QUARTERLY REPORT

SECOND QUARTER 2016

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QSC AG

KEY DATA

All amounts in € million	01/04/ – 30/06/ 2016	01/04/ – 30/06/ 2015	01/01/ – 30/06/ 2016	01/01/ – 30/06/ 2015
Revenues	99.2	100.9	198.0	205.6
EBITDA	10.7	10.6	20.4	19.7
Depreciation / amortisation [1]	8.7	12.8	17.8	24.9
EBIT	2.0	(2.2)	2.6	(5.2)
Net income (loss)	0.2	(2.7)	0.0	(6.1)
Earnings per share [2] (in €)	0.00	(0.02)	0.00	(0.05)
Free cash flow	6.3	1.5	5.5	(2.9)
Capital expenditure (capex)	3.3	3.9	6.9	7.4
Capex ratio [3] (in %)	3.3	3.9	3.5	3.6
Liquidity			71.3 [4]	74.0 [5]
Shareholders' equity			120.3 [4]	124.2 [5]
Long-term liabilities			165.5 [4]	171.0 [5]
Short-term liabilities			59.5 [4]	63.3 [5]
Balance sheet total			345.3 [4]	358.5 [5]
Equity ratio (in %)			34.8 [4]	34.6 [5]
Xetra closing price as of 30 June (in €)			1.13	1.84
Number of shares as of 30 June			124,162,487	124,162,487
Market capitalisation as of 30 June			140.3	228.5
Number of employees as of 30 June			1,396	1,585

[1] Including non-cash share-based compensation

[2] Basic and diluted

[3] Ratio of capital expenditure to revenues

[4] As of 30 June 2016

[5] As of 31 December 2015

HIGHLIGHTS

Return to profitability. QSC generated positive consolidated net income for the first time in eight quarters in the second quarter of 2016. This key figure amounted to € 0.2 million. Thanks to the progress made in implementing the cost-cutting programme, EBIT and EBITDA also increased to € 2.0 million and € 10.7 million respectively.

Staff downscaling target now in sight. The progress made with cutting costs has been driven above all by the ongoing reduction in staff totals. As of 30 June 2016, QSC had a total of 1,396 employees and was thus already approaching its target of around 1,350 employees by the end of the year.

QSC is growing in areas where it has budgeted for growth. Revenues rose once again in the second quarter of 2016 in those business fields in which QSC expects to generate sustainable growth – in the Cloud and Consulting segments and in the telecommunications business with corporate customers.

Cloud revenues more than double. Cloud, the newest segment with two main areas of activity – Pure Enterprise Cloud and Internet of Things – posted a very pleasing performance in the second quarter of 2016, with revenue growth of 135% to € 4.0 million.

Consulting posts substantial revenue growth. At € 10.5 million, quarterly revenues in the Consulting segment exceeded the 10 million euro mark for the first time. Growth here has been driven above all by the early focus on the technological advance at SAP from the R/3 ERP product family to S/4HANA.

"QSC can look back on a strong first half to the year, in which our Company moved forward in numerous areas. Within just a few months of launching the Pure Enterprise Cloud it is now clear that this product portfolio meets the expectations of SME players."

Jürgen Hermann, CEO

"We are making faster progress with implementing our cost-cutting programme than expected at the beginning of the year. On this basis, QSC was able to generate positive consolidated net income for the first time in eight quarters and also increase its free cash flow to € 6.3 million."

Stefan A. Baustert, CFO

LETTER TO OUR SHAREHOLDERS

Dear Shareholders,

QSC can look back on a strong first half to the year. This was a period in which our company made progress in numerous areas, in some cases more swiftly than expected at the beginning of the year. The implementation of the cost-cutting programme is one such example. Halfway through the year, we are already close to reaching our two main targets. Compared with the end of 2014, we have already reduced our costs by € 20 million and have scaled down our workforce by 300 employees. The progress made with the streamlining of cost structures was one of the key factors that have once again enabled QSC to generate positive operating earnings, both in the first and second quarters of 2016. EBIT for the first six months totalled € 2.6 million. At € 5.5 million, the Company's free cash flow was also clearly positive.

No less important is the progress made on the revenue side, particularly in those business units in which QSC aims to generate growth. This is especially true with Cloud, our newest segment, which comprises the two main fields of Pure Enterprise Cloud and Internet of Things (IoT). Moreover, developments have been backed up by the continued positive performance of our Consulting and TC corporate customer businesses.

Positive reception for Pure Enterprise Cloud

Just a few months after the launch of the Pure Enterprise Cloud, it is already very clear that this product portfolio meets the expectations of SMEs. The Pure Enterprise Cloud has been very warmly received by our existing customers, and several are already migrating their systems to the new platform. The Pure Enterprise Cloud has also opened up numerous doors to new customers in our sales activities. Here too, several pilot projects have already been launched. Following a trial period, for example, the apt Hiller group opted for our solution in July 2016. QSC will in future be operating cloud-based digital workplaces for 400 users at this particular SME's national and international locations. Our Pure Enterprise Cloud sales activities have received additional support from market observers. In spring 2016, the Experton Group, an IT consultancy, singled out the Pure Enterprise Cloud as a "Rising Star" in the "Workplace Services" category. Experton sees QSC as being optimally positioned to join the top providers in the near future. In other areas, we are as in previous years already among the top performers. According to Experton, QSC is a "Cloud Leader" in three categories.

Experts are equally positive in their assessment of our range of IoT services. In a recent study, IT analysts at Crisp Research designated our Company as an "Innovator" – on a par with Google and Oracle. Solutions based on our internally developed IoT platform are now in use in several industries, including energy-related service providers and heating system manufacturers.

In its Consulting business, QSC benefited in the first half of 2016 from the fact that it acted early to focus on the technological advance at SAP to the SAP S/4HANA business suite. In fact, we have been operating a proprietary HANA Competence Centre since 2014. In our TC business with corporate customers, the decision we implemented ten years ago, namely to convert our infrastructure to IP technology, is now paying off. In this area, QSC has a longstanding competitive advantage over Deutsche Telekom, which is only now in the process of implementing this measure. QSC already offers a broad range of All-IP solutions and has convinced a growing

number of companies that are obliged to leave their ISDN connections behind. Revenues in our TC business with corporate customers have grown noticeably in recent months and the number of newly activated connections has doubled.

Conservative forecast issued at beginning of 2016 confirmed

The momentum built up in these business units is set to continue in the second half of the year. We nevertheless still face several challenges. The success of the Pure Enterprise Cloud makes it necessary to hire a growing number of cloud experts and to make higher volumes of capital expenditure than in the first half of the year. At the same time, the migration of Outsourcing customers to the Pure Enterprise Cloud is shifting the distribution of revenues. QSC will therefore continue realigning its organisational structures, a process which will still involve one-off costs. Not only that, the decision not to acquire new customers in the conventional Outsourcing business is likely to further hold back revenues in this segment. All these factors are accounted for in the conservative forecast published at the beginning of 2016. We have, therefore, not made any changes to our full-year forecast and expect to generate revenues of € 380 million to € 390 million, EBITDA of € 34 million to € 38 million and a positive free cash flow.

There is no doubt that the first half of 2016 was a success for us. It shows that our strategy is gaining traction. QSC is the digitiser of the SME segment. With the Pure Enterprise Cloud, it has exactly the right product portfolio for the new age.

Cologne, August 2016

Jürgen Hermann
Chief Executive Officer

INTERIM CONSOLIDATED REPORT

Business Performance

Strong second quarter of 2016. The operating business continued to perform positively in the second quarter of the current financial year. Year-on-year, QSC more than doubled the revenues in its forward-looking Cloud business. Not only that, the Company made faster progress in implementing its cost-cutting programme than expected at the beginning of the year. On this basis, QSC generated positive operating earnings for the second quarter in succession, with EBIT of € 2.0 million as against € -2.2 million in the second quarter of 2015. The Company also posted positive consolidated net income for the first time in eight quarters.

QSC is growing in areas where it has budgeted for growth. As already in the first quarter of 2016, revenues grew in those areas in which QSC expects to generate sustainable growth – in its Cloud and Consulting segments and in its telecommunications business with corporate customers. Overall, revenues amounted to € 99.2 million as against € 100.9 million in the second quarter of 2015. Revenues for the six-month period totalled € 198.0 million, compared with € 205.6 million in the previous year's period.

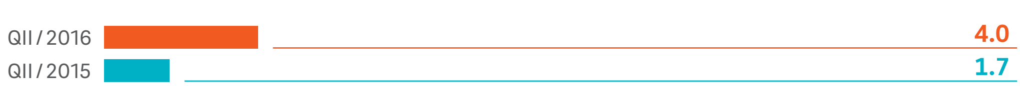
Cloud revenues surge by 135% to € 4.0 million. Cloud, the newest segment with its two main fields of Pure Enterprise Cloud (PEC) and Internet of Things (IoT), reported a very pleasing performance once again in the second quarter of 2016. IoT project revenues made a major contribution to this growth. When it comes to securely networking appliances, QSC is already working with energy-related service providers, heating system manufacturers and other companies. These customers benefit from a unique one-stop range of services – from advice on software and hardware development, proprietary hardware products and an IoT cloud through to the assumption of production services. The great interest shown by companies in a wide range of sectors at events such as the Hannover Messe 2016 trade fair underlines the pioneering role that QSC is gradually assuming in this forward-looking market. The Pure Enterprise Cloud is also being positively received just a few months after its launch, with initial migration projects already underway for existing Outsourcing customers and new customers alike. In July, the apt Hiller Group, a metal processing company, decided to deploy the Pure Enterprise Cloud at all of its locations. This way, it intends to gradually and permanently standardise and centrally manage its previously highly heterogeneous ICT landscape. In a first step, all 400 workplaces will receive Enterprise Workplace Services and thus be equipped with a full-range workplace environment from the Pure Enterprise Cloud.

135%

growth in Cloud revenues

Revenues, Cloud

(in € million)

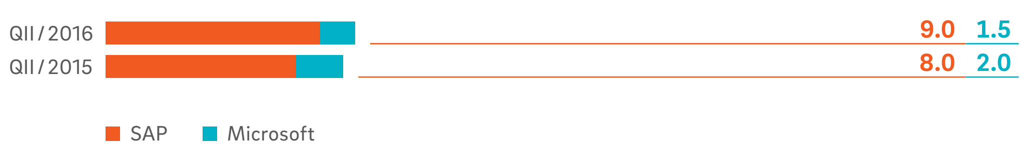


Market observers have also recognised the potential offered by the cloud-based solution portfolio. IT analysts at Experton have designated QSC as a “Rising Star” in the “Workplaces Services” category, and thus in the provision of cloud-based turnkey virtual workplaces. In its annual “Cloud Vendor Benchmarks”, Experton particularly singled out the scope, attractiveness, degree of innovation and future potential of the Pure Enterprise Cloud.

Consulting revenues exceed € 10 million mark for first time

Consulting with substantial revenue growth. At € 10.5 million, quarterly revenues in the Consulting segment exceeded the 10 million euro mark for the first time. In the previous year’s quarter revenues here had only reached the same mark when rounded up. This success was driven above all by the fact that QSC acted early to focus on the technological advance currently underway at SAP from the R/3 ERP product family to S/4HANA. In the second quarter of 2016, QSC generated 86% of its Consulting revenues with SAP software-related consulting services.

Revenues, Consulting
(in € million)

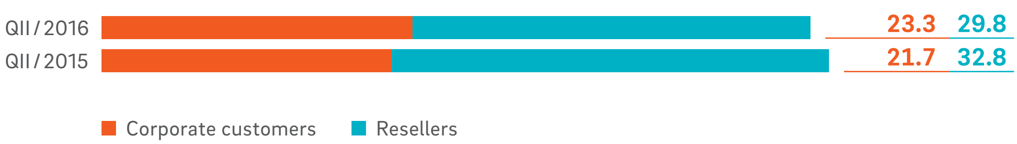


Decision not to acquire new customers in traditional Outsourcing business. Consistent with expectations, the revenues of € 31.6 million in the Outsourcing segment in the second quarter of 2016 fell short of the previous year’s figure of € 34.7 million. In outsourcing and assuming ICT services, QSC is focusing in the current year on the cloud-based provision of corresponding services. To boost its Pure Enterprise Cloud business, which promises to generate higher returns, it has consciously decided not to acquire new customers in its traditional Outsourcing business. QSC is offering its existing customers the option of gradually migrating to industrialised, standardised outsourcing.

Revenues, Outsourcing
(in € million)

Great interest in All-IP telecommunications services. In defiance of the market trend, QSC once again generated growth in its TC business with corporate customers in the second quarter of 2016. Revenues here grew year-on-year by 7% to € 23.3 million. QSC has been operating an All-IP network for many years already and is now benefiting from increased demand for All-IP solutions from smaller and medium-sized companies. By contrast, QSC's TC revenues with resellers decreased further in a toughly contested market. All in all, revenues in the Telecommunications segment came to € 53.1 million as against € 54.5 million in the second quarter of 2015.

Revenues, Telecommunications
(in € million)



Staff downscaling target now in sight. QSC has made more rapid progress in implementing its cost-cutting program than expected at the beginning of the year. That is particularly true for staff downscaling measures. The Company plans to reduce its workforce to around 1,350 employees by the end of 2016. As of 30 June 2016, QSC still had 1,396 employees and was thus approaching its target.

Business Framework

Robust economic developments. QSC also owes its pleasing operating performance to the robust economic backdrop in Germany. Domestic demand has been boosted above all by the pleasing situation on the labour market. The stable upturn is also benefiting the ICT market. The sector association BITCOM expects revenues here to grow by 1.7% to € 160.2 billion in the current year. While the TC market is stagnating, BITCOM expects revenues in the IT market to rise by 3.0% to € 83.5 billion. The cloud market, a particularly interesting area for QSC, is set to generate notably stronger growth. For this market alone, the IT analysts at Experton expect revenues with corporate customers to grow by 34% to € 12.2 billion in 2016.

+ 34%
growth in cloud market revenues

Earnings Performance

Gross margin stable at 27%. By analogy with revenues, the cost of revenues showed a slight year-on-year decline and amounted to € 72.9 million in the second quarter of 2016 as against € 73.8 million in the previous year's period. Gross profit therefore came to € 26.3 million, compared with € 27.2 million in the previous year. Despite the reduction in revenues, the gross margin remained stable at 27%.
The other major cost items also improved. Sales and marketing expenses totalled € 7.9 million in the second quarter of 2016, down from € 8.5 million in the previous year's period, while general and administrative expenses decreased from € 8.3 million to € 8.0 million. The consistent implementation of the cost-cutting programme impacted positively on all cost items.

11%
EBITDA margin

Slight increase in EBITDA. Benefiting from lower costs, EBITDA for the second quarter of 2016 improved to € 10.7 million, up from € 10.6 million one year earlier. The EBITDA margin remained unchanged at 11%. For the first half of 2016, this key earnings figure rose year-on-year from € 19.7 million to € 20.4 million. EBITDA is defined as earnings before interest, taxes, amortisation of deferred non-cash share-based compensation, depreciation/amortisation and impairment losses on customer-related inventories and depreciation/amortisation of property, plant and equipment and intangible assets. The EBITDA margin presents EBITDA as a percentage of revenues.

Return to profitability. As planned, depreciation and amortisation fell significantly in the past quarter, amounting to € 8.7 million as against € 12.8 million in the second quarter of 2015. As a result, operating earnings improved to € 2.0 million, up from € -2.2 million in the previous year. QSC generated positive consolidated net income for the first time in eight quarters. This key figure amounted to € 0.2 million, compared with € -2.7 million in the previous year's period.

Net income
(in € million)

Earnings Performance by Segment

Gross margin rises to 20% in Cloud business. The rapid revenue growth seen in the Cloud segment has been accompanied by a significant improvement in its earnings. Gross profit for the second quarter of 2016 came to € 0.8 million, as against € -0.3 million in the previous year. The gross margin increased by 38 percentage points to 20%. As sales and marketing expenses rose only slightly compared with the previous year, the segment contribution improved significantly. At € -0.5 million, this key figure is now approaching breakeven. In the second quarter of the previous year, this segment had still posted a loss of € -1.6 million.

Double-digit segment margin in personnel-intensive Consulting business. Growing demand in the Consulting business has made it necessary to expand resources. The cost of revenue in this segment grew to € 8.5 million in the past quarter, up from € 7.3 million in the previous year's period. Gross profit amounted to € 2.0 million as against € 2.7 million in the second quarter of 2015, which was influenced by a positive one-off item. Gross profit rose by € 0.2 million compared with the first quarter of 2016, while the gross margin improved by 1 percentage point to 19%. The segment contribution also rose to € 1.6 million, up from € 1.4 million in the previous quarter. In the previous year's quarter, this figure had amounted to € 2.2 million. In the second quarter of 2016, QSC therefore achieved a segment margin of 15% – a high figure for the personnel-intensive Consulting business.

Margins remain high in Outsourcing business. Consistent with the € 3.1 million reduction in revenues to € 31.6 million, gross profit in the Outsourcing segment decreased year-on-year by € 1.5 million to € 9.0 million. Due to lower sales and marketing expenses, however, the segment contribution showed only a slight reduction of € 0.4 million to € 7.3 million. The segment margin rose by 1 percentage point to 23%. Despite the reorganisation underway, the traditional Outsourcing business thus still generated the highest margin. The positive impact of the cost-cutting programme is particularly noticeable in this segment.

Telecommunications with stable earnings. The success in our high-margin corporate customer business made a key contribution towards stabilising the earnings situation in our Telecommunications segment, and that despite a reduction in revenues. QSC generated gross profit of € 14.5 million in the second quarter of 2016, as against € 14.3 million in the previous year's period. The gross margin rose by 1 percentage point to 27%. At € 9.9 million, the segment contribution fell only slightly short of the previous year's figure of € 10.3 million. The segment margin remained unchanged at 19%.

Slight rise in gross profit in TC business

Financial and Net Asset Position

QSC generates free cash flow of € 6.3 million. The improvement in QSC's earnings strength in the second quarter of 2016 also impacted positively on its financial position. The most important key figure – free cash flow – reached € 6.3 million, its highest level in two years. The Company calculates its free cash flow as the change in net liquidity/debt before acquisitions and distributions. The table below shows the relevant parameters at the two balance sheet dates on 30 June 2016 and 31 March 2016:

€ million	30/06/2016	31/03/2016
Liquidity	**71.3**	**71.3**
Liabilities under financing and finance lease arrangements	(2.1)	(2.8)
Liabilities due to banks	(155.9)	(157.8)
Interest-bearing liabilities	**(158.0)**	**(160.6)**
Net debt	**(86.7)**	**(89.3)**

It can be seen that liquidity remained stable at € 71.3 million in the second quarter of 2016. Interest-bearing liabilities decreased by € 2.6 million to € -158.0 million. As a result, net debt also fell by € 2.6 million to € -86.7 million as of 30 June 2016.
As the free cash flow presents the financial strength of the operating business, QSC adjusts this figure to exclude outgoing payments for acquisitions and distributions. In the second quarter of 2016, the Company expended a total of € 3.7 million to distribute a dividend of € 0.03 per share. This resulted in a free cash flow of € 6.3 million for the second quarter of 2016.

Free cash flow
(in € million)

Moderate volume of capital expenditure. Alongside the improvement in operating earnings, the marked rise in the free cash flow was also due to capital expenditure remaining moderate. This expenditure decreased slightly to € 3.3 million in the second quarter of 2016, down from € 3.9 million in the previous year's period. Of capital expenditure, 63% was customer-related. Alongside this, QSC particularly invested in strengthening its own infrastructure in view of the Pure Enterprise Cloud market launch currently underway.

Solid balance sheet. QSC accords priority to ensuring matching maturities for the financing of its assets and traditionally has a solid financing structure. As of 30 June 2016, shareholders' equity and long-term liabilities covered 133% of the value of long-term assets.
Due above all to depreciation and amortisation, long-term assets decreased to € 215.6 million as of 30 June 2016, compared with € 224.7 million at the balance sheet date at the end of 2015. Property, plant and equipment fell by € 5.9 million to € 56.5 million. Short-term assets decreased to € 129.7 million, down from € 133.8 million as of 31 December 2015. Here, a lower volume of cash and cash equivalents and other short-term assets was offset by higher prepayments and trade receivables.

Equity ratio of 35%. Shareholders' equity amounted to € 120.3 million as of 30 June 2016, as against € 124.2 million at the end of 2015. This reduction was chiefly due to the dividend payment being directly charged to consolidated net income. The equity ratio remained unchanged at 35%.
Long-term liabilities fell to € 165.5 million as of 30 June 2016, down from € 171.0 million at the end of 2015. The largest share related to long-term liabilities due to banks, which amounted to € 151.1 million (31 December 2015: € 155.8 million). Short-term liabilities also decreased, amounting to € 59.5 million as of 30 June 2016 as against € 63.3 million at the 2015 balance sheet date.

35%
equity ratio

Employees

Significant progress with workforce downsizing. QSC had a total of 1,396 employees as of 30 June 2016 and thus reduced its workforce by 189 employees compared with the previous year's reporting date. The key target determining the success of the cost-cutting program, namely downsizing the workforce to around 1,350 employees by the end of the year, is thus now within reach.

Number of employees

QSC plans to part company with further employees in the second half of the year. At the same time, the Company intends to extend capacities, especially in its fast-growing Cloud business. The associated one-off expenses have been factored into the existing full-year forecast for 2016. The Company is also upholding its commitment to providing vocational training. A total of 17 young adults will be starting their professional training at the locations in Hamburg and Cologne in the third quarter of 2016.

Opportunity and Risk Report

No material change in opportunity and risk situation. The first half of the year did not witness any material changes in the opportunities and risks presented in the 2015 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 confirms forecast for 2016. Given the strong first half of 2016, QSC can confirm the forecast presented at the end of February. For 2016 as a whole, the Company expects to generate revenues of € 380 million to € 390 million, EBITDA of € 34 million to € 38 million and positive free cash flow. As already explained at the beginning of the year, the second half will witness capital expenditure and one-off expenses to expand the Pure Enterprise Cloud and for the personnel restructuring measures still underway. The organisational restructuring programme is expected to be completed by the end of the year. The migration of Outsourcing customers to the Pure Enterprise Cloud and the decision not to acquire new customers in the traditional Outsourcing business will hold back the performance of this segment in the second half of the year. In its Telecommunications segment, QSC continues to expect a fall in business volumes with resellers, one that the growth in business with corporate customers will not be sufficient to offset. These factors will be countered by slight growth in the Consulting segment and a continuingly high rate of growth in the Cloud segment with its two growth drivers of Pure Enterprise Cloud and Internet of Things.

Dynamic growth continues in Cloud segment

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Income (unaudited)

Euro amounts in thousands (€ 000s)

	01/04/ – 30/06/ 2016	01/04/ – 30/06/ 2015	01/01/ – 30/06/ 2016	01/01/ – 30/06/ 2015
Net revenues	**99,161**	**100,924**	**198,025**	**205,633**
Cost of revenues	(72,899)	(73,756)	(145,789)	(151,374)
Gross profit	**26,262**	**27,168**	**52,236**	**54,259**
Sales and marketing expenses	(7,941)	(8,539)	(15,880)	(17,822)
General and administrative expenses	(7,974)	(8,337)	(16,363)	(16,751)
Depreciation/amortisation				
(including non-cash share-based compensation)	(8,749)	(12,793)	(17,847)	(24,909)
Other operating income	869	305	1,419	599
Other operating expenses	(507)	-	(979)	(580)
Operating profit (loss)	**1,960**	**(2,196)**	**2,586**	**(5,204)**
Financial income	37	105	87	195
Financial expenses	(1,259)	(1,638)	(2,853)	(3,143)
Net income (loss) before income taxes	**738**	**(3,729)**	**(180)**	**(8,152)**
Income taxes	(581)	1,004	194	2,057
Net income (loss)	**157**	**(2,725)**	**14**	**(6,095)**
Earnings per share (basic) in €	0.00	(0.02)	0.00	(0.05)
Earnings per share (diluted) in €	0.00	(0.02)	0.00	(0.05)

Consolidated Statement of Comprehensive Income (unaudited)

Euro amounts in thousands (€ 000s)

	01/01/–30/06/ 2016	01/01/–30/06/ 2015
Other comprehensive income		
Line items that are not reclassified in the income statement		
Actuarial gains (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 hedge	(651)	444
Tax effect	210	(143)
Line items that might subsequently be reclassified in the income statement	**(441)**	**301**
Total fair value changes (net of tax) recognised directly in equity (attributable to shareholders of QSC AG)	**(441)**	**301**
Net income (loss) for the period	14	(6,095)
Total comprehensive income for the period	**(427)**	**(5,794)**

Consolidated Balance Sheet

Euro amounts in thousands (€ 000s)

	30/06/2016 (unaudited)	31/12/2015 (audited)
ASSETS		
Long-term assets		
Property, plant and equipment	56,520	62,392
Land and buildings	24,739	25,152
Goodwill	67,077	67,077
Other intangible assets	36,996	41,411
Trade receivables	4,139	4,583
Prepayments	4,391	3,608
Other long-term assets	173	292
Deferred tax assets	21,532	20,207
Long-term assets	**215,567**	**224,722**
Short-term assets		
Trade receivables	49,928	48,704
Prepayments	6,065	3,712
Inventories	865	884
Other short-term assets	1,510	6,521
Cash and cash equivalents	71,324	73,982
Short-term assets	**129,692**	**133,803**
TOTAL ASSETS	**345,259**	**358,525**

	30/06/2016 (unaudited)	31/12/2015 (audited)
SHAREHOLDERS' EQUITY AND LIABILITIES		
Shareholders' equity		
Issued capital	124,162	124,162
Capital surplus	142,976	142,702
Other capital reserves	(3,437)	(2,996)
Accumulated deficit	(143,412)	(139,673)
Shareholders' equity	**120,289**	**124,195**
Liabilities		
Long-term liabilities		
Long-term liabilities under financing		
and finance lease arrangements	559	1,722
Liabilities due to banks	151,140	155,830
Convertible bonds	30	27
Accrued pensions	6,545	6,693
Other provisions	1,631	1,642
Other financial liabilities	4,573	3,879
Deferred tax liabilities	994	1,204
Long-term liabilities	**165,472**	**170,997**
Short-term liabilities		
Trade payables	29,245	30,596
Short-term liabilities under financing		
and finance lease arrangements	1,552	2,761
Liabilities due to banks	4,787	2,140
Other provisions	6,431	8,368
Accrued taxes	1,320	381
Deferred income	3,462	4,020
Other short-term liabilities	12,701	15,067
Short-term liabilities	**59,498**	**63,333**
Liabilities	**224,970**	**234,330**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**345,259**	**358,525**

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 2016	**124,162**	**142,702**	**-**	**(1,420)**	**(1,576)**
Net income (loss) for the period	-	-	-	-	-
Other comprehensive income					
for the period, net of tax	-	-	-	-	(441)
Total comprehensive income	**-**	**-**	**-**	**-**	**(441)**
Revaluation of financial liabilities relating					
to business acquisition	-	-	-	-	-
Dividends	-	-	-	-	-
Non-cash share-based compensation	-	274	-	-	-
Balance as of 30 June 2016	**124,162**	**142,976**	**-**	**(1,420)**	**(2,017)**
Balance as of 1 January 2015	**124,142**	**142,069**	**(1)**	**(1,590)**	**(1,475)**
Net income (loss) for the period	-	-	1	-	-
Other comprehensive income					
for the period, net of tax	-	-	-	-	301
Total comprehensive income	**-**	**-**	**1**	**-**	**301**
Revaluation of financial liabilities relating					
to business acquisition	-	-	-	-	-
Conversion of convertible bonds	20	3	-	-	-
Dividends	-	-	-	-	-
Non-cash share-based compensation	-	253	-	-	-
Balance as of 30 June 2015	**124,162**	**142,325**	**-**	**(1,590)**	**(1,174)**

Accumulated deficit	Total share-holders' equity	
(139,673)	**124,195**	**Balance as of 1 January 2016**
14	14	Net income (loss) for the period
		Other comprehensive income
-	(441)	for the period, net of tax
14	**(427)**	**Total comprehensive income**
		Revaluation of financial liabilities relating
(28)	(28)	to business acquisition
(3,725)	(3,725)	Dividends
-	274	Non-cash share-based compensation
(143,412)	**120,289**	**Balance as of 30 June 2016**
(117,511)	**145,634**	**Balance as of 1 January 2015**
(6,095)	(6,094)	Net income (loss) for the period
		Other comprehensive income
-	301	for the period, net of tax
(6,095)	**(5,794)**	**Total comprehensive income**
		Revaluation of financial liabilities relating
(175)	(175)	to business acquisition
-	23	Conversion of convertible bonds
(12,416)	(12,416)	Dividends
-	253	Non-cash share-based compensation
(136,197)	**127,526**	**Balance as of 30 June 2015**

Consolidated Statement of Cash Flows (unaudited)

Euro amounts in thousands (€ 000s)

	01/01/–30/06/ 2016	01/01/–30/06/ 2015
Cash flow from operating activities		
Net income (loss) before income taxes	(180)	(8,152)
Depreciation and amortisation of fixed assets	17,573	24,656
Non-cash share-based compensation	274	253
Loss from disposal of fixed assets	4	-
Income tax paid	(2,003)	(1,513)
Income tax received	388	-
Interest received	72	123
Changes in provisions	(2,153)	(4,440)
Changes in trade receivables	(780)	3,115
Changes in trade payables	3,816	(7,967)
Changes in other assets and liabilities	4,058	6,564
Cash flow from operating activities	**21,069**	**12,639**
Cash flow from investing activities		
Purchase of intangible assets	(3,945)	(4,539)
Purchase of property, plant and equipment	(8,140)	(8,087)
Proceeds from sale of property, plant and equipment	38	-
Cash flow from investing activities	**(12,047)**	**(12,626)**
Cash flow from financing activities		
Dividends paid	(3,725)	(12,416)
Issuance of convertible bonds	3	1
Proceeds from issuance of common stock	-	23
Repayment of loans	(1,066)	(2,824)
Interest paid	(4,162)	(3,795)
Changes in advance payments relating to financing activities	(358)	(186)
Repayment of liabilities under financing and finance lease arrangements	(2,372)	(2,759)
Cash flow from financing activities	**(11,680)**	**(21,956)**
Change in cash and cash equivalents	**(2,658)**	**(21,943)**
Cash and cash equivalents as of 1 January	73,982	87,803
Cash and cash equivalents as of 30 June	**71,324**	**65,860**

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Corporate information

QSC AG is digitising the German SME sector. With decades of experience and expertise in the areas of Cloud, Consulting, Outsourcing, and Telecommunications, QSC accompanies its customers securely into the digital age. The Company's TÜV and ISO-certified data centres in Germany and its nationwide All-IP network form the basis for maximum end-to-end quality and security. QSC's customers benefit from one-stop innovative products and services that 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.

Accounting policies

1 BASIS OF PREPARATION

These condensed 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), taking due account of International Accounting Standard (IAS) 34 "Interim Financial Reporting". The interim consolidated financial statements do not include all notes and disclosures required of full year-end financial statements and should therefore be read in conjunction with the consolidated financial statements as of 31 December 2015.
Based on the Management Board's assessment, the interim consolidated financial statements contain all adjustments necessary to provide a true and fair view of the Group's net assets, financial and earnings position. The results for the reporting period ending on 30 June 2016 do not necessarily provide an indication of the future development in results.
The accounting policies applied in preparing these interim consolidated are basically consistent with those applied in the consolidated financial statements for the 2015 financial year. Income tax expenses for the interim reporting period have been calculated using the effective tax rate expected for the financial year as a whole.
Those amendments to IFRSs requiring mandatory application from the 2016 financial year onwards have not had any implications for the interim financial statements as of 30 June 2016.

The preparation of interim financial statements in accordance with IFRS requires a certain degree of reference to estimates and judgements affecting the assets and liabilities as recognised and the disclosures made concerning contingent assets and liabilities as of the reporting date. The amounts actually arising may deviate from such estimates.
There have been no material changes in the Management Board's assessments concerning the application of accounting policies compared with the consolidated financial statements as of 31 December 2015.
Unless otherwise stated, all amounts are rounded up or down to the nearest thousand euro amount (€ 000s). These condensed interim consolidated financial statements, including the interim consolidated management report, have neither been audited pursuant to § 317 of the German Commercial Code (HGB) nor subject to any audit review.

2 SCOPE OF CONSOLIDATION AND AMENDMENTS UNDER COMPANY LAW

Alongside QSC AG, the scope of consolidation includes all of the subsidiaries it controls. These subsidiaries are fully consolidated.
Q-loud GmbH was newly founded on 15 June 2016. The former company Q-loud GmbH was renamed as tengo Vermögensverwaltungs GmbH, in this case also on 15 June 2016.

3 FINANCIAL INSTRUMENTS

Apart from for interest swaps and the put options held by minority interests, the fair values of financial assets and financial liabilities largely correspond to their market values as of the reporting date for the interim financial statements.

Fair value disclosures for recurring measurement:

Class	Measurement hierarchy level *	Fair value as of 30 June 2016 € 000s	Description of measurement method
Interest swaps – hedge accounting	2	3,079	The fair value of interest derivatives is determined using present value models and takes account of market data (yield curves). The market values of the interest swaps were determined by the intermediary bank. Market values are derived by reference either to the mid-market price or, when expressed as a buying or selling price, to the indicative price at which the bank would have terminated and concluded or bought back and sold the financial instrument on the relevant market place at the close of business on the respective measurement date.

Class	Measurement hierarchy level *	Fair value as of 30 June 2016 € 000s	Description of measurement method
Put-options – minority interests	3	1,124	The financial liability was determined on the basis of the present value of the expected exercise price for the put option, with a risk-adequate and maturity-congruent interest rate of 4.28% being used as of the acquisition date. The purchase price for the remaining shares is dependent on the financial performance of FTAPI in the exercise period for the options. Based on its planning, QSC expects the put option to be drawn on in 2019. Measurement of the put option as of the balance sheet date has been based on a variable contractually agreed purchase price. As of 31 December 2015, the put option was remeasured using an interest rate of 5%.

* The measurement hierarchy level is determined on the basis of the underlying market factors referred to (IFRS 13).

At the end of the reporting period, QSC AG determines whether any reclassifications between the measurement hierarchy levels are necessary. No reclassifications were made in the reporting period from 1 January 2016 to 30 June 2016.

4 SEGMENT REPORTING

Consistent with the requirements of IFRS 8, the Company's internal organisational structure used by the management for business decisions and performance assessments has been referred to as the basis for delineating segments. This results in the following segments which have been applied since 1 January 2015: Telecommunications, Outsourcing, Consulting and Cloud. The key segment management figure referred to by the management is the segment contribution. This is defined as EBITDA before general and administrative expenses and the other operating result. When calculating earnings, the cost of revenues and sales and marketing expenses are thus fully allocated to the respective segment. The direct and indirect allocation of costs to individual segments is consistent with internal reporting and management logic. The indirect allocation of costs is primarily based on the volume of resources utilized by the respective segments. The Management Board does not receive any regular information about segment-specific capital expenditure, assets and liabilities, general and administrative expenses, depreciation and amortisation or the other operating result as components of the segment earnings figures.

€ 000s	Telecom-munications	Outsourcing	Consulting	Cloud	Consolidated Group
01/04/ – 30/06/2016					
Net revenues	**53,096**	**31,560**	**10,502**	**4,003**	**99,161**
Cost of revenues	(38,632)	(22,545)	(8,522)	(3,200)	(72,899)
Gross profit	**14,464**	**9,015**	**1,980**	**803**	**26,262**
Sales and marketing expenses	(4,554)	(1,764)	(354)	(1,269)	(7,941)
Segment contribution	**9,910**	**7,251**	**1,626**	**(466)**	**18,321**
General and administrative expenses					(7,974)
Depreciation/amortisation (including					
non-cash share-based compensation)					(8,749)
Other operating income					362
Operating profit (EBIT)					**1,960**
Financial income					37
Financial expenses					(1,259)
Net income (loss) before income taxes					**738**
Income taxes					(581)
Net income (loss)					**157**

€ 000s	Telecom-munications	Outsourcing	Consulting	Cloud	Consolidated Group
01/04/ – 30/06/2015					
Net revenues	**54,520**	**34,671**	**9,999**	**1,734**	**100,924**
Cost of revenues	(40,223)	(24,167)	(7,287)	(2,079)	(73,756)
Gross profit	**14,297**	**10,504**	**2,712**	**(345)**	**27,168**
Sales and marketing expenses	(4,034)	(2,801)	(498)	(1,206)	(8,539)
Segment contribution	**10,263**	**7,703**	**2,214**	**(1,551)**	**18,629**
General and administrative expenses					(8,337)
Depreciation/amortisation (including					
non-cash share-based compensation)					(12,793)
Other operating income					305
Operating profit (EBIT)					**(2,196)**
Financial income					105
Financial expenses					(1,638)
Net income (loss) before income taxes					**(3,729)**
Income taxes					1,004
Net income (loss)					**(2,725)**

€ 000s	Telecom-munications	Outsourcing	Consulting	Cloud	Consolidated Group
01/01/ – 30/06/2016					
Net revenues	**107,533**	**63,662**	**20,452**	**6,378**	**198,025**
Cost of revenues	(78,546)	(45,042)	(16,678)	(5,523)	(145,789)
Gross profit	**28,987**	**18,620**	**3,774**	**855**	**52,236**
Sales and marketing expenses	(9,237)	(3,710)	(786)	(2,147)	(15,880)
Segment contribution	**19,750**	**14,910**	**2,988**	**(1,292)**	**36,356**
General and administrative expenses					(16,363)
Depreciation/amortisation (including					
non-cash share-based compensation)					(17,847)
Other operating income					440
Operating profit (EBIT)					**2,586**
Financial income					87
Financial expenses					(2,853)
Net income (loss) before income taxes					**(180)**
Income taxes					194
Net income (loss)					**14**

€ 000s	Telecom-munications	Outsourcing	Consulting	Cloud	Consolidated Group
01/01/ – 30/06/2015					
Net revenues	**111,337**	**71,479**	**19,814**	**3,003**	**205,633**
Cost of revenues	(81,373)	(50,273)	(15,642)	(4,086)	(151,374)
Gross profit	**29,964**	**21,206**	**4,172**	**(1,083)**	**54,259**
Sales and marketing expenses	(8,547)	(5,774)	(956)	(2,545)	(17,822)
Segment contribution	**21,417**	**15,432**	**3,216**	**(3,628)**	**36,437**
General and administrative expenses					(16,751)
Depreciation/amortisation (including					
non-cash share-based compensation)					(24,909)
Other operating income					19
Operating profit (EBIT)					**(5,204)**
Financial income					195
Financial expenses					(3,143)
Net income (loss) before income taxes					**(8,152)**
Income taxes					2,057
Net income (loss)					**(6,095)**

5 DIVIDENDS PAID

The Annual Shareholders' Meeting of QSC AG held on 25 May 2016 approved the distribution of a dividend of € 0.03 per share with dividend entitlement. The dividend payment of € 3,725k was distributed directly after the Annual Shareholders' Meeting.

6 LEGAL DISPUTES

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

7 TRANSACTIONS WITH RELATED PARTIES

In the first six months of the 2016 financial year, QSC maintained business relationships with companies whose shareholders include members of the Company's management and its Supervisory Board. Persons and companies count as related parties pursuant to IAS 24 when one party has the possibility of exercising control or significant influence over the other party. All contracts with these companies require approval by the Supervisory Board and are agreed on customary market terms.

€ 000s	Net revenues	Expenses	Cash received	Cash paid
01/01/ – 30/06/2016				
IN-telegence GmbH	230	94	249	112
Teleport Köln GmbH	14	-	20	-
QS Communication Verwaltungs Service GmbH	-	78	-	93
01/01/ – 30/06/2015				
IN-telegence GmbH	320	64	359	76
Teleport Köln GmbH	18	2	22	2
QS Communication Verwaltungs Service GmbH	-	66	-	91

€ 000s	Trade receivables	Trade payables
As of 30 June 2016		
IN-telegence GmbH	94	-
Teleport Köln GmbH	3	-
QS Communication Verwaltungs Service GmbH	-	-
As of 31 December 2015		
IN-telegence GmbH	69	-
Teleport Köln GmbH	6	-
QS Communication Verwaltungs Service GmbH	-	-

IN-telegence GmbH is a provider of value-added services in the telecommunications business and largely draws on network services from QSC. To a minor extent, QSC AG also draws on the value-added services offered by IN-telegence. Teleport Köln GmbH utilizes telecommunications services offered by QSC. QS Communication Verwaltungs Service GmbH provides QSC with product management advice for cloud services.

8 MANAGEMENT BOARD

The following table presents individualised information about the number of shares and conversion rights held by members of the Management Board:

	Shares		Conversion rights	
	30/06/2016	**30/06/2015**	**30/06/2016**	**30/06/2015**
Jürgen Hermann	340,000	340,000	350,000	350,000
Stefan A. Baustert	40,000	30,000	200,000	-
Udo Faulhaber (since 1 August 2015)	-	-	150,000	-
Felix Höger (since 1 January 2016)	-	-	150,000	-
Henning Reinecke (until 30 April 2015)	-	5,000[1]	-	150,000[1]

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

The Annual Shareholders' Meeting on 27 May 2015 approved the 2015 Stock Option Plan (2015 SOP) that provides, subject to approval by the Supervisory Board, for the issue of up to 750,000 convertible bonds with a nominal amount of € 0.01 each to members of the Management Board. The subscription period ends at the latest on 26 May 2020. The convertible bonds have terms of up to 8 years following subscription. Conversion rights may only be exercised at the earliest after the expiry of 4-year waiting period following subscription and only if at least one of the following two conditions is met: the share price must be at least 20% higher than the conversion price or the shares must have outperformed the TecDAX on a relative basis. The following table presents information about the conversion rights subscribed by Management Board members in the period under report:

	Conversion rights		
	Date	**Number**	**Price**
Stefan A. Baustert	15/01/2016	100,000	1.42 €
Felix Höger	01/04/2016	75,000	1.10 €
Udo Faulhaber	05/04/2016	150,000	1.10 €
Felix Höger	06/04/2016	75,000	1.21 €

9 SUPERVISORY BOARD

The following table presents individualised information about the number of shares and conversion rights held by members of the Supervisory Board:

	Shares		Conversion rights	
	30/06/2016	**30/06/2015**	**30/06/2016**	**30/06/2015**
Dr. Bernd Schlobohm, Chairman	15,519,910	15,518,372	132,000	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

10 EVENTS AFTER THE REPORTING PERIOD

No events requiring report here have occurred after the reporting period.

Cologne, August 2016

QSC AG
Management Board

Jürgen Hermann CEO	Stefan A. Baustert	Udo Faulhaber	Felix Höger

STATEMENT OF RESPONSIBILITY

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the Condensed Interim Consolidated Financial Statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Interim Consolidated Management Report 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 2016

QSC AG
Management Board

Jürgen Hermann
CEO

Stefan A. Baustert

Udo Faulhaber

Felix Höger

CALENDAR

Quarterly Figures
14 November 2016

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