Quarterly Report I/2012

REVENUES: **116.0** million euros

EBITDA: **17.5** million euros

FREE CASH FLOW: **5.8** million euros

QSC AG

Key Data

All amounts in € million	01/01/–31/03/ 2012	01/01/–31/03/ 2011
Revenues	116.0	105.1
EBITDA	17.5	20.5
Depreciation/amortization[1]	13.5	12.4
EBIT	4.0	8.1
Net profit	2.3	6.5
Earnings per share[2] (in €)	0.02	0.05
Return on revenue (in percent)	2.0	6.2
EBITDA margin (in percent)	15.1	19.5
EBIT margin (in percent)	3.4	7.7
Free cash flow	5.8	21.9
Capital expenditures	8.7	6.4
Capex ratio[3] (in percent)	7.5	6.1
Equity	209.8[4]	207.3[5]
Long-term liabilities	49.8[4]	54.7[5]
Short-term liabilities	130.1[4]	129.3[5]
Balance sheet total	389.6[4]	391.3[5]
Equity ratio (in percent)	53.9	53.0
Xetra closing price as of 31/03/ (in €)	2.17	2.66
Number of shares as of 31/03/	137,306,877	137,180,389
Market capitalization as of 31/03/	298.0	364.9
Employees as of 31/03/	1,366	656

[1] including non-cash share-based payments

[2] basic and diluted

[3] ratio of capital expenditures to revenues

[4] as of March 31, 2012

[5] as of December 31, 2011

Highlights

QSC wins a host of customers in Direct Sales
During the first quarter of 2012, the QSC Group grew its revenues in Direct Sales by 78 percent to € 42.1 million as a result of the consolidation, and was able to win a large number of new customers. QSC signed a framework agreement with hearing aid market leader KIND Hörgeräte, for example, and is equipping KIND's more than 600 locations with cutting-edge fixed-network and mobile technology. And Olympus Europe Holding inked a contract to outsource its European-wide IT infrastructure; the agreement has a term of five years and a volume of some € 27 million.

Group to operate an Open-Access-capable fiber optic network
In the future, the QSC Group will assume the operation of a modern fiber optic network for the Stadtwerke Herne public utility company. The agreement, which was signed in February, covers operation of the network, including linking it with the QSC backbone, the satellite TV signal feed, as well as end-customer support. With its own Next Generation Network, QSC is additionally able to link the fiber optic network with networks that incorporate other technologies, thus assuring Open Access.

New high-performance data center in Munich
On March 1, the QSC Group opened one of southern Germany's most modern and energy-efficient data centers on 5,000 square meters of floor space in Munich. It offers all data center services, from leasing space to Hosting right through to Managed Services.

New products showcased at CeBIT 2012
In early March, more than 30 staffers from the QSC Group presented its entire ICT portfolio of products, solutions and services at CeBIT. The focus was on showing what the working world of the future will look like. In addition, the company debuted cospace, its first completely self-developed Cloud product. It contains such functionalities as a local telephone number, voice mail and extensive options for conducting conference calls efficiently and transparently; moreover, even the entry-level version offers 2 gigabytes of storage capability.

Advances in the integration process
On March 20, the management board of INFO AG signed a merger agreement with a wholly-owned QSC subsidiary. The next step will be for the INFO AG annual shareholders meeting on May 24 to adopt a transfer resolution, which will enable it to squeeze out the remaining INFO shareholders. The merger process is scheduled to be concluded by the end of October 2012.

Dear Shareholders,

Following a six-year hiatus, QSC was again present with its own booth in March 2012 at CeBIT in Hanover, the leading tradeshow of the European ICT industry. This presence was a success in a variety of respects. Our comprehensive presentation of the "Working World of the Future," at the tradeshow booth sparked any number of talks with potential customers and marketing partners. At the same time, the presentations of such innovations as the cospace communications platform met with keen interest on the part of new and existing customers; cospace is our first entirely self-developed Cloud service.

Internally, collaboration across corporate borders and locations is a focal point this year. Teams are systematically exploring whether and in what form existing customers could benefit from additional products and services. Colleagues from the "old" QSC and from INFO AG are working hand in hand in conjunction with requests for proposals in order to identify the best ICT solution for the customer. And the effort is paying off: We have already been able to prevail against competition from internationally operating corporate groups this year in connection with several larger mid-size enterprises. However the existing structure of the QSC Group, and here the fact that INFO AG is still being publicly traded, is posing a burden on unbridled collaboration. We expect to be able to operate with greater freedom beginning this autumn, by which time the ongoing merger process is expected to be concluded.

The Management Board views fiscal year 2012 as a year of preparation

Against this backdrop, too, we are terming 2012 as being a year of preparation in order to achieve the full strength and power of the QSC Group. And the preparations relate not only to Sales and Marketing. At the same time, we are also working to put the know-how that exists within the Group to use for innovative products and solutions. A first example of this is our new, modularly structured QSC-Housing product that offers enterprises a broad range of data center services – from pure space rental right through to a Private Cloud. QSC-Housing stems from Direct Sales' long years of experience with Housing solutions, and in its present form makes for a very good fit with Indirect Sales' portfolio of services.

Experience has shown that it takes several quarters before these kinds of new ICT products can manifest themselves in the form of revenue and profitability growth. At the same time, revenues in conventional TC business are decreasing from quarter to quarter; however our transformation process into an ICT provider is scheduled to be largely concluded by year-end. So 2012 is thus also a year of preparation with a view to our economic metrics. However winning new customers and marketing partners, launching new products, as well as our successful CeBIT experience are strengthening our conviction that we have thus laid a good foundation for rising revenues, stronger profitability and a better financial position in the years to follow.

Investors are carefully monitoring these ongoing preparations. However many are waiting to buy QSC shares until this progress can be seen in the form of rising revenues and profitability. Yet this hesitation, alone, does not explain the trend of trading prices in recent weeks. On the contrary, the transfer of some 25.2 million QSC shares to the investors in a fund operated by our largest shareholder of long years' standing, Baker Capital, in mid-March significantly burdened trading prices. This is because in the weeks that followed many of these U.S. investors sold off shares that they view as a German small-cap stock.

Both for you, fellow shareholders, and for us, the most recent share price performance has been disappointing. We are going to do everything in our power to do an even better job in the coming months of showing just much potential our strategy offers and just how much revenue and profitability growth this will spark following our year of preparation in 2012. Our highly ambitious goals are in place: By 2016, we want to grow our revenues to between € 800 million and € 1 billion, improve our EBITDA margin to 25 percent and increase free cash flow to between € 120 and € 150 million.

Cologne, May 2012

Dr. Bernd Schlobohm Chief Executive Officer	Jürgen Hermann	Arnold Stender	Thomas Stoek

QSC Share Performance

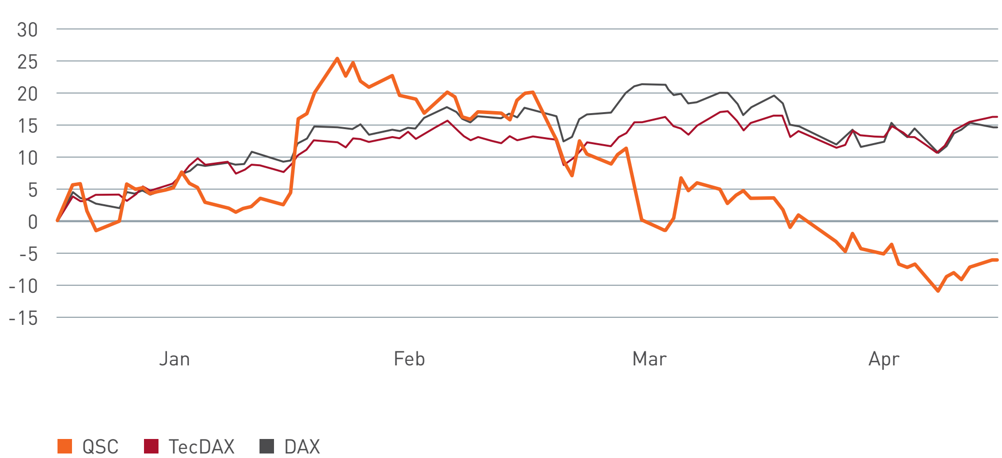
Modest capital market recovery • On the heels of often dramatic trading price plunges and high stock market volatility in 2011, the German capital market developed on a friendlier note during the first quarter of 2012. The DAX advanced by 18 percent, the TecDAX rose by 15 percent. However, activities on the part of many investors continued to be characterized by a high level of nervousness, resulting in considerable trading price swings in the wake of the latest news.

After a disappointing stock market year in 2011, QSC shares, too, began the new year with sharp trading price gains, rising by 25 percent from € 2.09 at year-end 2011 by well into February 2012. In March, U.S.-based investment company Baker Capital notified QSC that it had transferred the some 25.2 million QSC shares that it still held to the investors in its fund, which has been in existence for far more than ten years. These investors are U.S.-based institutional investors and Family Offices. As a result, many of them sold off shares of what they considered to be a German small-cap stock, thus putting QSC trading prices under pressure.

Distribution of the Baker Capital shares burdens trading prices

During the first few days following the transfer, numerous European institutional addresses utilized the opportunity to buy QSC shares at lower trading prices, sparking an unusually high trading volume of 7 million or more shares per day; the trading price at the close of the quarter stood at € 2.17. Yet even in the ensuing weeks, there continued to be an oversupply of these shares in a weak capital market environment, with trading prices declining to € 1.96 as of April 30.

SHARE PRICE PERFORMANCE (indexed)

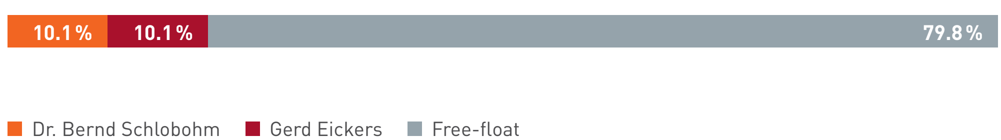


The trading volumes document the keen interest on the part of investors: Nearly 800,000 shares changed hands on average each day in the first quarter of 2012. Trading revenues with QSC shares on all German stock exchanges totaled € 115 million during the first three months of the year.

Free-float up significantly • The transfer of Baker Capital's shares led to a significant rise in the free-float in mid-March 2012: Following that transaction, this metric now stands at 79.8 percent. QSC's two largest shareholders are now its two founders, Dr. Bernd Schlobohm and Gerd Eickers, each of whom holds 10.1 percent of the shares, and neither of whom has ever sold a single share since the Company went public. The weighting of institutional investors within the free-float rose significantly during the first quarter of 2012: According to the Register of Shares, as of March 31 they held 63 percent of all freely available shares, compared to 55 percent as of December 31, 2011. 37 percent of the free-float is in the hands of private investors.

Rising percentage of institutional investors

SHAREHOLDER STRUCTURE AS OF MARCH 31, 2012



Seven analysts recommend QSC as a Buy • At the analyst conference in Frankfurt on March 5, 2012, in addition to the provisional 2011 annual financial statements the Management Board also presented an outlook for the current fiscal year. Most analysts then updated their assessments. This year, there are now seven Buy recommendations, two Sell recommendations, as well as three neutral opinions.

Consolidated Interim Report QI/2012

GENERAL ECONOMIC CONDITIONS

Brighter economic prospects • The leading German economic research institutes are convinced that the risk of a recession is declining in Germany. In their spring expertise, they raised their growth forecast for the current year to 0.9 percent, in spite of the persistent euro crisis, and they are predicting at least a modest rise in gross domestic product for each quarter. However the economy is developing on a lackluster note by comparison with economic growth of 3.0 percent as in the year before.

GDP DEVELOPMENT IN GERMANY

ICT market developing better than the overall economy • At the CeBIT tradeshow in early March 2012, high-tech association BITKOM announced an updated forecast on the development of the ICT market in Germany: It calls for total ICT revenues to rise by 1.6 percent to € 151.0 billion in 2012. IT revenues with hardware, software and services, such as Outsourcing and Consulting, are growing faster at 3.1 percent; TC revenues, on the other hand, are predicted to increase by a mere 0.6 percent. And the BITKOM forecast calls for fixed-network revenues to decrease by another 7.0 percent.

Fixed-network revenues decline by 7 percent

ICT MARKET IN GERMANY (value in € billion)

BITKOM documented the sometimes extreme growth dynamic in the IT market in a further study. It calls for Cloud Computing revenues in Germany to advance by 47 percent to € 5.3 billion in 2012. More than half of these revenues are attributable to enterprise customers, the core business of the QSC Group. According to "Cloud Monitor 2012," nearly one quarter of all commercial operations in Germany are now utilizing at least individual aspects of Cloud Computing.

CLOUD COMPUTING MARKET IN GERMANY (value in € billion)

COURSE OF BUSINESS

Increasing Group-wide collaboration • The QSC Group sustained its transformation process during the first quarter of 2012, in particular driving collaboration with subsidiaries INFO AG and INFO Holding, formerly IP Partner. Teams made up of members from the various companies are now jointly addressing customers in connection with more and more requests for proposals, and are utilizing the typical characteristics of a mid-size player – flexibility, quality and communication at eye level – to score points in competing against such corporate giants as Deutsche Telekom, IBM and Vodafone. QSC anticipates that this heightened collaboration will begin to pay off in the form of corresponding Direct Sales revenues from the second half of the year onward.

QSC winning any number of new distribution partners

Indirect Sales focused on broadening its partner network during the past quarter, and has been able to win any number of new IT systems houses and regional IT service providers. In this connection, the business unit is benefiting from the steady expansion of QSC's portfolio of products, solutions and services. In late February, for example, the Company showcased its first completely self-developed Cloud product, cospace. This communications platform enables voice messages, documents and conference calls to be better organized and shared with other users.

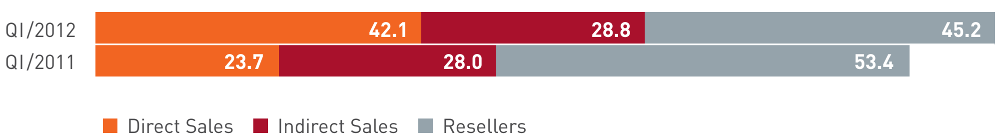
There was a continued decline in conventional TC revenues in business with resellers during the first quarter of 2012. However in spite of considerable revenue shortfalls, especially in Wholesale ADSL2+ business, the QSC Group succeeded in raising its revenues by 10 percent to € 116.0 million. The Company thus began the 2012 fiscal year as planned.

PROFITABILITY

Progress in the transformation process • During the first quarter of 2012, the QSC Group generated revenues of € 116.0 million, compared to € 105.1 million for the same quarter the year before. Even higher growth was prevented, on the one hand, by the fact that Consulting business, in particular, traditionally sees relatively weak revenues during the first quarter of the year. On the other, lower termination fees under regulatory rules resulted in a revenue shortfall of some 3 million euros.

The differing development of the three business units demonstrates the sustained progress that is being made in the Company's transformation process into an ICT provider: Revenues in the Resellers Business Unit, which consist largely of conventional TC revenues, decreased by 15 percent to € 45.2 million during the first quarter of 2012; ICT revenues in Direct Sales, on the other hand, rose by 78 percent to € 42.1 million as a result of the consolidation; QSC had acquired the majority interest in INFO AG on May 2, 2011. Revenues in the third business unit, Indirect Sales, totaled € 28.8 million, compared to € 28.0 million for the same quarter one year earlier.

REVENUE MIX (in € million)



New cost structure in the QSC Group • Cost of revenues rose to € 78.1 million in the first quarter of 2012, compared to € 68.1 million for the corresponding quarter the year before. It should be noted in this connection that a major share of the costs of INFO AG for its Outsourcing and personnel-intensive Consulting business is presented under this line item and that this subsidiary is steadily expanding its workforce with a view to the rising level of new orders. Given the scarcity of skilled professionals, this QSC subsidiary is being forced to additionally utilize external consultants, whose costs impact the margin situation. Given this backdrop, gross margin declined to 33 percent in the first quarter of 2012, by comparison with 35 percent for the same quarter the year before.

The inclusion of INFO AG in the consolidated interim financial statements is also impacting the other cost line items. Sales and marketing expenses increased to € 11.8 million in the first quarter of 2012, compared to € 10.1 million for the corresponding quarter one year earlier. They continued to account for 10 percent of total revenues. General and administrative expenses rose from € 6.2 million in the first quarter of 2011 to € 8.8 million, as QSC is now operating two fully functional headquarters of companies that are traded on the capital market following the acquisition of INFO AG. Another aspect that should be noted in connection with all cost line items is the fact that increasing cross-locational collaboration within the QSC Group is currently resulting in additional expenses on the order of 1 to 2 million euros a quarter. These costs are incurred for travel, for example, for the integration of IT systems, as well as for external consulting costs within the context of the planned merger.

€ 1 to € 2 million in integration costs per quarter

EBITDA amounts to € 17.5 million • Temporarily higher operating costs and lower revenues by comparison with preceding quarters pushed EBITDA down to € 17.5 million in the first quarter of 2012, compared to € 20.5 million for the same quarter one year earlier; at 15 percent, the EBITDA margin was down 5 percentage points from the previous year's level. EBITDA is defined as earnings before interest, taxes, amortization of deferred non-cash share-based compensation, as well as depreciation and amortization of property, plant and equipment, and intangible assets.

EBITDA (in € million)

Depreciation expense rose to € 13.5 million during the past quarter, compared to € 12.4 million for the same quarter the year before; this, too, was attributable to the inclusion of INFO AG in the consolidated interim financial statements. As a result, operating profit, EBIT, declined to € 4.0 million in the first quarter of 2012, in contrast to € 8.1 million for the corresponding quarter one year earlier. The higher level of financial debt as a result of the consolidation increased the financial loss from € -0.3 million to € -0.9 million.

Consolidated net profit stands at € 2.3 million • During the first quarter of the current fiscal year, consolidated net profit amounted to € 2.3 million, compared to € 6.5 million for the same quarter the year before. On the one hand, this decrease stemmed from the higher costs in connection with consolidation of the new subsidiaries and increased collaboration within the QSC Group. On the other, revenues in conventional TC business continued to decline, which means that, as planned, the QSC Group generated lower revenues in the first quarter of 2012 than in the preceding quarters.

CONSOLIDATED NET PROFIT (in € million)

PROFITABILITY BY SEGMENT

Direct Sales seeing significant growth • The acquisition of INFO AG is significantly strengthening the Direct Sales segment. As a result of the consolidation, revenues here were up by 78 percent to € 42.1 million in the first quarter of 2012, compared to € 23.7 million for the same quarter one year earlier.

REVENUES, DIRECT SALES (in € million)

New data center opened at the Munich location

The growth potential in this business unit is documented by numerous new customer wins, as well as by the opening of a further high-performance data center at the Munich location during the past quarter. On 5,000 square meters of floor space, the QSC Group now offers the entire range of services – from pure space rental to Hosting right through to Managed Services – in one of southern Germany's most modern and energy-efficient data centers.

During the first quarter of 2012, Direct Sales won numerous new customers, including KIND Hörgeräte, the market leader in hearing aids, as well as Olympus Europe Holding. Moreover, the QSC Group successfully sustained its strategy of specifically addressing small and mid-size providers in individual industries, such as the gas and energy sectors.

Good development makes workforce expansion necessary

Direct Sales earns EBITDA of € 4.7 million • The QSC Group is currently expanding its workforce in Direct Sales, and is additionally utilizing external consultants in response to the high level of new orders and numerous requests for proposals. Moreover, this business unit bears all of the sales, marketing, general and administrative expenses of INFO AG. Another general aspect that should be noted is that personnel-intensive Consulting business operates at lower margins than other lines of business in the QSC Group.
Against this backdrop and as a result of temporarily weaker revenues, segment EBITDA of € 4.7 million fell short of the € 7.8 million level of the especially profitable corresponding quarter the year before. Since this business unit also bears a considerable share, € 5.5 million, of depreciation expense, segment EBIT amounted to only € -0.8 million, in contrast to € 4.8 million in the first quarter of 2011.

EBITDA, DIRECT SALES (in € million)

Winning new partners in Indirect Sales • Revenues in the Indirect Sales Business Unit rose to € 28.8 million during the past quarter, compared to € 28.0 million for the corresponding quarter the year before. There was a modest rise in demand on the part of existing ICT marketing partners for broadband DSL lines, the corresponding preliminaries, as well as IP-based voice services. At the same time the QSC Group broadened its IT partner network, as announced, and by the end of March 2012 had already won more than one third of the total of some 50 new marketing partners planned for 2012. However it will take some time until these new partners begin generating revenues with QSC products and services: The systems houses and regional IT specialists first have to integrate QSC's offerings into their portfolios and train their staff.

REVENUES, INDIRECT SALES (in € million)

Profitability up sharply in partner business • The QSC Group is continuing to industrialize processes in Indirect Sales during the current fiscal year. Moreover, the Company is utilizing the opportunities that are offered by its Next Generation Network to earn reasonable margins with voice services, as well. Consequently, segment EBITDA improved to € 8.4 million in the first quarter of 2012, compared to € 4.7 million for the same quarter one year earlier; segment EBIT rose from € 1.7 million in the first quarter of 2011 to € 5.6 million.

EBITDA, INDIRECT SALES (in € million)

Reseller revenues decline • At € 45.2 million, revenues in the Resellers segment during the first quarter of 2012 were down sharply from € 53.4 million for the corresponding quarter one year earlier. As expected, this decline was essentially attributable to lower revenues in Wholesale ADSL2+ business. At € 16.2 million, they were down 21 percent from the previous year's corresponding period. As a result, there was also a reduction in the level of voice revenues that are generated over these DSL lines.

QSC wins a further customer with Open Access

One of the ways the Resellers Business Unit is tapping into new revenue potential for the coming years is through step-by-step expansion of Open Access business. During the first quarter of 2012, QSC won a further customer, the Stadtwerke Herne public utility; in the future, the Company will be operating a modern fiber optic network in this city in the Ruhr area.

REVENUES, RESELLERS (in € million)

Price competition burdening profitability • Lower revenues year on year and sustained stiff price competition in conventional TC business led to a decline in profitability in the first quarter of 2012. At € 4.4 million, compared to € 8.0 million the year before, segment EBITDA clearly fell short of the previous year's level, as did segment EBIT, which stood at € -0.7 million for the past quarter, in contrast to € 1.6 million one year earlier.

EBITDA, RESELLERS (in € million)

FINANCIAL POSITION AND NET WORTH

Operating cash flow stands at € 13.1 million • In the first quarter of the current fiscal year, QSC generated € 13.1 million in cash flow from operating activities, compared to € 27.4 million for the corresponding quarter the year before; that was the last time that this metric had been impacted by payments from the former co-owner of network operating company Plusnet for premature termination of the contract that had originally been set to run through year-end 2013.
Cash flow used in investing activities amounted to € 6.1 million in the first quarter of 2012, compared to € 19.5 million for the same quarter one year earlier, when QSC had paid the first tranche of the purchase price for the acquisition of IP Partner following deduction of the liquid assets in the amount of € 14.0 million that had been acquired along with the company. Cash flow used in financing activities amounted to € -1.8 million in the first quarter of 2012, compared to € -12.4 million the year before; QSC had redeemed loans totaling € 9.6 million in the first quarter of 2011.

Free cash flow of € 5.8 million • In the first quarter of 2012, the QSC Group generated a free cash flow of € 5.8 million. This central steering metric reflects the change in net liquidity/debt prior to acquisitions and distributions. The following table shows all parameters as of March 31, 2012, and December 31, 2011:

in € million	March 31, 2012	Dec. 31, 2011
Liquidity		
Cash and cash equivalents	29.0	23.8
Available-for-sale assets	0.3	0.3
Liquidity	29.3	24.1
Interest-bearing liabilities		
Liabilities under financing arrangements	(12.4)	(13.6)
Liabilities due to banks	(44.2)	(43.6)
Interest-bearing liabilities	(56.6)	(57.2)
Net liquidity/debt	(27.3)	(33.1)

Accordingly, liquidity improved by € 5.2 million in the first quarter of 2012. Interest-bearing liabilities were reduced by € 0.6 million, which produced a € 5.8 million decline in net indebtedness to € -27.3 million as of March 31, 2012.

Liquidity up by
€ 5.2 million
in first quarter

Moderate debt • Long-term liabilities decreased to € 49.8 million as of March 31, 2012, by comparison with € 54.7 million as of December 31, 2011. This decline was essentially attributable to the reduction of the entire deferral line item to € 16.7 million, compared to € 20.9 million as of December 31, 2011. QSC utilizes this line item, in particular, to accrue TELE2's payment for premature termination of the Plusnet contract prior to the end of its original term on December 31, 2013. At € 130.1 million, short-term liabilities remained virtually unchanged from their level of € 129.3 million as of December 31, 2011. While trade payables rose from € 46.6 million at year-end 2011 to € 51.4 million as of March 31, 2012, other current liabilities decreased to € 11.9 million during the same period, compared to € 14.4 million one year earlier. Moreover, short-term liabilities under financing arrangements declined by € 1.0 million to € 5.7 million as of March 31, 2012.

Equity ratio of 54 percent • Consolidated net profit increased shareholders' equity moderately to € 209.8 million as of March 31, 2012, compared to € 207.3 million as of December 31, 2011. This improved the equity ratio to 54 percent, compared to 53 percent at year-end 2011.

EQUITY RATIO

Capex ratio of 8 percent • Capital expenditures (capex) increased to € 8.7 million in the first quarter of 2012, by comparison with € 6.4 million for the same quarter one year earlier. This rise was attributable on the one hand to the inclusion of INFO AG in these consolidated interim financial statements, and on the other to successes in project business in Direct Sales, as connecting a new customer typically involves capital expenses. Plus final capital investments during the first quarter of 2012 in the new data center in the Munich location. In spite of an increase totaling € 2.3 million, at 8 percent, compared to 6 percent for the corresponding quarter the year before, the share of the total revenues of the QSC Group accounted for by capital expenditures remained moderate.

CAPITAL EXPENDITURES (in € million)

Long-term assets dominate • As a result of continued depreciation, the value of long-term assets declined to € 286.1 million as of March 31, 2012, compared to € 291.4 million as of December 31, 2011. The value of property, plant and equipment decreased by € 1.3 million to € 115.4 million; the value of intangible assets was reduced by € 2.9 million to € 53.4 million; this line item is where the QSC Group records capital expenses for customer connections, among other things. Short-term assets rose to € 103.6 million in the first quarter of 2012, by contrast to € 99.8 million as of December 31, 2011. In this connection, advance payments rose from € 4.5 million at year-end 2011 to € 10.7 million, as QSC has to make considerable advance payments at the beginning of each year for full-year utilization of Deutsche Telekom's infrastructure.

HUMAN RESOURCES

Steadily expanding the workforce • On March 31, 2012, the QSC Group employed a total of 1,366 people, 32 more than at year-end 2011. This increase resulted first and foremost from the recruitment of further IT Outsourcing and IT Consulting specialists by INFO AG, whose workforce stood at 681 people as of March 31, 2012. At QSC AG, the workforce on this date totaled 550, at network operating company Plusnet 61, and at INFO Holding, formerly IP Partner, 74.

Further IT Outsourcing and IT Consulting experts being recruited

WORKFORCE

RISK REPORT

No major change in risk position • During the first quarter of 2012, there were no major changes in the risks portrayed in the 2011 Annual Report. Nevertheless, due to these or other risks and incorrect assumptions, QSC's actual future results could vary materially from its expectations. All statements contained in this unaudited Consolidated Interim Report that are not historical facts are forward-looking statements. They are based upon current expectations and predictions of future events and could therefore change over the course of time.

SUBSEQUENT EVENTS

The Company is not aware of any reportable events of particular importance subsequent to the close of the quarter.

OUTLOOK REPORT

QSC reiterates guidance for full 2012 fiscal year • The QSC Group began the current fiscal year as planned. The Company is therefore reiterating the guidance for the full 2012 fiscal year that it announced in early March: QSC thus anticipates revenues of between € 480 and € 510 million and an EBITDA margin of at least 16 percent. Moreover, the Company is planning a free cash flow of between € 22 and € 32 million.

REVENUES (in € million)

* planned

Merger agreement with INFO AG • The QSC Group views fiscal 2012 as a year of preparation in order to attain its full strength and power. One central issue is the integration of INFO AG. On March 20, 2012, the management board of INFO AG signed an agreement to merge with wholly-owned QSC subsidiary INFO Holding, formerly IP Partner. The next step will be for the management board to propose that the annual shareholders meeting of INFO AG on May 24, 2012, resolve the transfer of any outstanding INFO AG shares to INFO Holding in return for an appropriate cash settlement. The QSC Group intends to conclude the entire merger process by the end of October.

Increased collaboration bringing successes • Successes in new customer business in recent months suggest just how much potential can be opened up through unbridled collaboration within the QSC Group. In spite of the pending merger, QSC therefore anticipates that growth in the Direct Sales Business Unit will outpace the market in fiscal 2012. While revenues in Indirect Sales are likely to remain stable, the decline in ADSL2+ business, in particular, will lead to decreasing revenues in the Resellers Business Unit. This means that Direct Sales is likely to advance to become the QSC Group's revenue-leading business unit during the course of fiscal 2012 – visibly documenting the success of the transformation process. QSC intends to largely conclude its evolution into an ICT provider by year-end 2012.

Transformation process to be largely concluded in the current fiscal year

QSC striving to continue dividends in subsequent years • Because the business units are developing differently, the cost structure of the QSC Group is changing. The high-growth Direct Sales Business Unit is relatively personnel-intensive and has to additionally utilize external consultants in order to cope with the high level of new orders; both of these factors raise cost of revenues. Plus the costs of increased collaboration within the Group, which amount to between 1 and 2 million euros each quarter.
In this situation, the Company's proven cost discipline is playing a decisive role in enabling the QSC Group to nevertheless increase its EBITDA margin during the course of the year from the baseline of 15 percent in the first quarter of 2012. An EBITDA margin of at least 16 percent is anticipated for the full 2012 fiscal year.
The profitability of the Group's operating business is a good basis for being able to again pay a dividend for the current fiscal year. The Management Board is striving to distribute a dividend of at least € 0.08 for fiscal 2012 and subsequent years.

Net indebtedness declines • During the first quarter of 2012, the QSC Group reduced its net indebtedness by 18 percent to € 27.3 million, in spite of higher capital expenditures. With a view to this and a € 150 million line of credit that has only been partially utilized, the Company sees itself as being very soundly financed for the coming quarters. The planned capital investments will be able to be financed from within, with the Company striving for a capex ratio of between 6 and 10 percent of revenues.
In the second quarter, the distribution of the Company's first dividend will result in a cash burn in the amount of € 11.0 million. In addition, the fourth quarter of 2012 will likely see an acquisition-related cash burn of € 5.7 million if the cash settlement to the outstanding shareholders of INFO AG goes smoothly.

Planned investments will be able to be financed from within

Stronger economy puts wind in QSC's sails • In contrast to the situation at the outset of the year, there are now signs that Germany will be spared a recession. Some economic researchers are already raising their growth forecasts for the current year. The QSC Group might be able to especially benefit from this economic recovery if small and mid-size enterprises put aside their hesitation and increasingly invest in modern ICT solutions, for example.
In this connection, it is becoming increasingly clear to see that Cloud Computing will be fundamentally changing the environment in the ICT market in the years to come. At CeBIT 2012, industry association BITKOM announced an updated forecast calling for Cloud revenues in Germany to more than triple – from € 5.3 billion for the current year to € 17.1 billion by 2016. The QSC Group has positioned itself in this market early on and is presently in the process of systematically expanding its Cloud portfolio.

Consolidated Interim Financial Statements

CONSOLIDATED STATEMENT OF INCOME (unaudited)

Euro amounts in thousands (K€)

	01/01/–31/03/ 2012	01/01/–31/03/ 2011
Net revenues	116,031	105,080
Cost of revenues	(78,075)	(68,136)
Gross profit	**37,956**	**36,944**
Sales and marketing expenses	(11,750)	(10,136)
General and administrative expenses	(8,806)	(6,223)
Depreciation and non-cash share-based payments	(13,482)	(12,401)
Other operating income	234	89
Other operating expenses	(114)	(204)
Operating profit	**4,038**	**8,069**
Financial income	146	87
Financial expenses	(1,028)	(352)
Net profit before income tax	**3,156**	**7,804**
Income tax	(863)	(1,331)
Net profit	2,293	6,473
thereof attributable to non-controlling interests	(16)	-
thereof attributable to owners of QSC AG	2,309	6,473
Earnings per share (basic) in €	**0.02**	**0.05**
Earnings per share (diluted) in €	**0.02**	**0.05**

CONSOLIDATED BALANCE SHEET (unaudited)

Euro amounts in thousands (K€)

	Mar. 31, 2012	Dec. 31, 2011
ASSETS		
Long-term assets		
Property, plant and equipment	115,438	116,740
Land and buildings	27,688	28,313
Goodwill	76,265	76,265
Other intangible assets	53,363	56,289
Trade receivables	3,166	3,622
Prepayments	1,708	1,718
Other long-term assets	498	518
Deferred tax assets	7,961	7,961
Long-term assets	**286,087**	**291,426**
Short-term assets		
Trade receivables	57,655	65,705
Prepayments	10,707	4,526
Inventories	1,898	1,563
Other short-term assets	3,995	3,944
Available-for-sale financial assets	342	341
Cash and short-term deposits	28,963	23,755
Short-term assets	**103,560**	**99,834**
TOTAL ASSETS	389,647	391,260

	Mar. 31, 2012	Dec. 31, 2011
SHAREHOLDERS' EQUITY AND LIABILITIES		
Shareholders' equity		
Equity attributable to owners of QSC AG		
Capital stock	137,307	137,257
Capital surplus	140,218	140,095
Other capital reserves	(361)	(362)
Accumulated deficit	(69,760)	(72,069)
Equity attributable to owners of QSC AG	**207,404**	**204,921**
Equity attributable to non-controlling interests	2,362	2,378
Shareholders' equity	**209,766**	**207,299**
Liabilities		
Long-term liabilities		
Long-term liabilities under financing arrangements	6,746	6,879
Liabilities due to banks	15,053	15,404
Convertible bonds	15	15
Accrued pensions	5,358	5,339
Other provisions	1,051	1,036
Deferred income	16,655	20,914
Deferred tax liabilities	4,923	5,065
Long-term liabilities	**49,801**	**54,652**
Short-term liabilities		
Trade payables	51,386	46,617
Short-term liabilities under financing arrangements	5,672	6,698
Liabilities due to banks	29,142	28,181
Other provisions	2,381	2,879
Accrued taxes	5,826	5,764
Deferred income	23,761	24,781
Other short-term liabilities	11,912	14,389
Short-term liabilities	**130,080**	**129,309**
Liabilities	**179,881**	**183,961**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	389,647	391,260

CONSOLIDATED STATEMENT OF CASH FLOWS (unaudited)

Euro amounts in thousands (K€)

	01/01/ – 31/03/ 2012	01/01/ – 31/03/ 2011
Cash flow from operating activities		
Net profit before income taxes	3,156	7,804
Depreciation and amortization of fixed assets	13,368	12,376
Non-cash share-based payments	115	37
Loss from disposal of long-term assets	183	67
Changes in provisions	(1,408)	216
Changes in receivables from former shareholders	-	28,358
Changes in trade receivables	8,506	5,941
Changes in trade payables	3,468	(5,572)
Changes in other assets and liabilities	(14,294)	(21,782)
Cash flow from operating activities	**13,094**	**27,445**
Cash flow from investing activities		
Purchase from acquisition of subsidiary less liquid assets acquired	-	(14,012)
Purchase of intangible assets	(2,284)	(3,115)
Purchase of property, plant and equipment	(3,767)	(2,410)
Cash flow from investing activities	**(6,051)**	**(19,537)**
Cash flow from financing activities		
Redemption of convertible bonds	-	(1)
Proceeds from issuance of common stock	58	105
Repayment of other short- and long-term liabilities	-	(576)
Proceeds (Repayment) of loans granted	610	(9,592)
Repayment of liabilities under financing arrangements	(2,503)	(2,287)
Cash flow from financing activities	**(1,835)**	**(12,351)**
Change in cash and short-term deposits	**5,208**	**(4,443)**
Change in cash and short-term deposits as of January 1	23,755	46,233
Cash and short-term deposits as of March 31	**28,963**	**41,790**
Interest paid	1,843	353
Interest received	1,081	87
Income tax paid	820	220

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (unaudited)

Euro amounts in thousands (K€)

	01/01/–31/03/ 2012	01/01/–31/03/ 2011
Other comprehensive income		
Net profit for the period	2,293	6,473
Total comprehensive income for the period	**2,293**	**6,473**
thereof attributable to non controlling interests	(16)	-
thereof attributable to owners of QSC AG	2,309	6,473

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (unaudited)

Euro amounts in thousands (K€)

	Equity attributable to owners of QSC AG				
	Capital stock	Capital surplus	Other capital reserves	Accumulated deficit	Total
Balance as of January 1, 2012	**137,257**	**140,095**	**(362)**	**(72,069)**	**204,921**
Net profit for the period				2,309	2,309
Other comprehensive income for the period, net of tax				1	1
Total comprehensive income			**1**	**2,309**	**2,310**
Conversion of convertible bonds	50	9			59
Non-cash share-based payments		114			114
Balance as of March 31, 2012	**137,307**	**140,218**	**(361)**	**(69,760)**	**207,404**
Balance as of January 1, 2011	**137,128**	**139,593**	**(1,291)**	**(91,382)**	**184,048**
Total comprehensive income				6,473	6,473
Non-cash share-based payments					-
Net profit and total comprehensive income					**6,473**
Conversion of convertible bonds	51	54			105
Non-cash share-based payments		26			26
Balance as of March 31, 2011	**137,179**	**139,673**	**(1,291)**	**(84,909)**	**190,652**

Equity attributable to non-controlling interests	Total share-holders' equity	
2,378	207,299	Balance as of January 1, 2012
(16)	2,293	Net profit for the period
	1	Other comprehensive income for the period, net of tax
(16)	2,294	Total comprehensive income
	59	Conversion of convertible bonds
	114	Non-cash share-based payments
2,362	209,766	Balance as of March 31, 2012
-	184,048	Balance as of January 1, 2011
	6,473	Total comprehensive income
	-	Non-cash share-based payments
-	6,473	Net profit and total comprehensive income
	105	Conversion of convertible bonds
	26	Non-cash share-based payments
-	190,652	Balance as of March 31, 2011

Notes to the Consolidated Interim Financial Statements

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 INFO Gesellschaft für Informationssysteme Holding AG (formerly IP Partner AG), a Housing and Hosting specialist domiciled in Hamburg and having a business address in Nuremberg. The QSC Group numbers among the leading mid-size providers of ICT products, solutions and services in Germany. QSC offers custom 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 whose 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

The unaudited Consolidated Interim Financial Statements of QSC AG and its subsidiaries (Consolidated Interim Financial Statements) have been prepared in accordance with International Financial Reporting Standards (IFRS) and their interpretations by the International Financial Reporting Interpretations Committee (IFRIC) in accordance with International Accounting Standards (IAS) 34, "Interim Financial Reporting." The Consolidated Interim Financial Statements do not include all the information and disclosures required in annual financial statements and should be read in conjunction with the Group's Consolidated Financial Statements as of December 31, 2011. It is the opinion of the Management Board that the Consolidated Interim Financial Statements contain all adaptations that are necessary for a true and fair view of the assets, liabilities, financial position and profit or loss of the Group. The financial results presented in the Consolidated Interim Financial Statements for the period from January 1 through March 31, 2012, do not necessarily indicate the development of future results

Except for the accounting policies described below, the Consolidated Interim Financial Statements have been drawn using the same accounting policies as applied in the Consolidated Financial Statements for the 2011 fiscal year.
In connection with drawing up the consolidated interim financial statements under IFRS, it is necessary to make certain estimates and judgments that relate to the assets and liabilities recorded in the balance sheet as well as to information on contingent receivables and liabilities on the date of the balance sheet. Actual amounts may therefore differ from those estimates. No major changes have been made to the Management Board's estimates in conjunction with the application of accounting and valuation methods relative to the consolidated financial statements for the fiscal year ended December 31, 2011.
The Consolidated Interim Financial Statements are rounded, except when otherwise indicated to the nearest thousand (K€)

2 Basis of consolidation

The Consolidated Interim Financial Statements comprise the financial statements of QSC AG and its subsidiaries as of March 31, 2012. There has been no change in the number of companies included in the consolidation since December 31, 2011

3 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. The internal segmentation was changed in fiscal 2011 following the acquisitions of INFO AG and IP Partner AG. Consequently, the comparison figures in these quarterly financial statements for the first quarter of calendar year 2011 have already been adjusted to reflect the new segmentation. QSC's segmentation conforms to its customer structure, as explained below.
The Direct Sales Business Unit focuses on more than 8,000 larger and mid-size enterprises in Germany and also includes the business of subsidiaries INFO AG and IP Partner, which were acquired in fiscal 2011. 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. For their customers, QSC makes a variety of preliminaries available, 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.

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
01/01/ – 31/03/2012					
Net revenues	**42,063**	**28,814**	**45,154**	**-**	**116,031**
Cost of revenues	(27,195)	(14,876)	(36,004)		(78,075)
Gross profit	**14,868**	**13,938**	**9,150**	**-**	**37,956**
Sales and marketing expenses	(4,976)	(3,627)	(3,147)		(11,750)
General and administrative expenses	(5,135)	(2,170)	(1,501)		(8,806)
Depreciation and amortization	(5,425)	(2,806)	(5,137)		(13,368)
Non-cash share-based payments	(45)	(38)	(31)		(114)
Other operating income	(89)	269	(60)		120
Operating profit	**(802)**	**5,566**	**(726)**	**-**	**4,038**
Assets	181,665	106,879	93,142	7,961	389,647
Liabilities	65,997	26,725	82,236	4,923	179,881
Capital expenditures	5,782	1,896	1,018	-	8,696

in K€	Direct Sales	Indirect Sales	Resellers	Reconciliation	Consolidated
01/01/-31/03/2011					
Net revenues	**23,717**	**27,960**	**53,403**	**-**	**105,080**
Cost of revenues	(10,278)	(17,040)	(40,818)		(68,136)
Gross profit	**13,439**	**10,920**	**12,585**	**-**	**36,944**
Sales and marketing expenses	(3,073)	(4,124)	(2,939)		(10,136)
General and administrative expenses	(2,517)	(2,066)	(1,640)		(6,223)
Depreciation and amortization	(2,963)	(2,995)	(6,418)		(12,376)
Non-cash share-based payments	(7)	(5)	(13)		(25)
Other operating income	(92)	(8)	(15)		(115)
Operating profit	**4,788**	**1,722**	**1,560**	**-**	**8,069**
Assets	93,834	84,438	143,527	8,484	330,283
Liabilities	20,853	17,201	97,206	4,371	139,631
Capital expenditures	2,383	2,118	1,859	-	6,360

4 Related party transactions

During the first three months of 2012, QSC participated in transactions with companies affiliated with members of management. According to IAS 24 related parties are individuals or companies that have the possibility of influencing or even controlling the other party. All contracts with these companies require approval of the Supervisory Board and are concluded under normal market conditions.
IN-telegence GmbH 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.

in K€	Net revenues	Expenses	Cash received	Cash paid
01/01/–31/03/2012				
IN-telegence GmbH	190	10	221	221
Teleport Köln GmbH	9	1	9	9
QS Communication Verwaltungs				
Service GmbH	-	69	-	82
01/01/–31/03/2011				
IN-telegence GmbH & Co. KG	165	9	141	11
Teleport Köln GmbH	5	1	5	2
QS Communication Verwaltungs				
Service GmbH	-	77	-	92

in K€	Trade receivables	Trade payables
As of March 31, 2012		
IN-telegence GmbH	146	-
Teleport Köln GmbH	7	-
As of December 31, 2011		
IN-telegence GmbH & Co. KG	141	-
Teleport Köln GmbH	6	-

5 Management Board

	Shares		Conversion rights	
	Mar. 31, 2012	Mar. 31, 2011	Mar. 31, 2012	Mar. 31, 2011
Dr. Bernd Schlobohm	13,818,372	13,818,372	200,000	300,000
Jürgen Hermann	205,000	161,500	200,000	30,500
Arnold Stender	-	-	25,000	25,000
Thomas Stoek	30,385	-	-	-

6 Supervisory Board

	Shares		Conversion rights	
	Mar. 31, 2012	Mar. 31, 2011	Mar. 31, 2012	Mar. 31, 2011
Herbert Brenke	187,820	187,820	-	-
John C. Baker	203,072	10,000	-	-
Gerd Eickers	13,877,484	13,877,484	-	-
David Ruberg	14,563	14,563	-	-
Klaus-Theo Ernst	500	500	-	-
Jörg Mügge	4,000	4,000	-	6,000

7 Subsequent events

QSC is not aware of any reportable events of particular importance subsequent to the date of the financial statements.

Cologne, May 2012

Dr. Bernd Schlobohm
Chief Executive Officer

Jürgen Hermann

Arnold Stender

Thomas Stoek

Calendar

Annual Shareholders Meeting
May 16, 2012

Quarterly Reports
August 6, 2012
November 5, 2012

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