the context of a business model whose objective is to hold assets. All other financial assets are considered to number among the fair value category. As in the past, under certain circumstances it is possible to designate financial assets of the first class as belonging to the fair value category ("Fair Value Option").
All changes in the value of fair value category assets must be recorded as gains or losses. In the case of certain equity capital instruments, however, it is possible to utilize the option of recording changes in value under other comprehensive income; however, dividend entitlements arising from these assets must be recorded as gains or losses.

The rules relating to financial liabilities have fundamentally been adopted from IAS 39. The most important difference relates to the way changes in the value of financial liabilities measured at their fair value are recorded. In the future, these liabilities will have to be divided: That portion attributable to the entity's own credit risk must be recorded under other comprehensive income, the remaining portion of the change in value as a gain or loss.
Initial application of IFRS 9 – subject to its pending inclusion under EU law – will be mandatory in fiscal years beginning on or after January 1, 2015.

IFRS 10 – Consolidated Financial Statements • This standard provides a new and comprehensive definition of the term "control." If one entity controls another entity, the parent company must consolidate the subsidiary. Under the new concept, control is deemed to exist if the potential parent company possesses decision-making power over the potential subsidiary as a result of voting or other rights, participates in positive or negative backflows from the subsidiary and can influence these backflows through its decision-making power.
This new standard could impact the number of consolidated companies, including special-purpose entities.
Initial application of this new standard will be mandatory in fiscal years beginning on or after January 1, 2014. Should the qualification of an investment as a subsidiary be determined differently by IAS 27/SIC-12 and IFRS 10, IFRS 10 will be applied retroactively. Prior application is only permissible simultaneously with IFRS 11 and IFRS 12, as well as with IAS 27 and IAS 28, which were amended in 2011.

IFRS 11 – Joint Arrangements • IFRS 11 provides new rules that govern the accounting for joint arrangements. Under the new concept, a distinction must be made as to whether the case in question is a joint operation or a joint venture. A joint operation is deemed to exist if the jointly controlling parties possess rights to assets and obligations or liabilities. The individual rights and obligations are accounted for proportionally in the Consolidated Financial Statements. In the case of a joint venture, on the other hand, the jointly controlling parties possess rights to the net asset surplus. This right is presented through the application of the equity method in the consolidated financial statements, thus eliminating the option of proportional inclusion in the consolidated financial statements.
Initial application of this new standard will be mandatory in fiscal years beginning on or after January 1, 2014. There are specific transitional rules for the transition from proportional consolidation to the equity method, for example. Prior application is only permissible simultaneously with IFRS 10 and IFRS 12, as well as with IAS 27 and IAS 28, which were amended in 2011.

IFRS 12 – Disclosure of Interests in Other Entities • This standard governs disclosure obligations with respect to interests in other entities. The required disclosures are considerably more extensive than those required in the past under IAS 27, IAS 28 and IAS 31.
Initial application of this new standard will be mandatory in fiscal years beginning on or after January 1, 2014.

IFRS 13 – Fair Value Measurement • This standard consistently governs fair value measurement in IFRS financial statements. In the future, all fair value measurements required under other standards will follow the consistent rules in IFRS 13; there will only continue to be separate rules for IAS 17 and IFRS 2.
Fair value under IFRS 13 is defined as the exit price, i.e. the price that would be achieved through the sale of an asset or the price that would have to be paid in order to transfer a debt. A 3-stage hierarchical system of the type already known from the fair value measurement of financial assets will be introduced, classified on the basis of the dependence upon observable market prices. The new fair value measurement method could lead to values that differ from those measured under previous rules.
Initial application of this new standard will be mandatory in fiscal years beginning on or after January 1, 2013.

IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine • The purpose of this interpretation is to lend consistency to the way surface mine stripping costs are accounted. If, as expected, revenues are realized from the further exploitation of excavated material, the attributable costs of removing this excavated material must be accounted for as inventories pursuant to IAS 2. In addition, this creates an intangible asset that must be capitalized together with the surface mining assets if this improves access to further natural resources and the prerequisites defined in the interpretation are satisfied. This asset must be depreciated over its anticipated useful life.
IFRIC 20 is to be applied for the first time in fiscal years beginning on or after January 1, 2013.

INCOME STATEMENT DISCLOSURES

6 Net revenues

Revenues are generated with wholesale partners and resellers, as well as with direct customers. The resellers offer QSC's products and services to consumers under their own name and for their own account; in doing so, they serve as the interface to the consumer, thus also assuming the risk of bad debts. QSC defers non-recurring revenue from the installation of customer lines on a time-apportioned basis over an average contractual term of 24 months.
Revenues from construction contracts totaled K€ 4,246 for the year under review (2011: K€ 3,239), and losses on construction contracts K€ 0 (2011: K€ 364). Hardware leasing revenues from multi-component contracts totaled K€ 6,570 in 2012 (2011: K€ 3,503).
Due to the pricing structure and billing methods used, a further breakdown into products and services is not possible.

7 Cost of revenues

Cost of revenues include the cost of material, the cost of building, operating and maintaining the network, personnel expenses for employees whose jobs relate to technology, non-cash share-based remuneration under stock option programs, as well as depreciation and amortization on the hardware and software employed in connection with technology operations. Moreover, this item includes personnel expenses from the Outsourcing and Consulting lines of business. Non-recurring provisioning costs for activating customer connections are capitalized and depreciated over the average contract term of 24 months. In the 2012 fiscal year, research expenses totaling K€ 500 were incurred; development expenses of K€ 1,533 (2011: K€ 1,100) were capitalized as intangible assets.

in K€	2012	2011
Cost of materials	225,025	240,729
Building, operation and maintenance of the infrastructure	43,538	47,165
Depreciation and amortization	38,913	38,130
Personnel expenses	51,674	34,445
Non-cash share-based remuneration	-	3
Cost of revenues	**359,150**	**360,472**

8 Sales and marketing expenses

Sales and marketing expenses include, in particular, advertising expenses and advertising expense allowances, regular commission payments to dealers and distributors, allowances for bad debts, personnel expenses and the non-cash share-based remuneration in connection with SOPs, as well as depreciation and amortization on the hardware and software employed in connection with sales and marketing operations. Analogously to the installation costs, the non-recurring commission payments to dealers and distributors for each new customer line are capitalized and amortized over the average contract term of 24 months.

in K€	2012	2011
Personnel expenses	22,898	20,194
Commission payments	15,462	17,212
Other sales and marketing expenses	4,318	4,316
Allowance for bad debt and fair dealing payments	1,573	662
Advertising expenses	2,413	2,112
Depreciation and amortization	9,474	12,076
Non-cash share-based remuneration	88	108
Sales and Marketing expenses	**56,226**	**56,680**

9 General and administrative expenses

In addition to the personnel expenses and the non-cash share-based remuneration for the members of the Management Board and for staff positions, as well as for employees from Finance, Human Resources, Legal Operations, and IT who work in administration, the general and administrative expenses item also includes costs for the administration buildings, legal and consulting costs, corporate communications costs, including investor relations, as well as depreciation and amortization on the hardware and software employed in connection with administrative operations.

in K€	2012	2011
Other general and administrative expenses	14,307	14,088
Personnel expenses	19,802	17,698
Depreciation and amortization	4,539	3,056
Non-cash share-based remuneration	350	280
General and administrative expenses	**38,998**	**35,122**

10 Other operating income and expenses

in K€	2012	2011
Other operating income	937	151
Write-off of liabilities	-	195
Gains from disposal of fixed-assets	28	-
Gains from sale of subsidiary	-	1,493
Other operating income	**965**	**1,839**

in K€	2012	2011
Other operating expenses	3,474	424
Losses from disposal of fixed-assets	29	993
Other operating expenses	**3,503**	**1,417**

Other operating expenses primarily include expenses for litigation risks of K€ 2,641.

11 Financial result

Interest expense includes expenses under financing arrangements of K€ 305 (2011: K€ 761). Borrowing costs, which would have had to be attributed to qualifying assets, were not incurred.

in K€	2012	2012
Interest income	756	506
Financial income	**756**	**506**

in K€	2012	2011
Interest expense	4,621	3,334
Financial expenses	**4,621**	**3,334**

12 Earnings per share

For the purpose of calculating undiluted earnings per share, QSC divides profit attributable to the holders of the Company's common stock by the weighted average number of shares of common stock in circulation during the year. The Company computes the weighted average number of issued shares approximately as mean from the respective number of common stock to quarterly closing dates.
For the purpose of calculating diluted earnings per share, QSC divides profit attributable to the holders of the Company's common stock by the sum of the weighted average number of shares of common stock plus the weighted average number of shares of common stock that would arise if all potential shares of common stock with dilutive effect were converted into shares. As of December 31, 2012, the number of potential shares of common stock with a dilutive effect was 1,275,219. During the period between the balance date and the date on which the consolidated financial statements were authorized for issue, no transactions involving existing or potential shares of common stock have occurred which would have significantly changed the weighted average number of issued shares as of December 31, 2012.

	2012	2011
Net profit attributable to ordinary equity holders of the parent in K€	18,876	27,611
Weighted average number of issued shares	131,756,543	137,206,743
Earnings per share (basic) in €	**0.14**	**0.20**

	2012	2011
Net profit attributable to ordinary equity holders of the parent in K€	18,876	27,611
Weighted average number of issued and convertible shares	133,031,762	138,701,747
Earnings per share (diluted) in €	**0.14**	**0.20**

13 Personnel expenses and employees

in K€	2012	2011
Wages and salaries	81,195	62,309
Employer's social security contributions (pension fund)	6,756	5,113
Employer's social security contributions (other)	5,795	4,282
Net pension costs	628	634
Non-cash share-based remuneration	438	391
Personnel expenses	**94,812**	**72,729**

Wages and salaries include expenses for the termination of employment contracts in the amount of K€ 905 (2011: K€ 548).
During fiscal 2012, the Company employed 1,409 employees on average (2011: 1,305). The following table presents the employees' distribution by primary areas of operation:

	2012	2011
Sales and marketing	142	137
Engineering, Outsourcing, Consulting	991	896
General and administration	247	243
Board and staff positions	29	29
Number of employees by corporate function (average)	**1,409**	**1,305**

BALANCE SHEET DISCLOSURES

14 Property, plant and equipment

in K€	Land and buildings	Network and technical equipment	Operational and office equipment	Total
Gross value at January 1, 2011	**-**	**305,789**	**41,564**	**347,353**
Additions	1,830	15,630	5,471	22,931
Disposals	-	(4,685)	(257)	(4,942)
Reclassifications	-	2	-	2
Change in consolidated companies	27,047	15,353	3,837	46,237
Gross value at December 31, 2011	**28,877**	**332,089**	**50,615**	**411,581**
Additions	1,568	21,492	2,906	25,966
Disposals	-	(9,581)	(564)	(10,145)
Reclassifications	(838)	-	838	-
Change in consolidated companies	-	-	-	-
Gross value at December 31, 2012	**29,607**	**344,000**	**53,795**	**427,402**
Accumulated depreciation and amortization at January 1, 2011	**-**	**199,988**	**39,278**	**239,266**
Additions	564	29,175	1,697	31,436
Disposals	-	(3,876)	(250)	(4,126)
Reclassifications	-	-	-	-
Change in consolidated companies	-	-	(48)	(48)
Accumulated depreciation and amortization at December 31, 2011	**564**	**225,287**	**40,677**	**266,528**
Additions	1,784	31,395	1,999	35,178
Disposals	-	(8,613)	(564)	(9,177)
Reclassifications	-	-	-	-
Change in consolidated companies	-	-	-	-
Accumulated depreciation and amortization at December 31, 2012	**2,348**	**248,069**	**42,112**	**292,529**
Carrying amounts at December 31, 2011	**28,313**	**106,802**	**9,938**	**145,053**
Carrying amounts at December 31, 2012	**27,259**	**95,931**	**11,683**	**134,873**

As of December 31, 2012, the carrying amount of plant and equipment, as well as operational and office equipment held under financing arrangements and rent-to-own contracts totaled K€ 8,504 (2011: K€ 22,017). This carrying amount consists of technical equipment (K€ 7,910) and operational and office equipment (K€ 594).
Additions during the 2012 fiscal year amounted to K€ 25,966 (2011: K€ 22,931). As of December 31, 2012, the line item 'Network and technical equipment' included assets under construction amounting to K€ 594 (2011: K€ 2,111), which stem primarily from expansion of the data centers. QSC presents depreciation and amortization in the income statement under 'Cost of revenues', 'Sales and marketing expenses' and 'General and administrative expenses', respectively. There were no non-scheduled impairments recorded in fiscal year 2012.
Liens have been granted on real estate as collateral for liabilities under loan agreements (compare Note 28). Moreover, loans payable are secured by a mortgage lien provided to the lending bank for property, plant and equipment – furnishings and equipment – at the company's property situated at Grasweg 62 – 66 in Hamburg.

15 Goodwill

Goodwill on December 31, 2012, totaled K€ 76,265 (2011: K€ 76,265). Further details in this regard are explained in detail in Note 16.

16 Impairment of goodwill

For the purpose of impairment testing, goodwill acquired in conjunction with business combinations was allocated to the following cash-generating units (CGUs), which were also report–able segments:

in K€	2012	2011
Direct Sales	32,706	32,706
Indirect Sales	22,415	22,415
Resellers	21,144	21,144
Carrying amount of goodwill	**76,265**	**76,265**

QSC initially determines the recoverable amount of the CGUs on the basis of a value in use, which, in turn, is measured using three-year cash flow forecasts. They constitute the corporate plan which is devised by the Management Board. This planning is based upon Management's expectations with respect to the future development of the individual business units and takes into consideration both external market analyses as well as internal assumptions relating to the marketing opportunities for innovative applications in the ICT market. Moreover, there is steady linear growth in the Direct Sales CGU. According to the planning, growth in the Indirect Sales CGU is steady, backed by Development and the launch of new products, as well as the planned rise in the number of marketing partners. As a result of the general development of the telecommunications market, a further decline is anticipated in the Resellers CGU for the beginning of the planning phase. However, beginning in the 2015 planning period, significantly rising revenue and profitability elements are being forecast in this segment, too, as a result of new and innovative IT developments, applications and services. As in the past fiscal year, a long-term growth rate of 1.0 percent was assumed for all three CGUs following the end of the detailed planning phase.

Management's assessment is that the capitalization interest rates utilized for discounting the anticipated future cash flows reflect the segment-specific risks. The after-tax capitalization interest rate is 11.03 percent for the Direct Sales CGU, 11.84 for Indirect Sales and 13.47 percent for the Resellers segment. The year before, an interest rate of 10.25 percent had been assumed for all CGUs. These discount rates reflect Management's estimates with respect to Company-specific risks and includes a base rate that is risk-free and appropriate for alternative investments under the interest rate structure curve as of December 31, 2012, and a market risk premium in the amount of 7.0 percent as well as further risk-uplift factors that reflect the risk structure of the respective segment as well as that of the IT and telecommunications industries.

No need for impairment was determined.

The calculation of the CGUs' value in use, in particular, requires Management to make estimates about revenues, gross profit, discount rate, capex ratio, the development of prices and market share, which are subject to uncertainties. QSC believes that the basic assumptions applied for determining value in use for the CGUs, in particular regarding the capitalization interest rate, appropriately reflect the risk situation. The planning also assumes that no capital investments in excess of the current level will be necessary. The risk-uplift factor assumed in addition to the market risk premium in the Resellers segment is 5.0 percent. This reflects the fact that the significant rises in revenues and profitability that have been assumed will not manifest themselves until the late planning phase. The new IT-based lines of business in this segment serve as the basis for the positive development of business. If scenario calculations are assumed that these new lines of business will not be successful and the planning will thus not be achieved, this could then lead to impairment. As a function of the assumptions made in the scenarios, the impairment could amount to up to K€ 21,144. This would represent the entire goodwill allocated to this business unit. At the Direct and Indirect Sales CGUs, a further reasonable 2.0-percent increase in the risk-uplift factor will not result in the need for impairment.

17 Other intangible assets

in K€	Licenses	Software	Customer connections	Customer bases	Brands	Other	Total
Gross value at Jan. 1, 2011	1,277	18,352	105,297	-	-	14,109	139,035
Additions	110	3,154	9,304	-	-	100	12,668
Disposals	-	(264)	-	-	-	-	(264)
Reclassifications	-	(2)	-	-	-	-	(2)
Change in consolidated companies	-	2,887	-	36,223	2,426	1,055	42,591
Gross value at Dec. 31, 2011	1,387	24,127	114,601	36,223	2,426	15,264	194,028
Additions	276	4,232	7,374	-	-	100	11,982
Disposals	-	(297)	-	-	-	-	(297)
Reclassifications	-	-	-	-	-	-	-
Change in consolidated companies	-	-	-	-	-	-	-
Gross value at Dec. 31, 2012	1,663	28,062	121,975	36,223	2,426	15,364	205,713
Accumulated amortization and depreciation at Jan. 1, 2011	881	14,820	89,318	-	-	11,057	116,076
Additions	102	3,087	14,889	1,772	349	1,627	21,826
Disposals	-	(152)	-	-	-	-	(152)
Reclassifications	-	-	-	-	-	-	-
Change in consolidated companies	-	(11)	-	-	-	-	(11)
Accumulated amortization and depreciation at Dec. 31, 2011	983	17,744	104,207	1,772	349	12,684	137,739
Additions	99	3,389	10,179	2,444	485	1,150	17,746
Disposals	-	(297)	-	-	-	-	(297)
Reclassifications	-	-	-	-	-	-	-
Change in consolidated companies	-	-	-	-	-	-	-
Accumulated amortization and depreciation at Dec. 31, 2012	1,082	20,836	114,386	4,216	834	13,834	155,188
Carrying amounts at Dec. 31, 2011	404	6,383	10,394	34,451	2,077	2,580	56,289
Carrying amounts at Dec. 31, 2012	581	7,226	7,589	32,007	1,592	1,530	50,525

Additions to 'Intangible assets' include internally generated intangible assets (capitalized development cost) in the amount of K€ 1,533 (2011: K€ 1,100) for software. The gross value of capitalized development cost totaled K€ 2,643 (2011: K€ 1,110). This amount is classified into completed developments in the amount of K€ 217 and not yet completed developments in the amount of K€ 2,426.
The capitalized development cost (internally generated software) has a useful life of four years and is depreciated on a straight-line basis over this period. Cumulative depreciation totals K€ 14 (2011: K€ 0).
The intangible assets of customer bases and brands consist of the undisclosed reserves identified within the framework of the initial consolidations of IP Partner AG and INFO AG in fiscal 2011, which had been presented as additions stemming from the change in consolidated companies the year before.
QSC presents depreciation and amortization in the income statement under 'Cost of revenues', 'Sales and marketing expenses' and 'General and administrative expenses', respectively. There were no non-scheduled impairments recorded in fiscal year 2012.

18 Trade receivables

in K€	2012	2011
Long-term trade receivables	4,525	3,622
Short-term trade receivables	63,814	65,705
Trade receivables	**68,339**	**69,327**

The long-term trade receivables are essentially attributable to accounting for leasing receivables within the framework of multiple-component contracts. The presented receivables are not subject to any major restrictions of ownership or availability. The carrying values correspond to the market values.
Full amortization contacts without a purchase option having an average rental term of from 36 to 48 months are typically entered into. Following the expiration of the base rental period, the Group has the option of extending the contract or selling the leased items, for which no purchase option was granted, within the framework of exploitation of the residual value. No residual values are guaranteed.
Within the framework of an existing factoring agreement with Norddeutsche Landesbank Luxembourg S.A., Group company INFO AG regularly sells certain short-term trade receivables having a total volume of up to € 11.0 million to the bank. As of the balance sheet date, accounts receivable having a nominal total value of € 8.0 million (2011: € 10.5 million) were transferred. The

nominal value corresponds to the attributable fair market value of the transferred receivables. The transferred receivables are then taken off the books. INFO AG bears a maximum default risk of K€ 220 with respect to the transferred receivables. As in the previous year, this amount, which is kept on deposit as collateral, was not utilized during the year under review.
Short-term trade receivables are not interest-bearing and generally have an original maturity of between 30 and 90 days. As of December 31, 2012, trade receivables amounting to K€ 5,622 (2011: K€ 4,075) were impaired. Allowances developed as follows:

in K€	2012	2011
Allowance at January 1	**4,075**	**3,913**
Change in consolidated companies	-	7
Charge for the year	2,866	729
Utilized	(1,099)	(507)
Unused amounts reversed	(220)	(67)
Allowance at December 31	**5,622**	**4,075**

Trade receivables include receivables relating to uncompleted contracts for which the percentageof-completion (PoC) method pursuant to IAS 11 is applied. The amount reported comprises cumulative contract costs incurred up to the balance sheet date plus a proportion of profit earned on the relevant contracts based on the cost-to-cost method. Advance payments received for these contracts are offset against the relevant PoC receivables. Contract revenue recognized in 2012 amounted to K€ 4,246 (2011: K€ 3,239). Write-downs totaling K€ 0 (2011: K€ 138) were recognized in the year under report in connection with the valuation of long-term construction contracts.
PoC receivables totaling K€ 1,571 (2011: K€ 1,042) are reported as trade receivables. The income statement impact of PoC accounting is explained in Note 6.
The analysis of trade receivables as of December 31 was as follows:

in K€	2012	2011
Trade receivables not impaired		
Impaired	6,690	4,849
Neither past due nor impaired	57,347	57,773
Past due but not impaired		
< 90 days	9,869	10,658
91 – 120 days	55	92
> 120 days	-	30
Trade receivables not impaired	**73,961**	**73,402**

19 Prepayments

Long-term prepayments totaled K€ 1,976 (2011: K€ 1,718) on December 31, 2011, and essentially contain prepayments under service and maintenance agreements. Short-term prepayments totaled K€ 4,413 (2011: K€ 4,526) and essentially record prepayments for leased lines and technology premises, as well as insurance.

20 Inventories

Inventories totaled K€ 1,365 on December 31, 2012 (2011: K€ 1,563), and record technical devices for end customers that are on stock. End customer devices are recorded in current assets at the time of acquisition and transferred as fixed assets upon shipment to the end customer.

21 Other short-term financial assets

Other short-term financial assets total K€ 2,963 (2011: K€ 3,944) and relate primarily to tax receivables. This item contains security in the amount of K€ 220, whose availability is limited due to the sale of the receivables.

22 Available-for-sale financial assets

Available-for-sale financial assets, which amount to K€ 343 (2011: K€ 341), consist of shares in a money market fund.

23 Cash and short-term deposits

Cash and short-term deposits amounted to K€ 34,820 (2011: K€ 23,755) and consist of cash at banks and on hand. Cash at December 31, 2012, included cash with limited availability totaling K€ 775 (2011: K€ 739), which serves as collateral for guarantees.

24 Issued capital

	2012	2011
Issued capital		
Capital stock in K€	123,677	137,257
No-par common stock	123,677,239	137,256,877

Each share of stock entitles the registered owner to cast one vote at the Annual Shareholders Meeting and enjoy full dividend entitlement. The voting right is not subject to any restrictions. The capital stock rose by K€ 120 in fiscal 2012, exclusively as a result of the issuance of common shares in connection with stock option programs. Each share has a par value of € 1.00. All issued shares have been fully paid-in.
From May 21 through November 5, 2012, QSC acquired 13,699,913 shares (representing 9.98 percent of the capital stock) pursuant to the corresponding approval by the Annual Shareholders Meeting at an average price of € 2.12 per share. During the aforementioned period, QSC spent a total of K€ 29,072 for the share buy-back. The Company's capital stock was decreased by K€ 13,700.

25 Capital surplus

As of December 31, 2012, capital surplus amounts to K€ 140,542 (2011: K€ 140,095). This amount includes deferred share-based remuneration which relates to the Company's stock option program. Capital surplus may only be utilized according to the rules of the German Stock Corporation Act ("AktG").

26 Authorized and conditional capital

Authorized capital • The Management Board is authorized, with the approval of the Supervisory Board, to increase the capital stock on one or several occasions through May 19, 2015, to a total of € 65,000,000 through the issuance of new no-par bearer shares against contributions in cash and / or in kind. As a general rule, subscription rights are also required to be given to existing shareholders.

Conditional capital • Conditional capital of K€ 31,673 at December 31, 2012, relates to conditional increases in share capital which will only be executed to the extent that holders of convertible bonds issued in connection with QSC stock option plans exercise their conversion rights.
Conditional capital of K€ 25,000 at December 31, 2012, relates to a conditional increase in share capital issued in accordance with the authorization by shareholders given at the Annual General Meeting on May 20, 2010 and valid until May 19, 2015. The conditional capital will be executed only to the extent that holders of options bonds and / or convertible bonds issued or guaranteed by QSC or by a group entity – as defined by § 18 "AktG" and in which QSC directly or directly has a majority participation – exercise their option / conversion rights under the bond or fulfill their option / conversion obligation and, secondly, only to the extent that no cash settlement is given and no own (treasury) shares of the Company or the shares of an another stock exchange-listed company are used to service the options / conversion. New shares will be issued at the option / conversion price determined on the basis of the authorization resolution referred to above.

27 Other reserves

Other reserves include gains and losses on available-for-sale financial assets, as well as actuarial gains and losses on defined benefit pension plans. The values for the 2012 and 2011 fiscal years are presented in the consolidated statements of changes in shareholders' equity and in the consolidated statements of recognized income and expenses.
Other reserves at December 31, 2012, comprise unrealized fair value changes on available-for-sale assets amounting to K€ 1 (2011: K€ 3) and actuarial losses of K€ 846 (2011: K€ 372) on defined benefit pension plans, which were recorded under 'Other comprehensive income,' respectively. These amounts are stated net of deferred taxes.

28 Interest-bearing liabilities

in K€	Effective interest rate in 2012	Due date	2012	2011
Short-term liabilities				
Under financing and finance				
lease arrangements	6.00	2013	4,147	6,698
Due to banks *	5.24	2013	4,351	3,281
Short-term liabilities			**8,498**	**9,979**
Long-term liabilities				
From convertible bonds	3.50	2013 – 2019	13	15
Due to banks *	5.43	2013 – 2017	74,817	40,304
Under financing and finance				
lease arrangements	5.60	2013 – 2016	7,200	6,879
Long-term liabilities			**82,030**	**47,198**

* In contrast to the 2011 fiscal year, short-term liabilities due to banks were reclassified as long-term liabilities due to banks

Short-term liabilities under financing and finance lease arrangements consist of fixed payment obligations through year-end 2013.
Long-term liabilities due to banks in fiscal 2012 essentially consisted of liabilities stemming from the consortium loan agreement that was entered into in September 2011. The borrowers include QSC, INFO AG, Ventelo, Plusnet and IP Exchange. This revolving line of credit totals K€ 150,000 and will run through September 16, 2016. The loan amounts already utilized (K€ 62,000; 2011: K€ 24,900) will generally be used to finance operating resources, and the ability to draw upon the line is subject to prerequisites, in particular the attainment of certain key financial indicators. All stipulated ratios were complied with in fiscal year 2012. The interest rate currently amounts to an average 1.62 percent over EURIBOR, with the points subject to change as a function of the Company's financial position and profitability.

Loans payable at the level of INFO AG are secured by a mortgage lien of K€ 23,000 on that entity's land at Grasweg 62–66. Additional collateral has also been provided to the lending bank in the form of a storage assignment of assets.

Utilization of the loans is subject to compliance with specified financial ratios. In order to obtain the loans, INFO AG has given a commitment to comply with specific financial ratios determined on the basis of changes in equity and which reflect the company's ability to service liabilities. The stipulated ratios were complied with in 2012.

Loans payable at the level of a subsidiary of INFO AG are secured by a mortgage lien of K€ 2,300 on that entity's site. In addition, all entitlements to receive rent and lease income under a general subcontract agreement between the subsidiary and a customer have also been assigned as collateral.

Long-term liabilities due to banks relate primarily to borrowings made in the previous fiscal year. As of December 31, 2012, there were 1,275,219 convertible bonds issued in conjunction with stock option programs. See also Note 39 in this regard. The convertible bonds have a nominal value of € 0.01 each.

Long-term liabilities due to banks comprise annuity loans that are utilized to finance buildings and data centers. Long-term liabilities under financing arrangements consist of fixed payment obligations for the period 2013 through 2019.

29 Accrued pensions

QSC operates defined benefit pension plans, which are partially secured through reinsurance and are classified as plan asset in accordance with IAS 19.

The pension provision covers benefit entitlements of one current member of the QSC Management Board and two former members of the Info AG Management Board as well as benefit entitlements granted to some of the staff of INFO AG and Ventelo GmbH in previous years.

The pension entitlements relate to defined benefits which depend primarily of the period of service with the company and the relevant level of salary.

The pension provision for defined benefit plans is measured using the projected unit credit method in accordance with the requirements of IAS 19 and takes future developments into account. Assumptions are based on the 2005G biometric tables issued by Prof. Dr. Klaus Heubeck.

As in the previous fiscal year, QSC recognizes all actuarial gains and losses directly under 'Other comprehensive income.' In fiscal 2012, the accumulated amount of all actuarial gains and losses as presented in the consolidated statement of directly recognized income and expenses was K€ 2,405 (2011: K€ 1,158).

in K€	2012	2011
Present value of defined benefit obligation at January 1	**5,715**	**1,189**
Entitlement from change in consolidated companies	-	3,743
Service costs	90	140
Interest costs	253	181
Actuarial losses	1,206	545
Benefits paid	(101)	(83)
Transfer of obligations	286	-
Present value of defined benefit obligation at December 31	**7,449**	**5,715**
Fair value of plan assets at January 1	**(376)**	**(122)**
Expected return on plan assets	(8)	(4)
Actuarial losses	41	6
Employer contributions to plan assets	(201)	(256)
Fair value of plan assets at December 31	**(544)**	**(376)**
Accrued pensions at December 31	**6,905**	**5,339**
Discount rate	2.70 % – 3.30 %	4.45 % – 4.52 %
Expected return on plan assets	3.50 %	3.50 %
Rate of compensation increase	0.00 % – 3.00 %	0.00 % – 3.00 %
Rate of pension indexation	1.00 % – 3.00 %	1.00 % – 3.00 %

Total actuarial losses after taxes amount to K€ 846. In the past fiscal year, a loss of K€ 372 was recorded.
The composition of the pension costs under defined benefit plans is as follows:

in K€	2012	2011
Service costs	90	140
Interest costs	253	181
Expected return on plan assets	(8)	(4)
Net pension costs	**335**	**317**

Actual losses on the fund assets amounted to K€ 33 (2011: K€ 20). The expense for unwinding interest is reported as part of the net financial result.

Defined benefit obligations and fund assets (partially externalized) measured for IAS 19 purposes were as follows at the end of 2012 and the four preceding reporting periods:

in K€	2012	2011	2010	2009	2008
Present value of defined benefit obligation	(1,669)	(1,281)	(1,189)	(849)	(773)
Fair value of plan assets	544	376	122	108	95
Deficit	**(1,125)**	**(905)**	**(1,067)**	**(741)**	**(678)**

In 2012, QSC did not make any adjustments based on past experience with regard to the present value of defined benefit obligations and plan assets.

30 Trade payables

All trade payables have a term of less than one year.

31 Provisions

Other provisions primarily record litigation risks and human resources provisions. Measurement of these items was based upon past experience. Tax provisions consisted of municipal trade tax of K€ 1,488 for fiscal 2011 and 2012, corporation tax of K€ 1,931 for fiscal 2011 and 2012, as well as other tax provisions of K€ 86.

in K€	2012	2011
Long-term provisions at January 1	**1,036**	-
Addition due to change in consolidated companies	-	1,066
Additions	69	255
Utilized	(249)	(285)
Long-term provisions at December 31	**856**	**1,036**

The long-term provisions relate to obligations for part-time early retirement arrangements amounting to K€ 589 (2011: K€ 830), leasehold improvement obligations amounting to K€ 219 (2011: K€ 206) and other personnel provisions amounting to K€ 48 (2011: K€ 0). The provisions for part-time early retirement working arrangements will be due in the years 2013 – 2017. The leasehold improvement obligations are typically incurred at the end of the rental period. The rental agreements have differing termination dates, ranging from 2019 to 2028, and the due dates of the leasehold improvement obligations are distributed accordingly.

in K€	2012	2011
Other provisions at January 1	**1,338**	**707**
Addition due to change in consolidated companies	-	1,604
Additions	2,076	120
Utilized	(1,149)	(625)
Unused amounts reversed	-	(468)
Other provisions at December 31	**2,265**	**1,338**
Provisions for receivables at January 1	**82**	**175**
Additions	11	-
Utilized	(82)	(93)
Unused amounts reversed	-	-
Provisions for outstanding invoices at December 31	**11**	**82**
Provisions for litigation risks at January 1	**1,459**	**1,203**
Additions	2,788	256
Utilized	(71)	-
Unused amounts reversed	-	-
Provisions for litigation risks at December 31	**4,176**	**1,459**
Other short-term provisions at December 31	**6,452**	**2,879**

in K€	2012	2011
Tax provisions at January 1	**5,764**	**2,214**
Addition due to change in consolidated companies	-	460
Additions	1,808	3,502
Utilized	(4,067)	(308)
Unused amounts reversed	-	(104)
Tax provisions at December 31	**3,505**	**5,764**
Total provisions at December 31	**10,813**	**9,679**

32 Deferred income

Revenues from non-recurring installation charges are capitalized and amortized over the estimated average customer subscription life of 24 months. Advance payments from customers are also deferred until such time as the corresponding performance has been provided.
During the 2011 fiscal year, the Company also recognized deferred income relating to the payment by TELE2 in the amount of K€ 41,827 for early termination of the contract covering collaboration with DSL network operating company Plusnet, which was originally to run at least through December 31, 2013. This amount will be amortized over the remaining term of the contract. As of December 31, 2012, this item amounted to K€ 20,914.

33 Other short-term liabilities

All other short-term liabilities have a term of less than one year and consist essentially of revenue tax liabilities.

CASH FLOW STATEMENT DISCLOSURES

34 Cash flow from operating activities

Cash flow from operating activities amounted to K€ 60,972 in fiscal 2012, thus down K€ 15,782 from the previous year's level of K€ 76,754. Taking depreciation expense on fixed assets into account, earnings before taxes accounted for K€ 3,016 of this decrease. Early termination in January 2011 of the contract between QSC and TELE2, which was originally to run through year-end 2013, resulted only in fiscal year 2011 in a non-recurring positive effect of K€ 28,358 on accounts receivable from former shareholders. For 2011 and 2012, the change in other assets and liabilities contains a corresponding negative item in the amount of K€ -20,914 stemming from the return of deferred income. The negative effect from the premature redemption thus amounted to K€ -20,914 (previous year: set-off effect of K€ 7,444).

35 Cash flow from investing activities

In fiscal 2012, cash flow from investing activities totaled K€ -33,158 (2011: K€ -85,339). K€ 4,289 of the total investments made in fiscal 2012 (K€ 37,948) were financed through lease financing arrangements and were thus not presented here.

36 Cash flow from financing activities

In fiscal 2012, cash flow from financing activities amounted to K€ -16,749 (2011: K€ -13,893). This development was primarily attributable to the first payment of a dividend (K€ -10,985), purchases for the share buy-back (K€ -29,072), and the reverse effect from the assumption of loans (K€ 35,583).
Interest accrued in the amount of K€ 3,047 and interest received in the amount of K€ 738 are allocated to cash flow from financing activities.

OTHER DISCLOSURES

37 Subsidiaries

By comparison with December 31, 2012, the number of consolidated companies was reduced by one subsidiary. This resulted from an intra-group merger. QSC's consolidated financial statements include the following equity investments:

in K€	Shareholdings (in %) Dec 31, 2012	Shareholders' equity at Dec 31, 2012	Net profit/(loss) 2012
Subsidiaries			
(disclosures pursuant to German GAAP ("HGB"))			
Plusnet GmbH & Co. KG ("Plusnet"), Cologne ***	100	13,845	221
Ventelo GmbH ("Ventelo"), Cologne	100	169,738	1,113*
Q-DSL home GmbH ("DSL home"), Cologne	100	1,293	(63)*
010090 GmbH ("010090"), Cologne	100	156	(29)*
Broadnet Services GmbH			
("Broadnet Services"), Cologne	100	25	(61)*
BroadNet Deutschland GmbH			
("BroadNet Deutschland"), Cologne	100	2,940	23*
01098 Telecom GmbH ("01098"), Cologne	100	25	28*
01012 Telecom GmbH ("01012"), Cologne	100	27	29*
010052 Telecom GmbH ("010052"), Cologne	100	25	28*
tengo GmbH ("tengo"), Cologne	100	25	26*
tengo 01052 GmbH ("tengo 01052"), Cologne	100	25	27*
F&Q Netzbetriebs GmbH & Co. KG ("F&Q"), Cologne	100	1	-
F&Q Netzbetriebs Verwaltungs GmbH			
("F&Q Verwaltung"), Cologne	100	25	-
T&Q Netzbetriebs GmbH & Co. KG ("T&Q"), Cologne	100	25	-
T&Q Verwaltungs GmbH ("T&Q Verwaltung"), Cologne	100	30	3
INFO Gesellschaft für Informationssysteme			
Aktiengesellschaft ("INFO AG"), Hamburg	100	52,922	5,116*
IP Exchange GmbH ("IP Exchange"), Nuremberg **	100	500	1,265*
IPX-Server GmbH ("IPX-Server"), Nuremberg **	100	201	27
IP Colocation GmbH ("IP Colocation"), Nuremberg **	100	1,453	(2)
INFO Business Systems GmbH			
("INFO BS"), Hamburg **	100	394	4,062*
INFO Customer Service GmbH			
("INFO CS"), Hamburg **	100	25	6*

* Annual result before profit and loss takeover agreement ** The shares are held by INFO AG *** The shares are held by Ventelo

The following subsidiaries have exercised their option for exemption pursuant to § 264 (3) of the German Commercial Code ("HGB"): DSL home, 010090, BroadNet Deutschland, Broadnet Services, 01098, 01012, 010052, tengo, tengo 01052, F&Q, F&Q Verwaltung, T&Q, T&Q Verwaltung, IPX-Server, IP Colocation, INFO BS, and INFO CS.

Plusnet • On July 10, 2006, QSC and TELE2 founded Plusnet. Following the acquisition of TELE2's 32.5-percent minority stake on December 22, 2010, QSC now owns 100 percent of the shares. Plusnet's purpose is to continue to operate the Germany-wide DSL network.

Ventelo • On December 13, 2002, QSC acquired 100 percent of Ventelo, a nationwide voice telephony carrier providing enterprise customers with voice telephony services. Ventelo's market position in voice communications for enterprise customers ideally complemented QSC's broadband data communications service to the same customer segment. The acquisition of Ventelo enabled QSC to also offer integrated telecommunications solutions for all enterprise customer segments. Total acquisition costs for Ventelo were K€ 11,454, including direct acquisition costs of K€ 90.

DSL home • On March 31, 2006, QSC acquired 100 percent of the shares of DSL home. The purchase price paid for the formerly non-operative Kristall 40. GmbH totaled K€ 27. In accordance with § 123 (3) no. 1 of the German Company Transformation Law ("UmwG"), all retail customer contracts relating to DSL residential customer business were transferred to DSL home by way of spin-off. At the Annual General Meeting held on May 23, 2006, the shareholders gave their approval to the spin-off with retrospective effect from January 1, 2006. The Spin-Off and Transfer Agreement was signed on August 9, 2006.

010090 • On April 12, 2006, QSC acquired 100 percent of the shares of 010090. The purchase price paid for the formerly non-operative Kristall 39. GmbH totaled K€ 27. The company 010090 markets voice telephony products for residential customers, in particular call-by-call products.

Broadnet Services • Broadnet Services is a former 100-percent-subsidiary of Broadnet, and has been a direct investment of QSC since the date of the Broadnet merger. Broadnet Service markets voice telephony products for residential and business customers.

BroadNet Deutschland • BroadNet Deutschland is a former 100-percent-subsidiary of Broadnet, and has been a direct investment of QSC since the date of the Broadnet merger. BroadNet Deutschland markets voice telephony products for residential customers, especially call-by-call products.

01098 • On July 2, 2008, QSC acquired 100 percent of the shares of 01098. Total acquisition costs for formerly non-operative Kolibri 113 GmbH amount to K€ 25. 01098 markets voice telephony products for residential customers, especially call-by-call products.

01012 • On July 17, 2008, QSC acquired 100 percent of 01012. Total acquisition costs for 01012 amounted to K€ 28. 01012 markets voice telephony products for residential customers, especially call-by-call products.

010052 • 010052 emerged on October 30, 2009, from a name change of Q-DSL privat GmbH. The latter was formed on December 17, 2008, and is a wholly-owned QSC company. 010052 markets voice telephony products for residential customers, especially call-by-call products.

tengo • On January 15, 2010, QSC formed tengo GmbH with share capital of K€ 25. Tengo markets voice products for residential customers, in particular call-by-call offerings.

tengo 01052 • Newly established tengo 01052 with share capital of K€ 25 has been fully consolidated in the Consolidated Financial Statements since March 11, 2011. Tengo 01052 markets voice products for residential customers, in particular call-by-call offerings.

F&Q • Under a purchase agreement dated September 6, 2010, QSC acquired 100 percent of F&Q Netzbetriebs GmbH & Co. KG having a limited partner's share of K€ 1 as well as a general partner, F&Q Netzbetriebs Verwaltungs GmbH. The general partner's share capital amounts to K€ 25 and comprises one share having a par value of K€ 25, which is held by F&Q Netzbetriebs GmbH & Co. KG, itself. F&Q provides voice and Internet services for customers of Freenet Cityline GmbH. A network partnership had been in place here between QSC and Freenet. The purchase price totaled K€ 26. What were acquired were essentially liquid assets.

T&Q • Under a purchase agreement dated December 29, 2010, QSC acquired 100 percent of T&Q Netzbetriebs GmbH & Co. KG having a limited partner's share of K€ 25 as well as a general partner, T&Q Verwaltungs GmbH. The general partner's share capital amounts to K€ 25 and comprises one share having a par value of K€ 25, which is held by T&Q Netzbetriebs GmbH & Co. KG, itself. T&Q serves to provide voice services for TELE2. A network partnership had been in place here between QSC and TELE2. The purchase price totaled K€ 50. What were acquired were essentially liquid assets.

INFO Gesellschaft für Informationssysteme AG (formerly INFO Gesellschaft für Informationssysteme Holding AG, formerly IP Partner AG) • On December 21, 2010, QSC published an ad-hoc release relating to the acquisition of all shares of IP Partner AG. The date of the share transfer (acquisition date) was January 3, 2011. IP Partner operates two data centers in Munich and Nuremberg with more than 10,000 servers for more than 1,000 business customers. The purchase price totaled K€ 24,684.
Through an amendment to its articles of association and bylaws on January 9, 2012, the name of the company was initially changed from IP Partner AG to INFO Gesellschaft für Informationssysteme Holding AG (INFO Holding).

On May 2, 2011, QSC had concluded a purchase agreement with a major shareholder of INFO AG (hereinafter called "Old INFO AG") for the purchase of 58.98 percent of the 4,000,000 total issued shares of Old INFO AG. OLD INFO AG also held 251,403 treasury shares. In accordance with the requirements of § 35 of the German Securities Acquisition and Takeover Act ("WpÜG"), QSC published a public takeover offer on June 9, 2011, offering to acquire all of the shares of Old INFO AG not already in its possession. By December 31, 2011, QSC held 91.78 percent of the shares of Old INFO AG.

Old INFO AG is an independent provider of IT Outsourcing and IT Consulting services in Germany. Its portfolio includes the planning, implementation and operation of premium IT solutions for small and mid-size enterprises, both national and international. Old INFO AG has three data centers of its own in Hamburg and Oberhausen offering 6,000 square meters of total floor space. Moreover, Old INFO AG is an SAP Systems House and a Microsoft Gold Certified Partner.

Within the framework of an increase of capital of INFO Holding resolved by its shareholders meeting on January 9, 2012, against contributions in kind, QSC transferred with immediate legal effect all shares of Old INFO AG held by it to INFO Holding as a contribution in kind. Since then, INFO Holding has directly held 91.78 percent of the shares of Old INFO AG.

A merger law squeeze-out occurred through a merger agreement dated March 20, 2012, and its entry in the commercial register on July 17, 2012. This merged Old INFO AG with INFO Holding; INFO Holding had previously acquired all minority shares (8.22 percent) through the merger law squeeze-out.

Through amendment to its articles of association and bylaws on June 4, 2012, and its entry in the commercial register on July 17, 2012, the name of the company was changed from INFO Gesellschaft für Informationssysteme Holding AG (INFO Holding) to INFO Gesellschaft für Informationssysteme AG (INFO AG). Moreover, its legal domicile was changed from Nuremburg to Hamburg through an entry in the commercial register on February 20, 2012.

38 Segment reporting

In accordance with IFRS 8, QSC identifies reportable segments on the same basis as is used internally by Management for evaluating performance and making decisions. QSC's segmentation is aligned to the customer structure, as presented as follows.

The Direct Sales Business Unit focuses on more than 8,000 larger and mid-size enterprises in Germany and also includes the business of INFO AG. Its portfolio comprises national and international site networking, outsourcing solutions, data center services, such as Housing and Hosting, as well as Cloud services to an increasing extent. IT Consulting is a further important element of this business unit's portfolio; the QSC Group is a consulting partner for SAP and Microsoft solutions.

The Indirect Sales Business unit addresses nearly 900,000 smaller and mid-size companies in Germany that typically do not have staff of their own for information and communications technology, obtaining their ICT services from regional partners instead. QSC is therefore focusing on collaborating with regional service providers, marketing partners and distributors. The Company offers them Internet connections, direct connections to the QSC voice network, Voice-over-IP products, as well as standardized Cloud services, such as a virtual telephone system and a flexible modular design system for utilizing QSC data centers.

The Resellers Business Unit is where QSC bundles its business with ICT services providers that predominantly address residential customers; they include telecommunications carriers, cable network operators and Internet service providers. QSC makes a variety of preliminaries available for its customers, along with such conventional voice services as call-by-call offerings and unbundled DSL lines. Moreover, this business unit also includes Managed Outsourcing, under which QSC integrates the narrowband voice networks of alternative providers into its Next Generation Network (NGN) and provides full operation of their fixed network business.

Due to pricing and billing modalities, it is not possible to provide product-based segmentation of revenues.

Management has stipulated operating profit, i.e. earnings before interest and taxes (EBIT) in accordance with IFRS, as the key steering parameter for the segments. Thus, costs are fully attributed to their respective business units; also performed is a complete calculation of profit or loss with the exception of interest and taxes. Both the direct and indirect attribution of costs to the individual segments corresponds to the Company's internal reporting system and steering logic. There were also directly and indirectly attributable items of assets and liabilities. With the exception of deferred tax assets and liabilities, assets and liabilities that are indirectly attributable are allocated according to financial viability on the basis of contribution margins.

in K€	Direct Sales	Indirect Sales	Resellers	Reconciliation	Consolidated group
Fiscal year 2012					
Net revenues	**187,871**	**125,085**	**168,540**	**-**	**481,496**
Cost of revenues	(120,630)	(67,477)	(132,130)		(320,237)
Gross Profit	**67,241**	**57,608**	**36,410**	**-**	**161,259**
Sales and marketing expenses	(19,997)	(14,615)	(12,053)		(46,665)
General and administrative expenses	(20,190)	(8,332)	(5,586)		(34,108)
Depreciation and amortization	(23,268)	(10,971)	(18,687)		(52,926)
Non-cash share-based remuneration	(173)	(145)	(120)		(438)
Other operating income	(887)	(646)	(1,005)		(2,538)
Operating profit / (loss)	**2,726**	**22,899**	**(1,041)**	**-**	**24,584**
Assets	183,824	105,157	87,608	10,539	387,128
Liabilities	72,754	40,318	88,514	5,306	206,892
Capital expenditures	25,347	7,897	4,704	-	37,948

in K€	Direct Sales	Indirect Sales	Resellers	Reconciliation	Consolidated group
Fiscal year 2011					
Net revenues	**151,440**	**121,205**	**205,434**	**-**	**478,079**
Cost of revenues	(90,077)	(69,985)	(162,277)		(322,339)
Gross Profit	**61,363**	**51,220**	**43,157**	**-**	**155,740**
Sales and marketing expenses	(16,137)	(16,035)	(12,324)		(44,496)
General and administrative expenses	(16,128)	(8,826)	(6,832)		(31,786)
Depreciation and amortization	(18,175)	(11,573)	(23,513)		(53,261)
Non-cash share-based remuneration	(160)	(95)	(137)		(392)
Other operating income	334	(194)	282		422
Operating profit	**11,097**	**14,497**	**633**	**-**	**26,227**
Assets	183,535	98,755	101,009	7,961	391,260
Liabilities	63,968	28,021	86,906	5,065	183,961
Capital expenditures	19,167	7,606	8,826	-	35,599

Deferred tax assets and liabilities are shown as reconciling items.

No material revenues were generated from business with companies in foreign countries in fiscal 2011 or 2012, nor were intersegment revenues generated. Long-term financial assets are exclusively of a domestic nature. In fiscal 2012, there was one customer in the Resellers Business Unit whose share of total revenues exceeded 10 percent, namely 12.1 percent.

39 Stock option programs

QSC has established a total of seven stock option programs since 1999, which call for the issuance of convertible bonds having a nominal value of € 0.01 each to employees and, with the consent of the Supervisory Board, to members of the Management Board as well as to consultants and suppliers. The participants in these programs are granted the right to convert each convertible bond into one share of registered, no-par stock against payment of the exercise price. The exercise price of the convertible bonds represents the market price of the share on the date of issuance. The convertible bonds have a term of four to eight years and are subject to a vesting period of up to four years. In connection with the 2006 SOP, the conversion right cannot be exercised until at least one of the following conditions is met: Either the trading price of the shares has developed better on a relative basis between the day of issue and the time of exercise of the conversion right than the comparison index (TecDAX), or the trading price has risen by at least 10 percent between the day of issue and the time of exercise of the conversion right.
The QSC Annual Shareholders Meeting agreed to the 2012 SOP on May 16, 2012. All employees of QSC whose employment was unterminated as of December 1, 2012, are eligible to subscribe. The subscription term began in March 2013 and will end no later than May 15, 2017. The convertible bonds have a term of between four and eight years. The conversion right may only be exercised if at least one of the following two conditions has been met: Either the trading price of the shares is at least 20 percent higher than the conversion price or the shares have developed relatively better than the TecDAX index.
On the basis of IFRS 2, no personnel expenses were recorded for the convertible bonds issued under the 2000, 2000A, 2001 and 2002 SOPs. The option values for the convertible bonds under the 2006 SOP were computed at the grant date with the aid of the Black-Scholes option-pricing model, with the following assumptions being employed. In 2011 and 2012, no convertible bonds were issued under the 2004 SOP.

	2012	2011
2006 SOP		
Expected average term of the 2006 SOP	8 years	8 years
Dividend yield	4.21 %	0.00 %
Average risk-free interest rate	0.98 %	1.53 %
Volatility (3 years)	50.54 %	49.35 %
Average fair value of options in €	-	1.64
Fair value of convertible bonds granted for the year in €	-	946,733

Volatility was determined on the basis of daily closing prices over a historical period of three years. The convertible bonds outstanding under all programs as of December 31, 2011 and 2012, are presented below:

	Number of convertible bonds	Weighted average exercise price in €
Outstanding at December 31, 2010	**1,961,941**	**3.27**
Granted in 2011	578,229	2.92
Forfeited in 2011	(915,821)	4.03
Exercised in 2011	(129,345)	1.86
Outstanding at December 31, 2011	**1,495,004**	**2.79**
Forfeited in 2012	(169,510)	4.85
Exercised in 2012	(50,275)	1.17
Outstanding at December 31, 2012	**1,275,219**	**2.58**

The exercise prices of the remaining 1,275,219 convertible bonds range from € 1.00 to € 5.58, and the remaining term for exercise varies from "immediately exercisable" to May 19, 2019. The exercise price is set at the date of issuance and cannot be changed after that date. The Company expects conversion of the remaining bonds (depending on the market price development) to be completed by 2019 at the latest.
As of balance sheet date, 568,487 of the remaining convertible bonds were exercisable, with the remaining convertible bonds being subject to the agreed retention period.
During the year being reported, expense incurred with non-cash share-based remuneration amounted to K€ 438.

40 Related party transactions

In 2012, QSC participated in transactions with companies affiliated with members of the Management and Supervisory Boards. According to IAS 24 related parties are individuals or companies with the possibility to influence or even control the other party. All contracts with these companies require the approval of the Supervisory Board and are closed on the basis of normal market conditions.

in K€	Net revenues	Expenses	Cash received	Cash paid
Fiscal year 2012				
IN-telegence GmbH & Co. KG	916	38	1,132	45
Teleport Köln GmbH	33	5	42	6
QS Communication Verwaltungs Service GmbH	-	219	-	260
Dr. Bernd Schlobohm	-	193	-	-
Fiscal year 2011				
IN-telegence GmbH & Co. KG	635	35	685	46
Teleport Köln GmbH	22	7	23	9
QS Communication Verwaltungs Service GmbH	-	221	-	263
Dr. Bernd Schlobohm	-	133	-	-

in K€	Trade receivables	Trade payables
At December 31, 2012		
IN-telegence GmbH & Co. KG	96	-
Teleport Köln GmbH	3	-
QS Communication Verwaltungs Service GmbH	-	-
At December 31, 2011		
IN-telegence GmbH & Co. KG	141	-
Teleport Köln GmbH	6	-
QS Communication Verwaltungs Service GmbH	-	-

IN-telegence GmbH & Co. KG is a provider of value-added telecommunications services in the telecommunications industry. Teleport Köln GmbH provides support to QSC in the installation process of end-customer connections. QS Communication Verwaltungs Service GmbH provides consultancy on the product management of voice products. Expenses incurred for the Company's Chief Executive Officer, Dr. Bernd Schlobohm, relate to the transfer to pension provisions. The granting of a pension commitment, as presented in the Consolidated Financial Statements, amounts to K€ 1,125 (2011: K€ 792), after having been offset against fund assets of K€ 544 (2011: K€ 376).

41 Deferred taxes

Deferred taxes were calculated by QSC using a total tax rate of 32.21 percent (2011: 32.45 percent). Deferred taxes and liabilities for the corresponding periods are:

in K€	Asset	Liability	Asset	Liability	Consolidated Statement of Income	
	2012		2011		2012	2011
Deferred tax assets and liabilities						
Intangible assets	-	14,693	-	16,461	1,768	(2,223)
Property, plant and equipment	2,118	12,228	1,450	12,066	506	3,173
Other financial assets	282	13	-	11	280	1
Trade receivables (related parties)	2	2	-	-	-	(39)
Other trade receivables	-	3,575	133	2,843	(865)	5
Inventories	925	-	2,180	-	(1,255)	-
Deferred revenues	948	863	1,062	279	(698)	1,196
Accrued pensions and other provisions	1,317	235	572	365	473	(840)
Other liabilities	2,861	177	979	21	1,724	(897)
Total deferred taxes referred to temporary differences	**8,453**	**31,786**	**6,376**	**32,046**	**1,933**	**376**
Total deferred taxes referred to losses carry forward	**28,566**	**-**	**28,566**	**-**	**-**	**8,847**
Total deferred taxes referred to temporary differences before netting out	**37,019**	**31,786**	**34,942**	**32,046**		
Netting out	(26,480)	(26,480)	(26,981)	(26,981)		
Total deferred taxes	**10,539**	**5,306**	**7,961**	**5,065**		

The temporary differences in connection with interests in subsidiaries for which no deferred tax liabilities are recorded amounted to K€ 23,340 in fiscal year 2012 (2011: K€ 30,701).
The following table presents the reconcilement of the expected income tax to the actual income tax expense. The expected tax income is calculated by multiplying net loss before taxes with the assumed income tax rate:

in K€	2012	2011
Reconciliation		
Net profit	**20,719**	**23,399**
Tax rate	32,21 %	32,45 %
Expected tax expense	6,673	7,593
Tax effect of		
adjustments made to allowances on deferred taxes		
relating to carry forward of losses	(5,036)	(12,949)
non-deductible operating expenses	444	758
non-taxable income	(530)	(418)
neglected capitalization of deferred taxes relating		
to carry forward of losses	-	(50)
permanent differences	-	360
income unrelated to accounting period	220	162
change in taxation rate	22	88
Other	(95)	(127)
Reconciled tax expense	**1,698**	**(4,583)**

The reconciled tax income consists of current income tax expense of K€ 3,631 (of which K€ 220 relate to prior years) and deferred tax income of K€ 1,933. Tax income of K€ 401 relating to the recognition of actuarial gains and losses was recognized directly in equity in 2012.

As of December 31, 2012, QSC's corporation tax and trade tax losses available for carry forward amounted to € 415 million (2011: € 429 million) and € 412 million (2011: € 426 million), respectively. These tax losses can be carried forward without restriction for future offset against the taxable profits of entities in which deferred taxes on loss carry forwards in the amount of € 28.6 million are recognized.

In recognizing and measuring deferred tax assets for tax loss carry forwards, it continues to be assumed, as in the previous year, that tax loss carry forwards in the amount of € 88 million can be utilized medium-term. The long-term corporate planning calls for generating sustained taxable earnings; however, due to the Company's loss history and the planning insecurities stemming from the corporate Group's transformation phase, only those taxable earnings have been taken into consideration that are anticipated for a foreseeable period of 3 years. There were no deferred tax assets recorded in the balance sheet for still unutilized corporation tax losses available for carry forward in the amount of € 327 million, and for still unutilized trade tax losses in the amount of € 324 million.

42 Litigation

In a judicial review proceeding ("Spruchverfahren") at the regional court in Hamburg, 30 former minority shareholders of Broadnet AG have filed an application for an additional contribution in cash in addition to the shares of QSC, which they received in exchange for their Broadnet AG shares. All minority interest shareholders of Broadnet AG had received 12 QSC shares in exchange for 11 Broadnet shares in connection with the merger. This corresponds to an exchange ratio of 1 Broadnet share for 1.0908 QSC shares. Should the regional court in Hamburg effectively rule an additional contribution in cash, it would have to be granted to all former minority shareholders of Broadnet AG who held shares of Broadnet AG at the time the merger came into effect. As a consequence, a possible ruling for an additional payment per share would have to be made for 999,359 former Broadnet shares. A first hearing was held on November 26, 2008, at the regional court in Hamburg. On the basis of a proposal made by the court, QSC made a proposal for a scheme of arrangement to the applicant under which QSC (without changing its interpretation of the law with respect to matters of law) obliges itself to make an additional payment in cash in the amount of 73 cents per Broadnet share and has paid certain expenses incurred on the part of the applicant. The settlement negotiations have failed since the settlement offer was not accepted by all applicants. A new appointment for an oral hearing has not yet been made. A provision was formed for this.

A lawsuit was filed against QSC at the regional court in Cologne. The plaintiff company is seeking payment of K€ 2,271 plus interest. Traffic to so-called value-added services numbers (e.g. 0900, 01805) was transferred from QSC's network to the network of the plaintiff company on the basis of an interconnection agreement. Plaintiff is of the opinion that, in breach of contract, QSC transferred the connections incorrectly, as traffic to value-added services numbers is to be transferred as close to the point of origin as possible. QSC has not satisfied this prerequisite, plaintiff asserts. The end result of this incorrect routing was that an incorrect rate zone was charged to the benefit of QSC. Depending upon the product in question, plaintiff asserts, QSC either charged on the basis of an excessively expensive rate zone or plaintiff granted excessive deductions from its entitlement in its own accounting. The claim asserted in the action is for the sum total of these amounts. A provision was formed for this case.

A lawsuit was filed against Broadnet Services at the commercial division of the regional court in Cologne. Plaintiff is seeking a payment of K€ 1,812 plus interest.
An interconnection agreement is in place between plaintiff and Broadnet Services; among other things, this agreement governs the termination of voice traffic from plaintiff's network to telephone numbers in the Broadnet Services network. The amount of the fee to be paid by plaintiff for termination in the Broadband Services network is fundamentally based upon the rate zone to be charged, which, in turn, is a function of the physical points of interconnection that exist between the origin of the traffic and locations between plaintiff and Broadnet Services. After plaintiff had exercised its contractual change-in-demand right vis-à-vis Broadnet Services to request the establishment of further points of interconnection in the summer of 2010, the parties conducted

various talks, finally agreeing upon a so-called virtual rate structure for certain territories; i.e. Broadnet Services was to charge the connections to the territories in question as if there were a physical point of interconnection, without this point of interconnection physically existing. The effect of the virtual rate structure was to provide a more favorable rate zone for plaintiff in the territories in question. The corresponding agreement went into effect March 1, 2011. Soon after this agreement went into force, there was a rapid drop in billable traffic, as Broadnet Services had lost a major account, QSC. QSC and its new network operator demanded that Broadnet Services port the telephone numbers that up until then had been routed through the Broadnet Services network on behalf of QSC to the new network operator's network. Broadband Services felt obligated to agree to this porting. Plaintiff asserts that a major share of the traffic that should have been billed at a favorable rate structure under the agreement with Broadnet Services if it were still being terminated by plaintiff in the Broadband Services network is instead being terminated by the other network operator at more costly terms. Plaintiff is seeking a refund of the difference between the two prices.
Plaintiff asserts that the basis for the agreement was to achieve savings on the part of plaintiff for termination services. By shifting traffic to the new network operator, plaintiff asserts, this agreement was willfully circumvented by Broadnet Services as plaintiff was not able to achieve any savings. Broadnet Services is of the opinion that the porting was not only permissible in its relationship to plaintiff, but that porting was even mandatory with respect to major customer QSC. Moreover, specific future savings were never contractually agreed.
A provision was formed for this case.

A lawsuit was filed at the regional court in Cologne against Broadnet Services and 010090. Plaintiff is seeking payment of a total of K€ 2,563 (with the amount of K€ 1,624 being sought from Broadnet Services and the amount of K€ 939 from 010090) plus interest.
Separate interconnection agreements exist between plaintiff and Broadnet Services and between plaintiff and 010090, governing, among other things, the termination of voice traffic from plaintiff's network to those telephone numbers connected in the Broadnet Services and 010090 networks, respectively. Broadnet Services and 010090 separately charge plaintiff for these termination services (Broadnet Services-B.1 and 010090-B.1). The fee stipulation procedure is fundamentally the same here as in the case described above. In a letter dated September 21, 2011, to Broadnet Services and in a letter dated August 18, 2011, to 010090, plaintiff exercised its contractual change-in-demand right for the creation of further points of interconnection. The parties then conducted various talks aimed at avoiding physical expansion, including the option of agreeing a virtual rate structure for the traffic. After a paper containing the key points had initially been agreed at the management level, the detailed negotiations then wore on, and were finally broken off unsuccessfully at the end of October 2012.
Plaintiff asserts that both Broadnet Services as well as 010090 had broken off the negotiations in a breach of trust. The negotiations were conducted, plaintiff asserts, in order to avoid plaintiff's right to seek expansion. Plaintiff asserts that it had only waived its change-in-demand right in trusting that the virtual rate structure agreement would be signed and that both companies had aroused this trust by agreeing to the paper containing the key points. The negotiations were

then broken off as a result of unjustified claims made by Broadnet Services and 010090. With its lawsuit, plaintiff seeks to be given the same status as if the supplemental contractual agreement (virtual rate structure) had come into force. Broadband Services and 010090 view the matter such that plaintiff wished to add unacceptable terms and conditions to the agreement that were not contained in the paper containing the key points, and for this reason, alone, neither Broadnet Services nor 010090 was responsible for the breakdown in negotiations.
No provision was formed for this case.

In a judicial review proceeding ("Spruchverfahren") at the regional court in Hamburg following the squeeze-out of the minority shareholders of what was originally INFO Gesellschaft für Informationssysteme Aktiengesellschaft (district court in Hamburg, HRB 36067, hereinafter called "Old INFO AG") within the framework of the merger of Old INFO AG with today's INFO Gesellschaft für Informationssysteme Aktiengesellschaft (at the time doing business as INFO Gesellschaft für Informationssysteme Holding Aktiengesellschaft, formerly IP Partner AG) ("INFO AG"), the petitioners (a total of 45) are seeking an increase in the cash settlement paid to them by INFO AG (€ 18.86 per no-par share of Old INFO AG) in mostly unspecified amounts. Should the court find that the cash settlement has to be increased, it would apply to all former minority shareholders of Old INFO AG (307,943 shares).
INFO AG stipulated the cash settlement on the basis of an expertise on the value of the company produced by IVA VALUATION & ADVISORY AG Wirtschaftsprüfungsgesellschaft, of Frankfurt am Main. The expert auditor that was selected and appointed by the regional court in Hamburg, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, of Frankfurt am Main, confirmed the appropriateness of the cash settlement.
A provision has been formed covering only the court costs and thus far foreseeable attendant costs of the litigation in connection with the pending judicial review proceeding.

43 Contingencies and other financial obligations

Obligations from operating leases • The QSC Group is party to various operating lease arrangements as lessee, mostly for disk storage devices, buildings, PCs and vehicles. The contracts are all partial amortization leases without purchase option and run for an average period of two to five years. The items concerned are not subleased to customers. At December 31, 2011, future minimum lease payments under non-cancellable operating leases were as follows;

in K€	2012	2011
up to 1 year	2,243	2,235
1 – 5 years	2,949	3,527
over 5 years	334	-
Operating lease arrangements	**5,526**	**5,762**

In fiscal year 2012, QSC recognized expenses incurred in connection with operating lease arrangements in the amount of K€ 3,697 (2011: K€ 2,584), which are presented under 'Cost of revenues.' As of balance sheet date, liabilities from operating lease arrangements amount to K€ 0 (2011: K€ 0).

Rights under operating lease arrangements – QSC Group as lessor • Arrangements similar to operating leases are in place with customers, mainly for the rental of computer center space, disk storage devices and shared hardware resources. The contracts are all partial amortization leases without purchase option and run for an average period of three to five years. The QSC will receive the following future minimum lease payments under non-cancellable arrangements similar to operating leases:

in K€	2013	2014 – 2017	From 2018	Total
Future minimum lease payments	17,286	17,836	-	35,122

For the purpose of measuring future minimum lease payments the 20 largest customers were taken into account for whom services were already provided at the reporting date and payments from whom were contractually stipulated at the reporting date. Revenues in 2012 include lease payments totaling K€ 21,851 (2011: K€ 8,006).

Rights under finance lease arrangements – QSC Group as lessor • Under the rules contained in IFRIC 4, the QSC Group also is deemed to be the lessor in specific multi-component arrangements. Future minimum lease payments from customers under finance lease arrangements can be reconciled to their net present value as follows:

in K€	2013	2014 – 2017	From 2018	Total
Lease payments	3,045	4,119	24	7,188
Discounting fees	204	174	-	378
Present values	2,841	3,945	24	6,810

Lease payments received in 2012 totaled K€ 4,071 (2011: K€ 2,209).

Obligations under financing and rent-to-own arrangements • QSC has entered into financing arrangements and rent-to-own contracts, as well as finance lease arrangements for various items of technical equipment as well as for fixtures and furnishings. The future payment obligations under these arrangements can be reconciled to their cash values as follows.

in K€	2012	2011
Financing and rent-to-own arrangements		
up to 1 year	4,629	7,080
1 – 5 years	7,134	6,686
over 5 years	381	687
Total payment obligations	**12,144**	**14,453**
less interest component	(797)	(876)
Present value of payment obligations	**11,347**	**13,577**

These obligations are presented by their respective maturity dates under short- and long-term liabilities.

Other financial obligations • Other financial obligations in the coming fiscal years arising from long-term contracts for fiber optic lines, technical premises, and office premises, in particular, amounted to K€ 83,201 in 2012 (2011: K€ 85,421). Purchase commitments to future investments amounted to K€ 2,024 (2011: K€ 1,547) in the past fiscal year.

Guarantees • There were no guarantee obligations as of December 31, 2012.

44 Objectives and methods used in financial risk management

In connection with its business activities, QSC is subject to a number of financial risks that are inseparably linked with its entrepreneurial actions. QSC combats these risks through a comprehensive risk management system, which is an integral element of its business processes and corporate decisions. The key elements of this system are a Group-wide planning and controlling process, Group-wide policies and reporting systems, as well as Group-wide risk reporting. The Management Board stipulates the principles of the Company's financial policies annually and monitors the risk management system. Further information on risk management can be found in the Group Management Report.

The Group's principal financial liabilities comprise essentially financing and rent-to-own arrangements, trade payables and liabilities due to banks. The main purpose of these financial liabilities is to raise finances for the Group's operating activities. Financial assets which arise directly from the Group's operating activities are, in particular, trade receivables, cash and short-term deposits, and available-for-sale financial assets. In 2012 and 2011, no trading in derivatives was concluded. The Group's major risks arising from the use of financial instruments include interest rate risk, credit risk and liquidity risk. Since no material transactions in foreign currencies are carried out, there are no material foreign currency risks. The following summarizes the strategies and procedures for managing each of the aforementioned risks.

Interest rate risk • QSC is exposed to the risk of changing market interest rates. This risk results primarily from the Group's variable interest-bearing short-term liabilities due to banks, as well as from variable interest-bearing liquidity. Short- and long-term liabilities under financing arrangements, on the other hand, are outside capital having a fixed interest rate. As of December 31, 2012, the share of variable rate debts in total rate debts amounted to 70 percent. The following table reflects the sensitivity of the Group's earnings before taxes to a reasonably possible change in interest rates in relation to variable rate debts as of December 31 and liquidity (including available-for-sale financial assets).

	Increase/ decrease in basis points	Effect on profit before taxes in K€
2012	+ 100	(288)
2012	(100)	288
2011	+ 100	(11)
2011	(100)	11

Credit risk • QSC is exposed to the risk of bad debt on the part of customers and issuers. The Company strives to trade with creditworthy third parties only, thereby trying to rule out this risk from the very beginning. For this reason, it is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. After establishing business relations, receivable balances are monitored on an ongoing basis in order to reduce the Group's possible risk of bad debts. The maximum risk of bad debts is limited to the carrying value of the trade payable as disclosed in Note 18. In the past fiscal year, there were no significant concentrations of credit risk within the Group. As far as trade receivables not yet written down are concerned, QSC expects them to be collectible.

With regard to the Group's other financial assets, QSC is also subject to a credit risk arising from default on the part of the counterparty. The maximum credit risk arising from such a default corresponds to the carrying value of these instruments. QSC is therefore pursuing a highly conservative investment policy, and in the past fiscal year only invested in securities with first-class credit rating.

Liquidity risk • The Group monitors its risk to a shortage of funds by using a monthly recurring liquidity planning tool, which takes into account the remaining term of available financial assets as well as the expected future cash flows from operating activities. The Group strives to achieve equilibrium between continuity of funding and flexibility through the use of short- and long-term liabilities and liabilities under financing arrangements. The following table summarizes the Group's maturity profile of short- and long-term liabilities as of December 31, based on contractual undiscounted payments.

in K€	Carrying amount	Due end of 2013	Due end of 2014	Due end of 2015	Due end of 2016	Due end of 2017	Due end after 2017	Total
Liabilities under financing and finance lease arrangements	11,347	4,629	3,384	2,368	1,081	301	382	12,145
Trade payables	52,452	52,452	-	-	-	-	-	52,452
Liabilities due to banks	79,168	6,955	5,217	4,888	66,491	3,982	487	88,020
Other short- and long-term liabilities	16,456	16,456	-	-	-	-	-	16,456
December 31, 2012	**159,423**	**80,492**	**8,601**	**7,256**	**67,572**	**4,283**	**869**	**169,073**

in K€	Carrying amount	Due end of 2012	Due end of 2013	Due end of 2014	Due end of 2015	Due end of 2016	Due end after 2016	Total
Liabilities under financing and finance lease arrangements	13,577	7,080	3,154	1,837	1,112	584	687	14,454
Trade payables	46,617	46,356	261	-	-	-	-	46,617
Liabilities due to banks	43,585	4,313	4,025	3,844	3,190	32,536	4,795	52,703
Other short- and long-term liabilities	14,389	14,389	-	-	-	-	-	14,389
December 31, 2011	**118,168**	**72,138**	**7,440**	**5,681**	**4,302**	**33,120**	**5,482**	**128,163**

Capital management • The primary objective of QSC's capital management is to ensure sufficient equity, a strong credit rating and the ability to maintain its business operations in an independent and flexible manner. The Group monitors capital using the following parameters: equity ratio and net liquidity. Equity ratio is computed by dividing equity by the balance sheet total. Net liquidity is fixed rate debts less cash and short-term deposits as well as available-for-sale financial assets.

in K€	2012	2011
Capital management		
Liabilities under financing and finance lease arrangements	(11,347)	(13,577)
Liabilities due to banks	(79,168)	(43,585)
Interest-bearing liabilities	**(90,515)**	**(57,162)**
Plus cash and short-term deposits	34,820	23,755
Plus available-for-sale financial assets	343	341
Net debt	**(55,352)**	**(33,066)**
Equity	180,236	207,299
Balance sheet total	387,128	391,260
Equity ratio	**47 %**	**53 %**

At balance sheet date, all performance indicators stipulated by the syndicate loan's had been complied with. These indicators include financial ratios related to equity and earnings before interest, taxes and amortization.

45 Financial instruments

The following table presents carrying values and fair values of all financial instruments included in the consolidated financial statements except for convertible bonds issued in conjunction with the stock option programs.

in K€	Classification according to IAS 39	Carrying amounts		Fair value	
		2012	2011	2012	2011
Financial instruments					
Cash and Short-term Deposits	ACAC	34,820	23,755	34,820	23,755
Available-for-sale Financial Assets	AFS	343	341	343	341
Long Term Multicomponent Receivables	ACAC	3,981	3,157	4,356	3,911
Long Term Trade Receivables	ACAC	544	465	544	465
Short Term Trade Receivables	ACAC	62,243	64,663	62,243	64,663
Short Term Construction Contract Receivables	ACAC	1,571	1,042	1,571	1,042
Trade Payables	FLAC	52,452	46,617	52,452	46,617
Liabilities due to Banks	FLAC	79,168	43,585	79,168	43,828
Liabilities under Financing and Finance Lease Arrangements	FLAC	11,347	13,577	10,951	14,454
Other Short- and Long-Term Liabilities	FLAC	16,456	14,389	16,456	14,389
Aggregated according to classification in line with IAS 39:					
Assets Carried at Amortised Cost	ACAC	103,159	93,082	103,534	93,836
Available-for-sale Financial Assets	AFS	343	341	343	341
Financial Liabilities Measured at Amortised Cost	FLAC	159,420	118,168	159,024	119,288

Cash and short-term deposits, available-for-sale financial assets as well as trade receivables predominantly have short remaining terms. Their carrying value thus approximately corresponds to their fair value at the balance sheet date. The same applies to trade payables and liabilities due to banks. The fair value of liabilities under financing arrangements and of other short- and long-term liabilities was calculated on the basis of regular interest rates. The fair value of available-for-sale financial assets was determined on the basis of market prices (Level 1 pursuant to IFRS 7.27A). The fair value of trade receivables from multi-component contracts is determined by discounting the expected long-term payments with the going interest rate for corporate bonds with a term of three years (Level 3 pursuant to IFRS 7).

in K€	From interests, dividends	Subsequent to initial recognition		Net gain / (loss)	
		Allowance	At fair value	2012	2011
Assets carried at Amortised Cost (ACAC)	298	(2,646)	-	(2,348)	(156)
Available-for-sale financial assets (AFS)	-	-	2	2	-
Financial Liabilities measured at Amortised Cost (FLAC)	(4,662)	-	-	(4,662)	(3,334)
Net gain / (loss) according to classification	**(4,364)**	**(2,646)**	**2**	**(7,008)**	**(3,490)**

Expenses arising from the valuation adjustment on trade receivables are presented in the income statement under 'Sales and Marketing expenses'.

46 Declaration pursuant to § 161 AktG regarding compliance with the German Corporate Governance Code

The declaration pursuant to § 161 of the Stock Corporation Act ("AktG") regarding compliance with the German Corporate Governance Code in the version dated May 26, 2010, and, since its enforcement, in the version dated May 15, 2012, respectively has been issued by the Management Board and the Supervisory Board and is permanently and publicly available to the shareholders on the Company's website. Future amendments to the rules relevant for compliance with the Corporate Governance Code will be posted on the QSC website without delay. Further information is provided in the separate Corporate Governance and Compensation Report.

47 Auditors' fees

In conjunction with services provided by the auditors of the consolidated financial statements, QSC recorded an expense of K€ 322 (2011: K€ 278) for audit services, K€ 0 (2011: K€ 136) for other services and K€ 25 (2011: K€ 6) for other advisory services.

48 Compensation of the Management Board

One major element of good corporate governance consists of a transparent portrayal of the total compensation paid to members of the corporate bodies. The fundamental compensation system for members of the Management Board was most recently evolved with a view to the German Appropriateness of Management Board Compensation Act ("VorstAG"), and was adopted by the

Annual Shareholders Meeting on May 20, 2010, and approved again on May 16, 2012. QSC continues to see these explanatory comments on Management Board compensation as the decisive source of information to enable an assessment of the compensation system's appropriateness. Further information can be found in the separate report on Corporate Governance and Compensation.
The total compensation paid to members of the Management Board of QSC AG was K€ 1,061 (2011: K€ 2,568).
The cash compensation totaled K€ 1,061 (2011: K€ 1,924). It is divided into fixed compensation in the amount of K€ 1,063 (2011: K€ 958), variable compensation in the amount of K€ -59 (2011: K€ 913) and fringe benefits in the amount of K€ 57 (2011: K€ 53).
The non-cash compensation amounted to K€ 0 (2011: K€ 644). Last year it had been granted in the form of 400,000 convertible bonds.
The compensation paid to retired Management Board members amounted to K€ 0 (2011: K€ 356). The previous year's amount included K€ 116, which was granted in the form of 70,000 shares.

49 Risks

A detailed analysis and discussion of risks can be found in the Report on Risks, which is contained in the Management Report.

50 Proposed profit appropriation

The Management Board will propose to the Annual General Meeting that a dividend of € 0.09 per share be paid to shareholders.

51 Subsequent events

On January 11, 2013, QSC utilized a simplified procedure to decrease capital stock by withdrawing a total of 13,629,913 treasury shares.
In January 2013, each of the two QSC founders, Gerd Eickers and Dr. Bernd Schlobohm, acquired 1,575,000 QSC shares over the counter at a price of € 2.25 per share, thus increasing their shareholdings. Eickers now holds 12.6 percent, and Dr. Schlobohm 12.5 percent of all QSC shares.
On March 4, 2013, Dr. Schlobohm and Gerd Eickers issued a notification pursuant to § 71, Para. 1, Sent. 1, in conjunction with § 22, Para. 2, German Securities Trading Act ("WpHG"), that stated that their shareholdings in QSC AG, Cologne, Germany, had crossed the 15 percent, 20 percent, and 25 percent, thresholds, and that they had entered into a voting pool agreement.

In a notification issued on January 22, 2013, it was stated that Dr. Bernd Schlobohm would not extend his term of office as Chief Executive Officer beyond the Company's Annual Shareholders Meeting planned for May 29, 2013. Dr. Schlobohm is now striving for a seat on the supervisory Board. Pursuant to a resolution by the Supervisory Board, Jürgen Hermann, now Chief Financial Officer of QSC AG, was appointed to succeed Dr. Schlobohm effective May 30, 2013.

Cologne, March 19, 2013

QSC AG
The Management Board

Dr. Bernd Schlobohm
Chief Executive Officer

Jürgen Hermann

Arnold Stender

Statement of Responsibility

To the best of our knowledge, and in accordance with the applicable reporting principles, the Consolidated Financial Statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group Management Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Cologne, March 19, 2013

QSC AG
The Board of Management

Dr. Bernd Schlobohm Chief Executive Officer	Jürgen Hermann	Arnold Stender

Glossary

ADSL • The Asymmetric Digital Subscriber Line. Transfer of digital data over a twisted copper pair telephone line with an "asymmetric" transfer capacity of up to 8 MBit/s for downloads and up to 800 Kbit/s for uploads.

ADSL2+ • An evolution of ADSL technology that primarily improves the transfer rates and ranges of an ADSL connection.

Broadband • A data transmission capacity of at least 1 MBit/s.

Call-by-Call • Phone calls or Internet access via call-by-call enable a customer to dial the network prefix of his or her telephone provider of choice prior to each telephone call or Internet access.

Cloud Computing • The provision of IT infrastructures (e.g. data storage, computing capacity) and programs over networks, typically powerful Internet links. The customer pays only for services actually used, instead of having to invest in hardware and software.

DSL • Digital Subscriber Line. A data transmission method that enables digital data to be transferred at high transmission rates over a normal copper-wire telephone line.

Hosting • The provision of IT capacities, such as servers, storage, databases and other products, in a service provider's data center.

Housing • In the case of Housing, in contrast to Hosting, enterprises use only a service provider's building infrastructure for the data center and install their own hardware in racks or cages that have been provided.

ICT • Information and Communication Technology. An Industry which offers enterprises and residential customers information technology (hardware, software and IT services) and telecommunication technology (voice and data services, end devices, infrastructure). The ubiquitous use of the Internet protocol leads to a convergence of information and telecommunication technology.

IP • Internet Protocol. The Internet is based upon the IP data transfer standard. The IP enables a data packet to be routed via multiple different computer platforms until it reaches its destination.

NGN • Next Generation Network. An NGN consolidates the wide range of transmission methods and network structures into a convergent network architecture. This integrates telecommunications, data and TV networks within an IP-based network, for example.

Open Access • In telecommunications, Open Access refers to distinction between those who operate a network infrastructure and those who use it. Under Open Access, network operators open their infrastructures for use by third parties.

Outsourcing • Outsourcing means contracting out corporate tasks and structures to third parties. The duration and scope are defined in the respective contracts.

Preselect • Preselection is automatic dialing of a prefix for a communication operator to handle calls. Every network operator has its own carrier selection code.

Voice over IP • Voice over Internet Protocol. The technique of using the Internet Protocol to transfer voice over packet-switched data networks.

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May 29, 2013

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May 13, 2013
August 12, 2013
November 11, 2013

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