

# QSC AG

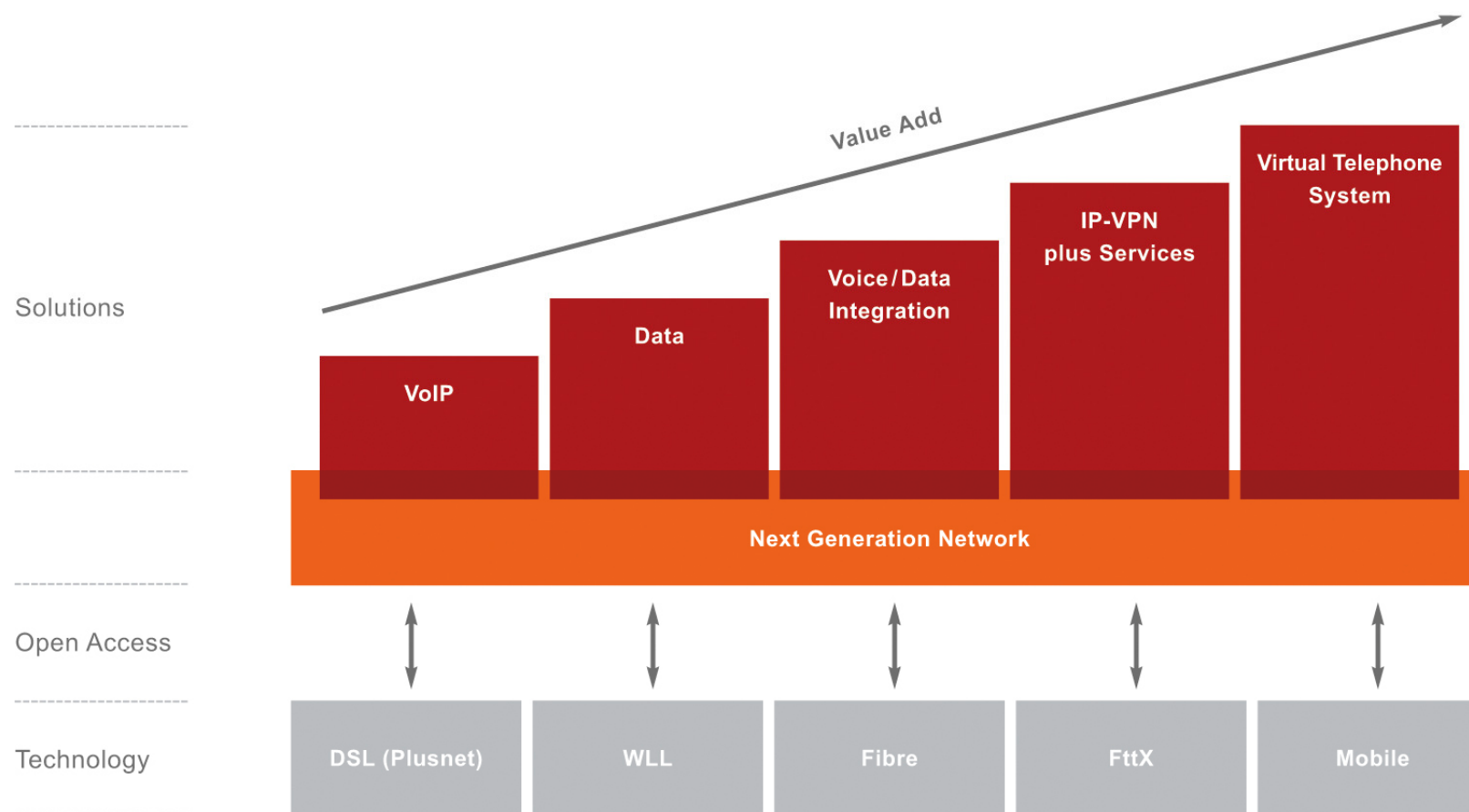
## Company Presentation Results Q2 2010

Cologne, August 9, 2010

## OUR MISSION STATEMENT

QSC is the leading medium-sized provider in the telecommunications market who creates sustainable value for medium-sized companies, cooperation partners and employees through highest quality and customer focus!

# QSC'S BUSINESS MODEL: FOCUS ON SERVICES BASED ON OUR NEXT GENERATION NETWORK



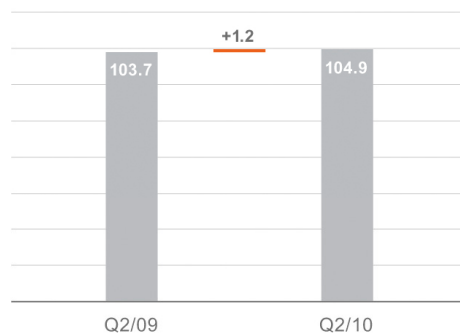
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# AGENDA

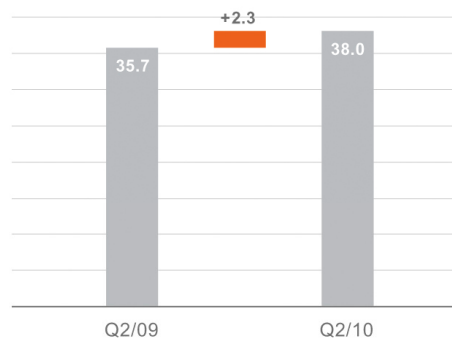
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2. Financial Results Q2 2010
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# Q2 2010: FURTHER IMPROVEMENT IN PROFITABILITY AND FINANCIAL STRENGTH

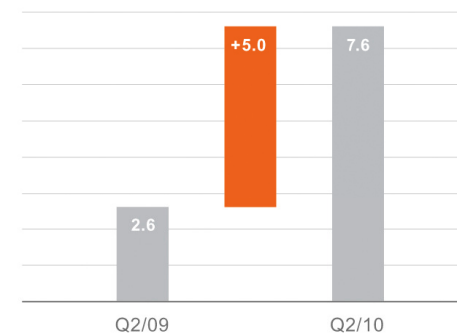
REVENUES (in € million)



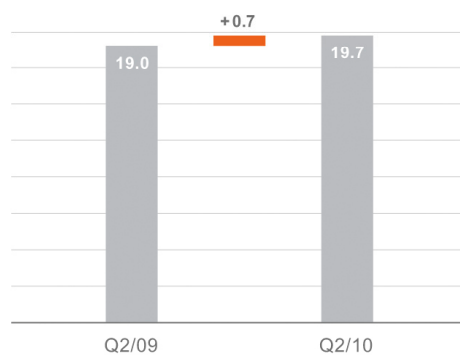
GROSS PROFIT (in € million)



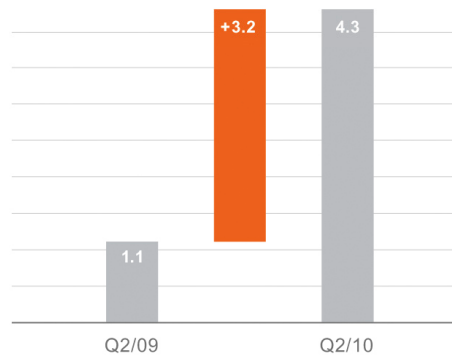
FREE CASH FLOW (in € million)



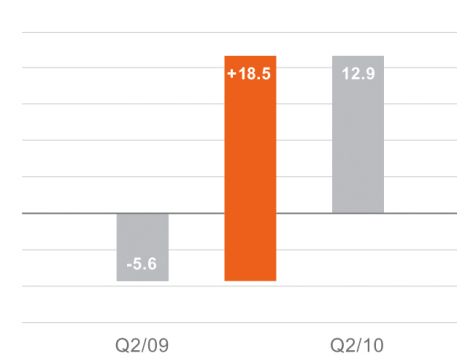
EBITDA (in € million)



NET PROFIT (in € million)



NET LIQUIDITY (in € million)

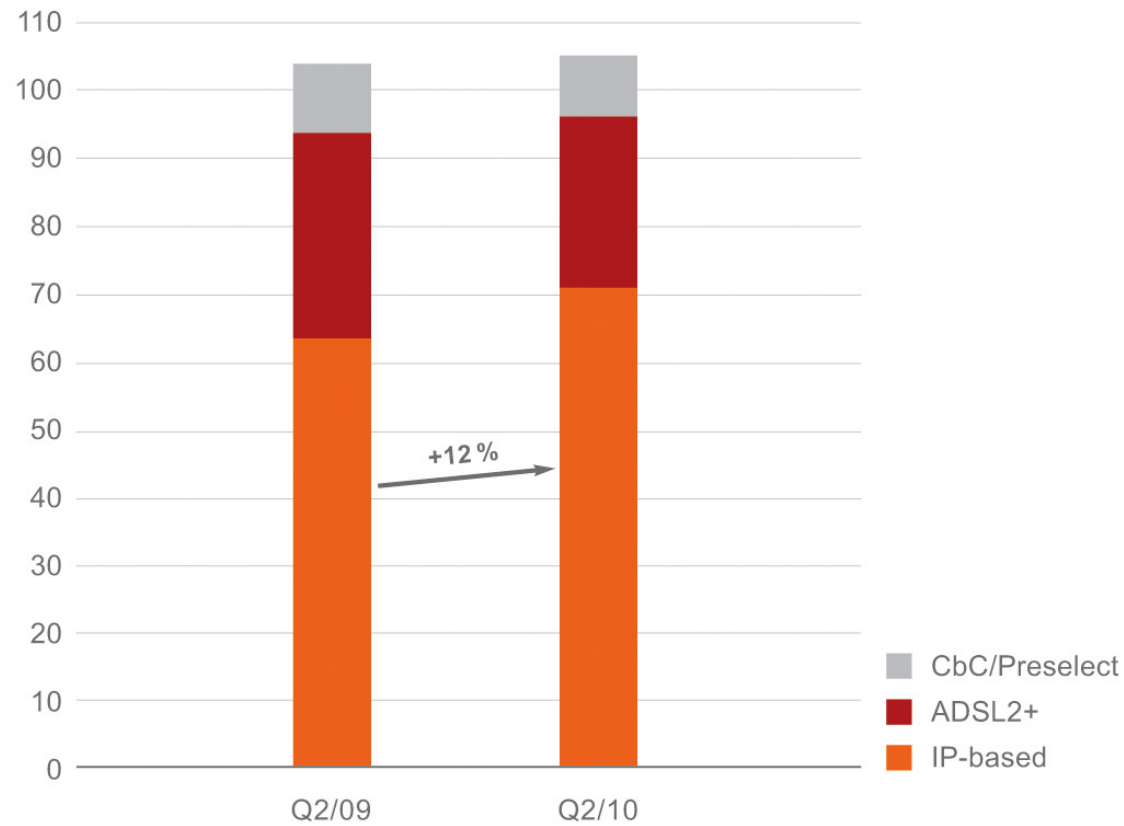


## MAJOR ACHIEVEMENTS DURING Q2 2010

- Ongoing successful transformation of QSC
- Double-digit growth with IP-based products and services
- Long-term network partnership with freenet
- First app for IPfonie centraflex: Interface for salesforce.com

# IP-BASED REVENUES GREW BY 12%

REVENUE MIX (in € million)



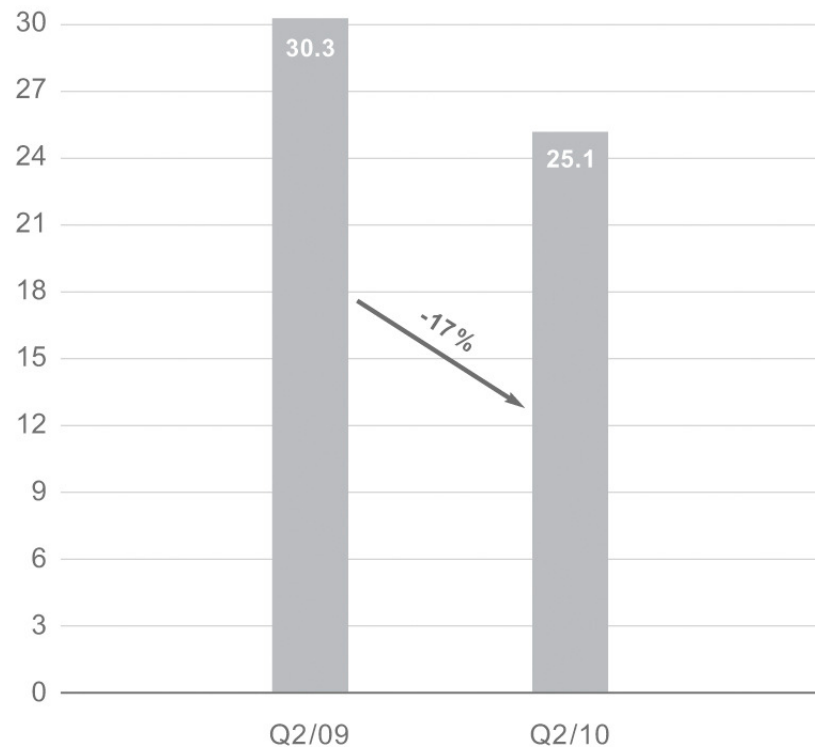
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# ADSL2+ MARKET HAS REACHED SATURATION

ADSL2+ (in € million)



## Main developments

- Ongoing price competition  
=> QSC has not participated
- Market saturation especially in urban areas
- Growing competition from cable operators
- Number of DSL lines declined to 555,600

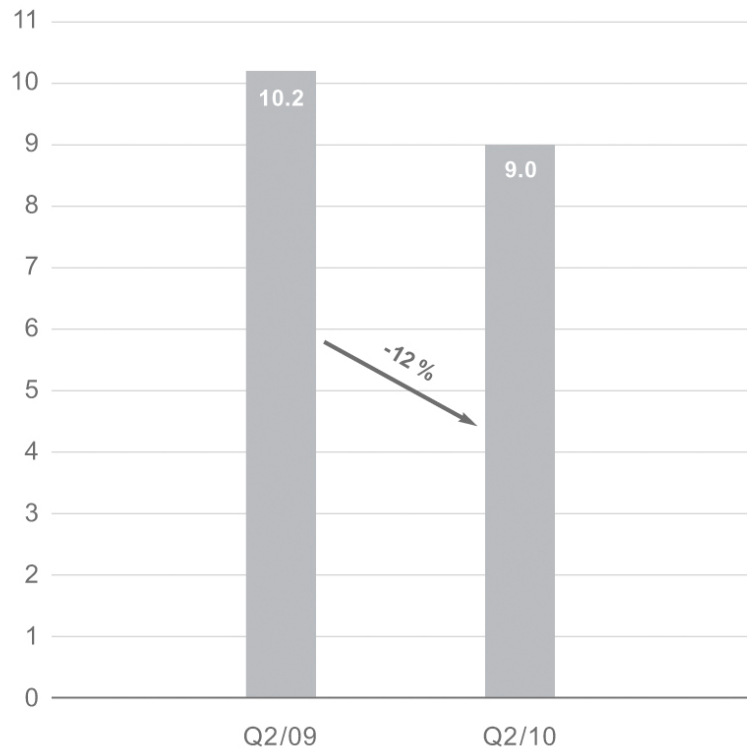
## Our expectation

- Further decline because of ordinary churn



# VOICE OVER IP IS SQUEEZING LEGACY VOICE

CBC/PRESELECT (in € million)



## Main developments

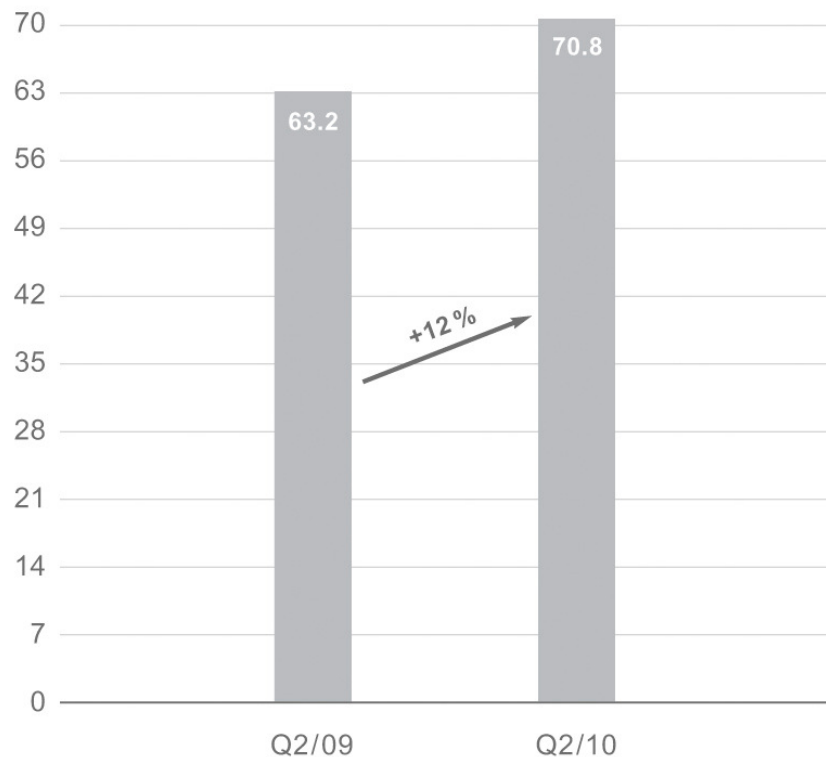
- Fierce price competition
- Business customers are getting accustomed to VoIP

## Our expectation

- Stabilization of these revenues on a low level
- QSC will benefit twofold from the trend towards VoIP
  - Rising revenues with IPfonie products
  - Rising revenues in Voice Wholesale

# RISING REVENUES WITH IP-BASED SERVICES

IP-BASED (in € million)



## Main developments

- Growing demand for “all IP” solutions
- Focused sales strategy on mid-sized companies is starting to pay off
- Successful product differentiation

## Our expectation

- “IP revenues” will rise further because of
  - A growing number of mid-sized customers
  - Launch of further IP-based services
  - Consistent white label strategy

# NEW GROWTH PATH OUTSOURCING SERVICES FOR CARRIERS

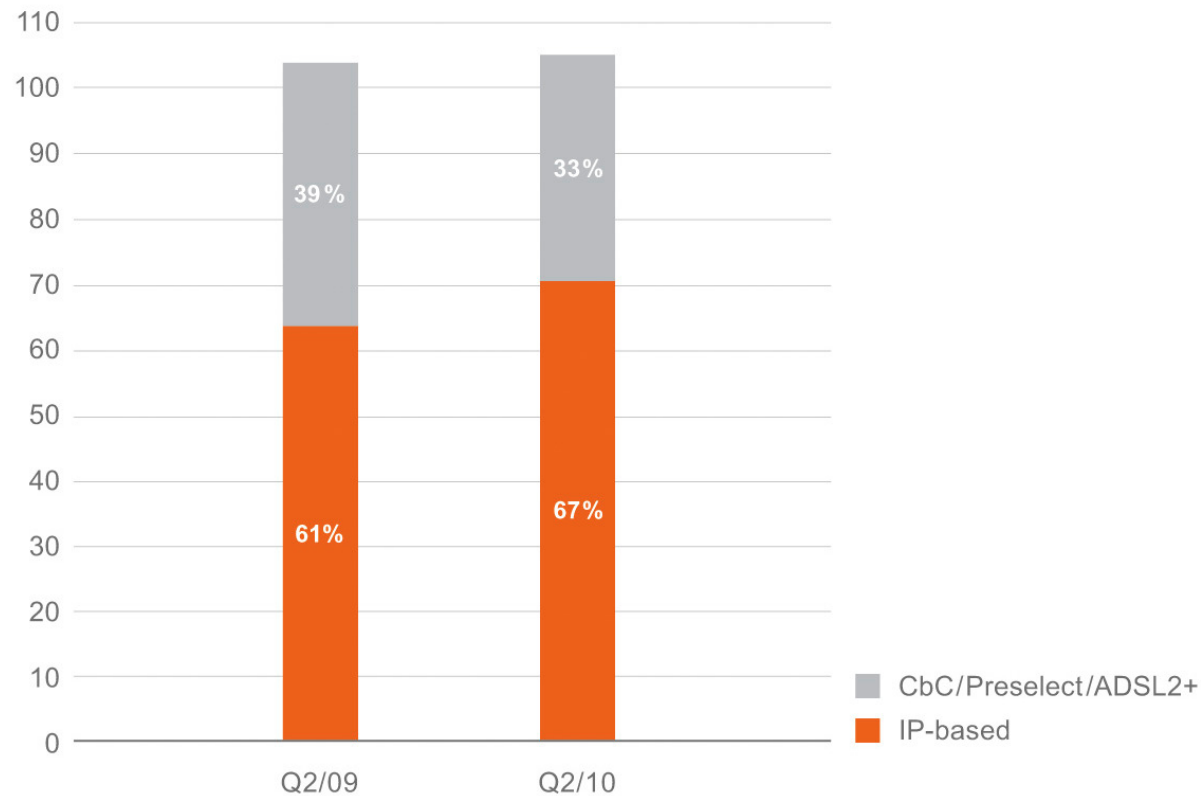
- On June 10, freenet and QSC signed a network **partnership agreement**, which **will** initially **run for ten years**
  - QSC will fully **integrate freenet's narrowband network** into its NGN by December completely; customers will stay with freenet
  - In the future, QSC will handle the **complete voice traffic**
  - With this outsourcing service, QSC will be further broadening its **leading position in handling VoIP-based voice minutes** in Germany
- ⇒ NGN is a perfect toolbox to cost-efficiently offering IP-based outsourcing services to other telco providers
- ⇒ NGN allows QSC to play an active role in network consolidation without M&A activities

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# QSC IS SHOWING FORWARD-LOOKING GROWTH

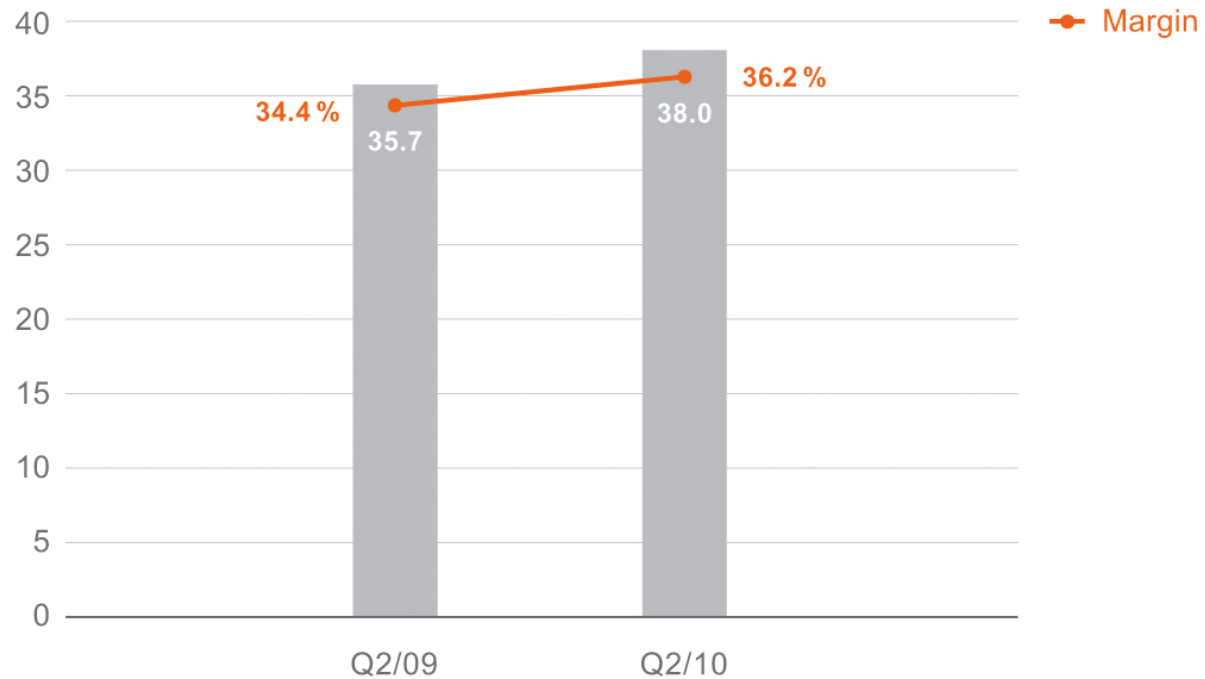
REVENUE SPLIT (in € million)



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# HIGHER IP-BASED REVENUES LEAD TO HIGHER GROSS MARGIN

GROSS PROFIT (in € million)



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## Q2 2010 CHARACTERIZED BY RISING REVENUES AND HIGHER EARNINGS

In € million	Q2 2009	Q2 2010	Δ
• Revenues	103.7	104.9	+1.2%
• Network expenses <sup>(1)</sup>	68.0	66.9	-1.6%
• <b>Gross profit</b>	<b>+35.7</b>	<b>+38.0</b>	<b>+6.4%</b>
• Other operating expenses <sup>(1)</sup>	16.7	18.3	+9.6%
• <b>EBITDA</b>	<b>+19.0</b>	<b>+19.7</b>	<b>+3.7%</b>
• Depreciation	16.7	14.6	-12.6%
• <b>EBIT</b>	<b>+2.3</b>	<b>+5.1</b>	<b>+121.7%</b>
• Financial results	-0.8	-0.5	+37.5%
• Income taxes	-0.4	-0.3	-25.0%
• <b>Net profit</b>	<b>+1.1</b>	<b>+4.3</b>	<b>+290.9%</b>

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(1) Excluding depreciation and non-cash share-based payments

# PROFITABILITY IS RISING FASTER THAN REVENUES

YEAR-ON-YEAR COMPARISON (in € million)



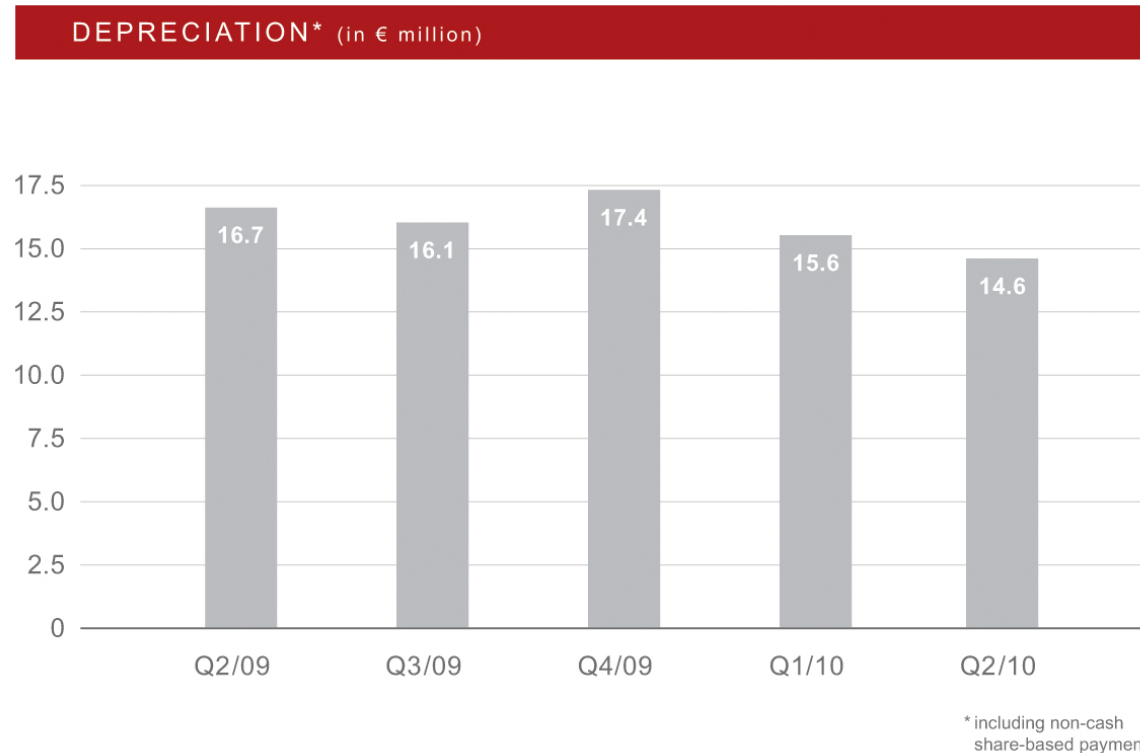
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# DECLINING DEPRECIATION IN 2010 AND BEYOND



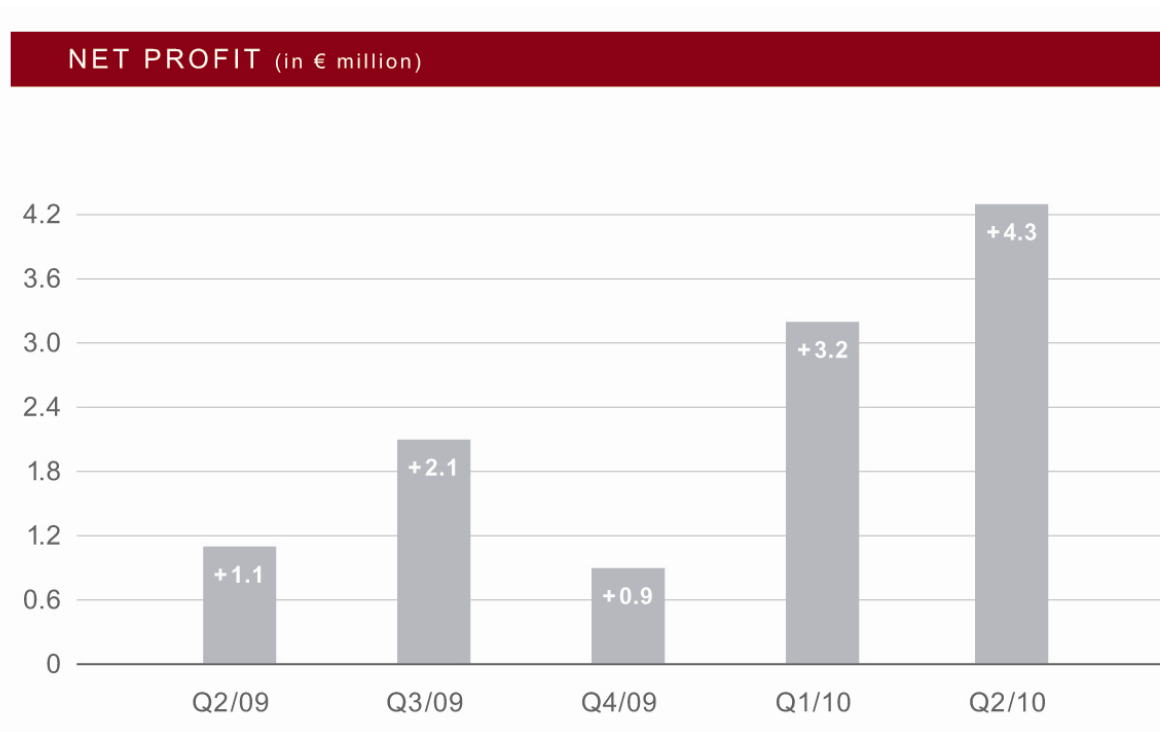
## Drivers

- High growth in ADSL2+ business in 2008 led to high depreciation (depreciation period: 2 years) in 2009
- Network rollout has been completed

## Consequence

- Depreciation will be declining in 2010 and beyond

# QSC IS GENERATING RISING NET PROFIT



## Drivers

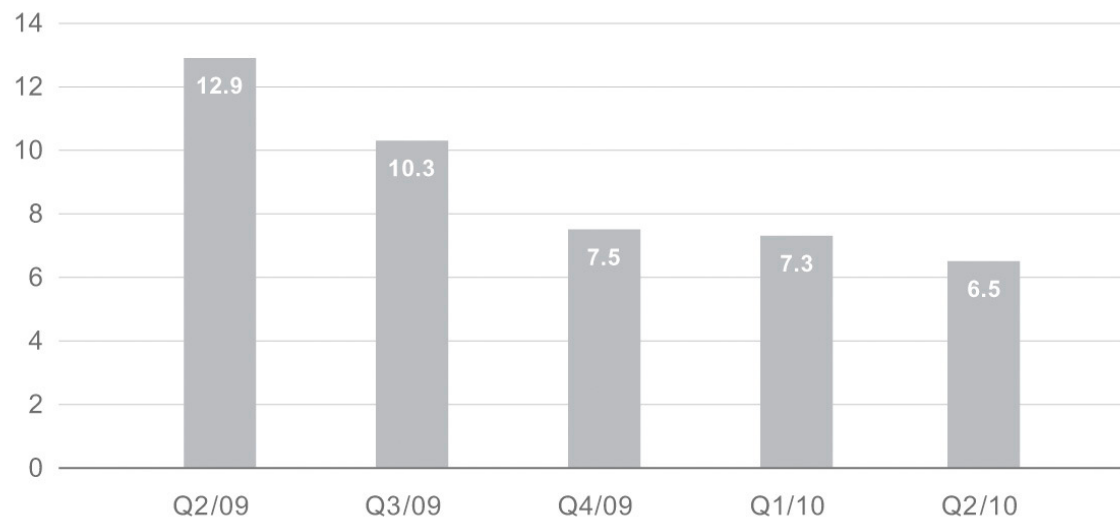
- High-margin IP-based growth
- Strict cost discipline
- Declining depreciation

## Consequence

- Fast rising net profit
- Earnings per share grew to € 0.03 per share in Q2 2010
- Growing net profit will allow QSC to pay an attractive dividend

# LOW CAPEX LEVEL PROVES SUCCESSFUL TRANSFORMATION PROCESS

CAPEX (in € million)



## Drivers

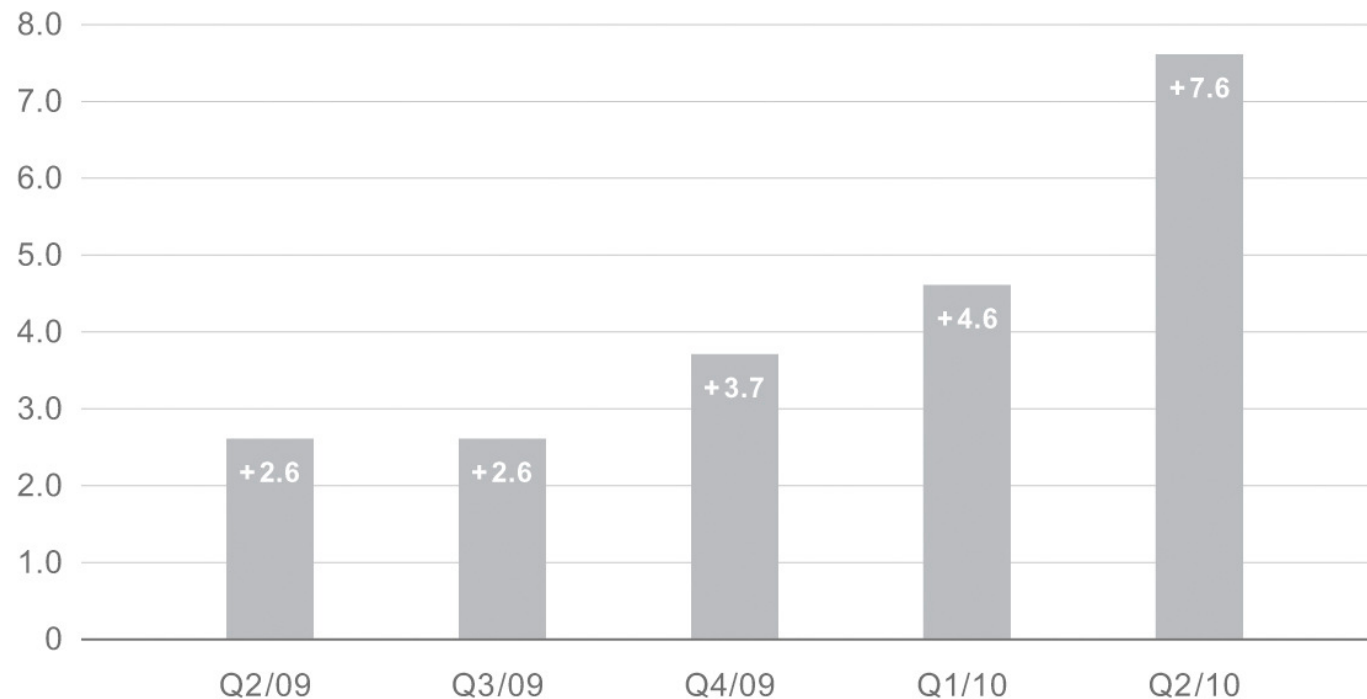
- Customer-driven CAPEX declined, mainly due to less ADSL2+ installations
- No CAPEX for network extension => investment period is over!
- Product development and future growth is included in CAPEX planning

## Consequences

- 2010 and beyond:
  - CAPEX less than 10% of revenues
  - at least 50% customer-driven

# QSC HAS BEEN GENERATING A RISING FREE CASH FLOW QUARTER BY QUARTER

FREE CASH FLOW (in € million)



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## QSC IS BUILDING UP A NET CASH POSITION

In € million	Dec. 31, 2009	June 30, 2010	△
+ Cash and short-term deposits	+41.0	+43.7	+2.7
+ Available-for-sale financial assets	+0.3	+0.3	-
<b><i>+ Liquidity</i></b>	<b><i>+41.3</i></b>	<b><i>+44.0</i></b>	<b><i>+2.7</i></b>
- Finance lease obligations	-22.8	-14.5	+8.3
- Other short-term liabilities	-2.8	-1.7	+1.1
- Liabilities due to banks	-15.0	-15.0	-
<b><i>- Financial debt</i></b>	<b><i>-40.6</i></b>	<b><i>-31.2</i></b>	<b><i>+9.4</i></b>
<b><i>= Net liquidity</i></b>	<b><i>+0.7</i></b>	<b><i>+12.8</i></b>	<b><i>+12.1</i></b>

# NET CASH IS BACKING FUTURE GROWTH OPPORTUNITIES

**QSC will be using its growing net cash to**

- **Pay an attractive dividend** for the 2011 fiscal year
- Potentially, initiate a **share buy-back program**
- **Invest in** the development of **new services** like Q-loud
- Optionally: **acquire solution providers**, especially in the field of ICT software-as-a-service business

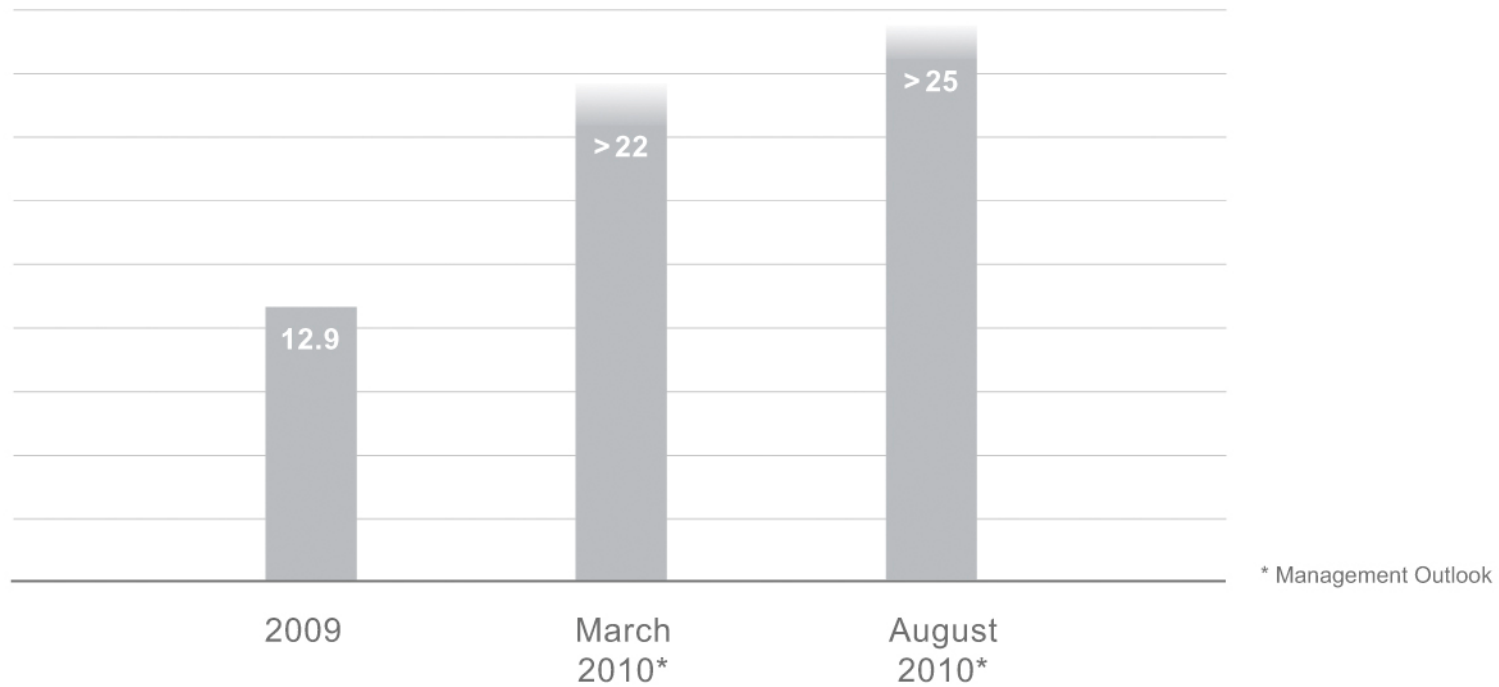
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# OUTLOOK 2010

## QSC PLANS TO DOUBLE ITS FREE CASH FLOW

FREE CASH FLOW (in € million)

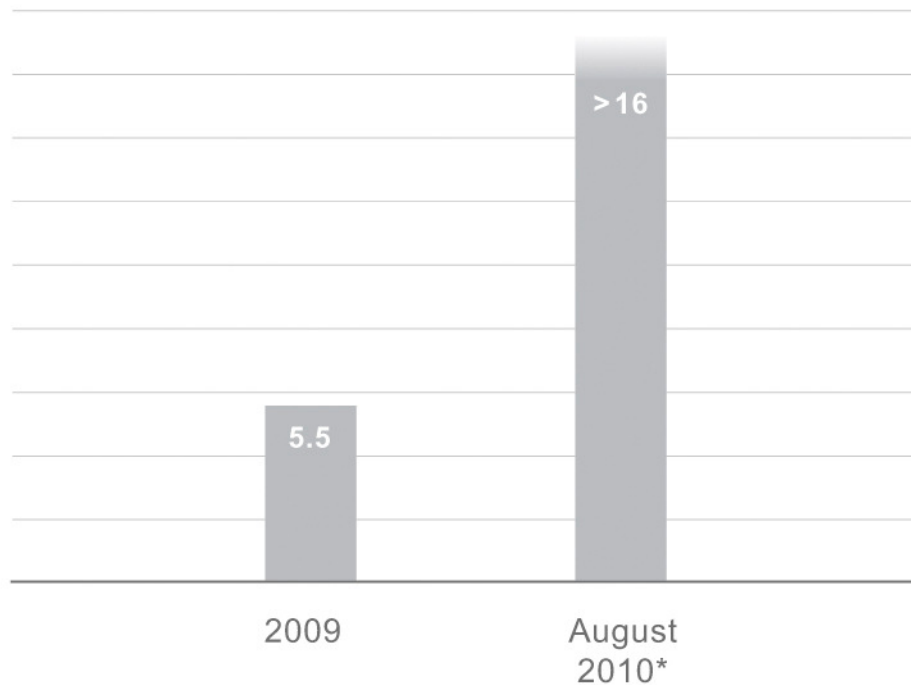




# OUTLOOK 2010

## QSC PLANS TO TRIPLE ITS NET PROFIT

NET PROFIT (in € million)



QSC expects a net profit of more than € 16 million

Further increase in

- Revenues
- EBITDA

\* Management Outlook

# OUTLOOK 2010

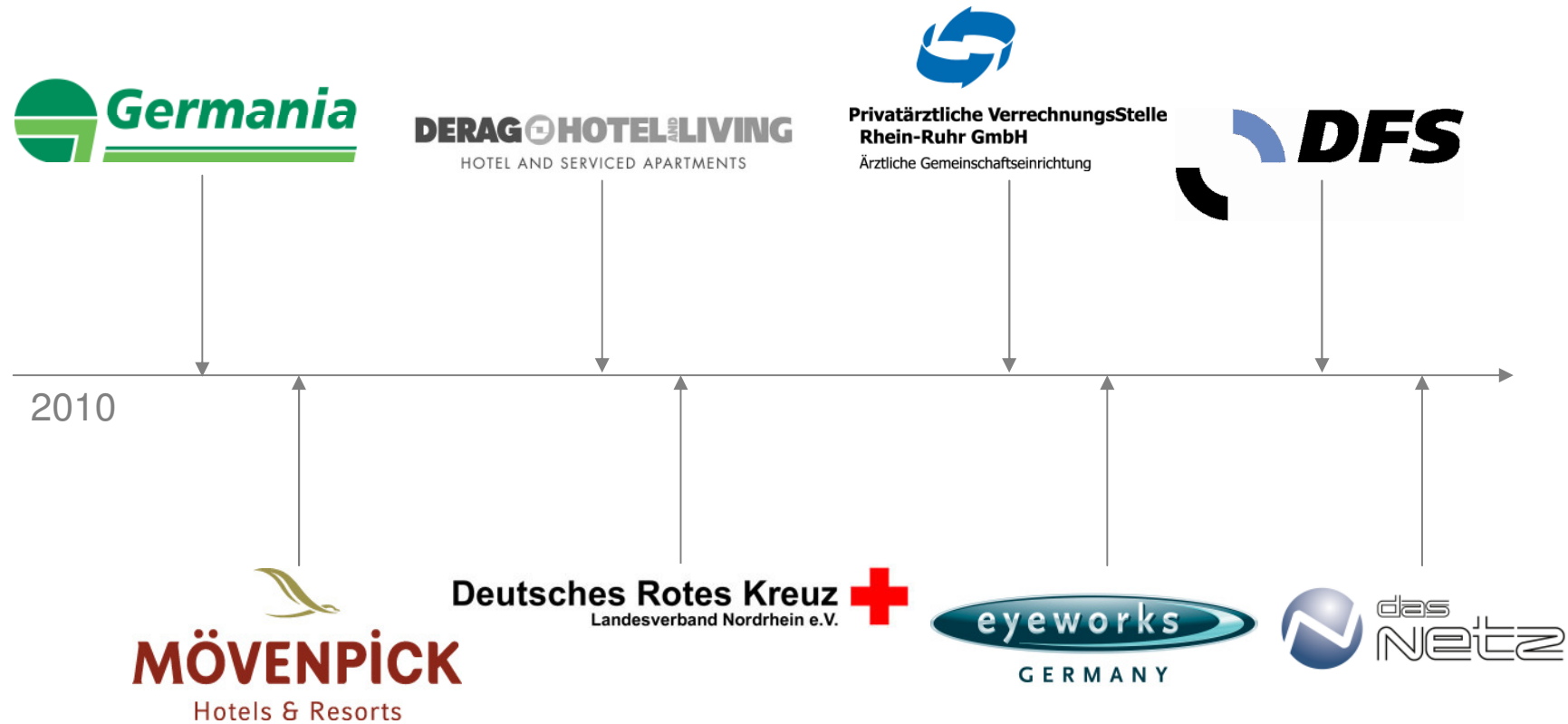
## SUCCESSFUL TRANSFORMATION PROCESS

- Successful transformation process allows to generate higher free cash flows and higher profitability, mainly for two reasons
  - Higher margins with IP-based revenues
  - Lower CAPEX/depreciation
- Successful transformation process allows QSC to focus on four attractive growth opportunities
  - Providing Outsourcing Services for carriers
  - Winning more mid-sized customers
  - Increasing QSC's share of ICT budgets of existing and new customers
  - Offering white label products and solutions through various sales channels

# GROWTH OPPORTUNITY OUTSOURCING SERVICES FOR CARRIERS

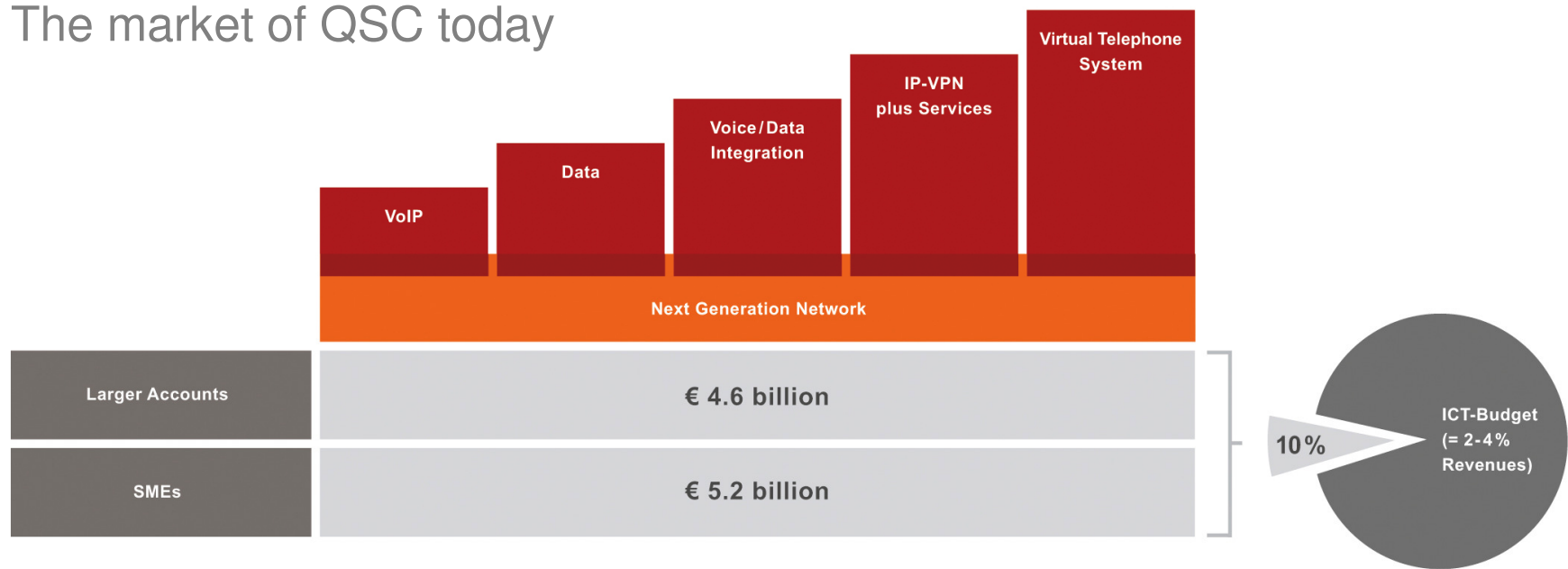
- Advantages for **carriers**
  - Access to a nationwide NGN
  - Variabilization of formerly fixed infrastructure costs
  - No further CAPEX
- Advantages for **QSC**
  - Additional revenues in wholesale/reseller segment
  - Higher network utilization
  - Higher efficiency of the NGN

# GROWTH OPPORTUNITY WINNING NEW MEDIUM-SIZED CUSTOMERS



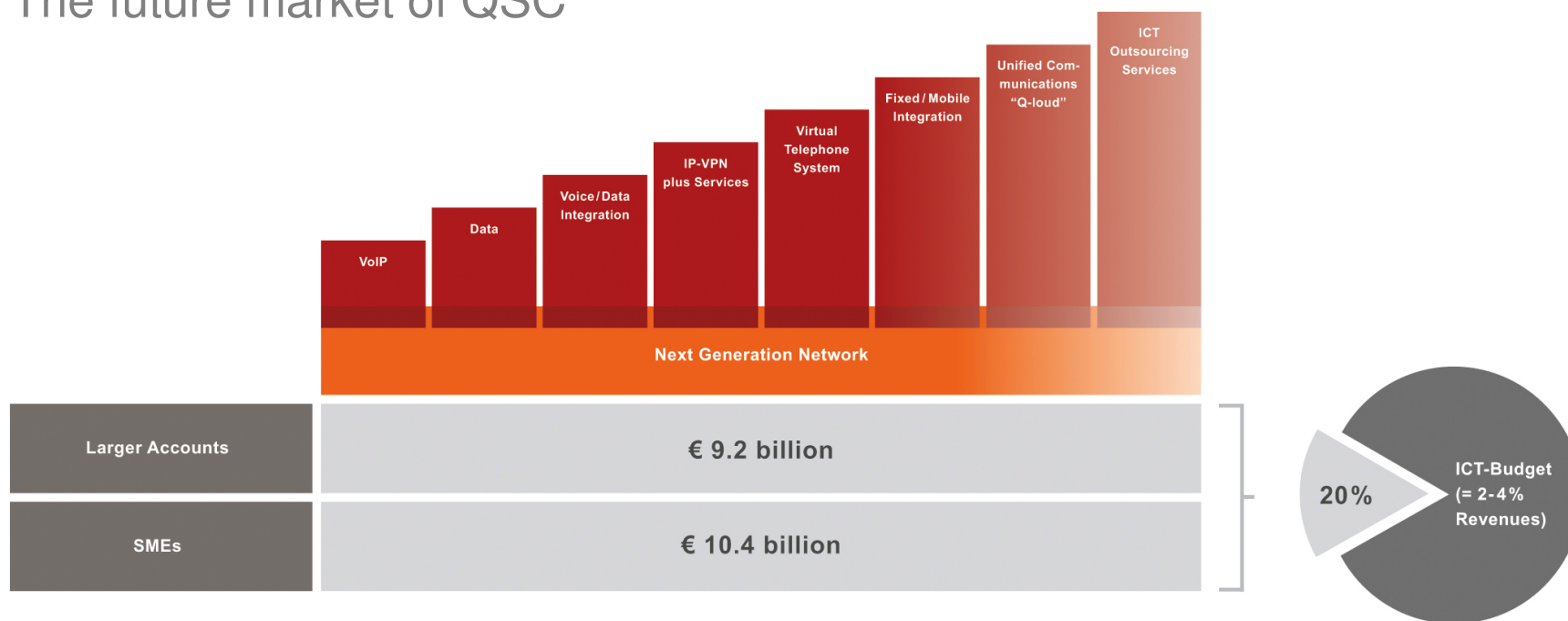
# GROWTH OPPORTUNITY LARGER SHARE OF WALLET

## The market of QSC today



# QSC HAS THE CHANCE TO DOUBLE ITS SHARE OF ICT BUDGETS IN THE COMING YEARS

## The future market of QSC



# TRANSFORMATION OF QSC

In 2010 and beyond, QSC will be focusing on four attractive growth opportunities

- Providing Outsourcing Services for carriers
- Winning more mid-sized customers
- Increasing QSC's share of ICT budgets of existing and new customers
- Offering white label products and solutions through various sales channels

For QSC, the transformation KPIs are

- Double-digit growth of IP-based revenues
- Growing net profit
- Fast rising free cash flow

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# FINANCIAL CALENDAR

August 24, 2010	Technology, Media & Telecoms Conference Commerzbank, Frankfurt
September 9, 2010	WestLB TMT Day, London
November 8, 2010	Publication of Quarterly Report III/2010
November 22-24, 2010	German Equity Forum Fall 2010 Deutsche Börse, Frankfurt

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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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## ATTRACTIVE MARGINS WITH MANAGED SERVICES

In € million	Q2 2009	Q2 2010	△
• Revenues	18.6	18.5	-0.5%
• Network expenses <sup>(1)</sup>	11.3	8.4	-25.7%
• <b>Gross profit</b>	<b>+7.3</b>	<b>+10.1</b>	<b>+38.4%</b>
• Other operating expenses <sup>(1)</sup>	5.4	5.7	+5.6%
• <b>EBITDA</b>	<b>+1.9</b>	<b>+4.4</b>	<b>+131.6%</b>
• Depreciation	2.6	2.7	+3.8%
• <b>EBIT</b>	<b>-0.7</b>	<b>+1.8</b>	<b>nm</b>

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(1) Excluding depreciation and non-cash share-based payments

## FOCUS ON HIGH-MARGIN PRODUCTS HAS PAID OFF

In € million	Q2 2009	Q2 2010	△
• Revenues	22.7	21.1	-7.0%
• Network expenses <sup>(1)</sup>	12.7	11.3	-11.0%
• <i>Gross profit</i>	<i>+10.3</i>	<i>+9.8</i>	<i>-5.8%</i>
• Other operating expenses <sup>(1)</sup>	6.4	5.5	-14.1%
• <i>EBITDA</i>	<i>+3.9</i>	<i>+4.3</i>	<i>+10.3%</i>
• Depreciation	3.3	2.8	-15.2%
• <i>EBIT</i>	<i>+0.6</i>	<i>+1.5</i>	<i>+150.0%</i>

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(1) Excluding depreciation and non-cash share-based payments

## VOICE WHOLESALE IS DRIVING WS/RS SEGMENT

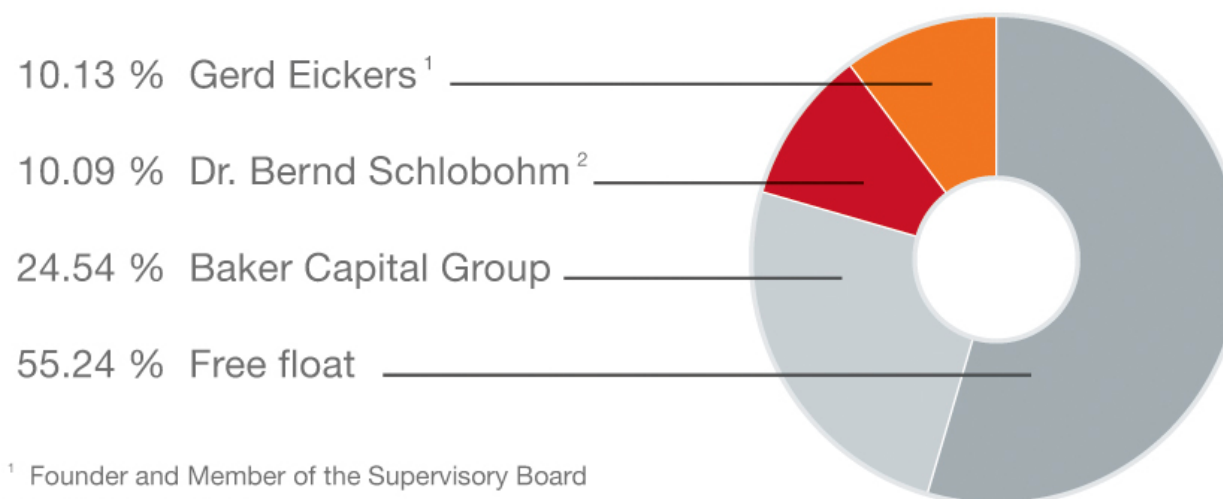
In € million	Q2 2009	Q2 2010	△
• Revenues	62.3	65.3	+4.8%
• Network expenses <sup>(1)</sup>	44.0	47.2	+7.3%
• <i>Gross profit</i>	<i>+18.3</i>	<i>+18.1</i>	<i>-1.1%</i>
• Other operating expenses <sup>(1)</sup>	5.1	7.1	+39.2%
• <i>EBITDA</i>	<i>+13.2</i>	<i>+11.0</i>	<i>-16.7%</i>
• Depreciation	10.8	9.1	-15.7%
• <i>EBIT</i>	<i>+2.4</i>	<i>+1.9</i>	<i>-20.8%</i>

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(1) Excluding depreciation and non-cash share-based payments

# STABLE SHAREHOLDER STRUCTURE SINCE IPO

## SHAREHOLDER STRUCTURE



<sup>1</sup> Founder and Member of the Supervisory Board

<sup>2</sup> Founder and CEO

Status quo: 31/07/2010