QSC AG

QUARTERLY REPORT II/2014

QSC IS WORKING.

Key Data

All amounts in € million	01/04/–30/06/ 2014	01/04/–30/06/ 2013	01/01/–30/06/ 2014	01/01/–30/06/ 2013
Revenues	109.4	113.5	218.4	226.5
EBITDA	10.5	19.2	23.9	38.0
Depreciation / amortization [1]	12.5	12.6	24.8	25.2
EBIT	(2.0)	6.6	(0.8)	12.8
Net profit (loss)	(3.9)	5.2	(3.5)	10.3
Earnings per share [2] (in €)	(0.03)	0.04	(0.03)	0.08
Free cash flow	5.0	6.5	9.6	11.6
Capital expenditures (capex)	8.2	8.7	13.0	18.5
Capex ratio [3] (in %)	7.5	7.7	6.0	8.2
Liquidity			176.5 [4]	59.1 [5]
Equity			177.5 [4]	193.9 [5]
Long-term liabilities			245.5 [4]	103.3 [5]
Short-term liabilities			90.5 [4]	94.9 [5]
Balance sheet total			513.5 [4]	392.0 [5]
Equity ratio (in %)			34.6 [4]	49.5 [5]
Xetra closing price as of 30/06/ (in €)			3.14	2.78
Number of shares as of 30/06/			124,142,487	123,808,987
Market capitalization as of 30/06/			389.8	344.2
Employees as of 30/06/			1,712	1,615

[1] Including non-cash share-based remuneration

[2] Basic and diluted

[3] Ratio of capital expenditures to revenues

[4] As of June 30, 2014

[5] As of December 31, 2013

Highlights

Unfavorable revenue mix hurts results

Revenues in the second quarter of 2014 totaled € 109.4 million, as opposed to € 113.5 million for the same period one year earlier. While low-margin TC revenues saw less of a decline than had been planned, in spite of heightened regulation and sustained stiff pricing competition, higher-margin ICT business, especially IT Consulting business as well as sales of new ICT products, developed on a weaker note than had been anticipated. These shifts in the revenue mix had an additional impact on profitability: Consequently, EBITDA of € 10.5 million was down sharply from the previous year's level.

Bringing innovations to market takes time

Since 2013, QSC has been driving its innovation activities and regularly readying its own ICT developments for market. Although products like QSC-tengo and QSC-WiFi are meeting with keen interest on the part of potential customers and partners, in some cases it is taking more time than had been planned at the outset of the year to generate corresponding revenues. Over and above the indispensable training and certification of sales partners, this is sometimes also attributable to a hesitancy on the part of German small and mid-size enterprises to adopt innovations for the Cloud age.

QSC delivers the solution for free public WiFi.

One good example of the Company's innovative strength is QSC-WiFi – an unrivaled solution for planning and building a stable public or private wireless network. It affords customer-related landing pages, for example, thus opening up entirely new marketing opportunities for operators. Together with Thüga Metering Service GmbH, QSC is now building the first free WiFi network of its kind in the North Rhine-Westphalian town of Langenfeld.

QSC again honored twice as a Cloud Leader

In June 2014, the market researchers at the Experton Group named QSC a "Cloud Leader" in the two categories of "SME Cloud Services" and "Managed Private Cloud Services (IaaS)." This underscores QSC's ambition to become Germany's leading Cloud service provider. In substantiating its decision, Experton stressed among other things the fact that QSC can now offer the entire range of Cloud services, making it a perfect player for (high-end) small and mid-size enterprises.

QSC narrows guidance

Given the weaker course of business in the second quarter, QSC now anticipates that all key financial indicators for the full fiscal year will be at the lower end of the ranges announced in late February 2014. Revenues of around € 450 million, an EBITDA of around € 60 million as well as a free cash flow of around € 26 million will necessitate a sharp rise in sales of new ICT products during the second half of 2014 as well as a recovery in IT Consulting business.

Dear Shareholders,

When we reported to you and answered your questions at this year's Annual Shareholders Meeting in May, we were more optimistic about the further course of business then. As in previous years, IT Consulting business was expected to advance strongly before the summer vacation season. And in view of keen customer interest in our in-house developed ICT products, it appeared to be more a matter of weeks than months before corresponding revenues would be generated. Yet operating business in the second quarter of 2014 developed differently than had been expected. Higher-margin IT Consulting posted unusually low revenues, while low-margin conventional TC business did comparatively well. And with regard to our new products, it is ultimately taking more time than had been hoped for our sales partners to generate appreciable revenues. What's more, this business is additionally being hurt by the ongoing debate about data security: Many small and mid-size enterprises are currently postponing their decisions about utilizing Cloud services. The weaker second quarter of 2014 has prompted us to specify our forecast for the full 2014 fiscal year: We now anticipate that all key financial indicators will be at the lower end of the ranges announced in late February 2014. Revenues of around € 450 million, an EBITDA of around € 60 million, and a free cash flow of around € 26 million will necessitate a sharp rise in sales of new ICT products in the second half of 2014 along with a recovery by IT Consulting from its phase of weakness.

We are not satisfied with developments in recent weeks. We have therefore instituted measures at various levels. The "Clarity" program is serving to improve our profitability. We intend to enhance the strength and power of the entire organization through heightened cost transparency and greater efficiency. This objective is also being pursued through a comprehensive change management program. One major element of this is the reallocation of professionals and executives. In contrast to the past two years, QSC will be responding to stronger demand not primarily with new recruitment, but instead will first be reviewing whether the human resources needs cannot be covered internally.

New program serving to increase efficiency

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

QSC planning one or two additional acquisitions in 2014

Our primary focus continues to be on developing and marketing new, software-based products, because QSC's future lies in the ICT and Cloud markets. In-house developed products like QSC-tengo and QSC-WiFi stand for our greater in-house innovative strength. With solucon, QSC possesses an unrivaled Cloud platform for driving innovations aimed at digitizing production – Industry 4.0 – either alone or together with partners. And following the acquisition of the majority interest in encryption specialist FTAPI in February 2014, we still plan further acquisitions of smaller technology providers during the current fiscal year in order to additionally augment our innovative strength. The expertise that QSC enjoys in the Cloud age was most recently recognized when the Company was honored as a Cloud Leader in not just one but two categories by market research organization Experton in June 2014.

QSC is a Cloud Leader and during the coming quarters will be systematically broadening its competencies for the Cloud age. Nevertheless, the development of the course of business during the past quarter shows that it is taking longer than had originally been expected for this strong position in a promising market to truly pay off. Disappointment about a lack of news regarding progress in new lines of business has undoubtedly contributed to the sharp decline in QSC's trading prices in recent months. Conversely, successes with new products should lend new impetus to trading prices – because the strategy is working.

Until then, the dividend remains a key argument in favor of QSC shares: In spite of unsatisfactory developments during the past quarter, our announcement that we are planning to distribute a dividend of at least € 0.10 per share for fiscal 2014 continues to be valid. At this point, we would like to thank you for your trust and express the hope that you will continue to accompany our Company with such interest and a critical eye.

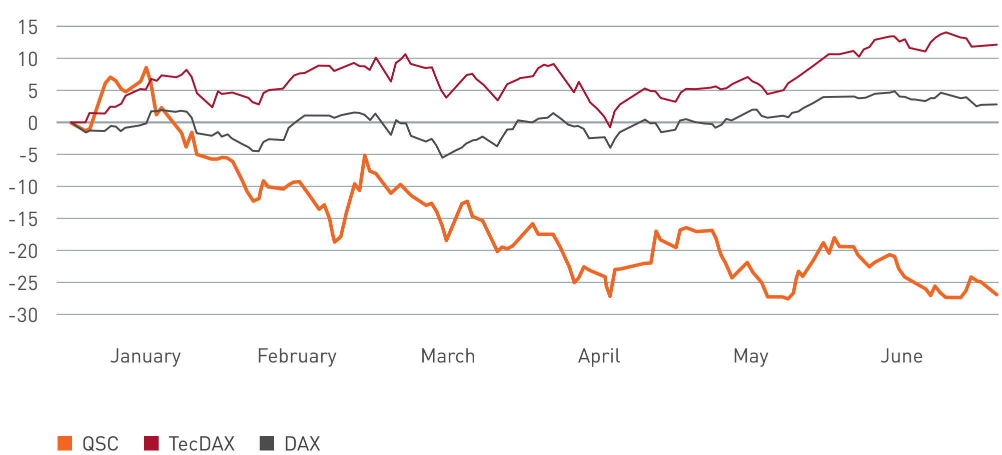
Cologne, August 2014

Jürgen Hermann Chief Executive Officer	Barbara Stolz	Henning Reinecke

QSC Share Performance

Record highs but no euphoria • For the first time in its history, the DAX index surpassed the 10,000-point hurdle during the second quarter of 2014; other stock market indices, too, have posted record highs in recent months. Yet this high level of trading prices was more the result of extremely low interest rates than positive operating developments at publicly traded corporations. Against this backdrop, even small uncertainty about the development of the global economy or the stability of the financial system pushed trading prices downward. Overall the DAX rose by merely 3 percent in the second quarter of 2014, while the TecDAX was up by 5 percent.

QSC SHARE PRICE PERFORMANCE IN H1 2014 (indexed)



Many investors hesitant about QSC • As in the preceding quarter, the development of trading prices for QSC shares was unable to keep pace with the market. Shares closed at € 3.14 on June 30, 2014, as opposed to € 3.62 as of March 31, 2014. On the one hand, this decline right at the outset of the quarter was a result of profit-taking on the part of investors after trading prices had doubled the year before. On the other hand, a growing number of investors were adopting a wait-and-see attitude, making purchases of QSC shares contingent upon implementation of the Company's innovation strategy and its successes in ICT and Cloud business. Nor did the majority of the twelve analysts who follow the Company see any immediate need for action; at the end of the quarter, seven analysts were ranking QSC shares as a Hold. On the other hand, there were four Buy recommendations and one Sell recommendation.

Four Buy and seven Hold recommendations for QSC shares

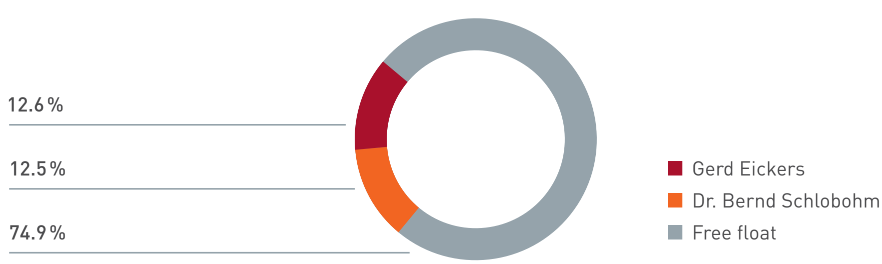
FINANCIAL INSTITUTIONS THAT PUBLISH STUDIES ON QSC

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

Quarterly trading volume up sharply year on year

This cautious attitude on the part of analysts and investors was also reflected in stock exchange trading volumes. On average, 638,000 QSC shares changed hands each day during the past quarter, as opposed to 1,030,000 shares for the preceding quarter. With trading prices declining, trading volume amounted to € 133.1 million, in contrast to € 256.9 million during the first three months of 2014. A comparison with trading volume of € 54.5 million for the same quarter one year earlier underscores investors' significantly greater interest in QSC shares in connection with the expansion of the Company's ICT and Cloud business.
There were virtually no changes in the structure of shareholdings during the second quarter of 2014. The Register of Shares shows that the number of shareholders remained virtually unchanged at 27,834, as opposed to 27,819 as of March 31, 2014. The largest shareholders were QSC's two founders, Gerd Eickers and Dr. Bernd Schlobohm, holding 12.6 percent and 12.5 percent, respectively. Neither has ever sold a single share of stock since the Company went public in the year 2000; on the contrary, they have even increased their shareholdings, most recently in March 2014.

SHAREHOLDER STRUCTURE AS OF JUNE 30, 2014



J O Hambro and Kempen Capital hold more than 5 percent of QSC shares • 74.9 percent of the Company's shares were widely held at the end of June 2014. The share of institutional investors in the free float declined by two percentage points to 59 percent. According to information available to QSC, Netherlands-based fund offerer Kempen Capital Management and UK-based J O Hambro Capital Management each held more than 5 percent of QSC shares at the end of June 2014. Moreover, Credit Suisse Fund Management again crossed the reportable threshold of 3 percent at the end of May 2014.

Interim Consolidated Report QII/2014

GENERAL ECONOMIC CONDITIONS

Setbacks in second quarter of 2014 • After getting off to a good start in 2014, the German economy developed on a more cautious note during the second quarter. Skepticism, especially in manufacturing, could be seen in the development of the ifo business climate index, for example. In June 2014, the industrial sector viewed its current situation as worse than in the preceding months, with expectations falling to their lowest level in more than six months.
However, these changes were unable to cloud the optimism in the ICT industry, at least for the time being. The BITKOM index, the economic index published by Germany's largest industry association, rose during the first half of 2014. Higher revenues were reported by IT service providers and software companies, in particular. On the other hand, companies like QSC, which cover the entire ICT spectrum, saw themselves confronted by a continued decline in TC business.

Sharp decline in conventional TC business • At mid-year 2014, BITKOM reported on the upheavals in the conventional TC market in an analysis based on data from the German Federal Network Agency. This analysis showed that the number of outgoing telephone calls in Germany had decreased by a total of 5 percent since 2010. This decline came solely at the expense of fixed network business, where the number of telephone minutes declined by 12 percent to this metric's most recent level of 169 billion.
In its analysis, the association criticizes the fact that fixed network providers were continuously being subjected to new regulatory intervention. A number of regulatory decrees issued by the German Federal Network Agency in November 2013 are reducing QSC's revenues in conventional TC business by some 2 million euros per quarter during the current fiscal year, and EBITDA by nearly 1 million euros per quarter.

COURSE OF BUSINESS

Shifts in revenue mix to the detriment of higher-margin lines of business • In the second quarter of 2014, QSC generated revenues of € 109.4 million, in contrast to € 113.5 million for the same quarter the year before. While low-margin TC revenues saw less of a decline than had been planned, in spite of heightened regulation and sustained stiff pricing competition, the Company's higher-margin ICT business, especially its IT Consulting business as well as sales of new ICT products, developed on a weaker note than had been anticipated. During the first six months of the current fiscal year, revenues thus totaled € 218.4 million, by comparison with € 226.5 million for the same period the year before.

New ICT products and IT Consulting weaker than expected

Largest business unit posts modest revenue gain • Direct Sales generated revenues of € 52.2 million in the second quarter of 2014, as opposed to € 50.3 million for the same quarter the year before. In contrast to previous years, the demand for IT Consulting services had not yet picked up following a traditionally weak first quarter. IT Outsourcing business, on the other hand, developed as anticipated, although it was unable to match the previous year's successes in new customer business. As a result, order bookings of € 23.6 million in the second quarter of 2014 in QSC's largest business unit were down from € 30.5 million for the same quarter the year before; after six months, new orders totaled € 50.9 million, in contrast to € 54.1 million one year earlier.

REVENUES, DIRECT SALES (in € million)

Following a quality review of the existing IT infrastructure, previously unplanned measures aimed at stabilizing and optimizing operational processes were swiftly instituted during the past quarter. This involved non-recurring expenses on the order of some two million euros.

SMEs hesitant about Cloud age innovations

Generating revenues with new ICT products taking longer than planned • In the second quarter of 2014, QSC generated revenues of € 29.7 million in Indirect Sales, as opposed to € 30.8 million for the same quarter the year before. However, new, in-house developed ICT products are not yet delivering the anticipated revenue contributions. While there is keen interest in products like QSC-tengo and QSC-WiFi on the part of both sales partners as well as end customers, it is nevertheless taking longer to generate corresponding revenues than had been planned at the outset of the year. Over and above the indispensable, time-consuming training and certification of sales partners, this is sometimes also attributable to hesitancy on the part of German small and mid-size enterprises to adopt innovations for the Cloud age.

REVENUES, INDIRECT SALES (in € million)

The fact that QSC is nevertheless on the right track was underscored when the Company was honored as a "Cloud Leader" in not just one but two categories by the market researchers at the Experton Group in June 2014. The experts pay tribute to companies that have highly attractive product and service offerings as well as strong market and competitive positions – and one of them is QSC.

Temporarily higher demand for IP-based voice products • In its third business unit, Resellers, QSC benefited from temporarily higher demand for IP-based voice products during the past quarter, enabling this business unit to generate revenues of € 27.5 million, up modestly from € 26.9 million for the preceding quarter. However, as expected, there was a renewed decline in revenues from their level of € 32.4 million in the second quarter of 2013 due to market and regulatory influences.

REVENUES, RESELLERS (in € million)

QSC places € 150-million promissory note loan • As announced, QSC optimized its financing structure and extended the terms of its financing in the second quarter of 2014. In this connection, the Company placed a debut promissory note loan in the amount of € 150 million with some 30 investors in Germany and other countries. It was offered with fixed and variable interest rates, as well as with terms of five and seven years. The spread between all offered tranches was at the lower end of the marketing range. QSC will be utilizing a portion of this new capital to replace a consortial credit facility running through September 2016. In the second quarter, the Company already utilized this new financing basis to redeem a factoring contract in the amount of € 11 million, which had been assumed in 2011 together with the majority interest in INFO AG. This redemption is presented separately in calculating free cash flow, as it is based upon an obligation stemming from acquisitions and represents merely a technical financial restructuring on the outside capital side.

Some 30 investors subscribe the debut promissory note loan

PROFITABILITY

Cost of revenues up sharply • While revenues declined by € 4.1 million to € 109.4 million in the second quarter of 2014, cost of revenues rose by € 6.1 million to € 81.6 million. Some of this discrepancy was attributable to the deterioration of revenue quality in the second quarter of 2014, which saw a higher share of lower-margin revenues.

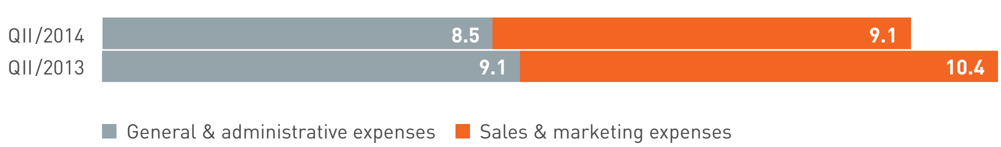
COST OF REVENUES (in € million)

Yet aside from this, there has been a rise in cost of revenues during the current fiscal year – essentially for three reasons: First, in 2014 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 been largely returned through year-end 2013. 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. And third, QSC is significantly increasing its development expenditures during the current fiscal year. Given these significantly higher costs of revenues, gross profit decreased to € 27.8 million in the second quarter of 2014, by comparison with € 37.9 million for the same quarter the year before.

Results hurt by higher personnel expense

Other operating expenses decline • Sales and marketing expenses amounted to € 9.1 million in the second quarter of 2014, in contrast to € 10.4 million one year earlier. General and administrative expenses of € 8.5 million also remained below the previous year's level of € 9.1 million. In its other operating expenses, QSC is benefiting from the streamlining of its administration following the merger of INFO AG and QSC AG, as well as from a growing percentage of its own marketing successes, as this means lower commission expenses.

GENERAL & ADMINISTRATIVE AND SALES & MARKETING EXPENSES (in € million)



EBITDA down sharply • The higher costs of revenues and, first and foremost, the elimination of the deferred income effect played a key role in impacting EBITDA in the second quarter of 2014, with this metric standing at € 10.5 million, as opposed to € 19.2 million for the same period the year before. The EBITDA margin amounted to 10 percent, down from 17 percent for the second quarter of 2013. After six months, EBITDA totaled € 23.9 million, by contrast with € 38.0 million for the same period one year earlier. 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)

At € 12.5 million in the second quarter of 2014, depreciation expense remained virtually unchanged from the previous year's level of € 12.6 million. Declining depreciation expense for capital investments in infrastructure is being offset by rising amortization expense on intangible assets, such as customer relationships and in-house developments. This produced an operating loss (EBIT) of € -2.0 million in the second quarter of 2014, by comparison with an operating profit of € 6.6 million the year before.

Promissory note loan increases financing expense • In entering into a promissory note loan in the amount of € 150 million, QSC placed its financing on an extremely sound, long-term foundation in the second quarter of 2014. However, the interest this involved increased financing expense in the second quarter of 2014; the financial result now amounts to € -1.6 million, in contrast to € -0.9 million for the same quarter the year before.

The consolidated net loss amounted to € -3.9 million, in contrast to a consolidated net profit of € 5.2 million in the second quarter of 2013; after six months, this metric stood at € -3.5 million, as opposed to € 10.3 million for the same period one year earlier. Given the higher cost of revenues and the investments in future lines of business that this involves, QSC had already planned a significant decline in profitability for the first half of 2014. Yet the unexpectedly poor revenue mix, coupled with non-recurring expenses, additionally hurt profitability in the second quarter of 2014.

Profitability decline in H1 2014 steeper than expected

QSC plans dividend of at least € 0.10 per share • The Company continues to be convinced that ongoing investments in future growth and the increased development of in-house software will provide a good basis for higher profitability and financial strength, and thus attractive dividend payments in the coming years. The dividend in the amount of € 0.10 per share that was paid for the 2013 fiscal year is serving as the minimum dividend amount.

PROFITABILITY BY SEGMENT

Significantly higher block of costs in Direct Sales • While revenues in Direct Sales rose by € 1.9 million year on year, cost of revenues increased by € 7.7 million to € 40.7 million. Some two million euros of this amount were attributable to non-recurring expenses during the past quarter. In addition, Direct Sales is incurring considerably higher personnel expense during the current fiscal year, as QSC had hired a significant number of additional experts for IT Outsourcing and IT Consulting business in 2013.

On the other hand, the other operating costs in Direct Sales were at or only marginally higher than the previous year's level. Given the significantly higher cost of revenues, EBITDA of € 4.6 million nevertheless was down sharply from the previous year's level of € 10.6 million. EBIT stood at € -1.6 million, by comparison with € 4.8 million for the same quarter the year before. Leaving the non-recurring expenses out of consideration, there was a moderately positive operating profit for the second quarter of 2014. A return to the customary high margins will necessitate a significant increase in IT Consulting business and that investments in additional staffing will provide a better payoff in this line of business.

Customary high profitability in Indirect Sales • While revenues in the second quarter of 2014 experienced a regulatory induced decline of € 1.1 million from the previous year's level, cost of revenues rose marginally by € 0.1 million to € 16.5 million in the second quarter of 2014, primarily as a result of the elimination of the deferred income effect. The other operating expenses were at or down modestly from the previous year's levels.

Declining revenues and expenses at approximately the same level decreased EBITDA slightly in the second quarter of 2014, with this metric standing at € 7.0 million in contrast to € 7.7 million for the same quarter the year before. EBIT totaled € 4.0 million, down from € 5.0 million in the second quarter of 2013. However, this means that Indirect Sales still earned an EBIT margin of 13 percent and an EBITDA margin of 24 percent, thus underscoring its position as the segment with the highest margins.

EBITDA margin of 24 percent in Indirect Sales

Stiff pricing competition and heightened regulation hurting Resellers • Revenues with resellers, stemming predominantly from conventional TC business, declined by € 4.9 million year on year to € 27.5 million. In view of the enormous pricing competition, on the other hand, cost of revenues was down by only € 1.7 million year on year to € 24.4 million. At the same time, there was a sharp decrease in sales and marketing expenses from € 2.9 million for the same quarter one year earlier to € 1.6 million, as commissions for new business are declining and QSC is focusing on collaborating with only a few strong partners.

Nevertheless, QSC was forced to incur a further decline in profitability in the Resellers business unit in the second quarter of 2014: EBITDA stood at € -1.1 million, as opposed to € 0.8 million for the same quarter one year earlier, while EBIT decreased from € -3.3 million to € -4.4 million.

FINANCIAL POSITION AND NET WORTH

High liquidity influxes stemming from placement of the promissory note loan • During the first half of 2014, QSC earned a cash flow of € 11.4 million from operating activities, in contrast to € 29.5 million for the same quarter one year earlier, as pre-tax income during this period was down € 14.3 million from the previous year's level. Cash used in investing activities stood at € -16.7 million, as opposed to € -16.3 million in the second quarter of 2013. Cash used in financing activities reached € 122.7 million, up from € -4.9 million for the same period one year earlier, as QSC had placed a € 150-million promissory note loan in the second quarter of 2014.

Free cash flow of € 9.6 million in first half of 2014 • In the second quarter of 2014, QSC earned a free cash flow of € 5.0 million; after six months, this central steering metric stood at € 9.6 million. Free cash flow represents the change in net liquidity/debt prior to acquisitions and distributions. The following table shows the relevant parameters in this connection as of June 30, 2014, and March 31, 2014:

in € million	June 30, 2014	Mar. 31, 2014
Liquidity	176.5	57.9
Interest-bearing liabilities		
Liabilities under financing and finance lease arrangements	(10.9)	(12.3)
Liabilities due to banks	(223.9)	(85.5)
Interest-bearing liabilities	(234.8)	(97.8)
Net debt	(58.3)	(39.9)

Accordingly, liquidity rose by € 118.6 million to € 176.5 million as a result of placement of the promissory note loan. For the same reason, interest-bearing liabilities increased by € 137.0 million to € -234.8 million. This increased net debt by € 18.4 million to € -58.3 million as of June 30, 2014. This rise was attributable solely to factors that did not relate to operating business, and thus remain out of consideration in calculating free cash flow. The distribution of the dividend following the Annual Shareholders Meeting on May 28, 2014, led to a cash burn of € 12.4 million. The announced redemption of a factoring contract that had been assumed upon acquiring the majority interest in INFO AG in 2011 produced a cash outflow of € 11.0 million. This results in the above-indicated free cash flow of € 5.0 million in the second quarter of 2014.

Capex ratio stands at 8 percent in second quarter • QSC invested € 8.2 million in the second quarter of this fiscal year, by comparison with € 8.7 million for the same period the year before; this correlates to a capital expenditures (capex) ratio of 8 percent of revenues. The majority of capital expenditures continue to be customer-related, accounting for 59 percent of total capital expenditures. 20 percent went to development projects, 14 percent to in-house technology and 7 percent to miscellaneous investments.

59 percent of expenditures customer-related

CAPITAL EXPENDITURES (in € million)

Placement of the promissory note loan changes balance sheet ratios • As of June 30, 2014, the value of long-term assets in the Consolidated Balance Sheet stood at € 270.0 million, in contrast to € 272.0 million as of December 31, 2013. They account for 53 percent of the balance sheet total of € 513.5 million as of June 30, 2014; at that point in time, 47 percent were attributable to short-term assets. Their value rose from € 120.0 million at year-end 2013 to € 243.5 million as of June 30, 2014, as QSC enjoys considerably higher liquidity following the placement of the promissory note loan.

Equity ratio of 35 percent as of June 30, 2014

On the Shareholders' Equity and Liabilities side, 35 percent of these assets are financed through shareholders' equity, 48 percent through long-term outside capital and only 17 percent through short-term liabilities. At the end of June 2014, shareholders' equity and long-term liabilities were covering 157 percent of the value of long-term assets – a clear manifestation of the soundness of the balance sheet.

Goodwill up following acquisition of FTAPI • The value of property, plant and equipment totaled € 83.8 million as of June 30, 2014, in contrast to € 93.9 million at year-end 2013. Regular amortization also reduced the value of other intangible assets by € 1.2 million to € 51.6 million. On the other hand, goodwill rose by € 9.5 million to € 85.8 million following the acquisition of FTAPI. Within short-term assets, trade receivables remained at the same level as at year-end 2013, totaling € 53.3 million as opposed to € 52.5 million as of December 31, 2013. On the other hand, cash and cash equivalents tripled to € 176.2 million as of June 30, 2014, as a result of the successful placement of the promissory note loan.

Sound financing • Shareholders' equity declined from € 193.9 million as of December 31, 2013, to € 177.5 million as of June 30, 2014, as the consolidated accumulated deficit had increased from € -70.3 million at year-end 2013 to € -86.3 million. This rise resulted from the consolidated net loss as well as from the fact that QSC records the dividend payment in the amount of € 12.4 million directly in consolidated accumulated deficit.

The placement of the promissory note loan in the amount of € 150 million increased long-term liabilities to € 245.5 million as of June 30, 2014, by comparison with € 103.3 million at year-end 2013. QSC presents the promissory note loan under liabilities due to banks, which rose from € 82.7 million as of December 31, 2013, to € 220.8 million as of June 30, 2014. Short-term liabilities of € 90.5 million, on the other hand, were down from € 94.9 million at year-end 2013.

Overall, QSC views itself as being very soundly financed for the coming years through placement of the promissory note loan. Its existing financing enables the Company to invest as planned in future fields of growth, possibly also acquiring smaller technology providers and enabling the shareholders to continue to participate in their Company's success.

HUMAN RESOURCES

Reallocation instead of recruitment • As of June 30, 2014, QSC was employing a workforce of 1,712 people, only seven more than as of March 31, 2014. Following the significant increase in the headcount last year, the Company is now focusing on optimizing the work of its existing professionals and executives during the current fiscal year. In connection with QSC's evolution into an ICT and Cloud provider and the growing importance of software business, the tasks and requirement profiles are changing in many departments. In recent months, QSC has developed a process to systematically tabulate existing qualifications and interests, on the one hand, and actual needs on the other. Utilizing appropriate continuing education and coaching, the Company is now working in a close dialogue with the affected individuals in order to drive the reallocation of employees.

Workforce rises by only seven people in Q2

WORKFORCE

REPORT ON OPPORTUNITIES AND RISKS

No major changes in opportunity and risk positions • During the second 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 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.

REPORT ON SUBSEQUENT EVENTS

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

OUTLOOK REPORT

QSC now anticipates revenues of around € 450 million • In view of the fact that the course of business in the second quarter of 2014 was weaker than had been expected and that delays were encountered in marketing innovations, QSC is narrowing its guidance for the full fiscal year that was announced on February 26, 2014, and now anticipates that all key financial indicators will be at the lower end of the ranges originally announced. Revenues of around € 450 million, an EBITDA of around € 60 million as well as a free cash flow of around € 26 million will necessitate a sharp rise in sales of innovative ICT products in the second half of 2014 as well as a recovery in IT Consulting business.

QSC anticipating normalization of revenue mix

Disproportionate rise in profitability in second half of 2014 • QSC expects to see a normalization of the revenue mix during the second half of 2014. Sharply rising higher-margin ICT revenues will then offset market- and regulatory-induced declines in lower-margin TC revenues. This kind of better revenue quality, along with rising revenues with in-house developed and thus especially high-margin ICT products, will enable a disproportionate rise in profitability.
Two factors must continue to be taken into consideration in comparing profitability in fiscal 2013 and 2014: Declining TC revenues as well as heightened pricing competition, especially in ADSL2+ business, are expected to hurt EBITDA in 2014 by a total of nearly € 10 million. Moreover, in 2014 QSC is no longer benefiting in the amount of some € 20 million per year from the return of a deferred line item as income, which had been formed in connection with a payment by former Plusnet co-shareholder TELE2 and had been returned on a periodic basis through fiscal 2013.

QSC launches program to enhance efficiency • With a view to the weaker results in the second quarter of 2014, QSC is launching a program aimed at increasing efficiency. With the support of external consultants, the Company intends to create even greater cost transparency, exploit potential for more efficiency and thus ultimately further enhance the organization's strength and power. Based upon a comprehensive analysis, the program will initially focus on efficiency gains in Administration and selected operational areas.

At the same time, the Company is also again scrutinizing the processes in innovation management. The objective is to accelerate the process of bringing innovations to market and to assure that keen interest on the part of customers translates more than in the past into corresponding revenues. To this end, QSC is also strengthening its interaction with potential customers in order to determine their needs and budgeting even sooner than in the past.

QSC continuing to invest in future fields of growth

Extremely sound financing • In the second half of 2014, QSC will again be investing in future fields of growth and enhancing its innovative strength. The Company is pursuing the objective establishing itself as a leading Cloud service provider in Germany over the medium term and utilizing its in-house developed products and software to simplify the transition to the Cloud age for small and mid-size enterprises in particular. In addition to in-house developments, the Company is also using acquisitions for this purpose; QSC already acquired encryption specialist FTAPI in February 2014. With the placement of a € 150-million promissory note loan and a positive free cash flow, QSC views itself as being very well financed for these planned investments in future growth.

Interim Consolidated Financial Statements

CONSOLIDATED STATEMENT OF INCOME (unaudited)

Euro amounts in thousands (K€)

	01/04/–30/06/ 2014	01/04/–30/06/ 2013	01/01/–30/06/ 2014	01/01/–30/06/ 2013
Net revenues	**109,385**	**113,452**	**218,448**	**226,464**
Cost of revenues	(81,599)	(75,514)	(160,510)	(150,961)
Gross profit	**27,786**	**37,938**	**57,938**	**75,503**
Sales and marketing expenses	(9,073)	(10,372)	(17,539)	(20,231)
General and administrative expenses	(8,504)	(9,115)	(16,779)	(17,327)
Depreciation and non-cash share-based remuneration	(12,465)	(12,579)	(24,759)	(25,162)
Other operating income	285	729	506	848
Other operating expenses	10	(22)	(197)	(783)
Operating profit (loss)	**(1,961)**	**6,579**	**(830)**	**12,848**
Financial income	29	79	84	161
Financial expenses	(1,615)	(941)	(2,694)	(2,076)
Net profit (loss) before income tax	**(3,547)**	**5,717**	**(3,440)**	**10,933**
Income tax	(312)	(483)	(98)	(628)
Net profit (loss)	(3,859)	5,234	(3,538)	10,305
Earnings per share (basic) in €	**(0.03)**	**0.04**	**(0.03)**	**0.08**
Earnings per share (diluted) in €	**(0.03)**	**0.04**	**(0.03)**	**0.08**

CONSOLIDATED BALANCE SHEET (unaudited)

Euro amounts in thousands (K€)

	June 30, 2014	Dec. 31, 2013
ASSETS		
Long-term assets		
Property, plant and equipment	83,831	93,869
Land and buildings	26,298	26,766
Goodwill	85,808	76,265
Other intangible assets	51,634	52,809
Trade receivables	5,859	5,223
Prepayments	1,384	2,226
Other long-term assets	311	349
Deferred tax assets	14,924	14,541
Long-term assets	**270,049**	**272,048**
Short-term assets		
Trade receivables	53,279	52,539
Prepayments	8,037	5,070
Inventories	2,131	1,746
Other short-term assets	3,552	1,565
Available-for-sale financial assets	343	343
Cash and short-term deposits	176,154	58,716
Short-term assets	**243,496**	**119,979**
TOTAL ASSETS	513,545	392,027

	June 30, 2014	Dec. 31, 2013
SHAREHOLDERS' EQUITY AND LIABILITIES		
Shareholders' equity		
Capital stock	124,142	124,057
Capital surplus	141,634	141,286
Other capital reserves	(1,962)	(1,176)
Consolidated accumulated deficit	(86,313)	(70,302)
Shareholders' equity	**177,501**	**193,865**
Liabilities		
Long-term liabilities		
Long-term liabilities under financing		
and finance lease arrangements	6,165	8,835
Liabilities due to banks	220,840	82,697
Convertible bonds	20	19
Accrued pensions	6,861	6,765
Other provisions	357	370
Deferred income	607	712
Other long-term financial liabilities	6,770	-
Deferred tax liabilities	3,912	3,912
Long-term liabilities	**245,532**	**103,310**
Short-term liabilities		
Trade payables	59,320	58,002
Short-term liabilities under financing		
and finance lease arrangements	4,782	5,530
Liabilities due to banks	3,043	2,868
Other provisions	1,972	2,655
Accrued taxes	1,921	3,068
Deferred income	3,059	4,238
Other short-term liabilities	16,415	18,491
Short-term liabilities	**90,512**	**94,852**
Liabilities	**336,044**	**198,162**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	513,545	392,027

CONSOLIDATED STATEMENT OF CASH FLOWS (unaudited)

Euro amounts in thousands (K€)

	01/01/ – 30/06/ 2014	01/01/ – 30/06/ 2013
Cash flow from operating activities		
Net profit (loss) before income tax	(3,440)	10,933
Depreciation and amortization of fixed assets	24,505	25,024
Non-cash income and expenditure	317	138
Loss from disposal of fixed assets	-	17
Changes in provisions	(2,233)	(2,383)
Changes in trade receivables	(1,307)	10,827
Changes in trade payables	1,297	1,537
Changes in other assets and liabilities	(7,716)	(16,551)
Cash flow from operating activities	**11,423**	**29,542**
Cash flow from investing activities		
Proceeds from acquisition of subsidiary less liquid assets acquired	(3,629)	-
Purchase of intangible assets	(7,082)	(6,368)
Purchase of property, plant and equipment	(5,940)	(9,938)
Cash flow from investing activities	**(16,651)**	**(16,306)**
Cash flow from financing activities		
Dividends paid	(12,414)	(11,138)
Issuance of convertible bonds	1	9
Proceeds from issuance of common stock	179	168
Proceeds from loans granted	138,318	8,834
Repayment of liabilities under financing		
and finance lease arrangements	(3,418)	(2,760)
Cash flow from financing activities	**122,666**	**(4,887)**
Changes in cash and short-term deposits	**117,438**	**8,349**
Cash and short-term deposits as of January 1	58,716	34,820
Cash and short-term deposits as of June 30	**176,154**	**43,169**
Interest paid	1,690	1,403
Interest received	37	172
Income tax paid	2,756	1,329
Income tax received	89	-

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (unaudited)

Euro amounts in thousands (K€)

	01/01/–30/06/ 2014	01/01/–30/06/ 2013
Other comprehensive income (loss)		
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	-	-
Changes in cash flow hedge reserve (including deferred taxes)	(786)	-
Other comprehensive loss	**(786)**	**-**
Net profit (loss) for the period	(3,538)	10,305
Total comprehensive income (loss) for the period	**(4,324)**	**10,305**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (unaudited)

Euro amounts in thousands (K€)

	Equity attributable to equity holders of QSC AG					
	Capital stock	Capital surplus	Revaluation reserve	Cash flow hedge reserve	Consolidated accumulated deficit	Total
Balance as of January 1, 2014	**124,057**	**141,286**	**(1,176)**	**-**	**(70,302)**	**193,865**
Net loss for the period	-	-	-	-	(3,538)	(3,538)
Other comprehensive loss for the period, net of tax	-	-	-	(786)	(59)	(845)
Total comprehensive loss	**-**	**-**	**-**	**(786)**	**(3,597)**	**(4,383)**
Conversion of convertible bonds	85	94	-	-	-	179
Dividends	-	-	-	-	(12,414)	(12,414)
Non-cash share-based remuneration	-	254	-	-	-	254
Balance as of June 30, 2014	124,142	141,634	(1,176)	(786)	(86,313)	177,501
Balance as of January 1, 2013	**123,677**	**140,542**	**(1,207)**	**-**	**(82,776)**	**180,236**
Net profit for the period	-	-	-	-	10,305	10,305
Withdrawal of treasury shares	-	13,630	-	-	(13,630)	-
Conversion of convertible bonds	132	36	-	-	-	168
Dividends	-	-	-	-	(11,138)	(11,138)
Non-cash share-based remuneration	-	138	-	-	-	138
Balance as of June 30, 2013	123,809	154,346	(1,207)	-	(97,239)	179,709

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 data 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 June 30, 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 exceptions described below.

Derivative financial instruments • During the past quarter, QSC entered into derivative financial instruments in the form of interest rate swaps serving to hedge the risk of fluctuations in interest payments.
Derivative financial instruments are stated at their fair value at the time the contract is entered into and at the fair values during the subsequent periods. If the fair values are positive, they are stated as assets; if the fair values are negative, they are reported as other financial liabilities. The fair value of interest rate derivatives is determined on the basis of present value models, taking into consideration market information (interest rate structure curves).

Hedging relationships • The rules applicable to accounting hedging transactions in accordance with IAS 39 are applied in determining the changes in value of the fair values stemming from interest rate derivatives. The effective element of the changes in fair value of the hedging instrument are recorded under shareholders' equity (cash flow hedge reserve), without any impact on the income statement. Ineffectiveness arising from the hedging relationship is recorded in the income statement. The effectiveness measurement upon which this is based is performed as per every balance sheet date on the basis of the hypothetical derivative method. The amounts recorded in the cash flow hedge reserve are reclassified during the period to the income statement in which the hedged transaction impacts the result.

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 June 30, 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 June 30, 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 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 fair values 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 June 30, 2014:

in K€	June 30, 2014
Costs of acquisition	3,056
Fair value of financial liability under the sell option	5,616
Total costs of acquisition	**8,672**
Less fair value of net assets (provisionally determined)	(872)
Goodwill	**9,544**

Identification of the acquired assets and liabilities, as well as determination of their 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 June 30, 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 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 June 30, 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 June 30, 2014, would not have been material relative to the consolidated group's revenues and profitability.

3 Financial liabilities

QSC entered into a promissory note loan in the amount of € 150 million in the second quarter of 2014. Together with the promissory note loan, QSC entered into three interest rate swaps. The notational amount totals K€ 87,500 with a term running through May 20, 2019 (notational amount K€ 76,500) and May 20, 2021 (notational amount K€ 11,000). The interest rate swaps were entered into to hedge the interest rate risk arising from the variable interest rate tranches of the promissory note loan and satisfy the requirements of IAS 39 for hedge accounting. The negative fair value as per June 30, 2014, amounted to K€ 839 (including deferred interest of K€ 53). It is stated in other long-term liabilities.

4 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	
		June 30, 2014	Dec. 31, 2013	June 30, 2014	Dec. 31, 2013
Financial instruments					
Cash and Short-term Deposits	ACAC	176,154	58,716	176,154	58,716
Available-for-sale Financial Assets	AFS	343	343	343	343
Long-Term Trade Receivables	ACAC	5,859	5,223	5,389	5,439
Short-Term Trade Receivables	ACAC	53,279	52,539	53,279	52,539
Trade Payables	FLAC	59,320	58,002	59,320	58,002
Liabilities due to Banks	FLAC	223,883	85,565	224,395	85,565
Liabilities under Financing and Finance	FLAC	10,947	14,365	10,766	14,556
Other long-term financial liabilities					
Interest Rate Swaps – Hedge Accounting	HA	839	-	839	-
Put Options granted to Minority Shareholders	FV	5,676	-	5,676	-
Others	FLAC	255	-	255	-
Other Short- and Long-Term Liabilities	FLAC	16,415	18,491	16,415	18,491
Aggregated according to classification categories					
pursuant to IAS 39:					
Financial Assets Carried at Amortised Cost	ACAC	235,292	116,478	236,106	116,694
Available-for-sale Financial Assets	AFS	343	343	343	343
Financial Liabilities Measured at Amortised Cost	FLAC	310,820	176,423	311,151	176,614
Hedge Accounting	HA	839	-	839	-
Financial Liabilities at Fair Value	FV	5,676	-	5,676	-

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. 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 loss	
		Allowance	At fair value	June 30, 2014	Dec. 31, 2013
Assets carried at Amortised Cost (ACAC)	84	(125)	-	(41)	698
Financial Liabilities measured at Amortised Cost (FLAC)	(2,398)	-	-	(2,398)	(3,978)
Hedge Accounting (HA)					
Recorded in Balance Sheet	-	-	(786)	(786)	-
Recorded in Income Statement	(53)	-	-	(53)	-
Net results by classification category	(2,367)	(125)	(786)	(3,278)	(3,280)

5 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.

in K€	Direct Sales	Indirect Sales	Resellers	Reconciliation	Consolidated
01/04/ – 30/06/2014					
Net revenues	**52,164**	**29,747**	**27,474**	**-**	**109,385**
Cost of revenues	(40,660)	(16,499)	(24,440)		(81,599)
Gross profit	**11,504**	**13,248**	**3,034**	**-**	**27,786**
Sales and marketing expenses	(3,900)	(3,568)	(1,605)		(9,073)
General and administrative expenses	(3,106)	(2,699)	(2,699)		(8,504)
Depreciation and amortization	(6,084)	(2,952)	(3,300)		(12,336)
Non-cash share-based remuneration	(79)	(28)	(22)		(129)
Other operating income	61	32	202		295
Operating profit (loss)	**(1,604)**	**4,033**	**(4,390)**	**-**	**(1,961)**
Assets	268,597	154,951	75,073	14,924	513,545
Liabilities	126,814	84,524	120,794	3,912	336,044
Capital expenditures	6,417	1,069	742	-	8,228

in K€	Direct Sales	Indirect Sales	Resellers	Reconciliation	Consolidated
01/04/ – 30/06/2013					
Net revenues	**50,289**	**30,786**	**32,377**	**-**	**113,452**
Cost of revenues	(33,021)	(16,397)	(26,096)		(75,514)
Gross profit	**17,268**	**14,389**	**6,281**	**-**	**37,938**
Sales and marketing expenses	(3,903)	(3,564)	(2,905)		(10,372)
General and administrative expenses	(2,867)	(3,211)	(3,037)		(9,115)
Depreciation and amortization	(5,752)	(2,695)	(4,082)		(12,529)
Non-cash share-based remuneration	(18)	(16)	(16)		(50)
Other operating income	79	132	496		707
Operating profit (loss)	**4,807**	**5,035**	**(3,263)**	**-**	**6,579**
Assets	197,620	109,296	64,453	11,181	382,550
Liabilities	73,063	44,888	80,246	4,644	202,841
Capital expenditures	6,019	1,620	1,053	-	8,692

in K€	Direct Sales	Indirect Sales	Resellers	Reconciliation	Consolidated
01/01/ – 30/06/2014					
Net revenues	**104,158**	**59,880**	**54,410**	**-**	**218,448**
Cost of revenues	(77,715)	(34,679)	(48,116)		(160,510)
Gross profit	**26,443**	**25,201**	**6,294**	**-**	**57,938**
Sales and marketing expenses	(7,464)	(6,884)	(3,191)		(17,539)
General and administrative expenses	(6,103)	(5,339)	(5,337)		(16,779)
Depreciation and amortization	(11,934)	(5,842)	(6,729)		(24,505)
Non-cash share-based remuneration	(156)	(56)	(42)		(254)
Other operating income	15	42	252		309
Operating profit (loss)	**801**	**7,122**	**(8,753)**	**-**	**(830)**
Assets	268,597	154,951	75,073	14,924	513,545
Liabilities	126,814	84,524	120,794	3,912	336,044
Capital expenditures	8,105	2,675	2,195	-	12,975

in K€	Direct Sales	Indirect Sales	Resellers	Reconciliation	Consolidated
01/01/ – 30/06/2013					
Net revenues	**100,878**	**61,273**	**64,313**	**-**	**226,464**
Cost of revenues	(66,049)	(32,749)	(52,163)		(150,961)
Gross profit	**34,829**	**28,524**	**12,150**	**-**	**75,503**
Sales and marketing expenses	(8,364)	(7,279)	(4,588)		(20,231)
General and administrative expenses	(5,801)	(6,171)	(5,355)		(17,327)
Depreciation and amortization	(11,286)	(5,421)	(8,317)		(25,024)
Non-cash share-based remuneration	(49)	(45)	(44)		(138)
Other operating income	28	103	(66)		65
Operating profit (loss)	**9,357**	**9,711**	**(6,220)**	**-**	**12,848**
Assets	197,620	109,296	64,453	11,181	382,550
Liabilities	73,063	44,888	80,246	4,644	202,841
Capital expenditures	12,013	3,464	2,992	-	18,469

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.

6 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 six months of 2014.

7 Dividend

On May 28, 2014, the Annual Shareholders Meeting of QSC resolved to pay a dividend in the amount of € 0.10 per share of no-par stock entitled to receive dividends. Totaling € 12,414,248.70, the dividend was distributed on May 29, 2014.

8 Litigation

In a judicial review proceeding ("Spruchverfahren") at the Hamburg Regional Court („Landgericht") 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. In its decision on June 19, 2014, the Hamburg Regional Court ruled to deny the appeals and referred the matter to the Hamburg Higher Regional Court ("Oberlandesgericht") for decision.
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.
In the judicial review proceeding brought before the Hamburg Regional Court by 30 former minority shareholders of Broadnet AG, it was ruled on September 20, 2013, that QSC must pay an additional contribution in cash of € 0.96 per share to all former minority shareholders of Broadnet AG (in total 999,359 shares). The additional contribution in cash is subject to interest at 2 percentage points above the base rate with effect from December 31, 2007, and at 5 percentage points above the base rate with effect from September 1, 2009. The costs of the proceedings are to be borne by QSC. The total amount of the additional contribution in cash amounting to K€ 959 plus interest corresponds to the provision recognized by QSC. Three petitioners filed an immediate appeal against this ruling with the Hamburg Higher Regional Court. Moreover, the ruling of the Hamburg Regional Court was not able to be served on several petitioners. Since the term for filing an immediate appeal commences upon service, the term has not yet expired for these petitioners. QSC has moved that the decision be served on the petitioners in question through public notice. The appeals already lodged had been rejected by the Hamburg Higher Regional Court in its decisions on May 15, 2014, and May 21, 2014, which means that the decision of the Hamburg Regional Court of September 20, 2013, remains valid. However, since, as indicated above, it was not able to be served on all petitioners, the decision is still not yet final.
All minority shareholders of Broadnet AG had originally received 12 QSC shares for 11 Broadnet shares when Broadnet AG was merged with QSC, corresponding to an exchange ratio of 1 Broadnet share to 1.0908 QSC shares. In addition to the shares received, the applicants sought an additional cash payment and – in the court of first instance – were successful. If the payment of an additional cash payment becomes valid in law, this would also have to be paid to all former minority shareholders of Broadnet AG, who held Broadnet shares on the date when the merger took legal effect. A provision has been recognized for these proceedings.

9 Related party transactions

During the first six months of the 2014 fiscal year, 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/–30/06/2014				
IN-telegence GmbH	447	49	534	57
Teleport Köln GmbH	15	2	21	2
QS Communication Verwaltungs Service GmbH	-	67	-	96
01/01/–30/06/2013				
IN-telegence GmbH	466	23	521	27
Teleport Köln GmbH	16	2	17	2
QS Communication Verwaltungs Service GmbH	-	80	-	101

in K€	Trade receivables	Trade payables
As of June 30, 2014		
IN-telegence GmbH	79	3
Teleport Köln GmbH	3	-
QS Communication Verwaltungs Service GmbH	-	-
As of June 30, 2013		
IN-telegence GmbH	126	-
Teleport Köln GmbH	4	-
QS Communication Verwaltungs Service GmbH	-	5

10 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	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Jürgen Hermann	225,000	225,000	200,000	200,000
Barbara Stolz	-	-	30,000 [1]	-
Stefan Freyer (Through March 31, 2014)	-	-	-	-
Henning Reinecke	1,000 [1]	-	-	-

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

11 Supervisory Board

	Shares		Conversion rights	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 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 the Supervisory Board

[3] Employee representative

Cologne, August 2014

Jürgen Hermann
Chief Executive Officer

Barbara Stolz

Henning Reinecke

Statement of Responsibility

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the Consolidated Interim Financial Statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Interim Management Report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group for the remaining months of the financial year.

Cologne, August 2014

Jürgen Hermann Chief Executive Officer	Barbara Stolz	Henning Reinecke

Calendar

Quarterly Report
November 10, 2014

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