QSC AG

QUARTERLY REPORT I/2015

Key Data

All amounts in € million	01/01/–31/03/ 2015	01/01/–31/03/ 2014
Revenues	104.7	109.1
EBITDA	9.1	13.4
Depreciation / amortisation [1]	12.1	12.3
EBIT	-3.0	1.1
Net income	-3.4	0.3
Earnings per share [2] (in €)	-0.03	0.00
Equity	142.5 [4]	145.6 [5]
Long-term liabilities	179.2 [4]	180.2 [5]
Short-term liabilities	68.3 [4]	79.7 [5]
Balance sheet total	390.1 [4]	405.5 [5]
Equity ratio (in %)	36.5 [4]	35.9 [5]
Free cash flow	-4.4	4.6
Liquidity	80.4 [4]	88.1 [5]
Capital expenditure (capex)	3.5	4.7
Capex ratio [3] (in %)	3.3	4.3
Xetra closing price as of 31/03/ (in €)	1.95	3.62
Number of shares as of 31/03/	124,142,487	124,142,487
Market capitalisation as of 31/03/	242.1	449.4
Employees as of 31/03/	1,666	1,705

[1] Including non-cash share-based remuneration

[2] Basic and diluted

[3] Ratio of capital expenditure to revenues

[4] As of 31 March 2015

[5] As of 31 December 2014

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Dear Shareholders,

Positioning QSC as the German cloud provider, focusing sales activities on medium-sized companies in Germany and cutting costs – these are the Company's declared core topics for the current financial year. We moved forward with all three topics in the first quarter of 2015. Our experts are working on a hybrid cloud solution that will enable German SMEs to combine their existing IT with modern cloud services and thus facilitate their transition to the cloud age. This will be launched onto the market in the second half of 2015. Greater flexibility, user convenience and cost optimisation are also the key catchwords when it comes to developing new cloud services. Interesting points of contact with strong market players are arising in connection with the Internet of Things and our traditional ICT competence. Vodafone, for example, is relying on encryption technology from QSC's subsidiary FTAPI for its new "Secure E-Mail" product. Well-known industrial companies are testing the use of a proprietary QSC cloud platform in pilot projects.

Hybrid cloud solution to be launched in second half of year

The process of focusing on medium-sized companies in Germany is the core topic in our sales activities. The measures introduced since autumn 2014 are taking effect in the Consulting business in particular. Revenues for the first quarter of 2015 grew by 14 percent to almost € 10 million. Consulting is not only a growing business unit, thanks to our ongoing dialogue it also acts as an excellent door opener for connecting customers' internal IT services with cloud services.

Significant progress has also been made in recent months with our third key focus of cutting costs. By the end of April 2015, agreements had been reached with around 100 employees concerning the termination of their employment. All in all, we plan to cut around 350 jobs by the end of 2016. This comprehensive cost-cutting and focusing programme will also have an increasingly clear impact on our quarterly results from the second half of the year onwards. It will lead to the increased earnings and financial strength forecast for the financial year as a whole. Even

though operating earnings for the first quarter of 2015 still fell short of the previous year's figure, the turnaround is already apparent. Our EBIT improved compared with the third and fourth quarters of 2014, and that even excluding the restructuring-related one-off items in the fourth quarter of 2014.

QSC to become leading cloud provider to SMEs

It will now require discipline, clarity and consistency to achieve the targets set for the current year. QSC will report on further progress from quarter to quarter while at the same time gradually establishing itself as the leading cloud service provider for medium-sized companies in Germany. I would be delighted if you would continue to accompany QSC on this course and thank you for the trust you have placed in us.

Cologne, May 2015

Jürgen Hermann
Chief Executive Officer

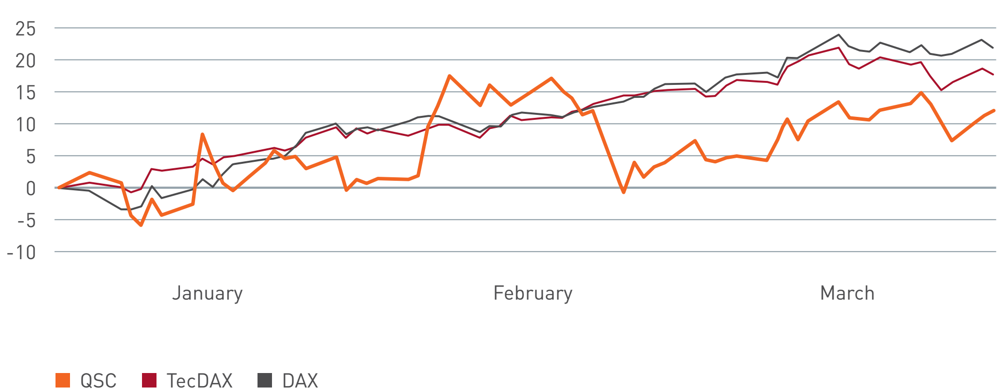
QSC Share Performance

DAX reaches new record highs • German stock markets upheld their record rally in the first quarter of 2015. The DAX topped the 11,000 and 12,000 point marks for the first time in its history. It subsequently closed at 11,966 points on 31 March 2015, and thus 22 percent higher than at the end of December 2014. The TecDAX gained 18 percent and closed at 1,615 points on 31 March 2015. Key factors driving this upturn were persistently low interest rate policies and the glut of liquidity from central banks. Since March 2015, the European Central Bank has each month acquired bonds and other securities worth € 60 billion. Having said this, stock markets were also boosted by robust economic developments in Germany and pleasing corporate earnings.

QSC share price up 12 percent • QSC shares benefited from the favourable climate and gained 12 percent in the first three months of the current year. Following an interim high of € 2.12 at the beginning of February, the share price at the end of March 2015 amounted to € 1.95. After the Company's disappointing business performance in 2014, institutional investors in particular are still reserved. They are monitoring QSC shares not least with regard to their attractive dividend yield. In many cases, however, they are making any purchase decision dependent on visible progress being made with the implementation of the current cost-cutting and focusing program and cloud strategy. QSC expects the cost-cutting program in particular to produce visible results from the second half of 2015 and that this will lend new momentum to the Company's share.

Many investors awaiting further developments

QSC SHARE PRICE PERFORMANCE IN Q1 2015 (indexed)



For the time being, most analysts have adopted a "wait and see" approach. As of the end of the first quarter of 2015, seven analysts recommended holding QSC shares. There were otherwise two buy and two sell recommendations. Despite the hesitation on the part of many fund managers, not least as a result of these recommendations, trading volumes increased significantly in the past quarter. On average, around 1.6 million QSC shares changed hands per trading day – 58 percent more than one year ago. Given the lower share price, the total stock market trading volumes of € 191.6 million fell short of the previous year's figure of € 256.9 million.

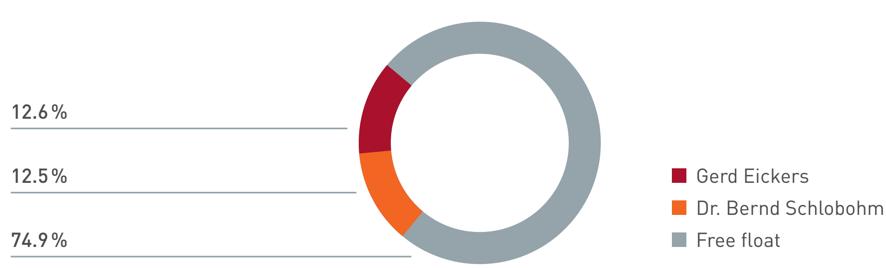
Trading volumes up by 58 percent

FINANCIAL INSTITUTIONS THAT PUBLISH STUDIES ON QSC

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

Growing share of retail investors • The reticence shown by institutional investors has left its mark on the shareholder structure. Based on an evaluation of the share register, the share of free float held by institutional investors as of 31 March 2015 decreased to 43 percent, down five percentage points compared with the end of 2014. Credit Suisse Fund Management notified QSC in February 2015 that its shareholding had fallen short of the 3 percent reporting threshold. The share held by retail investors, by contrast, rose to 57 percent. Overall, the free float share of QSC shares remained unchanged at 74.9 percent and was distributed among 30,512 shareholders. With stakes of 12.6 percent and 12.5 percent respectively, the largest shareholders are still QSC's two founders, Gerd Eickers and Dr. Bernd Schlobohm.

SHAREHOLDER STRUCTURE AS OF 31 MARCH 2015



Interim Consolidated Report QI/2015

BUSINESS FRAMEWORK

Upturn in German economy gains further momentum • In April 2015, the leading economic research institutes significantly raised their full-year forecasts for 2015. For Germany, they now expect economic growth of 2.1 percent, rather than the figure of 1.2 percent still forecast in autumn 2014. The reasons stated by the institutes for this upward correction were the positive impact of the low oil price on German citizens' propensity to consume and the improved conditions for exporters given the weaker euro exchange rate.

IT services market grows by 3 percent • The ICT industry is also benefiting from the macroeconomic tailwind. In March 2015 already, the BITKOM industry association raised its revenue forecast for the current year. Rather than growth of 0.6 percent, it now expects ICT revenues to increase by 1.5 percent to € 155.5 billion. The IT business, and here above all the software segment, remain the key growth drivers. Having said this, with revenue growth of 3.0 percent IT services such as consulting are also expected to significantly outperform the overall ICT market.

GERMAN ICT MARKET (in € billion)

BITKOM even expects the TC business to stabilise once again following two years of declining revenues. However, this stabilisation is mainly based on greater demand for infrastructure and end appliances. Revenues with voice and data services, by contrast, will continue to decrease. Alongside declining demand and crowding-out competition, this downturn is also attributable to a further tightening up in regulation by the Federal Network Agency.

The future lies in the hybrid cloud • At the CeBIT fair in March 2015, it was apparent that at many companies the time for pilot projects and preliminary work on making extensive use of cloud computing is now coming to an end. Most companies now expect that in three years' time half of their applications will be run in the cloud. According to an IDC study, hybrid cloud solutions in particular are gaining in significance. More than half of the companies surveyed are planning to deploy these in the next one to two years. QSC is working at full steam on this kind of solution, which enables companies to combine their existing IT environment with cloud services. The Company is focusing here on the needs of its core target group of medium-sized enterprises.

Cloud as future home to half of applications

BUSINESS PERFORMANCE

B2B2B business with corporate customers stable

Strong telecommunications business in first quarter of 2015 • QSC generated revenues of € 104.7 million in the first quarter of 2015, as against € 109.1 million in the previous year's period. A temporary increase in telecommunications revenues enabled the Company to start the current year slightly ahead of expectations. Overall, revenues in Telecommunications, the largest business unit, amounted to € 56.8 million in the first quarter of 2015, compared with € 60.4 million in the previous year's period. Of this total, 62 percent was attributable to the so-called B2B2C business with resellers that primarily address private customers, and 38 percent to the B2B2B business with corporate customers, which remains stable. Stricter regulation of the voice business by the Federal Network Agency led to a loss of revenues totalling around € 2.5 million in the past quarter. For 2015 as whole, QSC expects this factor to result in a loss of revenues of around € 10 million.

REVENUES, TELECOMMUNICATIONS (in € million)

The stability of the telecommunications business with corporate customers underlines the significance of proprietary infrastructure for QSC's business model. In March 2015, the Management Board decided not to pursue the sale of its DSL network, an option that had been reviewed in the meantime, any further. Alongside the stability and profitability of the voice and data services business with corporate customers, the Board also pointed to the significance of proprietary infrastructure for a secure connection to QSC's "German cloud".

Restructuring of Outsourcing business unit. Revenues in Outsourcing, the second-largest segment, came to € 36.8 million in the first quarter of 2015, as against € 39.4 million in the previous year's quarter, and were thus within the budgeted framework. In the current financial year, QSC is pressing ahead with fundamentally restructuring this business unit and sharpening its profile. Key focuses here involve QSC's core target group of medium-sized companies on the one hand and select industries in which QSC has particular competence and extensive experience, such as energy, retail and insurance, on the other.

REVENUES, OUTSOURCING (in € million)

Outsourcing contract of around € 40 million • Thanks to its increased energy competence, QSC successfully attracted the Frankfurt-based energy service provider Süwag Energie AG as a further major Outsourcing customer in March 2015. The contract has a volume of around € 40 million and a term of 72 months. Within this project, Süwag Energie AG will transfer its entire IT infrastructure to a QSC data centre in Frankfurt and then gradually hand over responsibility for its IT services to QSC. This success made a key contribution to the growth in new orders received in the first quarter of 2015 to € 64.2 million, thus significantly exceeding the previous year's figure of € 27.3 million.

QSC benefiting from growing energy competence

NEW ORDERS (in € million)

Growth in Consulting and Cloud business • In Consulting, the third segment, the measures to focus and optimise sales activities already initiated in the previous year are already bearing fruit. Revenues grew by 14 percent to € 9.8 million. Revenues in Cloud, the fourth segment, rose by 86 percent to € 1.3 million. However, this business unit is still only at the very beginning of its development.

REVENUES, CONSULTING (in € million)

The market potential harboured by QSC's internally developed cloud services is apparent from the use of the encryption technology developed by QSC's subsidiary FTAPI in Vodafone's "Secure E-Mail". At CeBIT 2015, the telecommunications provider presented its products based on FTAPI's technology for the convenient and secure transmission of encrypted e-mails and documents.

REVENUES, CLOUD (in € million)

100 job cuts already agreed • QSC presented a comprehensive cost-cutting and focusing programme at the end of February 2015. One core component of this programme involves downsizing the workforce by around 350 employees over the next two years. By the end of April 2015, the Company already managed to terminate its employment relationships with around 100 employees, partly by finding mutually agreed solutions, partly by not extending temporary contracts and partly by way of employee resignations. Given existing termination notice periods, this reduction will take time to impact on personnel expenses and on the number of employees reported through to the end of the year. QSC expects the measures now introduced to impact positively on the Company's earnings performance from the second half of this year already.

EARNINGS PERFORMANCE

Gross margin amounts to 26 percent

Decline in cost of revenues • Cost of revenues came to € 77.6 million in the first quarter of 2015, compared with € 78.9 million in the previous year's period. Due to the decline in revenues in line with expectations, the gross profit of € 27.1 million fell short of the previous year's figure of € 30.2 million. The gross margin amounted to 26 percent, as against 28 percent in the first quarter of 2014.
Given increased activities in the Cloud business and the fact that FTAPI had not yet been consolidated in the previous year, sales and marketing expenses rose year-on-year by € 0.8 million to € 9.3 million. General and administrative expenses came to € 8.4 million, as against € 8.3 million in the previous year's quarter.

EBITDA of € 9.1 million • Consistent with expectations, the EBITDA of € 9.1 million generated in the first quarter of 2015 fell short of the previous year's figure of € 13.4 million. The EBITDA margin came to 9 percent, compared with 12 percent in the previous year's period. EBITDA is defined as earnings before interest, taxes, amortisation of deferred non-cash share-based remuneration, depreciation/amortisation and impairment losses on customer-related inventories and depreciation/amortisation of property, plant and equipment and intangible assets. The EBITDA margin expresses EBITDA as a percentage of revenues.

EBITDA (in € million)

At € 12.1 million, depreciation and amortisation in the past quarter were slightly lower than the previous year's figure of € 12.3 million. This resulted in operating earnings (EBIT) of € -3.0 million, compared with € 1.1 million in the first quarter of 2014.

Improvement in earnings underway • When comparing the operating earnings figures, it should be noted that QSC posted its best quarterly earnings in the past year in the first quarter of 2014. If the third quarter of 2014, which unlike the final quarter was not affected by year-end entries, is taken as the basis for comparison, then it is apparent that QSC already improved its earnings performance in the quarter under report. The EBIT of € -3.0 million for this period compares with EBIT of € -3.9 million in the third quarter of 2014. This statement is equally true for consolidated net income. At € -3.4 million in the first quarter of 2015, this fell short of the previous year's figure of € 0.3 million, but was already significantly ahead of the figure of € -6.2 million reported for the third quarter of 2014.

EBIT ahead of figure for third quarter of 2014

EARNINGS PERFORMANCE BY SEGMENT

New segmentation • As previously announced, QSC adjusted its segment reporting to a product-based structure as of 1 January 2015. In future, the key management figure referred to by the Company will be an EBITDA figure before general administrative costs, other operating income and expenses, interest and taxes calculated pursuant to IFRS. Further information about segmentation can be found in Note 4 of the notes to the interim consolidated financial statements.

Telecommunications generates highest earnings contribution • The decline in revenues from € 60.4 million in the previous year's quarter to € 56.8 million was accompanied in the first quarter of 2015 by a reduction in cost of revenues from € 42.2 million to € 41.2 million. As a result, gross profit totalled € 15.7 million, as against € 18.2 million in the previous year's period. Accounting for a slight decrease in sales and marketing expenses, this resulted in a segment contribution of € 11.2 million in the first quarter of 2015, compared with € 13.6 million in the previous year's quarter.

SEGMENT CONTRIBUTION, TELECOMMUNICATIONS (in € million)

Outsourcing segment affected by restructuring • Revenues in the Outsourcing business came to € 36.8 million in the first quarter of the current financial year, down from € 39.4 million in the previous year's period. In this business unit, QSC is focusing even more closely than before on its core target group of medium-sized companies and is simultaneously pressing ahead with industrialising processes to facilitate more efficient service provision in its Outsourcing business.

The Company expects this ongoing restructuring to generate visible success above all from the second half of 2015 onwards. Having said this, cost of revenues fell year-on-year by € 1.8 million to € 26.1 million in the past quarter already. Gross profit thus totalled € 10.7 million, as against € 11.5 million in the first quarter of 2014. Accompanied by stable sales and marketing expenses, the quarterly segment contribution fell year-on-year by € 0.8 million to € 7.7 million.

SEGMENT CONTRIBUTION, OUTSOURCING (in € million)

Consulting on growth course • In its personnel-intensive Consulting business, QSC managed to increase its revenues in the first quarter of 2015 by € 1.3 million to € 9.8 million. The cost of revenues, which mainly comprise personnel expenses, rose over the same period by € 1.2 million to € 8.4 million. Gross profit thus totalled € 1.5 million, as against € 1.4 million in the first quarter of 2014. Segment earnings for the period improved from € 0.9 million to € 1.0 million.

SEGMENT CONTRIBUTION, CONSULTING (in € million)

Cloud business still characterised by development work • In Cloud, its smallest business unit, QSC generated revenues of € 1.3 million in the first quarter of 2015, up from € 0.7 million in the previous year's quarter. The cost of revenues, mainly relating to expenses for developers, rose over the same period from € 1.6 million to € 2.0 million. As a result, gross profit improved to € -0.7 million, up from € -0.9 million in the first quarter of 2014. QSC simultaneously pressed ahead with the sales and marketing of internally developed cloud products. The corresponding costs rose to € 1.3 million, up from € 0.4 million in the previous year's period. The segment contribution therefore totalled € -2.1 million in the first quarter of 2015, compared with € -1.3 million in the previous year's period.

SEGMENT CONTRIBUTION, CLOUD (in € million)

FINANCIAL POSITION AND NET ASSETS

Positive operating cash flow • QSC generated a positive cash flow of € 3.8 million from operating activities in the first quarter of 2015, and that even though, unlike in the previous year, the Company significantly reduced its trade payables in the same period. The equivalent figure for the previous year amounted to € 10.5 million. At € 9.4 million, the cash flow from investing activities was slightly below the previous year's figure of € 9.7 million. The cash flow from financing activities came to € -2.1 million in the first quarter of 2015, as against € -1.9 million in the previous year's period.

Free cash flow of € -4.4 million • As expected, the free cash flow of € -4.4 million in the first quarter of 2015 fell short of the previous year's figure of € 4.6 million. The Company calculates this key management figure as the change in net liquidity/debt before acquisitions and distributions. The following table presents the relevant input factors as of the two reporting dates 31 March 2015 and 31 December 2014:

€ million	31 Mar. 2015	31 Dec. 2014
Liquidity		
Cash and cash equivalents	80.1	87.8
Available-for-sale financial assets	0.3	0.3
Liquidity	**80.4**	**88.1**
Interest-bearing liabilities		
Liabilities under financing and finance lease arrangements	(7.0)	(8.9)
Liabilities due to banks	(161.0)	(161.1)
Interest-bearing liabilities	**(168.0)**	**(170.0)**
Net debt	**(87.6)**	**(81.9)**

Reduction in interest-bearing liabilities

As is apparent from the table, liquidity thus decreased by € 7.7 million to € 80.4 million in the first quarter of 2015. Interest-bearing liabilities declined by € 2.0 million to € -168.0 million. As a result, net debt increased by € 5.7 million to € -87.6 million as of 31 March 2015.
The calculation of free cash flow reflects the financial strength of the operating business. In the first quarter of 2015, QSC made a conclusive payment of € 1.3 million in the context of a shareholder compensation claim to former shareholders of Broadnet AG, which was already merged into QSC in October 2007. Excluding this acquisition payment, the free cash flow for the first quarter of 2015 amounted to € -4.4 million.

70 percent of CAPEX was customer-related

Moderate level of capital expenditure • Capital expenditure (CAPEX) was limited to € 3.5 million in the first quarter of 2015, as against € 4.7 million in the previous year's period. Of this expenditure, 70 percent was customer-related, while the remaining 30 percent involved research and development, infrastructure and other property, plant and equipment. QSC continues to budget capital expenditure totalling around € 25 million for the 2015 financial year as a whole.

CAPITAL EXPENDITURE (in € million)

Solid balance sheet structure • Long-term assets amounted to € 247.4 million as of 31 March 2015, down from € 255.6 million as of 31 December 2014, and thus accounted for 63 percent of the total assets of € 390.1 million as of 31 March 2015. 37 percent of total assets at this date thus related to short-term assets, which declined from € 149.9 million at the end of 2014 to € 142.7 million as of 31 March 2015.
On the equity and liabilities side of the balance sheet, 37 percent of the Company's assets are financed with equity and 63 percent with debt capital. At the end of March 2015, shareholders' equity and long-term liabilities covered 130 percent of the value of long-term assets – a figure which reflects the solidity of the balance sheet.

Value of property, plant and equipment reduced by depreciation • The balance sheet as of 31 March 2015 includes property, plant and equipment of € 71.0 million, compared with a figure of € 76.2 million at the end of 2014. Amortisation also reduced the value of other intangible assets by € 3.1 million to € 50.6 million as of 31 March 2015.
Within short-term assets, trade receivables decreased to € 50.4 million, as against € 52.1 million as of 31 December 2014. Cash and cash equivalents came to € 80.1 million, down from € 87.8 million at the end of 2014 as, among other factors, QSC is traditionally obliged to make substantial advance payments for services offered by Deutsche Telekom in the first quarter of each financial year.

Stable equity ratio • Due above all to the negative consolidated net income, shareholders' equity fell to € 142.5 million as of 31 March 2015 compared with € 145.6 million at the end of 2014. The equity ratio amounted to 37 percent.
Long-term liabilities totalled € 179.2 million as of 31 March 2015, as against € 180.2 million at the end of 2014. The largest share of this item relates to long-term liabilities due to banks, which came to € 158.0 million as of 31 March 2015. In May 2014, QSC took up a promissory note loan of € 150 million.
Short-term liabilities, by contrast, showed a marked reduction to € 68.3 million as of 31 March 2015, down from € 79.7 million as of 31 December 2014. Trade payables, which fell by € 8.3 million to € 36.5 million, accounted for a decisive share of this reduction.

EMPLOYEES

Workforce downsizing already underway • At 1,666, the total number of employees at QSC as of 31 March 2015 fell short both of the figure for the previous year's quarter (1,705) and of the number of employees at the end of 2014 (1,697). As it takes effect, the cost-cutting programme now initiated will also have an increasingly marked impact on employee totals.

WORKFORCE

Overall, the Company plans to downsize its workforce by around 350 employees over the next two years. Irrespective of this, QSC will be recruiting ICT experts in high-growth business fields and for vacant positions on a highly selective basis and with the approval of the Management Board in each case. QSC will also be upholding its commitment to providing vocational training.

QSC remains just as committed to offering training

QSC appoints two cloud experts to its Management Board • Within the Company's strategy to become the leading German cloud provider, the Supervisory Board decided at the end of March 2015 to reorganise and enlarge the Management Board team. The Supervisory Board appointed Udo Faulhaber and Felix Höger to the Management Board. Udo Faulhaber, currently responsible for sales and marketing on the Management Board of Pironet NDH AG, will become Chief Sales Officer at QSC from 1 August 2015. A graduate in engineering, Faulhaber gained extensive experience in leading positions at Nixdorf, Bayer and Postbank, and above all as a successful company founder at NCC GmbH (later arxes AG). In 2008, Faulhaber joined Pironet NDH as a managing director, was appointed to the Management Board in 2012 and worked together with Felix Höger to turn the company into one of Germany's leading cloud service providers. As Chief Sales Officer, he will succeed Henning Reinecke, who left the Company as of 30 April 2015.
From 1 January 2016, Felix Höger will join the Management Board with responsibility for technology and operations. Höger already founded the service provider NDH during his training in 1995. In 2000, he merged this company with the software manufacturer Pironet to form today's Pironet NDH. As a pioneer and trailblazer for cloud computing among German SMEs, he successfully turned Pironet NDH from a network service and outsourcing provider into a successful and profitable cloud service provider. He stood down from his position as CEO of the publicly listed company Pironet NDH AG as of 31 December 2014.

OPPORTUNITY AND RISK REPORT

No material change in opportunity and risk situation • The first quarter of 2015 did not witness any material changes in the opportunities and risks presented in the 2014 Annual Report. Just like other risks or erroneous assumptions, however, the risks listed there could lead future actual earnings to deviate from QSC's expectations. Unless they constitute historic facts, all disclosures in this unaudited group interim report represent forward-looking statements. They are based on current expectations and forecasts concerning future events and may therefore change over time.

EVENTS AFTER THE REPORTING PERIOD

QSC is not aware of any events of material significance subsequent to the quarter under report that would require disclosure here.

OUTLOOK

QSC has budgeted EBITDA of more than € 40 million

QSC confirms forecast • Following the first quarter of 2015, which developed in line with expectations, QSC can confirm its full-year forecast for 2015 presented at the end of February. Accordingly, the Company expects to generate revenues of more than € 400 million, EBITDA of more than € 40 million and positive free cash flow.

Disparate developments in largest business unit of Telecommunications • Within Telecommunications, the largest segment, revenues with IP-based products for corporate customers will tend to develop stably. By contrast, revenues in the conventional TC business are expected to continue to decline due to market and regulatory factors. In the first half of 2015 in particular, the Outsourcing business will witness a far-reaching process of restructuring and focusing on medium-sized companies. Greater process industrialisation and a platform strategy are absolutely crucial for success in this market. Developers are working at full steam on a hybrid cloud solution. Following a good start to the year in its Consulting segment, QSC expects to see further positive developments. For Cloud, its fourth segment, the Company has not yet budgeted any material revenues for the current year.

Gradual improvement in earnings performance • Compared with 2014, QSC expects to report increasing EBITDA in the 2015 financial year as a whole. The current cost-cutting and focusing programme is set to play a key role in this improvement. The budgeted staff cuts and further measures will generate savings of more than € 10 million in the course of 2015 already. These savings will be reflected above all in the figures for the third and fourth quarters of 2015. In its annual financial statements for 2014, the Company already recognised provisions totalling € 7.2 million for the budgeted cost-cutting measures.

Savings of more than € 10 million

Positive free cash flow despite outlays for staff cuts • The current cost-cutting and focusing program will still involve substantial outlays, especially for employee compensation payments, in the course of 2015. For 2015 as a whole, QSC nevertheless expects to generate a positive free cash flow figure.

The inflow of funds from operating activities will make a key contribution in this respect. This will be countered by a moderate volume of capital expenditure, amounting to around € 25 million and focusing in particular on three topics – customer projects, ongoing optimisation of IT operations and development. Given its inflow of funds from operating activities and existing liquidity, QSC sees itself as solidly financed for the current financial year.

Interim Consolidated Financial Statements

CONSOLIDATED STATEMENT OF INCOME (unaudited)

Euro amounts in thousands (€ 000s)

	01/01/–31/03/ 2015	01/01/–31/03/ 2014
Net revenues	**104,709**	**109,063**
Cost of revenues	(77,618)	(78,911)
Gross profit	**27,091**	**30,152**
Sales and marketing expenses	(9,283)	(8,466)
General and administrative expenses	(8,414)	(8,275)
Depreciation and non-cash share-based remuneration	(12,116)	(12,294)
Other operating income	294	221
Other operating expenses	(580)	(207)
Operating profit	**(3,008)**	**1,131**
Financial income	90	55
Financial expenses	(1,505)	(1,079)
Net income before income tax	**(4,423)**	**107**
Income tax	1,053	214
Net income	**(3,370)**	**321**
Earnings per share (basic) in €	**(0.03)**	**0.00**
Earnings per share (diluted) in €	**(0.03)**	**0.00**

CONSOLIDATED BALANCE SHEET

Euro amounts in thousands (€ 000s)

	31 Mar. 2015 (unaudited)	31 Dec. 2014 (audited)
ASSETS		
Long-term assets		
Property, plant and equipment	70,985	76,169
Land and buildings	25,704	25,915
Goodwill	67,077	67,077
Other intangible assets	50,562	53,684
Trade receivables	6,809	7,761
Prepayments	2,486	2,641
Other long-term assets	3,786	2,948
Deferred tax assets	19,998	19,377
Long-term assets	**247,407**	**255,572**
Short-term assets		
Trade receivables	50,434	52,145
Prepayments	8,164	6,493
Inventories	1,415	1,278
Other short-term assets	2,172	1,855
Available-for-sale financial assets	343	343
Cash and cash equivalents	80,126	87,803
Short-term assets	**142,654**	**149,917**
TOTAL ASSETS	390,061	405,489

	31 Mar. 2015 (unaudited)	31 Dec. 2014 (audited)
SHAREHOLDERS' EQUITY AND LIABILITIES		
Shareholders' equity		
Capital stock	124,142	124,142
Capital surplus	142,233	142,069
Other capital reserves	(2,877)	(3,066)
Accumulated deficit	(120,969)	(117,511)
Shareholders' equity	**142,529**	**145,634**
Liabilities		
Long-term liabilities		
Long-term liabilities under financing and finance lease arrangements	2,828	4,447
Liabilities due to banks	157,993	156,550
Convertible bonds	26	25
Accrued pensions	7,157	7,281
Other provisions	309	305
Other long-term liabilities	9,180	9,209
Deferred tax liabilities	1,728	2,333
Long-term liabilities	**179,221**	**180,150**
Short-term liabilities		
Trade payables	36,499	44,820
Short-term liabilities under financing and finance lease arrangements	4,183	4,427
Liabilities due to banks	2,957	4,518
Other provisions	8,609	10,883
Accrued taxes	2,020	1,757
Deferred income	4,410	3,900
Other short-term liabilities	9,633	9,400
Short-term liabilities	**68,311**	**79,705**
Liabilities	**247,532**	**259,855**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	390,061	405,489

CONSOLIDATED STATEMENT OF CASH FLOWS (unaudited)

Euro amounts in thousands (€ 000s)

	01/01/ – 31/03/ 2015	01/01/ – 31/03/ 2014
Cash flow from operating activities		
Net income before income tax	(4,423)	107
Depreciation and amortisation of fixed assets	11,952	12,169
Non-cash income and expenditure	164	125
Loss from disposal of fixed assets	4	7
Changes in provisions	(2,131)	(1,668)
Changes in trade receivables	2,661	(1)
Changes in trade payables	(2,425)	3,753
Changes in other assets and liabilities	(2,049)	(4,028)
Cash flow from operating activities	**3,753**	**10,464**
Cash flow from investing activities		
Purchase from acquisition of subsidiary less liquid assets acquired	-	(3,629)
Purchase of intangible assets	(3,839)	(2,840)
Purchase of property, plant and equipment	(5,521)	(3,230)
Cash flow from investing activities	**(9,360)**	**(9,699)**
Cash flow from financing activities		
Issuance of convertible bonds	1	-
Proceeds from issuance of common stock	-	179
Repayment of loans	(118)	(22)
Changes in advance payments relating to financing activities	(90)	-
Repayment of liabilities under financing and finance lease arrangements	(1,863)	(2,096)
Cash flow from financing activities	**(2,070)**	**(1,939)**
Change in cash and cash equivalents	**(7,677)**	**(1,174)**
Cash and cash equivalents as of 1 January	87,803	58,716
Cash and cash equivalents as of 31 March	**80,126**	**57,542**
Interest paid	1,184	1,305
Interest received	102	12
Income tax paid	737	1,515

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (unaudited)

Euro amounts in thousands (€ 000s)

	01/01/–31/03/ 2015	01/01/–31/03/ 2014
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 are not reclassified in the income statement	-	-
Line items that might subsequently be reclassified		
in the income statement		
Fair value measurement of cash flow hedges	278	-
Tax effect	(90)	-
Changes in unrealised fair values		
of available-for-sale financial assets	-	1
Line items that might subsequently be reclassified		
in the income statement	188	1
Total fair value changes (net of tax) recognised directly		
in equity (attributable to equity holders of QSC AG)	188	1
Net income for the period	(3,370)	321
Total comprehensive income for the period	(3,182)	322

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (unaudited)

Euro amounts in thousands (€ 000s)

	Equity attributable to equity holders of QSC AG				
			Other capital reserves		
	Capital stock	Capital surplus	Fair value of marketable securities	Actuarial gains / (losses)	Cash flow hedge reserve
Balance as of 1 January 2015	124,142	142,069	(1)	(1,590)	(1,475)
Net income for the period	-	-	-	-	-
Other comprehensive income for the period, net of tax	-	-	-	-	188
Total comprehensive income	-	-	-	-	188
Revaluation of financial liabilities relating to business acquisition	-	-	-	-	-
Non-cash share-based remuneration	-	164	-	-	-
Balance as of 31 March 2015	124,142	142,233	(1)	(1,590)	(1,287)
Balance as of 1 January 2014	124,057	141,286	(1)	(1,175)	-
Net income for the period	-	-	-	-	-
Other comprehensive income for the period, net of tax	-	-	1	-	-
Total comprehensive income	-	-	1	-	-
Conversion of convertible bonds	85	94	-	-	-
Non-cash share-based remuneration	-	125	-	-	-
Balance as of 31 March 2014	124,142	141,505	-	(1,175)	-

Accumulated deficit	Total share-holders' equity	
(117,511)	145,634	**Balance as of 1 January 2015**
(3,370)	(3,370)	Net income for the period
		Other comprehensive income
-	188	for the period, net of tax
(3,370)	(3,182)	**Total comprehensive income**
		Revaluation of financial liabilities relating
(87)	(87)	to business acquisition
-	164	Non-cash share-based remuneration
(120,968)	142,529	**Balance as of 31 March 2015**
(70,302)	193,865	**Balance as of 1 January 2014**
321	321	Net income for the period
		Other comprehensive income
-	1	for the period, net of tax
321	322	**Total comprehensive income**
-	179	Conversion of convertible bonds
-	125	Non-cash share-based remuneration
(69,981)	194,491	**Balance as of 31 March 2014**

Notes to the Interim Consolidated Financial Statements

CORPORATE INFORMATION

QSC AG (hereinafter also called "QSC" or "the Company") is a one-stop ICT service provider for medium-sized enterprises in Germany. Its customers benefit from a full range of products and services in the fields of Telecommunications, Outsourcing, Consulting and Cloud. QSC draws on internally developed platforms to integrate both traditional IT applications and Cloud services. This enables companies to select a secure, customised approach to the Cloud and the Internet of Things. QSC's proprietary infrastructure, comprising TÜV and ISO-certified data centres in Germany and its own nationwide voice data network, offers maximum end-to-end security for all applications. Products and services are marketed both directly and via 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 Cologne District Court under the number HRB 28281. QSC has been listed on the Deutsche Börse Stock Exchange since 19 April 2000 and, following the reorganisation of the equity market, in the Prime Standard since the beginning of 2003. On 22 March 2004, QSC was accepted into the TecDAX, which comprises the 30 largest and most liquid technology stocks in the Prime Standard.

ACCOUNTING POLICIES

1 Basis of preparation

These condensed and unaudited interim consolidated financial statements of QSC AG and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) with due application of International Accounting Standard (IAS) 34 "Interim Financial Reporting". The interim consolidated financial statements do not include all the information and disclosures required of annual financial statements and should therefore be read in conjunction with the consolidated financial statements as of 31 December 2014.
The interim consolidated financial statements include all of the adaptations deemed necessary by the Management Board to provide a true and fair view of the financial position, financial performance and cash flows of the consolidated group. The results for the reporting period ending on 31 March 2015 do not necessarily allow any conclusions to be drawn concerning future developments in results.

The accounting policies applied when preparing these interim consolidated financial statements are basically consistent with those applied when preparing the consolidated financial statements for the 2014 financial year.
IFRS amendments requiring mandatory application from the 2015 financial year onwards did not have any impact on the interim financial statements as of 31 March 2015.
The preparation of interim financial statements in accordance with IFRS requires certain estimates and judgements to be made that affect the amounts of assets and liabilities thereby recognised and the disclosures of contingent assets and liabilities as of the balance sheet date. Actual amounts may differ from these estimates. No material changes have arisen in the Management Board's assessment concerning application of accounting policies compared with the consolidated financial statements as of 31 December 2014.
Unless otherwise stated, all amounts have been rounded up or down to the nearest thousand euro amount (€ 000s).

2 Consolidation

The interim consolidated financial statements comprise the financial statements of QSC AG and of its subsidiaries as of 31 March 2015. There have been no changes in the scope of consolidation since 31 December 2014.

3 Financial instruments

The following table presents the carrying amounts and fair values of all financial instruments included in the interim consolidated financial statements with the exception of convertible bonds issued in connection with stock option programmes.

€ 000s	Classification category pursuant to IAS 39	Carrying amounts		Fair value	
		31/03/2015	31/12/2014	31/03/2015	31/12/2014
Financial instruments					
Cash and Cash Equivalents	LaR	80,126	87,803	80,126	87,803
Available-for-Sale Financial Assets	AFS	343	343	343	343
Long-Term Trade Receivables	LaR	6,809	7,761	6,809	7,761
Short-Term Receivables					
from Construction Contracts	LaR	-	875	-	875
Short-Term Trade Receivables	LaR	50,434	51,270	50,434	51,270
Trade Payables	FLAC	36,499	44,820	36,499	44,820
Liabilities due to Banks	FLAC	160,950	161,068	160,950	161,068
Liabilities under Financing					
and Finance Lease Arrangements	FLAC	7,011	8,874	7,202	9,039
Other Long-Term Liabilities					
Interest Swaps – Hedge Accounting	FV	2,133	2,262	2,133	2,262
Put Option, Minority Shareholders	FV	6,789	6,947	6,789	6,947
Other	FLAC	258	-	258	-
Other Liabilities	FLAC	9,633	9,400	9,633	9,400
Aggregated according to classification categories					
pursuant to IAS 39:					
Financial Assets Carried at Amortised Cost	LaR	137,369	147,709	137,369	147,709
Available-for-Sale Financial Assets	AFS	343	343	343	343
Financial Liabilities Measured at Amortised Cost	FLAC	214,351	224,162	214,542	224,327
Hedge Accounting	FV	2,133	2,262	2,133	2,262
Financial Liabilities Measured at Fair Value	FV	6,789	6,947	6,789	6,947

Abbreviations: LaR – Loans and Receivables / AFS – Available For Sale / FLAC – Financial Liabilities at Amortised Cost / FV – Fair Value

Cash and cash equivalents, available-for-sale assets and trade receivables predominantly have short remaining terms. Their carrying amounts as of the balance sheet date thus approximate to their fair values. The same applies for trade payables. The fair values of liabilities under financing arrangements and other short and long-term liabilities have been calculated using customary market interest rates. The fair values of available-for-sale financial assets have been determined by reference to market prices (Level 1 as per IFRS 13.76). The fair values of receivables from multiple-element arrangements have been determined by discounting the expected long-term payments using the interest rate for three-year industrial bonds (Level 3 as per IFRS 13.81).

€ 000s	From interests, dividends	Subsequent to initial recognition		Net gain (loss)	
		Allowance	At fair value	31/03/2015	31/03/2014
Loans and Receivables (LaR)	90	-	-	90	55
Available-for-Sale Financial Assets (AFS)	-	-	-	-	-
Financial Liabilities Measured at Amortised Cost (FLAC)	(1,505)	-	-	(1,505)	(1,079)
Financial Instruments Measured at Fair Value	(231)	-	-	(231)	-
Net results by classification category	**(1,646)**	**-**	**-**	**(1,646)**	**(1,024)**

4 Segment reporting

Consistent with IFRS 8 requirements, segments are delineated on the basis of the Company's internal organisational structure as referred to by the management for business decisions and performance assessments. As previously announced, QSC amended its segment reporting as of 1 January 2015. Since the beginning of the 2015 financial year, the previous segments of Direct Sales, Indirect Sales and Resellers have been superseded by segmentation based on product structures. Accordingly, the company now reports by reference to the following segments: Telecommunications, Outsourcing, Consulting and Cloud. This breakdown by product facilitates transparent presentation of the Company's performance in the high-growth Cloud market, which is now reported as a standalone segment. Furthermore, reporting Consulting and Outsourcing separately enables the performance and profitability of these two very different business fields to be presented in greater detail. The fourth segment comprises QSC's Telecommunications business. The new segmentation is based on the Company's internal management structure.
The products and services offered in the four segments are presented below.

Telecommunications • This segment comprises all voice and data communication products. The products on offer include asymmetric ADSL2+ lines, symmetric SDSL lines and premium internet access via wireless local loop (WLL) networks.
Many customers also use their internet connections for voice telephony. QSC offers IP telephony connections (Voice over IP) and the appropriate telephone systems. Furthermore, the range of services also includes further forms of voice telephony, including open call-by-call and preselect offerings and value added services.

Outsourcing • QSC offers its customers a full range of outsourcing services and concentrates here on services surrounding its own data centres within Germany. The key focus is on outsourcing infrastructure. Here, QSC assumes all IT operations and ensures a smooth and trouble-free service. The range of services includes operation of servers, appropriate firewall and security services, as well as their integration within secure and fast networking solutions. Moreover, QSC offers a broad portfolio of data centre services, from providing infrastructure in the form of housing and hosting through to building and operating proprietary data centres for customers. QSC's virtual private networks (VPNs) ensure that data can be securely exchanged among data centres, company outlets and branches, as well as with teleworkers, field staff, partners and suppliers. In addition, the Company also maintains a service desk to support users, as well as an SAP and Microsoft application service. Here, QSC employees maintain customers' systems and work consistently on developing them further. If so desired, QSC can also assume IT operations management and thus responsibility for secure operations independently of infrastructure outsourcing. This may also involve operating the relevant SAP or Microsoft environment, database management systems, collaboration services and/or platforms for mobile devices.

Consulting • QSC has longstanding experience in advising companies on how to optimise their business processes with two key focuses on SAP and Microsoft. As well as applications development and SAP system customisation, the project work performed in the SAP environment also includes optimising key business processes and reporting.
For Microsoft applications and technologies, the focus is on implementing cloud services with the assistance of Microsoft Private Cloud solutions and the use of communication and collaboration solutions. In general, Consulting is set to play a key role in migrating customers' ICT into the cloud age.

Cloud • QSC is pursuing the strategy of systematically extending its range of services to include internally developed products and accessing new business fields. The focus here is on software-as-a-service (SaaS) and platform-as-a-service (PaaS) solutions for the cloud age. The solucon platform serves as a basis for numerous innovations.
QSC already offers mobile and scalable workplace components as SaaS services. These include unified communication (UC) and collaboration solutions, a cloud-based virtual workplace and the smart management of mobile devices. With its takeover of a majority interest in the encryption specialist FTAPI in February 2014, the Company extended its portfolio to include products for the ultra-secure transmission and storage of critical company data.

The segment contribution is the key segment performance indicator referred to by the management. This is defined as EBITDA before general administration expenses, other operating income and expenses, interest and taxes in accordance with IFRS. For income statement purposes, the cost of revenues is thus allocated in full to the respective segment, as are sales and marketing expenses. The direct and indirect allocation of costs to individual segments is consistent with internal reporting and management structures. Indirect allocation of costs is primarily based on resource utilisation by the respective segments. The Management Board does not receive any regular information about segment-specific capital expenditure, assets and liabilities, general administration expenses, depreciation and amortisation and other operating income and expenses as components of the respective segment earnings figures.
The comparative figures stated in the table for the 1st quarter of 2014 have been determined in accordance with the new delineation of segments.

€ 000s	Telecommunications	Outsourcing	Consulting	Cloud	Consolidated Group
01/01/–31/03/2015					
Net revenues	56,817	36,808	9,815	1,269	104,709
Cost of revenues	(41,150)	(26,106)	(8,355)	(2,007)	(77,618)
Gross profit	15,667	10,702	1,460	(738)	27,091
Sales and marketing expenses	(4,513)	(2,973)	(458)	(1,339)	(9,283)
Segment contribution	11,154	7,729	1,002	(2,077)	17,808
General and administrative expenses					(8,414)
Depreciation and non-cash share-based remuneration					(12,116)
Other operating income					(286)
Operating loss (EBIT)					(3,008)
Financial income					90
Financial expenses					(1,505)
Net income before income tax					(4,423)
Income tax					1,053
Net income					(3,370)

€ 000s	Telecommunications	Outsourcing	Consulting	Cloud	Consolidated Group
01/01/–31/03/2014					
Net revenues	60,362	39,420	8,557	724	109,063
Cost of revenues	(42,168)	(27,921)	(7,185)	(1,637)	(78,911)
Gross profit	18,194	11,499	1,372	(913)	30,152
Sales and marketing expenses	(4,626)	(3,005)	(447)	(388)	(8,466)
Segment contribution	13,568	8,494	925	(1,301)	21,686
General and administrative expenses					(8,275)
Depreciation and non-cash share-based remuneration					(12,294)
Other operating income					14
Operating profit (EBIT)					1,131
Financial income					55
Financial expenses					(1,079)
Net income before income tax					107
Income tax					214
Net income					321

5 Stock option programme

The stock option programmes incepted in previous years have been continued as planned. No convertible bonds were converted in the first three months of the 2015 financial year.

6 Dividend

The Management and Supervisory Boards have resolved to propose the payment of a dividend of € 0.10 per share for approval by the Annual General Meeting in May 2015.

7 Legal disputes

The Company is currently not involved in any material legal disputes.

8 Related party transactions

QSC had business dealings in the first three months of the 2015 financial year with companies in which members of its Management and Supervisory Boards are shareholders. IAS 24 states that individuals or companies are related parties when one of the parties has the possibility of controlling or exerting significant influence over the other party. All contracts with these companies require the approval of the Supervisory Board and are concluded on customary market terms.
IN-telegence GmbH is a provider of value-added services in the telecommunications industry and mainly uses QSC's network services. Subsidiaries of QSC AG also draw to a minor extent on these value-added services offered by IN-telegence. Teleport Köln GmbH supports QSC in installing end-customer connections and draws on QSC's telecommunications services. Die QS Communication Verwaltungs Service GmbH advises QSC in connection with product management for voice products.

€ 000s	Net revenues	Expenses	Cash received	Cash paid
01/01/–31/03/2015				
IN-telegence GmbH	11	-	12	1
Teleport Köln GmbH	24	1	24	1
QS Communication Verwaltungs Service GmbH	-	-	-	-
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

€ 000s	Trade receivables	Trade payables
As of 31 March 2015		
IN-telegence GmbH	73	3
Teleport Köln GmbH	3	-
As of 31 December 2014		
IN-telegence GmbH	73	-
Teleport Köln GmbH	21	-

9 Management Board

	Shares		Conversion rights	
	31 Mar. 2015	31 Mar. 2014	31 Mar. 2015	31 Mar. 2014
Jürgen Hermann	240,000	225,000	350,000	200,000
Stefan A. Baustert (since 1 January 2015)	30,000 [1]	-	-	-
Henning Reinecke (from 1 Sept. 2013 to 30 April 2015)	5,000	1,000	150,000	-
Barbara Stolz (from 1 June 2013 to 31 Dec. 2014)	10,000 [2]	-	182,100 [2]	30,000
Stefan Freyer (from 1 Sept. 2013 to 31 March 2014)	-	-	-	-

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

Henning Reinecke, the Chief Sales Officer and responsible for the market-based development of the entire ICT range, left the company as of 30 April 2015. Within its strategy to become the leading cloud service provider to medium-sized enterprises in Germany, QSC will be restructuring and enlarging its Management Board team. QSC's Supervisory Board has appointed Udo Faulhaber as Chief Sales Officer as of 1 August 2015 and Felix Höger as Chief Technology and Operations Officer as of 1 January 2016.

10 Supervisory Board

	Shares		Conversion rights	
	31 Mar. 2015	31 Mar. 2014	31 Mar. 2015	31 Mar. 2014
Dr. Bernd Schlobohm, Chairman	15,518,372	15,518,372	200,000	200,000
Dr. Frank Zurlino, Deputy Chairman	10,000	10,000	-	-
Gerd Eickers	15,577,484	15,577,484	-	-
Ina Schlie	-	-	-	-
Anne-Dore Ahlers [1]	-	-	2,700	2,700
Cora Hödl [1]	-	-	4,100	4,100

[1] Employee representative

Cologne, May 2015

Jürgen Hermann
Chief Executive Officer

Stefan A. Baustert

Calendar

Annual Shareholders' Meeting
27 May 2015

Quarterly Reports
10 August 2015
9 November 2015

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For further information: www.qsc.de