QSC AG

QUARTERLY REPORT I/2014

QSC IS WORKING.

Key Data

All amounts in € million	01/01/–31/03/ 2014	01/01/–31/03/ 2013
Revenues	109.1	113.0
EBITDA	13.4	18.9
Depreciation / amortization [1]	12.3	12.6
EBIT	1.1	6.3
Net profit	0.3	5.1
Earnings per share [2] (in €)	0.00	0.04
Return on revenue (in %)	0.3	4.5
EBITDA margin (in %)	12.3	16.7
EBIT margin (in %	1.0	5.6
Free cash flow	4.6	5.1
Liquidity	57.9 [4]	59.1 [5]
Capital expenditures (capex)	4.7	9.8
Capex ratio [3] (in %)	4.3	8.7
Equity	194.5 [4]	193.9 [5]
Long-term liabilities	108.3 [4]	103.3 [5]
Short-term liabilities	93.4 [4]	94.9 [5]
Balance sheet total	396.2 [4]	392.0 [5]
Equity ratio (in %)	49.1 [4]	49.5 [5]
Xetra closing price as of 31/03/ (in €)	3.62	2.61
Number of shares as of 31/03/	124,142,487	123,752,653
Market capitalization as of 31/03/	449.4	323.0
Employees as of 31/03/	1,705	1,565

[1] Including non-cash share-based remuneration

[2] Basic and diluted

[3] Ratio of capital expenditures to revenues

[4] As of March 31, 2014

[5] As of December 31, 2013

Highlights

Fiscal 2014 started as planned

In the first quarter of 2014, QSC generated revenues of € 109.1 million, by comparison with € 113.0 million for the same period one year earlier. While ICT business developed on a positive note, TC revenues continued their market- and regulatory-induced decline. As a result of heightened regulation, alone, QSC will lose some € 2 million in revenues each quarter in 2014.

New orders up year on year

The good development of ICT business is underscored by the rise in order bookings to € 27.3 million, as opposed to € 23.6 million in the first quarter of 2013. Especially in ICT Outsourcing, QSC was able to extend existing contracts and sign new contracts with small and mid-size enterprises.

QSC going with innovation

QSC is driving the further expansion of its ICT business through in-house developed products and services. The Cloud-based communications and collaboration service, Cospace, for example, will be deployed at Luxembourg-based mobile provider JOIN Experience during the course of the year; the two companies signed a contract to this effect in April 2014.

Acquisition enhances innovative strength

On February 24, 2014, QSC acquired 51 percent of the shares of Munich-based FTAPI Software GmbH. This company already has a number of products relating to the highly secure transfer and storage of enterprise-critical data, as well as such prominent customers as MAN Roland. QSC is now integrating these products into its own portfolio, and has already presented them to key sales partners in April and May.

Stefan Freyer leaves the Management Board

Stefan Freyer left the Management Board of QSC AG at his own request effective March 31, 2014, in order to devote himself to new professional challenges. Until further notice, his responsibilities are temporarily being assumed by Chief Executive Officer Jürgen Hermann and by Henning Reinecke, the member of the Management Board responsible for sales and marketing activities.

Dear Shareholders,

The first quarter ran as we had anticipated: ICT business continued to increase, while TC business again continued its market- and regulatory-inducted decline. On the profitability side, it was clear to see the effects of higher investments in future fields of growth and the elimination of a deferred income item in the amount of some € 5 million each quarter; until year-end 2013, QSC had been periodically returning the payment received in 2011 in connection with the premature termination of the collaboration with TELE2 in network operating company Plusnet, and recording it as income.

The focus of the current fiscal year consists of investments in future fields of growth, and thus the development of forward-looking ICT products and services. Within the space of twelve months, we have doubled the development budget for this purpose. This means that a greater number of developers can work on innovative Cloud-based products and services and on driving their market introduction together with QSC sales and marketing experts and external partners. A contract signed with Luxembourg-based mobile provider JOIN Experience in April 2014 illustrates the kinds of opportunities this can produce. This provider is integrating our "Cospace" Cloud-based communications and collaboration service, and beginning in the summer of 2014 will be including a complete solution for such issues as telephone conference calls, fax, storage and chat in every mobile or fixed-network contract. Following the rollout in Luxembourg, the solution will also be offered in Belgium beginning in late 2014; expansion into further countries is planned.

QSC broadening Cloud competence every quarter

JOIN views QSC as one of the most innovative players when the need is to enhance Next Generation TC offerings with forward-looking Cloud products. Quarter after quarter, we will be broadening this Cloud competence and addressing – and convincing – both existing customers and new prospects. The interest is enormous – we sensed this both at this year's CeBIT last March in Hanover as well as during our traditional roadshow for sales partners in April and May. At these events, QSC showcased ready-for-market innovations like QSC-WiFi and QSC-tengo, as well as

Jürgen Hermann, Chief Executive Officer,
Barbara Stolz, Henning Reinecke (left to right)

the portfolio of FTAPI, in which we acquired the majority interest in February 2014. This start-up already has a number of products relating to the highly secure transfer of enterprise-critical data, even in the gigabyte range, and offers encryption both as a local software solution as well as a Cloud service. Anyone who knows just how time-consuming and cumbersome it presently is to deal with keys for secure e-mail communication and how difficult it is to send large volumes of data will quickly realize the enormous opportunities that are offered by FTAPI under the QSC umbrella.

FTAPI opening up further growth market for QSC

With FTAPI, QSC is tapping into a further growth market that has an estimated volume of some € 800 million and an annual growth rate of at least 10 percent. At the same time, the FTAPI products broaden QSC's portfolio of products, services and solutions, and are helping to establish our Company even more firmly as the partner of choice when it comes to ICT issues. The better this succeeds, the more likely it is that growth in ICT business will offset declining TC business.

The revenue shortfalls there are the result of fierce pricing competition in conventional voice telephony and, increasingly, in the ADSL2+ market as well. Plus a constant heightening of regulations; this, alone, will "cost" QSC € 8 million in revenues and € 3 million in EBITDA during the current fiscal year. Given these developments, our focus is squarely on expanding ICT business and making targeted investments in future fields of growth. We intend to begin reaping the fruits of this in 2015. And we will naturally enable you to participate in this kind of success – our proposed dividend of € 0.10 per share for fiscal 2013 marks the minimum for the coming years.

Cologne, May 2014

Jürgen Hermann Chief Executive Officer	Barbara Stolz	Henning Reinecke

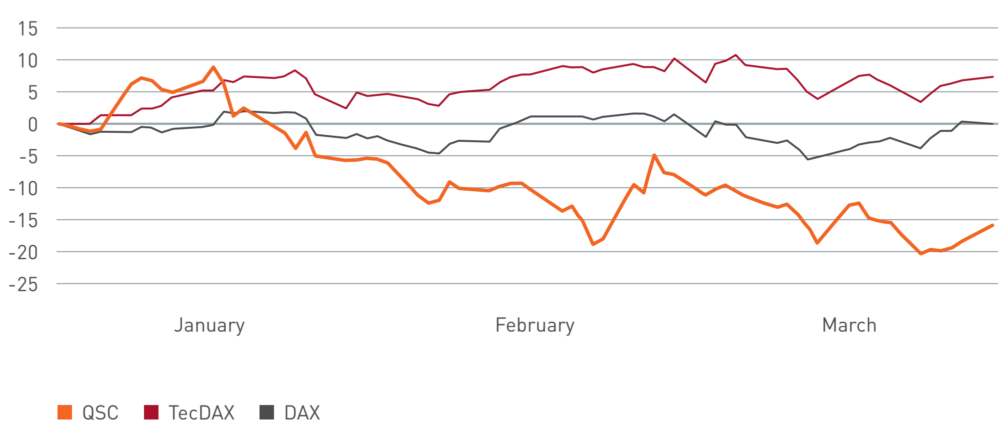
QSC Share Performance

Capital markets off to a nervous start in 2014 • Two issues, first and foremost, sparked uncertainty on the part of investors during the initial months of this year: Discussions about the magnitude of the global upswing and, consequently, the operating development of enterprises as well as potential reactions on the part of the European Central Bank to the possibility of deflation in the euro zone. In view of the extremely low interest rate level, though, the influx of liquidity that had already pushed equity markets to record levels in 2013 was sustained. As a result, in spite of being punctuated by two temporary phases of weakness, the DAX was able to maintain the level it had reached at year-end 2013; closing at 9,556 points on March 31, 2014, it stood four points higher than at the end of December 2013. And even the TecDAX again advanced, by 7 percent, to close at 1,252 points at the end of March 2014.

Profit-taking at QSC • After trading prices for QSC shares had doubled during the course of 2013, profit-taking set in during the first quarter of 2014: The trading price closed at € 3.62 as of March 31, 2014, down 16 percent from its level at year-end 2013. This consolidation of QSC trading prices went hand in hand with extremely lively trading activity: Trading volumes on German stock markets were up by 139 percent from the first quarter of 2013 to € 256.9 million. On average, more than one million QSC shares changed hands each day, more than twice as many as one year earlier.

Trading volume up by 139 percent

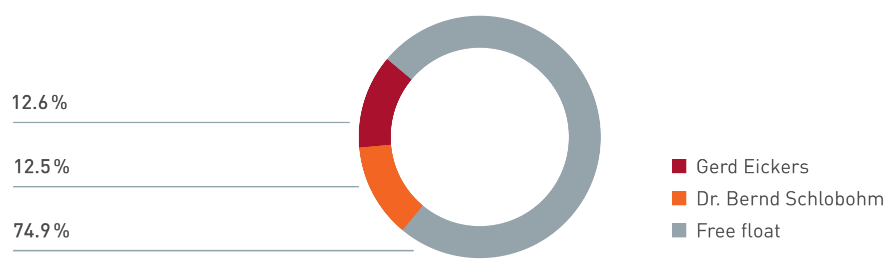
QSC SHARE PRICE PERFORMANCE IN Q1 2014 (indexed)



Founders again buy QSC shares

This lively trading brought with it changes in the shareholder structure. The Register of Shares shows that the total number of shareholders declined to 27,819 as of March 31, 2014, as opposed to 29,345 at year-end 2013. Holding 12.6 percent and 12.5 percent, respectively, the largest shareholders continued to be QSC's two founders, Gerd Eickers and Dr. Bernd Schlobohm, who each acquired 25,000 QSC shares on March 11, 2014. At the end of March 2014, 74.9 percent of QSC shares were widely held. In the first quarter of 2014, the percentage of institutional investors in the free float declined by 2 percentage points to 61 percent. According to information available to QSC, Netherlands-based funds offerer Kempen Capital Management held more than 5 percent of all shares and UK-based J O Hambro Capital Management more than 3 percent.

SHAREHOLDER STRUCTURE AS OF MARCH 31, 2014



Twelve analysts covering QSC • Institutional investors, in particular, utilize the expertise of analysts in making their investment decisions. At the present point in time, 12 financial institutions are regularly publishing studies on QSC. There are presently 4 Buy recommendations as opposed to only 1 Sell recommendation; 7 analysts are ranking it as a Hold.

FINANCIAL INSTITUTIONS THAT PUBLISH STUDIES ON QSC

Bankhaus Lampe	Deutsche Bank	Kepler Cheuvreux
Berenberg Bank	Hauck & Aufhäuser	Landesbank Baden-Württemberg
Close Brothers Seydler Research	Independent Research	Metzler Equities
Commerzbank	JPMorgan Cazenove	Warburg Research

Interim Consolidated Report QI/2014

GENERAL ECONOMIC CONDITIONS

Domestic demand driving upswing in Germany • Following a two-year phase of weakness, the German economy is returning to a growth course in 2014. The spring report by Germany's leading economic institutes is forecasting that gross domestic product will rise by 1.9 percent this year. The economic experts have identified domestic demand as the driving force behind the upswing. And elements of the ICT sector will benefit from this. Overall, though, according to a March 2014 forecast by industry association BITKOM growth in the ICT sector is likely to lag behind the economy as a whole: BITKOM anticipates that revenues will rise by 1.7 percent to € 153.4 billion.

THE GERMAN ICT MARKET (value in € billion)

This hesitant growth is essentially attributable to the weakness of the TC market; according to the forecast, revenues of some € 66 billion will remain virtually unchanged from the year before. In fact, the core business of data and voice services is on the decline. Essentially as a "result of intervention on the part of government regulatory authorities," BITKOM expects to see revenues decrease by 1.3 percent to € 49.6 billion.
The situation is different in the IT market, where BITKOM is predicting that revenues will rise by 2.9 percent to € 76.3 billion; and in the case of IT services, such as Consulting and Outsourcing, revenue growth of 3.2 percent to € 36.5 billion is even possible.

COURSE OF BUSINESS

Two-track development of business • The development of QSC's operating business is paralleling that of the ICT market: Rising revenues with ICT products and services are being offset by market- and regulatory-induced declines in TC revenues. Overall, the Company generated revenues of € 109.1 million in the first quarter of 2014, as opposed to € 113.0 million for the same quarter one year earlier. Revenue shortfalls of some € 2 million stemmed from the German Federal Network Agency's regulatory decrees in November 2013, which decreased EBITDA by nearly € 1 million. TC business was additionally burdened by stiff pricing and shakeout competition, which, in addition to conventional voice telephony, is now increasingly also reaching the ADSL2+ market.

Revenue shortfalls due to heightened regulation

These negative developments impacted the Resellers Business Unit, first and foremost: Revenues here declined to € 26.9 million in the first quarter of 2014, in contrast to € 31.9 million for the same quarter one year earlier. QSC is now generating only one quarter of its total revenues in what used to be the Company's largest business unit.

REVENUES, RESELLERS (in € million)

Growth in ICT business • QSC had launched a transformation process early on with the aim of reducing its dependency upon the regulated and hotly contested TC market, and has since been specifically expanding its ICT business. The successes of this strategy are especially clear to see in Direct Sales, where revenues in the first quarter of 2014 rose by 3 percent year on year to € 52.0 million. At the same time, the Company's largest business unit was able to boost order bookings from new and existing customers by 16 percent to € 27.3 million, thus laying a good foundation for sustained growth in the coming quarters.

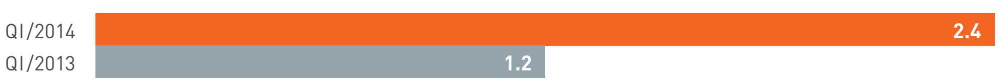
REVENUES, DIRECT SALES (in € million)

The Company's successes in ICT business cannot yet be seen in Indirect Sales, as QSC has traditionally offered its sales partners voice products as well; in the first quarter of 2014, revenues in this line of business declined as a result of market and regulatory effects. Overall, revenues of € 30.1 million in Indirect Sales for the past quarter were therefore down slightly from the previous year's level of € 30.5 million. However, like revenues in the other two business units, it still remains within the planning range.

REVENUES, INDIRECT SALES (in € million)

In view of the Company's higher investments in future growth, the importance of in-house developed ICT products could already increase during the course of the year. Among other things, during the first quarter of 2014 QSC drove the market launch of QSC-WiFi, a Managed Gateway Service. It turns smartphones into intelligent advertising platforms that enterprises can utilize for personalized, secure and interactive marketing measures. At the same time, developers are working on new applications, including those for the solucon Cloud platform, as well as the Cospace Cloud-based communications and collaboration service. The research and development budget doubled to € 2.4 million, in contrast to € 1.2 million in the first quarter of 2013.

RESEARCH AND DEVELOPMENT (in € million)



QSC acquires majority stake in FTAPI • One major element of the Company's innovation strategy is the acquisition of smaller technology companies. On February 24, 2014, QSC acquired 51 percent of the shares of Munich-based FTAPI Software GmbH; the remaining shares are held by its two founders, who are now driving FTAPI's evolution under the QSC umbrella.

Founded in 2010, this start-up offers a number of products relating to the highly secure transfer and storage of enterprise-critical data; files, for example, can be transferred and stored at different security levels. The functionalities can be smoothly integrated into existing CRM and ERP systems, as well as into e-mail solutions like Outlook. The encryption is easy to handle, also works in connection with large volumes of data in the gigabyte range, and is available both as a local software solution as well as a Cloud service.

Products relating to highly secure data transfer

FTAPI's portfolio is broadening the range of products, services and solutions from QSC. The Company already began presenting the new solutions to its marketing partners in April and May 2014. These marketing activities will be intensified during the coming quarters; at the same time, the FTAPI team is working on further innovative products relating to the issue of security.

PROFITABILITY

Cost of revenues rises in first quarter of 2014 • While revenues declined by € 3.9 million to € 109.1 million in the first quarter of 2014, cost of revenues rose by € 3.5 million to € 78.9 million. There were essentially three reasons for this development: First, QSC is no longer benefiting in the amount of some € 5 million per quarter from the return of a deferred income item ("deferred income effect") that had previously already been largely returned; at the same time

as the exit of Plusnet's former co-shareholder, TELE2, QSC had received a payment that it had been returning as income on a periodic basis due to continued performance obligations over the period through year-end 2013. Second, this line item also includes the personnel expense for Direct Sales, which had considerably augmented its workforce during the course of 2013 in response to sustained growth. And third, QSC is significantly increasing its development expenditures during the current fiscal year. Given these higher costs, gross profit of € 30.2 million in the first quarter of 2014 was down from its level of € 37.6 million the year before; gross margin decreased by five percentage points to 28 percent.
Sales and marketing expenses in the first quarter of 2014 declined from € 9.9 million the year before to € 8.5 million. This was the result of a revenue shift that benefited Direct Sales, as at the same time there was a decline in commissions paid to sales partners. General and administrative expenses of € 8.3 million remained virtually unchanged from € 8.2 million in the first quarter of 2013.

EBITDA stands at € 13.4 million • Higher cost of revenues and, first and foremost, the elimination of the deferred income effect also impacted the Company's EBITDA: It stood at € 13.4 million in the first quarter of 2014, as opposed to € 18.9 million the year before; the EBITDA margin amounted to 12 percent, in contrast to 17 percent in the first quarter of 2013. 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)

Profitability at last year's level without deferred income effect

During the past quarter, depreciation expense decreased modestly to € 12.3 million, as opposed to € 12.6 million for the same period the year before. This produced an operating profit (EBIT) of € 1.1 million, by comparison with € 6.3 million in the first quarter of 2013. Taking into consideration financial and tax results, consolidated net income amounted to € 0.3 million, in contrast to € 5.1 million one year earlier. The profitability-heightening effect of the return of the deferred income line item in the amount of € 5.2 million per quarter last year should be taken into consideration in comparing these numbers. Were this effect to be left out of consideration, profitability would have been at the previous year's level.

PROFITABILITY BY SEGMENT

Direct Sales making the largest contribution to profitability • On a revenue rise of 3 percent to € 52.0 million in the first quarter of 2014, cost of revenues rose by 12 percent to € 37.1 million in the Company's largest business unit. In addition to the deferred income effect, this was chiefly attributable to the increase in the workforce during the course of 2013. Sales and marketing expenses declined to € 3.6 million in the first quarter of 2014, as opposed to € 4.5 million for the same quarter one year earlier; general and administrative expenses remained at the previous year's level. This produced an EBITDA of € 8.3 million, in contrast to € 10.1 million in the first quarter of 2013; the EBITDA margin stood at 16 percent, as opposed to 20 percent the year before.
During the first quarter of 2014, depreciation expense rose to € 5.9 million from € 5.5 million the year before. Segment EBIT thus totaled € 2.4 million, as opposed to € 4.6 million for the same quarter one year earlier.

SEGMENT EBITDA, DIRECT SALES (in € million)

Indirect Sales earning the highest margins • As a result of the deferred income effect, cost of revenues rose by € 1.8 million to € 18.2 million year on year on a modest revenue decline of € 0.4 million to € 30.1 million. On the other hand, there was a slight decrease in both sales and marketing as well as general and administrative expenses. Segment EBITDA thus totaled € 6.0 million, by comparison with € 7.4 million in the first quarter of 2013. At 20 percent, Indirect Sales continued to earn the highest EBITDA margin of the three segments.
Depreciation expense rose moderately from € 2.7 million the year before to € 2.9 million in the first quarter of 2014. This produced a segment EBIT of € 3.1 million, in contrast to € 4.7 million in the first quarter of 2013.

EBITDA margin of 20 percent in Indirect Sales

SEGMENT EBITDA, INDIRECT SALES (in € million)

Resellers business impacted by heightened regulation

Stiff pricing competition burdening Resellers results • The sustained stiff pricing competition and heightened regulation impacted business with resellers in the first quarter of 2014; revenues here, which stem predominantly from conventional TC business, declined by € 5.0 million to € 26.9 million. During the same period, cost of revenues declined by € 2.4 million from € 26.1 million for the same quarter the year before. General and administrative expenses rose modestly to € 2.6 million in the first quarter of 2014, as opposed to € 2.3 million for the same quarter one year earlier; sales and marketing expenses remained at the previous year's level.
In spite of declining costs overall, segment EBITDA decreased to € -0.9 million from € 1.3 million in the first quarter of 2013. Depreciation expense declined by € 0.8 million to € 3.4 million. In spite of this, segment EBIT of € -4.4 million remained below the previous year's level of € -3.0 million. Nevertheless, this business unit continues to make a major contribution toward covering infrastructure costs.

SEGMENT EBITDA, RESELLERS (in € million)

FINANCIAL POSITION AND NET WORTH

Sustained cash flows from operating activities • In the first quarter of 2014, QSC earned a cash flow of € 10.5 million from operating activities, in contrast to € 13.7 million for the same quarter the year before. At € 9.7 million, cash used in investing activities was up from the previous year's level of € 8.6 million, as QSC had acquired the majority interest in FTAPI during the first quarter of 2014. Due to the reduction of liabilities under financing and finance lease arrangements, cash used in financing activities amounted to € -1.9 million, as opposed to € 1.1 million for the same period one year earlier.

QSC earns free cash flow of € 4.6 million • In the first quarter of 2014, QSC earned a free cash flow of € 4.6 million, in contrast to € 5.1 million for the same period the year before. The Company calculates this central steering metric from the change in net liquidity/debt prior to acquisitions and distributions. The following table shows all relevant parameters in this connection as of March 31, 2014, and December 31, 2013:

in € million	March 31, 2014	Dec. 31, 2013
Liquidity		
Cash and short-term deposits	57.5	58.7
Available-for-sale financial assets	0.3	0.3
Liquidity	**57.9**	**59.1**
Interest-bearing liabilities		
Liabilities under financing and finance lease arrangements	(12.3)	(14.4)
Liabilities due to banks	(85.5)	(85.6)
Interest-bearing liabilities	**(97.8)**	**(100.0)**
Net liquidity/debt	**(39.9)**	**(40.9)**

Accordingly, liquidity decreased by € 1.2 million to € 57.9 million in the first quarter of 2014. Interest-bearing liabilities were down by € 2.2 million to € -97.8 million, thus reducing net debt by € 1.0 million to € -39.9 million as of March 31, 2014.
The acquisition of FTAPI in February 2014 remains out of consideration in calculating free cash flow, which is based upon the financial strength of the Company's operating business; including liquid assets acquired, QSC paid € 3.6 million for 51 percent of the FTAPI shares. This produces a free cash flow of € 4.6 million for the first quarter of 2014.

Moderate capital expenditures in first quarter of 2014 • Capital expenditures totaled € 4.7 million in the first quarter of 2014, in contrast to € 9.8 million for the same period one year earlier. The year before, after winning multiple major projects, QSC had increasingly been investing in linking these customers to its own infrastructure. In the first quarter of 2014, as well, the lion's share of capital expenditures – 57 percent – were customer-related; 19 percent of capital expenditures were attributable to development projects, 16 percent to the Company's own technology and 8 percent to miscellaneous.

57 percent of investments are customer-related

CAPITAL EXPENDITURES (in € million)

Equity ratio of 49 percent • As of March 31, 2014, the value of long-term assets in the Consolidated Balance Sheet stood at € 273.0 million, as opposed to € 272.0 million as of December 31, 2013. They account for 69 percent of the balance sheet total of € 396.2 million as of March 31, 2014; at that point in time, 31 percent were attributable to short-term assets. Their value rose from € 120.0 million at year-end 2013 to € 123.2 million as of March 31, 2014.
On the Liabilities side, 49 percent of these assets are financed through shareholders' equity and 51 percent through outside capital. At the end of March 2014, shareholders' equity and long-term liabilities were covering 111 percent of the value of long-term assets – a clear manifestation of the soundness of the balance sheet.

Regular depreciation decreases value of property, plant and equipment • Property, plant and equipment totaled € 87.8 million as of March 31, 2014, in contrast to € 93.9 million at year-end 2013. Regular depreciation also decreased the value of other intangible assets by € 1.2 million to € 51.6 million as of March 31, 2014. Following the acquisition of FTAPI, on the other hand, goodwill rose by € 9.5 million to € 85.8 million. Further information relating to this acquisition is contained in Note 2 to the Interim Consolidated Financial Statements.

Acquisition of FTAPI boosts value of QSC

Within short-term assets, the two largest line items, trade receivables as well as cash and short-term deposits, remained at nearly the same level as on December 31, 2013. Receivables totaled € 52.8 million as of March 31, 2014, by comparison with € 52.5 million the year before, while cash and short-term deposits totaled € 57.5 million, in contrast to € 58.7 million as of December 31, 2013. Prepayments, on the other hand, rose from € 5.1 million at year-end 2013 to € 8.2 million, as QSC has to make significant prepayments at the beginning of each year for utilization of Deutsche Telekom's infrastructure for the entire year.

Sound financing • Shareholders' equity rose modestly to € 194.5 million as of March 31, 2014, as opposed to € 193.9 million as of December 31, 2013. During this period, long-term liabilities rose from € 103.3 million to € 108.3 million. This rise was attributable to presentation of the financial liability for the purchase options from the minority shareholders of FTAPI.
At € 82.6 million, liabilities due to banks remained virtually unchanged from their level of € 82.7 million at year-end 2013.
Short-term liabilities declined to € 93.4 million as of March 31, 2014, in contrast to € 94.9 million at year-end 2013. While trade liabilities rose by € 2.5 million to € 60.5 million here, short-term liabilities under financing and finance lease arrangements decreased by € 1.6 million to € 3.9 million.

HUMAN RESOURCES

Personnel expenses rise by nearly € 5 million • With a view to its sustained growth in Direct Sales, QSC had significantly increased the workforce during the course of 2013, primarily in Outsourcing and Consulting business as well as in Research and Development, and thus sees itself well aligned for the anticipated development of business in 2014. The workforce rose by 140 people relative to March 31, 2013, to a total of 1,705 at the end of the first quarter of 2014. The rise in personnel expenses paralleled this development, totaling € 30.4 million in the first quarter of 2014, by comparison with € 25.6 million for the same quarter one year earlier.

Well aligned for 2014 with existing workforce

WORKFORCE

Stefan Freyer leaves the Management Board • Stefan Freyer left the Management Board of QSC AG at his own request effective March 31, 2014, in order to devote himself to new professional challenges. From 2007 on, Stefan Freyer had been the member of the management board of INFO AG responsible for its operating business. With the merger of INFO AG and QSC AG, Freyer was appointed to the Management Board of QSC AG in 2013. There he was responsible for the Company's IT and TC operations, ICT solutions business, as well as IT Consulting. Until further notice, his responsibilities are temporarily being assumed by Chief Executive Officer Jürgen Hermann and by Henning Reinecke, the member of the Management Board responsible for sales and marketing activities.

REPORT ON OPPORTUNITIES AND RISKS

No major changes in opportunity and risk positions • During the first quarter of 2014, there were no major changes in the opportunities and risks portrayed in the 2013 Annual Report. Nevertheless, due to these and other risks and incorrect assumptions, QSC's actual future results could vary materially from its expectations. All statements contained in this unaudited Interim Consolidated 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

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

OUTLOOK REPORT

QSC reiterates guidance • Given that fiscal 2014 has begun as planned, QSC is reiterating the guidance for the full fiscal year that it announced on February 26, 2014. Depending upon the progress made in bringing innovative ICT products and services to market, QSC anticipates revenues of between € 450 and € 470 million, an EBITDA of between € 60 and € 70 million, as well as a free cash flow of between € 26 and € 32 million.

Revenues are likely to continue to develop on a two-track basis: Rising ICT revenues will be offset by declining TC revenues as a result of market and regulatory effects. This decline, as well as heightened pricing competition, especially in ADSL2+ business, are likely to impact EBITDA by nearly € 10 million in 2014. Moreover, in 2014 QSC will no longer be benefiting in the amount of some € 20 million per year stemming from the return as income of a deferred income item that had been formed in connection with a payment by former Plusnet co-shareholder TELE2, which had been returned on a periodic basis through 2013. Since this return had no impact on liquidity, the Company is planning on a renewed rise in free cash flow, in spite of higher investments in future fields of growth.

QSC planning renewed rise in free cash flow

Direct Sales continuing its growth course • During the coming quarters, QSC anticipates further revenue growth in its largest business unit, Direct Sales; following a traditionally weak first quarter, IT Consulting business is likely to increase here, as well. Indirect Sales is expected to continue to develop on a stable note, with rising ICT revenues offsetting declines in TC revenues. The faster in-house developed products in this business unit can be readied for market, the sooner the positive effects from its ICT business are likely to predominate. In the case of the Resellers Business Unit, QSC continues to anticipate declining revenues as a result of regulatory and market effects.

Capital expenditures to total 6 to 10 percent of revenues • Strong cash flows from operating activities will again be offset by only moderate cash burns for capital expenses in the coming quarters. The focus of capital expenditures is on customer- and development-related investments. The Company is planning an investment ratio of 6 to 10 percent of revenues for this purpose.

Given its moderate capital expenditures, QSC expects to see free cash flow rise to between € 26 and € 32 million during the current fiscal year. This metric is based solely upon operating business, and does not include obligations arising from acquisitions, such as FTAPI most recently, and measures aimed at enabling the shareholders to participate in their Company's success, such as the dividend. The Management and Supervisory Boards will propose that the regular Annual Shareholders Meeting on May 28, 2014, again increase the dividend by one cent to € 0.10 per share. Should the Annual Shareholders Meeting approve this proposal, it would involve a cash burn in the amount of € 12.4 million.

Proposed dividend of 10 cents per share

QSC optimizes financing and extends terms • In financing its operations, QSC has traditionally depended upon its own financial strength and has additionally been utilizing a consortial credit facility that runs through September 2016. Moreover, with a view to the sustained low level of interest rates, in late 2013 QSC had announced that it intended to optimize its outside financing this year and extend its terms. In all likelihood, the company will in May 2014 be entering into a contract for a five- to seven-year € 150-million promissory note loan. Thereafter, QSC would make significantly less use than before of the consortial credit facility. The keen interest on the part of the banks would additionally enable QSC, contrary to what had been planned at the outset of the year, to redeem INFO AG's factoring in the amount of € 11 million, which had been in place prior to the acquisition of the majority interest in this company in 2011. This redemption would impact net debt during the further course of the year and would therefore be presented separately in calculating free cash flow, as it is based upon an obligation stemming from acquisitions and is merely a technical financial measure in which QSC is redeeming factoring liabilities through liabilities stemming from a promissory note loan.

Interim Consolidated Financial Statements

CONSOLIDATED STATEMENT OF INCOME (unaudited)

Euro amounts in thousands (K€)

	01/01/–31/03/ 2014	01/01/–31/03/ 2013
Net revenues	**109,063**	**113,012**
Cost of revenues	(78,911)	(75,447)
Gross profit	**30,152**	**37,565**
Sales and marketing expenses	(8,466)	(9,859)
General and administrative expenses	(8,275)	(8,212)
Depreciation and non-cash share-based remuneration	(12,294)	(12,583)
Other operating income	221	119
Other operating expenses	(207)	(761)
Operating profit	**1,131**	**6,269**
Financial income	55	82
Financial expenses	(1,079)	(1,135)
Net profit before income tax	**107**	**5,216**
Income tax	214	(145)
Net profit	321	5,071
Earnings per share (basic) in €	**0.00**	**0.04**
Earnings per share (diluted) in €	**0.00**	**0.04**

CONSOLIDATED BALANCE SHEET (unaudited)

Euro amounts in thousands (K€)

	Mar. 31, 2014	Dec. 31, 2013
ASSETS		
Long-term assets		
Property, plant and equipment	87,818	93,869
Land and buildings	26,509	26,766
Goodwill	85,808	76,265
Other intangible assets	51,626	52,809
Trade receivables	5,059	5,223
Prepayments	1,384	2,226
Other long-term assets	504	349
Deferred tax assets	14,320	14,541
Long-term assets	**273,028**	**272,048**
Short-term assets		
Trade receivables	52,773	52,539
Prepayments	8,154	5,070
Inventories	2,116	1,746
Other short-term assets	2,233	1,565
Available-for-sale financial assets	343	343
Cash and short-term deposits	57,542	58,716
Short-term assets	**123,161**	**119,979**
TOTAL ASSETS	396,189	392,027

	Mar. 31, 2014	Dec. 31, 2013
SHAREHOLDERS' EQUITY AND LIABILITIES		
Shareholders' equity		
Capital stock	124,142	124,057
Capital surplus	141,505	141,286
Other capital reserves	(1,175)	(1,176)
Consolidated retained earnings / (Accumulated deficit)	(69,981)	(70,302)
Shareholders' equity	**194,491**	**193,865**
Liabilities		
Long-term liabilities		
Long-term liabilities under financing		
and finance lease arrangements	8,383	8,835
Liabilities due to banks	82,569	82,697
Convertible bonds	20	19
Accrued pensions	6,862	6,765
Other provisions	363	370
Deferred income	710	712
Other long-term liabilities	5,861	-
Deferred tax liabilities	3,522	3,912
Long-term liabilities	**108,290**	**103,310**
Short-term liabilities		
Trade payables	60,499	58,002
Short-term liabilities under financing		
and finance lease arrangements	3,886	5,530
Liabilities due to banks	2,974	2,868
Other provisions	1,655	2,655
Accrued taxes	2,270	3,068
Deferred income	4,559	4,238
Other short-term liabilities	17,565	18,491
Short-term liabilities	**93,408**	**94,852**
Liabilities	**201,698**	**198,162**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	396,189	392,027

CONSOLIDATED STATEMENT OF CASH FLOWS (unaudited)

Euro amounts in thousands (K€)

	01/01/–31/03/ 2014	01/01/–31/03/ 2013
Cash flow from operating activities		
Net profit before income tax	107	5,216
Depreciation and amortization of fixed assets	12,169	12,494
Non-cash income and expenditure	125	89
Loss from disposal of fixed assets	7	2
Changes in provisions	(1,668)	(1,469)
Changes in trade receivables	(1)	8,272
Changes in trade payables	3,753	999
Changes in other assets and liabilities	(4,028)	(11,912)
Cash flow from operating activities	**10,464**	**13,691**
Cash flow from investing activities		
Purchase from acquisition of subsidiary less liquid assets acquired	(3,629)	-
Purchase of intangible assets	(2,840)	(3,369)
Purchase of property, plant and equipment	(3,230)	(5,256)
Cash flow from investing activities	**(9,699)**	**(8,625)**
Cash flow from financing activities		
Issuance of convertible bonds	-	4
Proceeds from issuance of common stock	179	102
Proceeds from/(Repayment of) loans granted	(22)	1,935
Repayment of liabilities under financing		
and finance lease arrangements	(2,096)	(920)
Cash flow from financing activities	**(1,939)**	**1,121**
Change in cash and short-term deposits	**(1,174)**	**6,187**
Cash and short-term deposits as of January 1	58,716	34,820
Cash and short-term deposits as of March 31	**57,542**	**41,007**
Interest paid	1,305	799
Interest received	12	78
Income tax paid	1,515	697

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (unaudited)

Euro amounts in thousands (K€)

	01/01/–31/03/ 2014	01/01/–31/03/ 2013
Other comprehensive income		
Line items that are not reclassified in the income statement		
Actuarial losses from defined benefit pension plans	-	-
Tax effect	-	-
Line items that might subsequently be reclassified		
in the income statement		
Changes in unrealized fair values		
of available-for-sale financial assets	1	-
Tax effect	-	-
Other comprehensive income	1	-
Net profit for the period	321	5,071
Total comprehensive income for the period	322	5,071

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	Consolidated retained earnings/ (Accum. deficit)	Total
Balance as of January 1, 2014	**124,057**	**141,286**	**(1,176)**	**(70,302)**	**193,865**
Net profit for the period	-	-	-	321	321
Other comprehensive income for the period, net of tax	-	-	1	-	1
Total comprehensive income	**-**	**-**	**1**	**321**	**322**
Conversion of convertible bonds	85	94	-	-	179
Non-cash share-based remuneration	-	125	-	-	125
Balance as of March 31, 2014	**124,142**	**141,505**	**(1,175)**	**(69,981)**	**194,491**
Balance as of January 1, 2013	**123,677**	**140,542**	**(1,207)**	**(82,776)**	**180,236**
Net profit for the period	-	-	-	5,071	5,071
Withdrawal of treasury shares	-	13,630	-	(13,630)	-
Conversion of convertible bonds	76	26	-	-	102
Non-cash share-based remuneration	-	89	-	-	89
Balance as of March 31, 2013	**123,753**	**154,287**	**(1,207)**	**(91,335)**	**185,498**

Notes to the Interim Consolidated Financial Statements

CORPORATE INFORMATION

QSC AG (hereinafter also called "QSC" or "the Company") offers small and mid-size organizations comprehensive information and telecommunications services ("ICT services") – ranging from telephony, data transfer, Housing and Hosting through to IT Outsourcing and IT Consulting. In its capacity as an SAP Gold Partner and Microsoft Gold Certified Partner, QSC AG is also a specialist in the areas of SAP and Microsoft implementations. The portfolio of products is rounded off by the provision of in-house developed Cloud services for a wide range of applications. Supported by a state-of-the-art network infrastructure and with its own IT centers in Germany certified to TÜV and ISO standards, QSC is one of the leading SME providers of ICT services in Germany. The Company offers customized solutions for individual ICT requirements as well as a modular-based product portfolio for smaller business customers and sales partners.
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 registered in the Commercial Register of the Cologne District Court 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, which includes the 30 largest and most liquid technology issues in the Prime Standard.

ACCOUNTING PRINCIPLES AND POLICIES

1 Basis of preparation

The unaudited Interim Consolidated Financial Statements of QSC AG and its subsidiaries (Interim Consolidated 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 Interim Consolidated Financial Statements do not include all the information and disclosures required in annual financial statements and should be read in conjunction with the consolidated group's financial statements as of December 31, 2013. It is the opinion of the Management Board that the Interim Consolidated 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 consolidated group. The financial results presented in the Interim Consolidated Financial Statements for the period from January 1 through March 31, 2014, do not necessarily indicate the development of future results.
The accounting principles and policies applied in compiling these Interim Consolidated Financial Statements fundamentally correspond to the methods applied in compiling the Consolidated Financial Statements for the 2013 fiscal year, with the following exception described below. Pursuant to international accounting practice in connection with interim reporting, the calculation of income taxes in the quarterly financial statements for the period ended March 31, 2014, was

made for the first time with the so-called integral approach being taken into consideration. Under this approach, the income tax expense recorded for the quarter is determined on the basis of the anticipated annual tax rate. The forecast for the annual tax rate takes into consideration the fact that while a positive pre-tax result is anticipated for the current fiscal year, the corresponding tax expense will be offset by higher tax income, which would lead to a negative consolidated tax rate overall. The anticipated tax income is essentially attributable to the application of deferred taxes to tax loss carryforwards determined on the basis of current planning calculations.
Amendments to the IFRS whose mandatory application begins in fiscal 2014 did not have any impact on the interim financial statements for the period ended March 31, 2014.
In connection with drawing up the interim consolidated 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, 2013.
The Interim Consolidated Financial Statements are rounded, except when otherwise indicated, to the nearest thousand (K€).

2 Consolidation

The Interim Consolidated Financial Statements comprise the financial statements of QSC AG and its subsidiaries as of March 31, 2014. There has been a change in the composition of the consolidated companies by comparison with December 31, 2013:
Through a contract dated December 17, 2013, Collutio Holding GmbH, of Vienna, which was already a wholly-owned subsidiary of QSC, was merged with QSC. The merger went into force upon being entered in the Commercial Register on March 24, 2014.
On February 24, 2014, QSC acquired a nominal 50.93 percent of the shares of Munich-based FTAPI Software GmbH (hereinafter also called "FTAPI"), which specializes in encrypted data exchange between business customers. Taking into consideration its own shares of the company, this calculates to an investment ratio of 57.23 percent on the part of QSC.
A cash purchase price of K€ 3,056 was paid to the former shareholders for shares amounting to a nominal 50.93 percent. Moreover, agreements are in place with the minority shareholders under which QSC is entitled to acquire the remaining shares of FTAPI under a defined price formula during defined exercise periods in the years 2017 through 2019 (purchase option). Conversely, the remaining shareholders are entitled to offer their shares of FTAPI to QSC for purchase under a defined price formula during the same exercise periods (sell option). Pursuant to the conditions contained in IAS 32.23, a financial liability in the amount of K€ 5,616 was taken into consideration in these quarterly financial statements for QSC's obligation stemming from the sell

option held by the remaining shareholders. The cash value of the anticipated exercise price for the sell option was used as the basis for calculating the financial liability (fair value pursuant to Stage 3 under IFRS 13.81), with an interest rate of 4.28 percent, which is adequate in terms of risk and term, being applied. In this connection, the purchase price for the remaining shares is contingent upon the economic development of FTAPI during the option exercise period.
Moreover, incidental costs of acquisition in the amount of K€ 93 were incurred in conjunction with the acquisition, which are recorded in the Statement of Income.
According to preliminary determinations, the assets and liabilities identified at the time of acquisition were utilized, with attributable fair values in the amount of K€ 161 and K€ 1,033, respectively.
In the initial consolidation of FTAPI, it was assumed that this sell option had already been exercised in determining a provisional difference with respect to the above-indicated sell option held by the remaining shareholders (so-called anticipated acquisition method). On the basis of the anticipated acquisition of 100 percent of the shares of FTAPI, no no-controlling shares were presented for the minority shareholders of FTAPI in these Interim Consolidated Financial Statements. As a result, the estimated fair value of the financial liability in the amount of K€ 5,616 at the time of acquisition, resulting from the sell option rights, was presented as additional costs of this corporate acquisition.

The difference arising upon initial consolidation results as follows as of March 31, 2014:

in K€	Mar. 31, 2014
Costs of acquisition	3,056
Fair value of financial liability under the sell option	5,616
Total costs of acquisition	**8,672**
Less attributable fair value of net assets (provisionally determined)	(872)
Difference arising from corporate acquisition	**9,544**

Identification of the acquired assets and liabilities, as well as determination of their attributable fair values, were initially made on a provisional basis and had not yet been concluded at the time these interim financial statements were compiled. Due to a lack of other information, the difference of K€ 9,544 stemming from the corporate acquisition is provisionally being presented as goodwill in the Interim Consolidated Financial Statements for the period ended March 31, 2014. This goodwill essentially reflects the synergies anticipated from the joint activities of FTAPI and QSC, as well as the future success potential of innovative products in the field of encryption technology.

The actual amount of goodwill produced by the acquisition will not be able to be determined until subsequent to the conclusion of the purchase price allocation and final determination of the fair value of the assumed net liabilities at the time of acquisition; plans call for this determination to be concluded during the current quarter of fiscal 2014.
The financial liability for the purchase options from the minority shareholders of FTAPI is presented under other long-term liabilities.
During the period from February 24 through March 31, 2014, FTAPI made only an immaterial contribution toward the consolidated group's revenues and profitability. Even if the acquisition had already been effected as of January 1, 2014, Management estimates that FTAPI's contribution toward revenues and profitability through March 31, 2014, would not have been material relative to the consolidated group's revenues and profitability.

3 Financial instruments

The following table presents the carrying amounts and fair values of all financial instruments included in the Interim Consolidated Financial Statements except for convertible bonds issued in conjunction with the stock option programs.

in K€	Classification category pursuant to IAS 39	Carrying amounts		Fair value	
		Mar. 31, 2014	Dec. 31, 2013	Mar. 31, 2014	Dec. 31, 2013
Financial instruments					
Cash and Short-term Deposits	ACAC	57,542	58,716	57,542	58,716
Available-for-sale Financial Assets	AFS	343	343	343	343
Long Term Trade Receivables	ACAC	5,059	5,223	5,145	5,439
Short-Term Trade Receivables	ACAC	52,773	52,539	52,773	52,539
Trade Payables					
Liabilities due to Banks	FLAC	60,499	58,002	60,499	58,002
Liabilities under Financing and Finance	FLAC	85,543	85,565	85,543	85,565
Lease Arrangements	FLAC	12,269	14,365	12,119	14,556
Other Short- and Long-Term Liabilities	FLAC	17,565	18,491	17,565	18,491
Aggregated according to classification categories					
pursuant to IAS 39:					
Financial Assets Carried at Amortised Cost	ACAC	115,374	116,478	115,460	116,694
Available-for-sale Financial Assets	AFS	343	343	343	343
Financial Liabilities Measured at Amortised Cost	FLAC	175,876	176,423	175,726	176,614

Cash and short-term deposits, available-for-sale financial assets as well as trade receivables largely have short remaining terms. Their carrying amount thus roughly 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 13.76). In determining the fair value of accounts receivable stemming from multi-component contracts, the anticipated long-term payments are discounted at the interest rate for three-year industrial bond issues (Level 3 pursuant to IFRS 13.81).

in K€	From interests, dividends	Subsequent to initial recognition		Net gain / (loss)	
		Allowance	At fair value	Mar. 31, 2014	Dec. 31, 2013
Assets carried at Amortised Cost (ACAC)	55	(43)	-	12	698
Available-for-sale financial assets (AFS)	-	-	-	-	-
Financial Liabilities measured at Amortised Cost (FLAC)	(939)	-	-	(939)	(3,978)
Net results by classification category	**(884)**	**(43)**	**-**	**(827)**	**(3,280)**

4 Segment reporting

In accordance with the provisions of IFRS 8, the basis for identification of the segments consists of the Company's internal organizational structure, which is used by corporate management as the basis for business administration decisions and performance assessments. At QSC, segmentation is aligned to the customer structure, as presented below.

The Direct Sales Business Unit focuses on more than 8,000 larger and mid-size enterprises in Germany. Its portfolio comprises national and international site networking, outsourcing solutions, and data center services, such as Housing and Hosting. IT Consulting is a further important element of this business unit's portfolio; QSC 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 employees of their own on staff for information and communications technology, obtaining their ICT services from regional partners instead. QSC is therefore collaborating with regional service providers, sales partners and distributors, offering 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.

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/ – 31/03/2014					
Net revenues	**51,994**	**30,133**	**26,936**	**-**	**109,063**
Cost of revenues	(37,055)	(18,180)	(23,676)		(78,911)
Gross profit	**14,939**	**11,953**	**3,260**	**-**	**30,152**
Sales and marketing expenses	(3,564)	(3,316)	(1,586)		(8,466)
General and administrative expenses	(2,997)	(2,640)	(2,638)		(8,275)
Depreciation and amortization	(5,850)	(2,890)	(3,429)		(12,169)
Non-cash share-based remuneration	(77)	(28)	(20)		(125)
Other operating income	(46)	10	50		14
Operating profit / (loss)	**2,405**	**3,089**	**(4,363)**	**-**	**1,131**
Assets	209,693	110,265	61,911	14,320	396,189
Liabilities	81,803	45,357	71,016	3,522	201,698
Capital expenditures	1,688	1,606	1,453	-	4,747

in K€	Direct Sales	Indirect Sales	Resellers	Reconciliation	Consolidated
01/01/ – 31/03/2013					
Net revenues	**50,589**	**30,487**	**31,936**	**-**	**113,012**
Cost of revenues	(33,028)	(16,352)	(26,067)		(75,447)
Gross profit	**17,561**	**14,135**	**5,869**	**-**	**37,565**
Sales and marketing expenses	(4,461)	(3,715)	(1,683)		(9,859)
General and administrative expenses	(2,934)	(2,960)	(2,318)		(8,212)
Depreciation and amortization	(5,534)	(2,726)	(4,235)		(12,495)
Non-cash share-based remuneration	(31)	(29)	(28)		(88)
Other operating income	(51)	(29)	(562)		(642)
Operating profit / (loss)	**4,550**	**4,676**	**(2,957)**	**-**	**6,269**
Assets	193,533	108,008	75,309	10,539	387,389
Liabilities	76,466	40,717	79,953	4,755	201,891
Capital expenditures	5,994	1,844	1,939	-	9,777

5 Stock option program

The stock option programs that had been put in place in previous years were continued as planned. Conversions of stock options raised the issued capital of QSC AG by K€ 85 in the first quarter of 2014.

6 Dividend

The Management and Supervisory Boards propose that the regular Annual Shareholders Meeting on May 28, 2014, resolve that a dividend in the amount of € 0.10 per dividend-entitled share be distributed.

7 Litigation

In a judicial review proceeding ("Spruchverfahren") at the Hamburg Regional Court following the squeeze-out of the minority shareholders of what was originally INFO Gesellschaft für Informationssysteme Aktiengesellschaft (Hamburg District Court, 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 („INFO AG", formerly IP Partner AG, following the merger renamed INFO Gesellschaft für Informationssysteme Aktiengesellschaft, since merged with QSC AG), the petitioners (a total of 45) were 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. With its ruling on February 3, 2014, the Hamburg Regional Court refused to hear the petitioners' case. Two petitioners have appealed this ruling within the required term. The ruling is therefore not yet final.
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 drawn up by IVA VALUATION & ADVISORY AG Wirtschaftsprüfungsgesellschaft, Frankfurt am Main. The expert auditor that was selected and appointed by the Hamburg Regional Court, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, confirmed the appropriateness of the cash settlement. A provision has been recognized covering only the court costs and thus far foreseeable ancillary costs relating to the review proceeding.

8 Related party transactions

During the first three months of 2014, QSC participated in transactions with companies affiliated with members of Management and the Supervisory Board. 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 and predominantly utilizes network services provided by QSC. To a small degree, subsidiaries of QSC AG utilize the value-added services provided by IN-telegence. Teleport Köln GmbH supports QSC in installing end-customer connections, and utilizes telecommunications services provided by QSC. 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/–31/03/2014				
IN-telegence GmbH	201	1	242	3
Teleport Köln GmbH	7	1	12	1
QS Communication Verwaltungs Service GmbH	-	25	-	46
01/01/–31/03/2013				
IN-telegence GmbH	223	8	274	9
Teleport Köln GmbH	7	1	6	1
QS Communication Verwaltungs Service GmbH	-	47	-	45

in K€	Trade receivables	Trade payables
As of March 31, 2014		
IN-telegence GmbH	79	1
Teleport Köln GmbH	3	-
As of March 31, 2013		
IN-telegence GmbH	86	-
Teleport Köln GmbH	6	-

9 Management Board

Effective March 31, 2014, Stefan Freyer, the member of the QSC Management Board responsible for Operations, ICT solutions business and IT consulting, left the Company at his own request, in order to devote himself to new professional challenges.

	Shares		Conversion rights	
	Mar. 31, 2014	Mar. 31, 2013	Mar. 31, 2014	Mar. 31, 2013
Jürgen Hermann	225,000	225,000	200,000	200,000
Barbara Stolz	-	-	30,000 [1]	-
Stefan Freyer	-	-	-	-
Henning Reinecke	1,000 [1]	-	-	-

[1] Holdings at the time of joining the Management Board

10 Supervisory Board

	Shares		Conversion rights	
	Mar. 31, 2014	Mar. 31, 2013	Mar. 31, 2014	Mar. 31, 2013
Dr. Bernd Schlobohm, Chair	15,518,372	15,493,372	200,000 [1]	-
Dr. Frank Zurlino, Vice Chair	10,000 [2]	-	-	-
Gerd Eickers	15,577,484	15,552,484	-	-
Ina Schlie	-	-	-	-
Anne-Dore Ahlers [3]	-	-	2,700 [2]	-
Cora Hödl [3]	-	-	4,100 [2]	-

[1] Holdings at the time of retirement from the Management Board

[2] Holdings at the time of joining

[3] Employee representative

Cologne, May 2014

Jürgen Hermann
Chief Executive Officer

Barbara Stolz

Henning Reinecke

Calendar

Annual Shareholders Meeting
May 28, 2014

Quarterly Reports
August 11, 2014
November 10, 2014

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