QSC AG

Company Presentation

Preliminary Results 2014 / Outlook 2015

Cologne, February 23, 2015

AGENDA

1.	**Financial Development 2014**	**Stefan A. Baustert**
2.	Financial Outlook 2015 / Cost Reduction Program	Stefan A. Baustert
3.	Strategic Outlook	Juergen Hermann
4.	Questions & Answers	

2014: A YEAR BELOW EXPECTATIONS

- Revenues of € 431.4 million (2013: € 455.7 million)
  - Expected and planned drop in conventional TC business
  - Development in Outsourcing not satisfactory
  - Disappointing Cloud product business
- EBITDA of € 35.0 million (2013: € 77.8 million)

Positive deferred cost effect ceased on Dec. 31, 2013	€ -21 million	~ € -42 million
Negative regulatory impact and litigation	€ -5 million	
Increase in personnel expenses	€ -9 million	
Accrued restructuring provisions	€ -7 million	
Impact of declining business	€ -9 million	
Cost-cutting measures	€ +9 million	

- € 18 million goodwill depreciation in the Reseller business

2014: A DIFFICULT TRANSITION YEAR PAVED THE WAY FOR IMPROVEMENT

- Free cash flow of € -13.9 million in 2014 due to lower profitability and one-off negative working capital effect of € 19.1 million
- In Q4 2014, QSC started a comprehensive program to reduce its cost base and to concentrate on sales activities
- Placement of € 150 million promissory note loan to secure solid long-term financing
- Proposal to pay a dividend of € 0.10 per share for FY 2014 is based on good liquidity
- Enlargement of strategic footprint in IT and Cloud business continues

FISCAL YEAR 2014 AT A GLANCE

(in € million)	2013	2014
Revenues	**455.7**	**431.4**
Cost of revenues *	303.5	322.5
Gross profit	**152.3**	**108.9**
Sales and marketing expenses *	41.8	36.7
General and administrative expenses *	35.6	30.8
Other operating income	2.9	0.8
EBITDA	**77.8**	**42.2**
Restructuring provisions	-	7.2
EBITDA after restructuring provisions	**77.8**	**35.0**
Depreciation	51.3	51.0
Goodwill depreciation	-	18.0
EBIT	**26.5**	**(33.9)**
Financial results	(3.8)	(6.2)
Income tax	0.9	5.7
Net profit (loss)	**23.6**	**(34.4)**

*** Excluding restructuring provisions**

- Gap between revenues and costs leads to lower profitability
- Accrued provisions of € 7.2 million in 2014 for headcount reductions
- Development in Reseller segment necessitates € 18 million impairment of goodwill

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NEW SEGMENTATION REFLECTS PRODUCT-ORIENTED MANAGEMENT AND STEERING SYSTEM

- From January 1, 2015 on, segment reporting will be based on the current product portfolio:
  - Telecoms
  - Consulting
  - Outsourcing
  - Cloud

NEW SEGMENTATION HELPS TO UNDERSTAND REVENUE DEVELOPMENT IN 2014

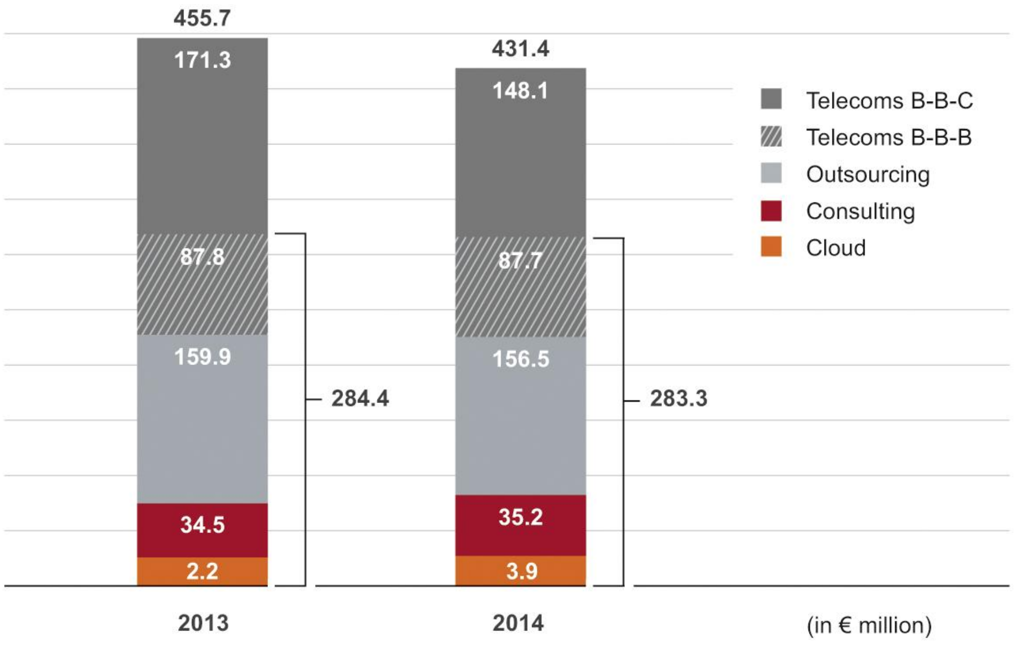
Fiscal Year 2014 (in € million)

Current Segmentation	Direct Sales	Indirect Sales	Resellers
	207.3	121.6	102.6

Derivation	Outsourcing	Consulting	TC	Cloud	Telecoms	Telecoms
	156.5	35.2	15.6	3.9	117.7	102.6

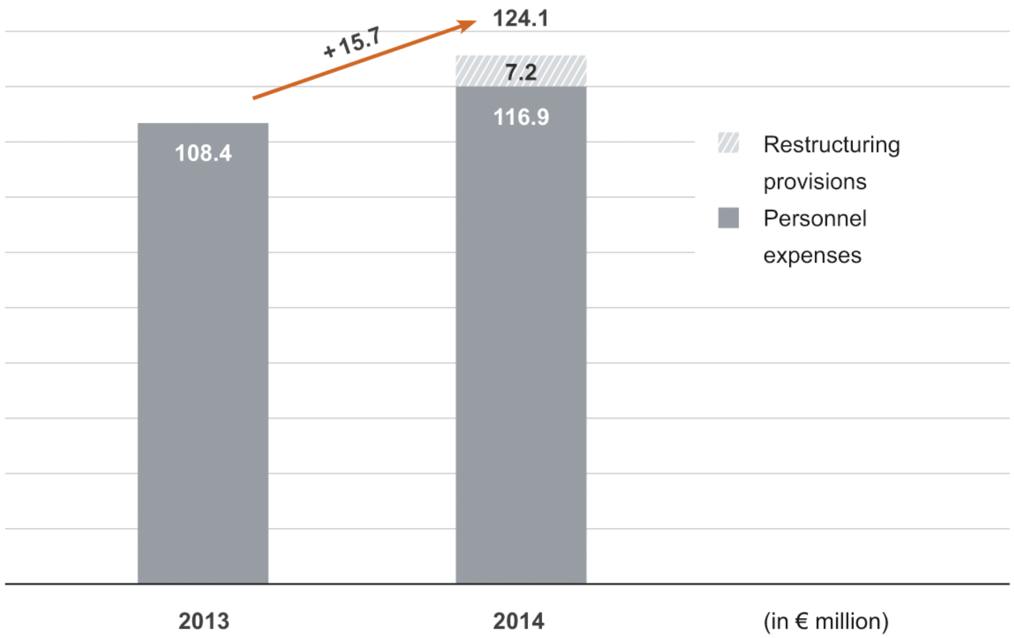
New Segmentation	Outsourcing	Consulting	Telecoms	Cloud
	156.5	35.2	235.8	3.9

DECLINING REVENUES, ESPECIALLY IN TELECOMS B-B-C



- **Telecoms** revenues declined as expected due to
  - Stricter regulation (€ 8 million)
  - Unfavorable market conditions in Telecoms B-B-C (€ 15 million)
- **Outsourcing** did not meet the expectations in 2014
- **Consulting** business showing slight revenue increase
- **Cloud** business still in the early stages

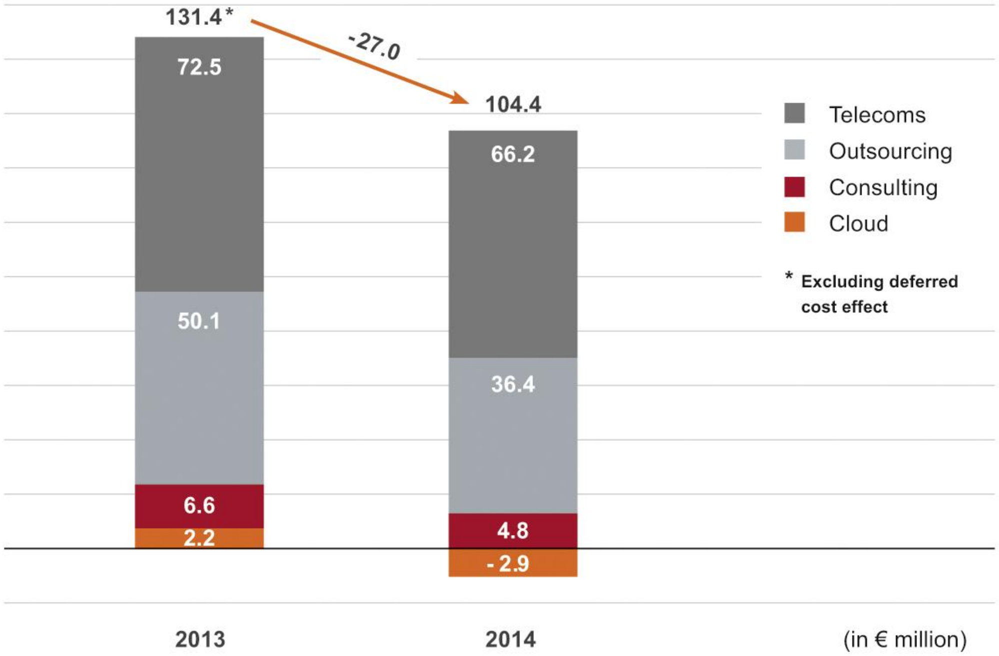
LARGER WORKFORCE INCREASED PERSONNEL EXPENSES



Two factors led to the increase in personnel costs in 2014:

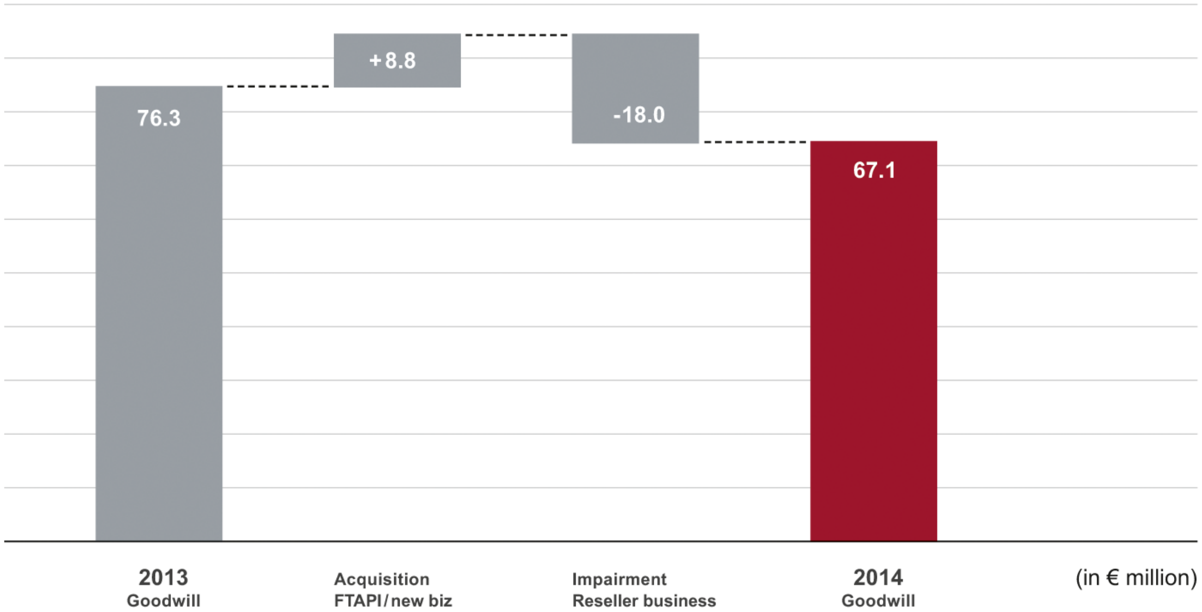
- A larger Outsourcing workforce
- Expansion of R&D capacities

HIGHER PERSONNEL EXPENSES AFFECTED GROSS PROFIT SIGNIFICANTLY



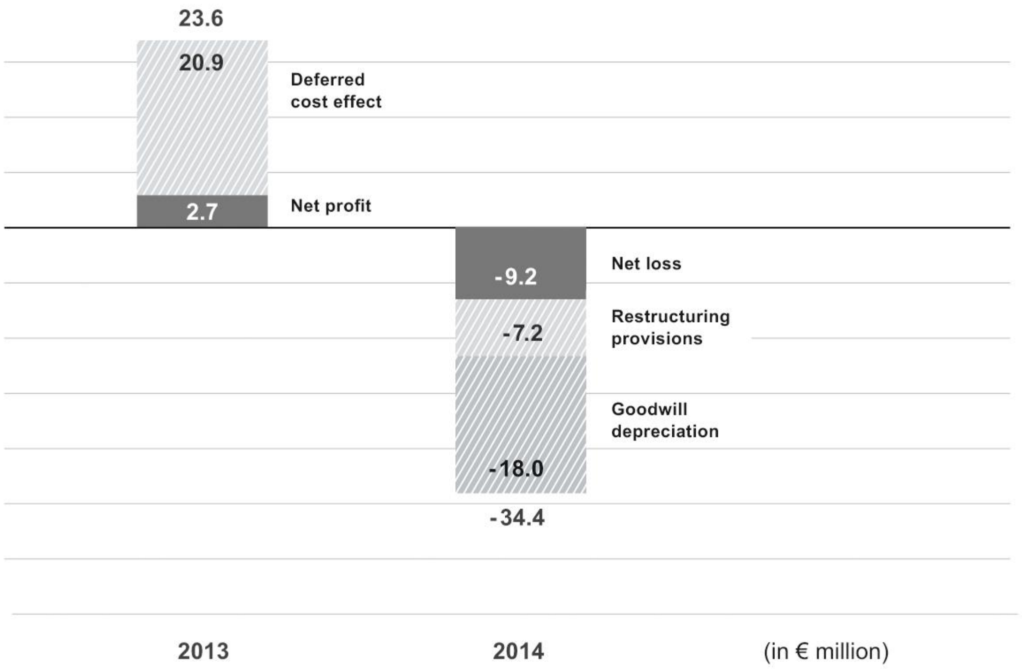
- **Telecoms:** Stricter regulation cost € 3 million
- **Outsourcing:** Higher personnel expenses burdened profitability
- **Consulting:** Utilization ratio in H1 2014 not as high as in 2013
- **Cloud:** Growing number of developers narrowed profitability

ONE-OFF EFFECT DUE TO IMPAIRMENT OF GOODWILL IN THE RESELLER BUSINESS



- Since 2010, revenues in Resellers (mainly TC) had declined by 57% to € 102.6 million
- Gross profit had declined by even 88% to € 7.8 million

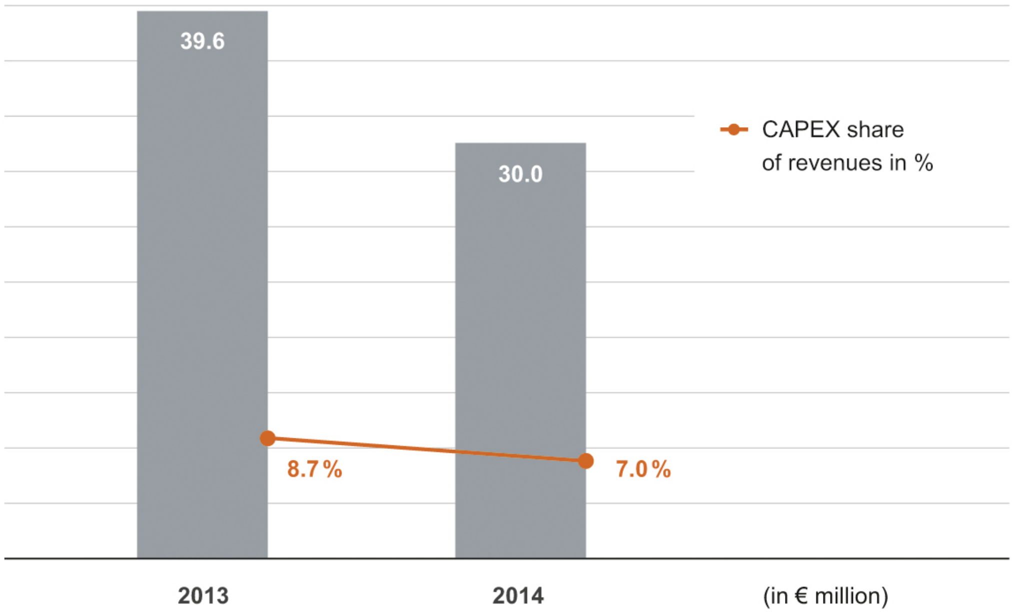
GOODWILL DEPRECIATION INCREASED NET LOSS



One-off effect "hit" net loss with € 25.2 million

- Restructuring provisions: € 7.2 million
- Goodwill depreciation: € 18.0 million

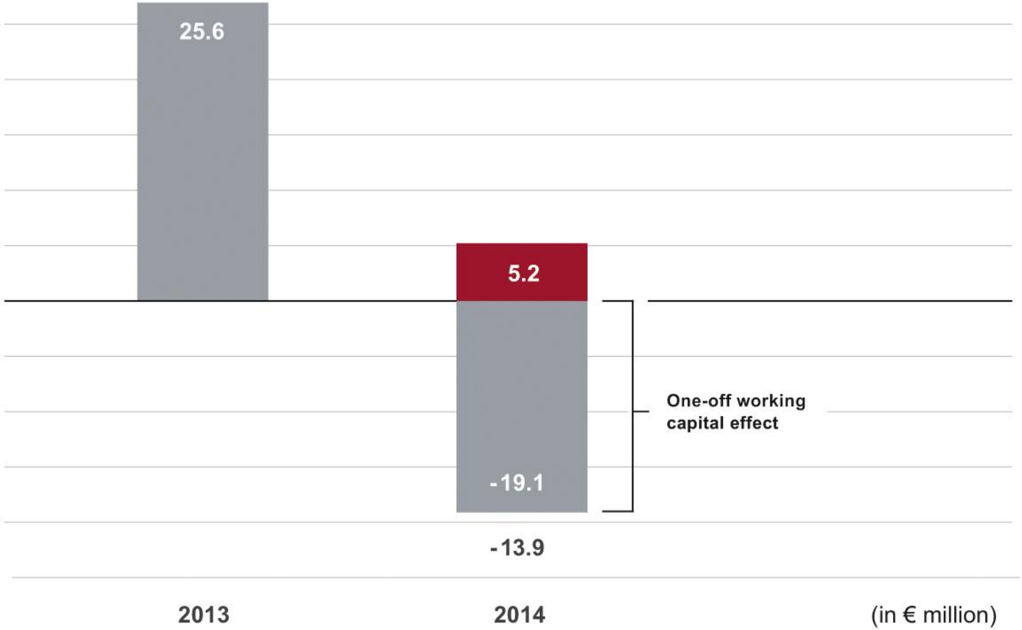
LOWER CAPEX COMPARED TO 2013



CAPEX components:

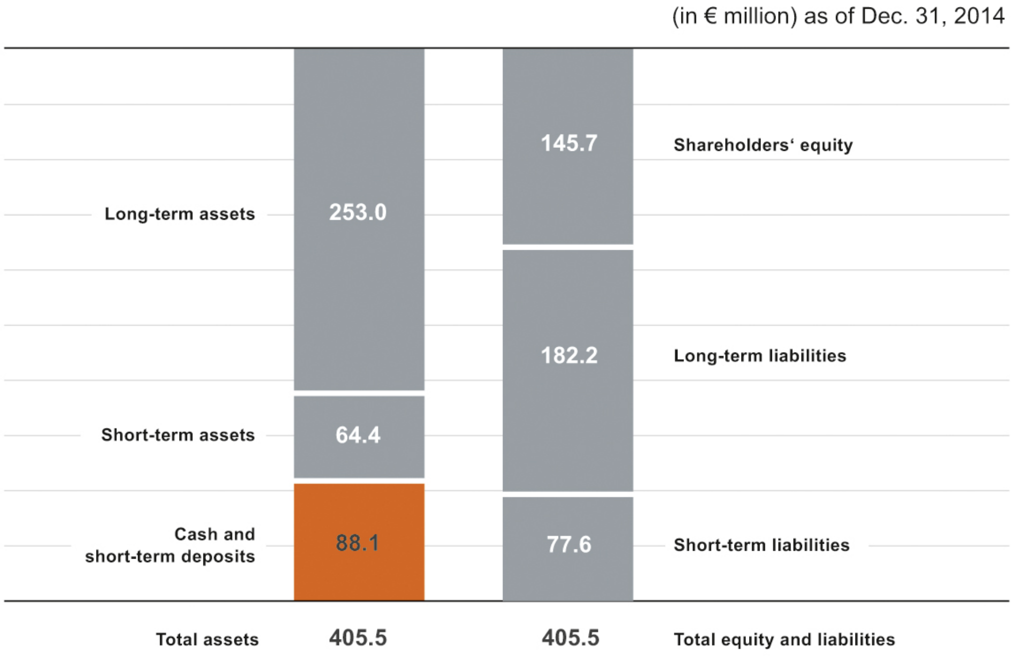
- 43% customer-driven investments
- 32% investments in infrastructure
- 11% software and licenses
- 6% investments in R&D
- 8% other

ONE-OFF WORKING CAPITAL EFFECT IMPACTED FREE CASH FLOW



- Free cash flow is tied to profitability
- One-off-effect in Q4 2014 due to tightened accounts payable management of large suppliers

SOLID BALANCE SHEET

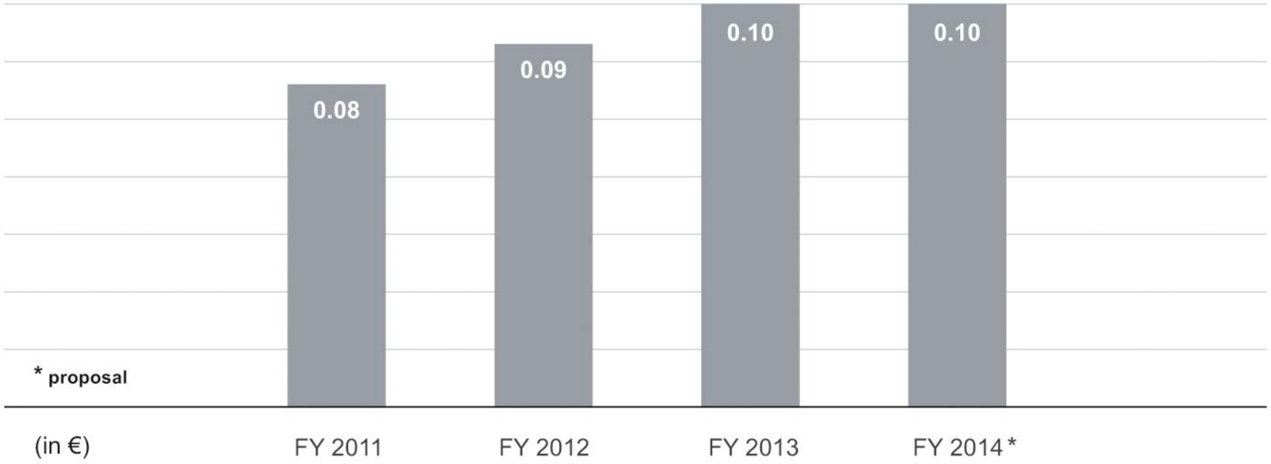


- Decrease in long-term assets due to ordinary depreciation and impairment
- Increase in cash in 2014 due to placement of promissory note loan
- Financing matches maturity: Long-term liabilities and equity cover 130% of long-term assets

SOLID BALANCE SHEET AND FINANCING ALLOW DIVIDEND PAYMENT ALSO FOR 2014

FCF	**41.0**	**23.6**	**25.6**	**-13.9**	**76.3**
Dividend	**11.0**	**11.1**	**12.4**	**12.4**	**46.9**

(in € million)



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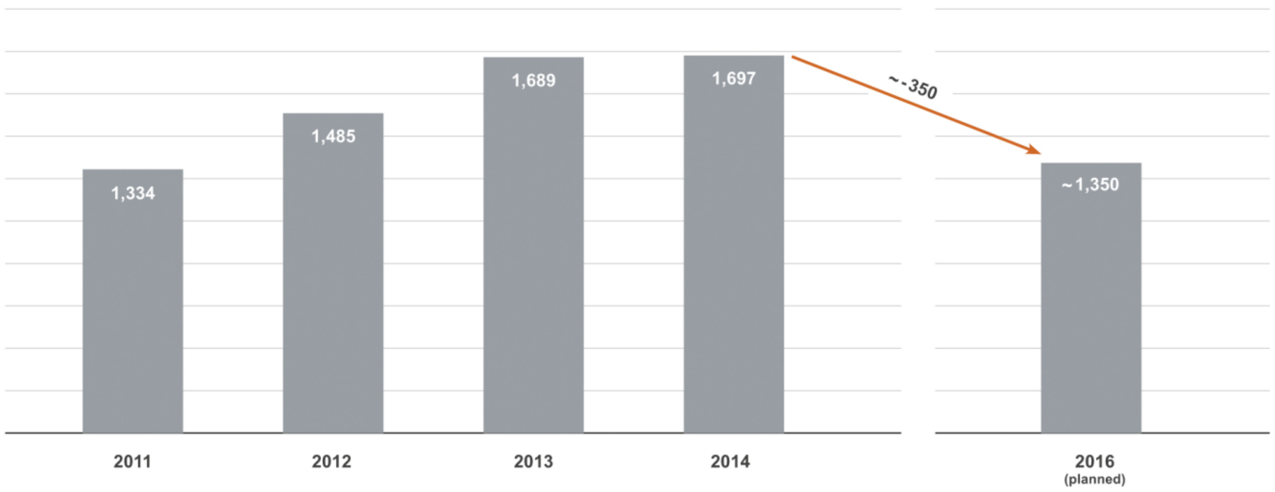
QSC AIMS TO REDUCE ITS COSTS BY AT LEAST € 25 MILLION

- QSC is implementing a comprehensive program to reduce costs
  - Duration: 2 years
  - Short-term savings in 2015: more than € 10 million
  - Savings in 2016: another € 10 to € 15 million
  - Savings from 2017 onwards: at least € 25 million per year
- Program will ensure that QSC will earn sustainable profits

FOCUS: CLOSING THE GAP BETWEEN HEADCOUNT AND REVENUE DEVELOPMENT



Major actions:

- Termination of fixed-term contracts
- Natural staff attrition
- Socially responsible staff reduction

FURTHER KEY ASPECTS OF THE PROGRAM

- Reduction in number of external consultants
- Reduction in number of locations
- Streamlining administration
- Optimization of purchasing processes
- Standardization/Industrialization of IT operations

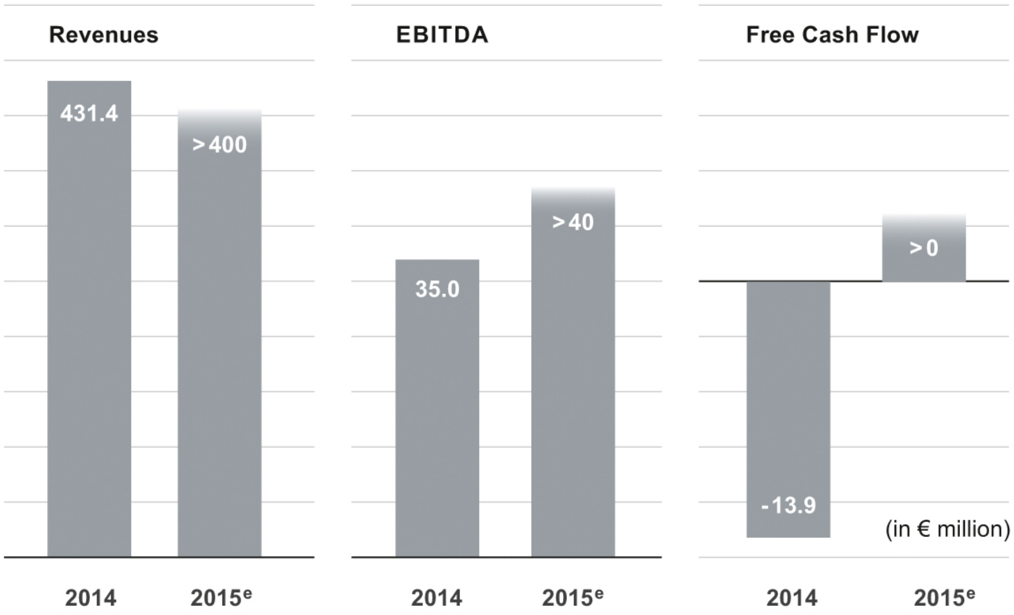
PROGRAM WILL BE IMPLEMENTED IN FOUR STAGES

• Stage 1:	Analysis and concept	finished
• Stage 2:	Ad-hoc actions	ongoing
• Stage 3:	Implementation and fine-tuning	Q2 2015 – Q1 2016
• Stage 4:	Ensuring sustainable success	H2 2015 – H2 2016

CURRENT PROGRAM WILL RAISE QSC'S ATTRACTIVENESS IN SEVERAL RESPECTS

• Cost focus	→	Shareholders & Employees
• Cash generation	→	Shareholders
• Financing power	→	M&A projects

CURRENT PROGRAM HELPS TO INCREASE EBITDA AND FCF IN 2015



- H1 2015 will be characterized by the focusing and cost reduction program
- QSC aims to pay a dividend of € 0.10 per share for fiscal 2014
- Financial strength will be supported by CAPEX reduction down to € 25 million

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STRATEGY – VISION

QSC uses its extensive ICT know-how to become the leading German provider with a multi-cloud portfolio

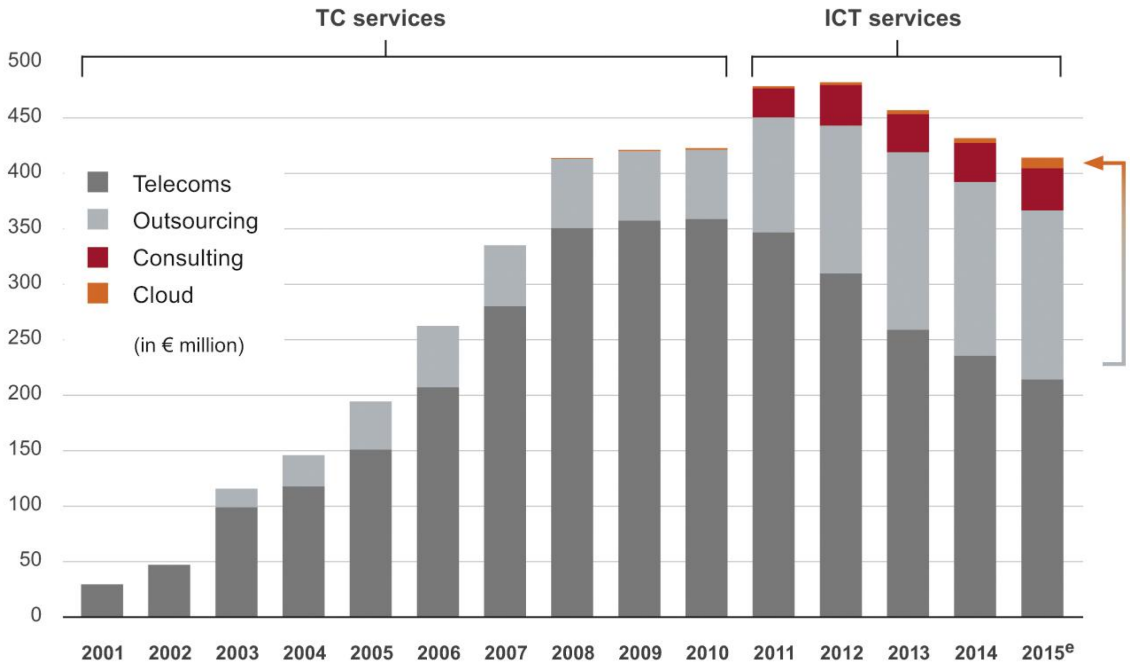
Pure Enterprise Cloud

Innovativ. Sicher. An Ihrer Seite.

STRATEGY – KEY TRENDS

- Mega-trends such as mobility and consumerization are increasing the pressure on business and IT executives ("shadow IT")
- Internet of Things (IoT)-solutions will revolutionize all areas of industry and push Industry 4.0 approaches
- Requirements for compliance, security and process complexity will increase the use of hybrid cloud solutions significantly
- Medium-sized enterprises (200 to 5,000 employees) lack the expertise required to implement such solutions (integration of data, application and process level)
- More than 90% of medium-sized enterprises view it as important that data centers are located in Germany and that German certifications and labels exist

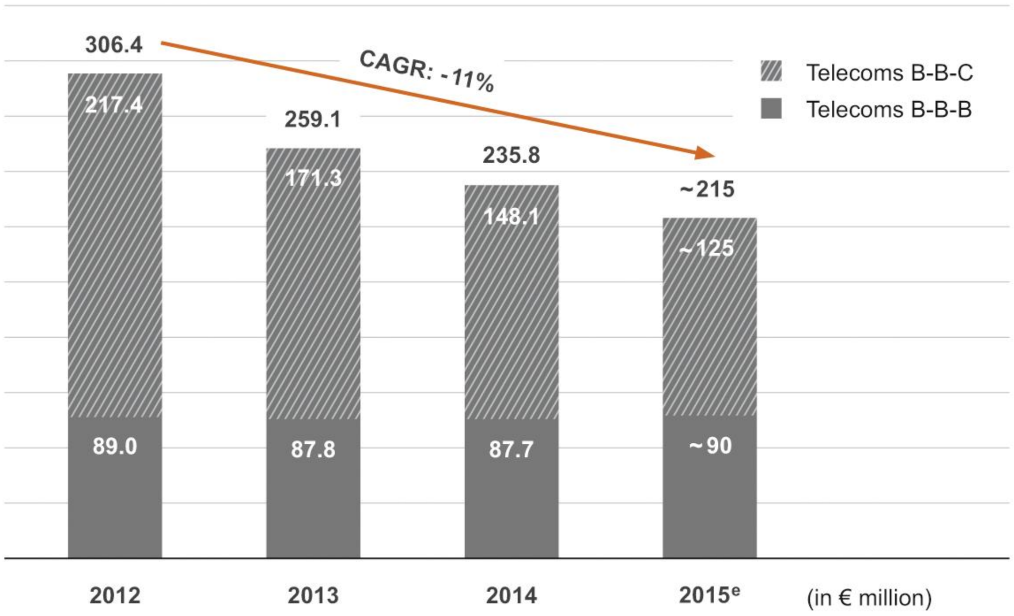
STRATEGY – TRANSFORMATION INTO A MULTI-CLOUD PROVIDER



QSC is becoming a multi-cloud service provider for German medium-sized companies:

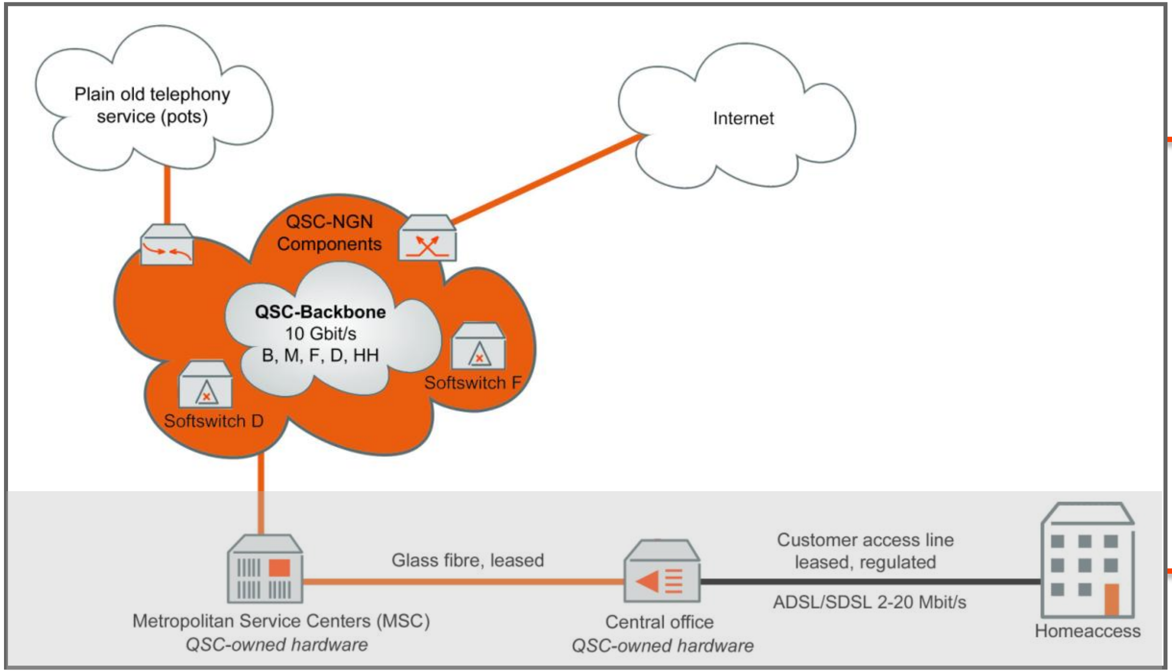
- Using in-house developed cloud products and solutions (Intellectual Property)
- Shifting traditional ICT services to the Cloud

STRATEGY – TELECOMS



- B-B-C declining significantly due to the development in the ADSL2+ Wholesale business
- B-B-B in the Telecoms segment is and will remain stable
- High level of standardization and efficient network operations ensure profitability

STRATEGY – TELECOMMUNICATIONS NETWORKS



Next Generation Network (All-IP network) ensures the integrated delivery of innovative ICT products

Access Network is not a strategic asset anymore

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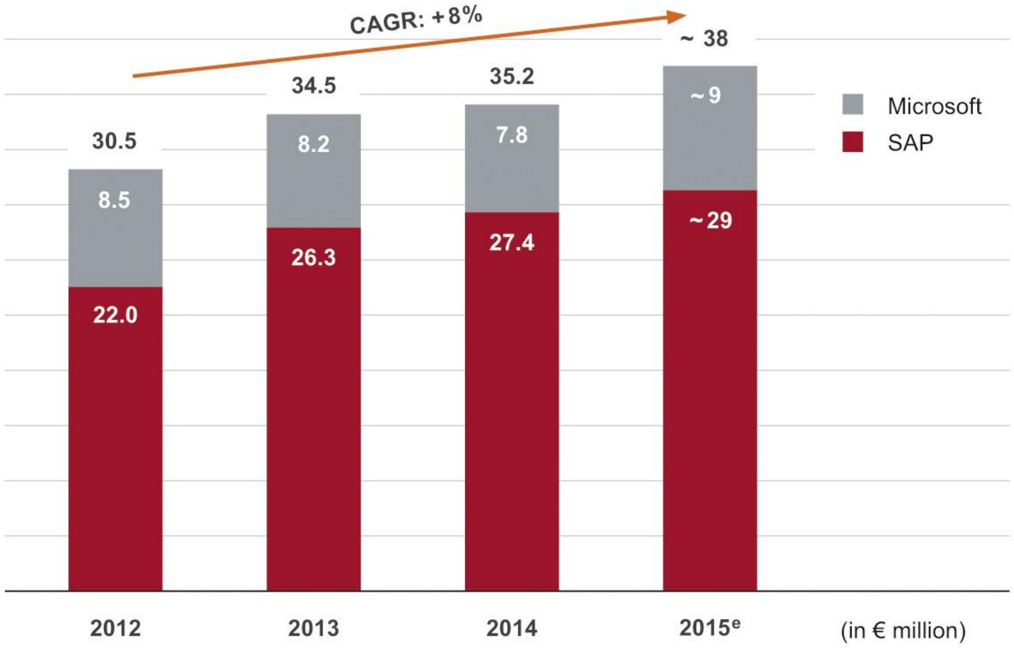
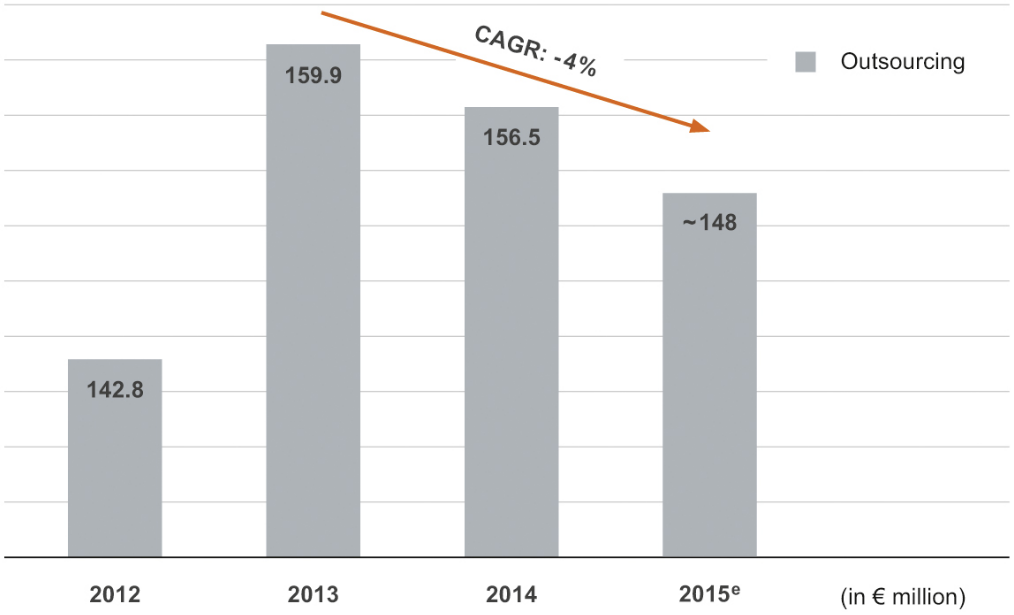
STRATEGY – CONSULTING



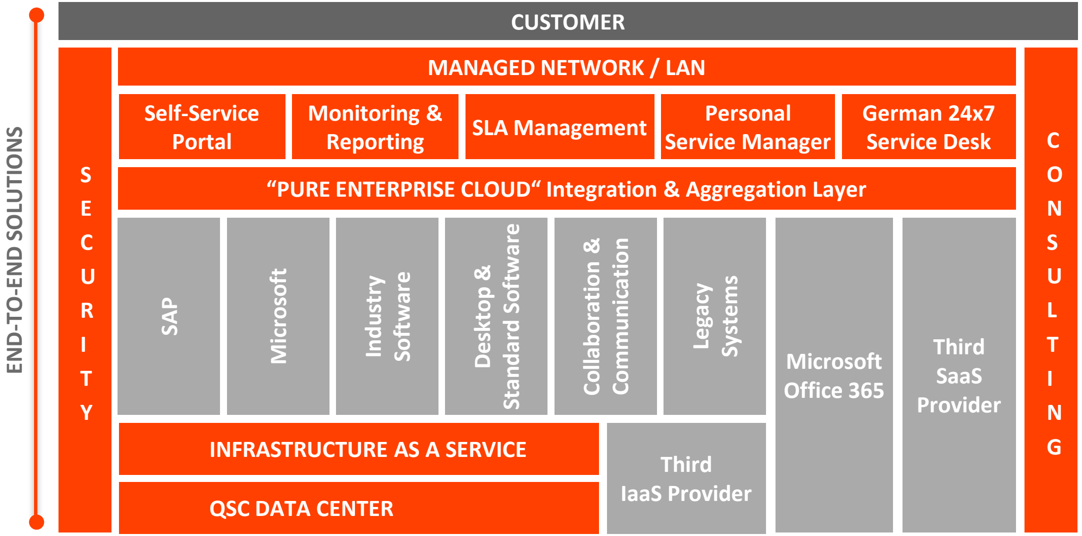
- SAP und Microsoft are central applications for German business customers
- Consulting shows stable growth and is strategically important for setting up a customer-centric ecosystem of cloud services
- The relevance of industry-specific know-how is growing fast

STRATEGY – OUTSOURCING 1.0 (TRADITIONAL)



- Traditional 1-to-1 Outsourcing segment is highly competitive and putting high pressure on margins
- Conflict between customization and standardization (IT factory)
- Shift in application landscapes (desktop versus web applications)
- Customers expect innovative and agile services and fear “vendor lock-in”

STRATEGY – OUTSOURCING 2.0 (PURE ENTERPRISE CLOUD)



- Hybrid clouds will be the prevailing IT deployment model
- Challenges for CIOs:
  - Integration of legacy systems and cloud services into business processes
  - Aggregation of all services to reduce complexity for the user
- Integration and Application Layer will be outsourced by medium-sized companies
- Pure Enterprise Cloud as “IT Factory“

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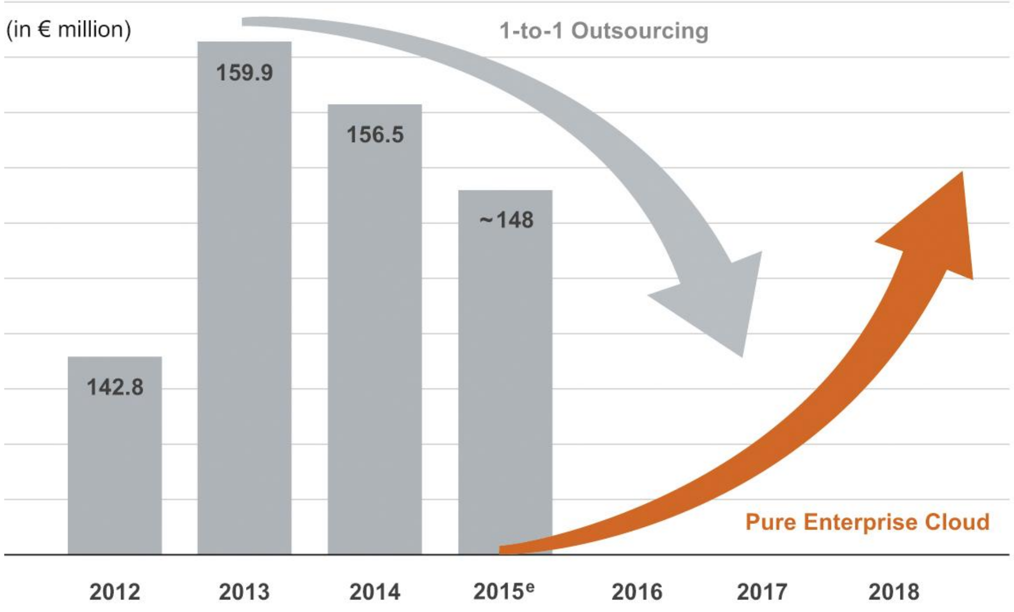
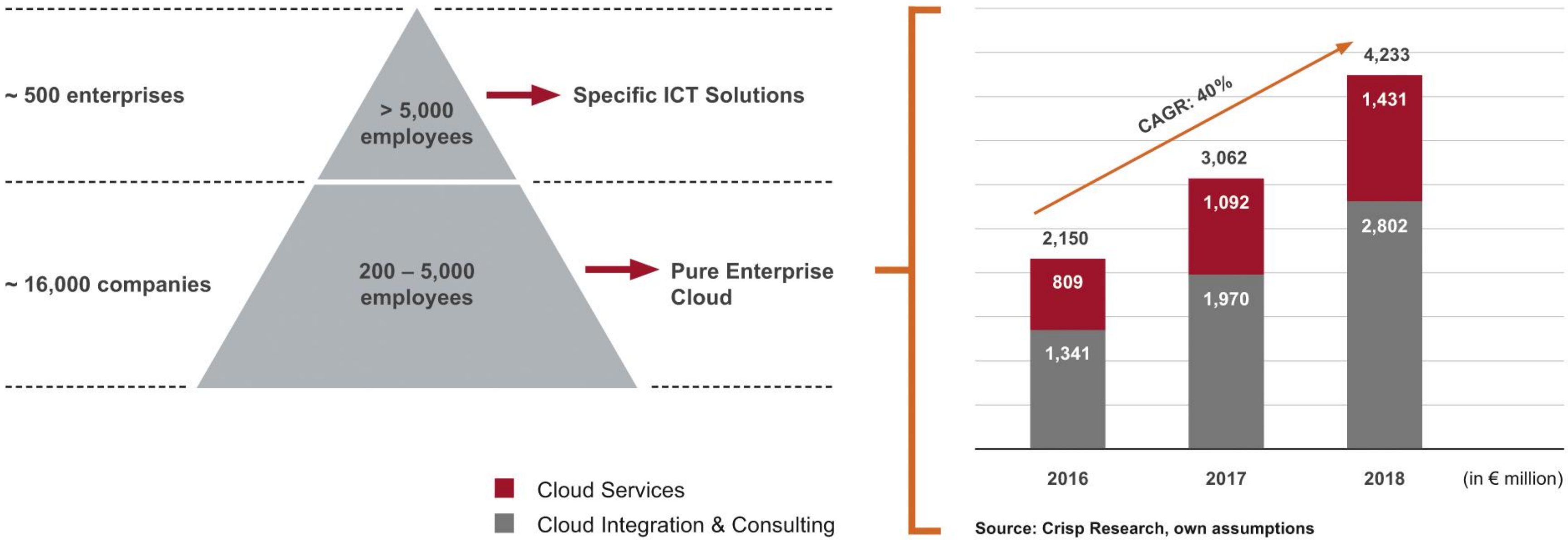
STRATEGY – OUTSOURCING 2.0 (PARADIGM SHIFT)



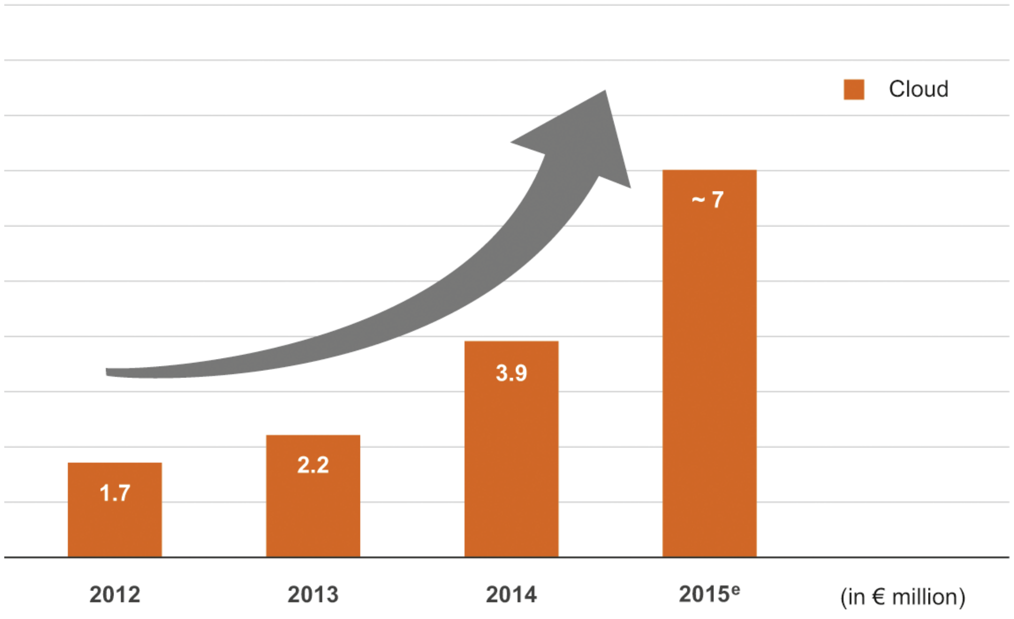
- **Medium-sized companies (200 – 5,000 employees):**
  → Standardization through 1-to-1 Outsourcing through Pure Enterprise Cloud
- **Large Enterprises (> 5,000 employees):**
  → Focus on specific ICT solutions
- Consulting is essential for Cloud onboarding

STRATEGY – OUTSOURCING 2.0 MARKET POTENTIAL



Source: Crisp Research, own assumptions

STRATEGY – CLOUD



- Revenues from Cloud services are increasing but have not met expectations yet
- Growth in Cloud will be supported by:
  - Cloud solutions
  - Cloud products
  - Industry-specific Cloud solutions

STRATEGY – MULTI-CLOUD PORTFOLIO

Cloud solutions	• Outsourcing 2.0 (Pure Enterprise Cloud)
Cloud products	• FTAPI -> Security as a Service • fonial -> PBX as a Service • centraflex -> PBX as a Service • tengo -> Workplace as a Service • cospace -> UC as a Service
Industry-specific Cloud solutions	• IoT solutions based on solucon platform

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FINANCIAL CALENDAR

March 31, 2015	Publication of Annual Report 2014
May 11, 2015	Publication of Quarterly Report I/2015
May 27, 2015	Annual Shareholders’ Meeting
August 10, 2015	Publication of Quarterly Report II/2015
November 9, 2015	Publication of Quarterly Report III/2015

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A complete list of the risks, uncertainties and other factors facing us can be found in our public reports and filings with the U.S. Securities and Exchange Commission.

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