HALF-YEAR REPORT

1 January to 30 June 2017

SECURE.
INNOVATIVE.
AT YOUR SIDE.

QSC AG

KEY DATA

All amounts in € million	01/04/ – 30/06/ 2017	01/04/ – 30/06/ 2016	01/01/ – 30/06/ 2017	01/01/ – 30/06/ 2016
Revenues	87.2	99.2	175.9	198.0
EBITDA	9.7	10.7	20.2	20.4
Depreciation and amortisation [1]	8.0	8.7	15.8	17.8
EBIT	1.7	2.0	4.4	2.6
Net income	0.5	0.2	1.1	0.0
Earnings per share [2] (in €)	0.00	0.00	0.01	0.00
Free cash flow	2.8	6.3	6.4	5.5
Capital expenditure (capex)	5.6	3.3	9.8	6.9
Capex ratio [3] (in %)	6.4	3.3	5.6	3.5
Liquidity			55.3 [4]	67.3 [5]
Shareholders' equity			84.4 [4]	86.3 [5]
Long-term liabilities			148.1 [4]	159.3 [5]
Short-term liabilities			55.9 [4]	59.2 [5]
Balance sheet total			288.4 [4]	306.0 [5]
Equity ratio (in %)			29.3 [4]	28.2 [5]
Xetra closing price as of 30 June (in €)			1.74	1.13
Number of shares as of 30 June			124,172,487	124,162,487
Market capitalisation as of 30 June			216.1	140.3
Number of employees as of 30 June			1,371	1,396

[1] Including non-cash share-based compensation.
[2] Basic and diluted.
[3] Ratio of capital expenditure to revenues.
[4] As of 30 June 2017.
[5] As of 31 December 2016.

QSC FIRMS UP NET INCOME AND POSTS FURTHER CLOUD REVENUE GROWTH

QSC increases its consolidated net income. At € 20.2 million, EBITDA for the first half of 2017 remained virtually stable, while revenues fell year-on-year by € 22.1 million to € 175.9 million. EBIT, by contrast, rose by € 1.8 million to € 4.4 million, while consolidated net income grew by € 1.1 million to € 1.1 million. As a result, the EBITDA margin improved by 1 percentage point to 11% and the EBIT margin doubled to 2%.

Rising free cash flow. The stronger earnings performance also benefited the free cash flow, which improved by 16% to € 6.4 million in the first half of 2017, and that although QSC's capital expenditure of € 9.8 million was significantly higher (+42%) than one year earlier.

High revenue growth in Cloud business. Revenues in Cloud, the newest segment, surged by 80% to € 11.5 million in the first six months of the current financial year. Revenues in all other business fields developed in line with expectations, with one exception: Due to market factors, the TC business with resellers witnessed an even more marked downturn in revenues in the year to date than originally planned at the beginning of the year.

Frankfurter Leben Group to rely on Pure Enterprise Cloud. This run-off platform for the German life insurance market will in future be procuring all aspects of its IT environment as a service from the Pure Enterprise Cloud. QSC will be providing all applications, computing capacity, storage and network services on an on-demand basis. This way, the Company will document its ability to meet the sophisticated needs of the finance and insurance sector.

Service portfolio extended with Multi-Cloud Consulting. QSC will in future be supporting SME players even more closely when it comes to planning and managing extensive multi-cloud scenarios. It will also be integrating public cloud and software-as-a-service offerings where these make sense. The ISG/Experton Group has already awarded QSC "Rising Star" status for this multi-cloud offering.

"QSC is rapidly turning into a genuine digitiser for the SME sector. What's more, our strategy of building on cloud technology as the basis for digitisation is paying off. That is reflected in our half-year figures and above all in the growth in our Cloud business."

Jürgen Hermann, Chief Executive Officer

"As expected, we are boosting our earnings and financial strength in 2017. That does not simply happen of its own accord. It requires the whole organisation to remain highly cost-conscious and thus create the scope to invest in our future growth."

Stefan A. Baustert, Chief Financial Officer

LETTER TO OUR SHAREHOLDERS

Dear Shareholders,

About a month ago, we were able to announce that the Frankfurter Leben Group had opted to procure all aspects of its IT environment from QSC's Pure Enterprise Cloud, a decision mainly determined by the great flexibility and scalability of our offering. Employees at Frankfurter Leben are now drawing on QSC's data centres for all of their applications, computing capacity and storage and network services in line with their requirements. This offers further evidence that the Pure Enterprise Cloud meets the particularly high standards this sector has in terms of security and quality.

There is no doubt that cloud technology will be the decisive trend in IT over the coming five to ten years. This technology also forms the basis for our strategic positioning as digitiser to the SME sector and our half-year report documents the dynamic growth in this segment: Six-month revenues in our Cloud business grew year-on-year by 80% to € 11.5 million and we expect to see further growth in the second half. The two key pillars of this business are the Pure Enterprise Cloud and the IoT portfolio.

To ensure that this growth is managed sustainably, QSC is continuing to develop its services in line with customers' needs. Existing and potential customers are increasingly approaching us with a desire to draw on the services of large providers such as Amazon, Google and Microsoft for their standard applications, while working with QSC for applications critical to their own businesses. Pooling services this way is complex and poses enormous challenges for many SME companies. With its Multi-Cloud Consulting, QSC offers just the right solution for this process of integration and is thus turning the Pure Enterprise Cloud into a central hub for various cloud worlds.

We are also presenting innovative solutions in the second rapidly growing market of the future – the Internet of Things. Our full-range offering, most of which based on in-house developments, is convincing ever more major SME players. In general, these companies start out with a pilot project to document the benefits of working with networked appliances. Commercially viable results, however, are only realised when all scaling possibilities can be drawn on at a later date. In view of this, we work with customers to plan production on an industrial scale from the very outset of any project.

Digitising our customers is a process that is significantly supported and promoted by our SAP services. For Hermes Fulfilment, for example, QSC is providing SAP services – including consulting, hosting, support and application management – and thus assisting with the complex logistical tasks associated with online shopping. QSC has recently become just one of two companies in Germany to be awarded "SAP Recognized Expertise" status for retail – a sector in which everyone can already see what digitisation actually means in everyday life. With "IT Consulting & SAP Services", the new designation for its consulting business, QSC is now referring even more clearly than before to its particular expertise as an SAP partner.

The trend towards digitisation is also impacting positively on demand for corresponding infrastructure services. In view of this, since July QSC has been promoting its scalable IT infrastructure products more actively than in the past and now in their own standalone business unit called "Colocation & Virtual Data Centres". This unit's offering comprises a whole range of services from traditional products such as racks and cages through to virtualised solutions and security packages. Thanks to the expansion in our backbone, our data centres provide a geographically redundant network and ensure maximum availability.

Our nationwide availability and longstanding experience in network operations mean that we are still strongly positioned in our Telecommunications business. The extent of QSC's success in its traditional TC business with corporate customers is reflected by the fact that we won several large companies in the finance and services sectors as new customers in recent months. Not only that, our All-IP expertise is a very significant factor here, as ever more SME players are switching from traditional to IP-based telephony.

It is no surprise that QSC has been able to succeed both in established and in new business fields. As digitiser to the SME sector, we also face a wealth of new opportunities. We will continue to press ahead with promoting the process of transformation and, as already communicated at our Annual General Meeting, will continue to do what's in the best long-term interests of QSC.

Cologne, August 2017

Jürgen Hermann
Chief Executive Officer

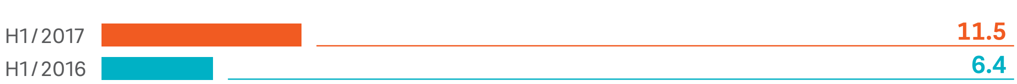
INTERIM CONSOLIDATED REPORT

Business Performance

QSC improves margins in first half of 2017. Based on revenues of € 87.2 million, QSC generated EBITDA of € 9.7 million in the second quarter of 2017. At the end of the first six months, the Company can therefore report EBITDA of € 20.2 million. This is only slightly short of the previous year's figure of € 20.4 million, and that although revenues for the same period fell by € 22.1 million to € 175.9 million. This earnings strength was driven by the improvement in the cost base and the rising share of revenues in forward-looking business fields, and especially in the Cloud business. As a result, QSC was able to improve its margins. The EBITDA margin for the six-month period rose year-on-year by 1 percentage point to 11%, while the EBIT margin doubled to 2%. Operating earnings (EBIT) improved to € 4.4 million in the first half of 2017, up from € 2.6 million in the previous year. Consolidated net income for the same period rose by € 1.1 million to € 1.1 million.
The following report is chiefly based on a comparison of the half-year figures. QSC believes that consideration of the figures for this more extended period enables readers to gain a better impression of the Company's actual earnings, financial and asset situation in the current period. During the financial year, the Company repeatedly witnesses fluctuations in its figures from quarter to quarter, and that especially in project-based business fields, such as IoT and Consulting. Underlying trends are therefore more apparent over longer periods.

High growth and extended range of services in Cloud business. In the current financial year, QSC is mainly expanding its newest segment, Cloud, with its two key focuses on the Pure Enterprise Cloud (PEC) and the Internet of Things (IoT). Revenues here grew by 80% to € 11.5 million in the first six months of 2017.

Cloud revenues
(in € million)



Customers continue to show great interest in cloud-based solutions. In June 2017, for example, the Frankfurter Leben Group opted for future procurement of its entire IT environment as a service from the Pure Enterprise Cloud. This run-off platform for the German life insurance market required a highly scalable IT platform enabling applications to be rapidly integrated with data from insurers. The open and flexible architecture of the Pure Enterprise Cloud, whose range of services is continually being extended, meets precisely this need.
With its Multi-Cloud Consulting, QSC has since May 2017 also been offering a range of services advising customers on developing complex multi-cloud scenarios. The Company is now able to offer even closer support to its SME customers when it comes to planning and managing extensive cloud solutions involving public cloud and software-as-a-service offerings.

Q-loud GmbH, the subsidiary at which QSC has pooled its IoT activities, is also continually accessing new areas of expertise. One key focus is currently on solutions for the energy sector and measuring energy consumption. In a project with “Meine-Energie”, for example, energy cameras have been in use in a project at ZF Friedrichshafen. These cameras record energy consumption directly at the meter and transmit this to a central control point. Networking end appliances and meters this way enables larger-scale consumers to optimise their consumption extremely efficiently.

Traditional Outsourcing losing in significance. As previously announced, in the current financial year QSC is offering its Outsourcing customers the option of migrating to the Pure Enterprise Cloud. This way, it is supporting them in enhancing the efficiency of their IT. Not only that, the outsourcing market is also subject to great price competition, a factor QSC is unable to escape when extending contracts. Against this backdrop, revenues for the first half of 2017 fell by € 10.7 million to € 53.0 million.

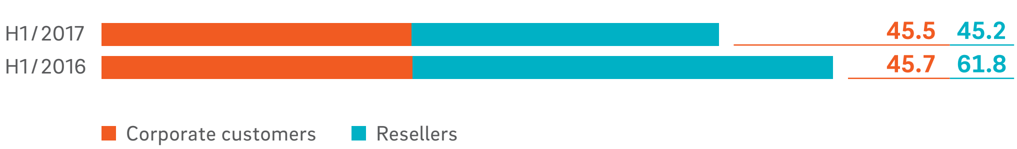
Outsourcing revenues
(in € million)

Consulting revenues remain high. QSC generated Consulting revenues of € 20.7 million in the first half of 2017, as against € 20.5 million in the previous year. SAP-related consulting accounted for 87%, and thus once again for the largest share of revenues. To boost the external communication of this key focus, since mid-July the Consulting business has been operating under the designation “IT-Consulting & SAP-Services”. The strength of QSC’s SAP-related expertise was underlined at the end of June when the software group awarded “SAP Recognized Expert” status to the Company for the Retail category in Germany. This certification, which is also based on customer surveys, documents the profound understanding of retailers’ needs which QSC’s consultants can offer. QSC is now one of only two providers in Germany to be able to point to this special expertise in the retail sector.

Consulting revenues
(in € million)

Stable TC business with corporate customers. QSC generated revenues of € 45.5 million in its TC business with corporate customers in the first half of 2017, as against € 45.7 million in the previous year's period. In this toughly contested, price-sensitive market, the Company continued to benefit above all from its All-IP expertise.
TC revenues with corporate customers have thus overtaken TC revenues with resellers for the first time in the current financial year. The latter developed even more weakly than expected in the first half of 2017: At the end of the first six months, revenues with resellers came to € 45.2 million, down from € 61.8 million in the first half of 2016. At almost € 8 million, more than half of this reduction was due to stricter regulation. Furthermore, this business field has felt the effects of extremely tough price and crowding-out competition.

Telecommunications revenues
(in € million)



Business Framework

Strong economic backdrop. The German economy continued to grow in the first half of 2017, with the ifo business confidence index also reaching new record highs. While the IT sector benefited from this upturn, according to a forecast issued by the Bitkom sector association TC revenues in Germany are set to stagnate once again in 2017. Alongside tough price competition, this development is also due to stricter regulation.

Cloud computing establishes itself across the board. Cloud and the Internet of Things are among the key growth drivers in the IT market. Two thirds of German companies now draw on cloud computing, and ever more frequently with support from external providers. According to a survey performed by Bitkom Research on behalf of KPMG, only 13% of companies still operate private clouds entirely under their own management. Four years ago, this figure was twice as high. Companies are rather opting for hybrid clouds – and thus have precisely those needs which the Pure Enterprise Cloud was designed to meet.

IoT market growing rapidly. QSC is also acting in line with current market trends with its full-stack approach for the Internet of Things. According to Bitkom, revenues with Industry 4.0 solutions, i.e. digitising and networking production activities, are set to grow by 21% to € 5.9 billion in Germany in 2017. For 2018, the sector association already expects to see revenues of € 7.2 billion. Key components of this business involve services – from consulting and system integration through to the development of individual software solutions – and hardware provision. With its full-stack approach, QSC's wholly-owned subsidiary Q-loud already covers both of these forward-looking markets.

The German Industry 4.0 market
(in € billion)

Earnings Performance

Gross margin stable at 26%. Based on revenues of € 175.9 million, the cost of revenues amounted to € 129.6 million in the first six months of 2017 and thus undercut the previous year's figure by € 16.2 million. As in the previous year's period, QSC therefore achieved a gross margin of 26% in the first half of 2017.
The cost-cutting programme completed at the end of 2016 also impacted positively on the other expense items. At € 12.8 million, sales and marketing expenses fell short of the previous year's figure of € 15.9 million, as did general and administrative expenses, which came to € 13.3 million as against € 16.4 million in the first half of 2016.

QSC generates EBITDA of € 20.2 million in the first half of 2017. Despite substantially lower revenues, the EBITDA of € 20.2 million generated in the first half of 2017 was virtually unchanged on the previous year's figure of € 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.

Consolidated net profit rises to € 1.1 million. Depreciation and amortisation decreased to € 15.8 million in the first half of the year, down from € 17.8 million in the previous year's period. As a result, operating earnings (EBIT) improved by € 1.8 million to € 4.4 million. Consolidated net income rose to € 1.1 million in the first half of 2017, up from € 0.0 million in the previous year's period.

Net income
(in € million)

Earnings Performance by Segment

QSC invests in future growth in Cloud segment. At € 6.3 million, revenues in QSC's newest segment – Cloud – reached a new record level in the second quarter of 2017. At the same time, QSC continued to invest in its future growth and hired additional Cloud and IoT experts. Despite these investments, gross profit rose to € 1.2 million, up from € 0.8 million in the previous year's quarter. At the end of the first six months, this key figure totalled € 1.9 million, as against € 0.9 million in the first half of 2016. Notwithstanding higher sales and marketing expenses the segment contribution also improved, rising from € -1.3 million in the previous year's period to € -0.8 million.

Outsourcing contributes solid margin. At € 26.3 million, revenues in the Outsourcing segment in the second quarter of 2017 fell only slightly short of the figure reported for the previous quarter. Gross profit also remained virtually unchanged on the first quarter of 2017. Consistent with expectations, however, this segment reported substantial reductions in revenues, and thus also in earnings, compared with the previous year. Gross profit came to € 13.3 million at the end of the first six months, as against € 18.6 million in the previous year's period. The segment contribution amounted to € 10.5 million, compared with € 14.9 million in the first half of 2016. This produced consistently robust figures of 25% for the gross margin and 20% for the segment margin.

Double-digit segment margin in personnel-intensive Consulting business. Based on revenues of € 10.0 million, in its Consulting segment QSC generated a segment contribution of € 1.4 million in the second quarter of 2017. Like at the beginning of the year, the segment margin therefore came to 14%. At € 2.9 million, the segment margin for the first six months almost matched the previous year's figure of € 3.0 million. Gross profit amounted to € 3.4 million, as against € 3.8 million in the previous year's period. QSC has since selectively recruited additional SAP experts. With its stronger resources, the team now expects to generate rising revenues in the second half of the year.

Telecommunications generates segment margin of 23%. QSC can point to a successful performance in its high-margin corporate customer business. This is reflected in the segment contribution generated in the Telecommunications segment, which came to € 9.9 million in the second quarter of 2017 and thus matched the previous year's figure despite an € 8.6 million reduction in revenues.
The strength of the margin generated in the TC business with corporate customers is apparent when the six-month figures are compared with the figures for the previous year's period. Even though overall TC revenues fell by € 16.8 million in the year to date, the segment contribution rose by € 1.1 million to € 20.9 million. This led the segment margin to improve by 5 percentage points to 23%.

Financial and Net Asset Position

QSC increases free cash flow to € 6.4 million. The Company's increased earnings strength in the first half of 2017 also impacted positively on its financial position. The most important key figure – free cash flow – improved to € 6.4 million, as against € 5.5 million in the previous year's period. QSC 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 2017 and 31 December 2016:

€ million	30/06/2017	31/12/2016
Liquidity	**55.3**	**67.3**
Liabilities under financing and finance lease arrangements	(0.6)	(1.7)
Liabilities due to banks	(135.9)	(149.4)
Interest-bearing liabilities	**(136.5)**	**(151.1)**
Net debt	**(81.2)**	**(83.8)**

It can be seen that liquidity decreased by € 12.0 million to € 55.3 million in the first half of 2017. Over the same period, QSC reduced its interest-bearing liabilities by € 14.6 million. As a result, net debt also fell by € 2.6 million to € 81.2 million as of 30 June 2017.
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. The distribution of a dividend of € 0.03 per share at the end of May 2017 led to an outflow of funds of € 3.7 million. This resulted in a (rounded up) free cash flow of € 6.4 million for the first half of 2017.

Free cash flow
(in € million)

Moderate capital expenditure at 6% of revenues. QSC invested a total of € 9.8 million, corresponding to 6% of revenues, in the first half of 2017, as against € 6.9 million in the previous year's period. Of this sum, more than two thirds related to technical equipment and other property, plant and equipment, while just under a third was channelled into customer-related investments. Investment activities focused on the ongoing modernisation of IT operations and data centres.

Balance sheet shaped by long-term assets. Long-term assets made up 62% of total assets as of 30 June 2017. Their value fell on account of depreciation and amortisation by € 7.0 million to € 178.0 million. Over the same period, short-term assets decreased in value by € 10.6 million to € 110.4 million. This was due to the repayment in the second quarter of an amount of € 10.0 million of the promissory note loan taken up in 2014. As a result, long-term liabilities due to banks fell by € 10.1 million to € 135.3 million.

Solid financing. Long-term liabilities due to banks accounted for more than 90% of long-term liabilities in the balance sheet as of 30 June 2017. Together with shareholders' equity, they cover 131% of long-term assets. QSC's financing therefore remains congruent in terms of its maturities. Shareholders' equity came to € 84.4 million as of 30 June 2017, compared with € 86.3 million at the end of 2016. This reduction was due to the dividend payment being charged directly to accumulated net income in the balance sheet. Irrespective of this, the equity ratio as of 30 June 2017 rose by 1 percentage point to 29%.

Employees

Personnel expenses down 7% year-on-year. QSC had a total of 1,371 employees as of 30 June 2017, as against 1,396 one year earlier. Personnel expenses for the first half of 2017 fell to € 51.5 million, down from € 55.2 million in the previous year's period.

Personnel expenses

QSC is continuing to restructure its organisation in the current financial year and has recruited additional experts for its Cloud and Consulting businesses, as well as for its sales activities.

Opportunity and Risk Report

No material change in opportunity and risk situation. The first half of 2017 did not witness any material changes in the opportunities and risks presented in the 2016 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.

Outlook

QSC expects full-year free cash flow to increase in 2017. Given its business performance in the first half of 2017, which was largely in line with expectations, QSC can confirm its full-year forecast: Based on revenues of € 355 million to € 365 million, the Company plans to generate EBITDA of € 36 million to € 40 million and free cash flow slightly ahead of the previous year's figure of € 8.4 million.

The sales department expects Cloud, the newest segment, to generate the highest revenue growth once again in the second half of the year. Revenues in Consulting and the TC business with corporate customers are also expected to rise again following the stabilisation in their position in the first half of 2017. In addition, the TC business with resellers is expected to make up for part of the loss of revenues in the first half of 2017.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Income (unaudited)

Euro amounts in thousands (€ 000s)

	01/04/–30/06/ 2017	01/04/–30/06/ 2016	01/01/–30/06/ 2017	01/01/–30/06/ 2016
Net revenues	**87,160**	**99,161**	**175,891**	**198,025**
Cost of revenues	(64,240)	(72,899)	(129,555)	(145,789)
Gross profit	**22,920**	**26,262**	**46,336**	**52,236**
Sales and marketing expenses	(6,873)	(7,941)	(12,845)	(15,880)
General and administrative expenses	(6,412)	(7,974)	(13,262)	(16,363)
Depreciation and amortisation				
(including non-cash share-based compensation)	(7,963)	(8,749)	(15,843)	(17,847)
Other operating income	368	869	1,027	1,419
Other operating expenses	(313)	(507)	(1,056)	(979)
Operating profit (EBIT)	**1,727**	**1,960**	**4,357**	**2,586**
Financial income	23	37	70	87
Financial expenses	(1,166)	(1,259)	(2,350)	(2,853)
Net income (loss) before income taxes	**584**	**738**	**2,077**	**(180)**
Income taxes	(92)	(581)	(950)	194
Net income	**492**	**157**	**1,127**	**14**
Attribution of net income				
Owners of the parent company	550	200	1,243	102
Non-controlling interests	(58)	(43)	(116)	(88)
Earnings per share (basic) in €	0.00	0.00	0.01	0.00
Earnings per share (diluted) in €	0.00	0.00	0.01	0.00

Consolidated Statement of Comprehensive Income (unaudited)

Euro amounts in thousands (€ 000s)

	01/01/–30/06/ 2017	01/01/–30/06/ 2016
Net income for the period	**1,127**	**14**
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	498	(651)
Tax effect	(163)	210
Line items that might subsequently be reclassified		
in the income statement	**335**	**(441)**
Total fair value changes (net of tax) recognised directly	**335**	**(441)**
Total comprehensive income for the period	**1,462**	**(427)**
Attribution of total comprehensive income		
Owners of the parent company	1,578	(339)
Non-controlling interests	(116)	(88)

Consolidated Balance Sheet

Euro amounts in thousands (€ 000s)

	30/06/2017 (unaudited)	31/12/2016 (audited)
ASSETS		
Long-term assets		
Property, plant and equipment	60,522	62,554
Land and buildings	23,949	24,359
Goodwill	55,568	55,568
Other intangible assets	27,473	30,779
Trade receivables	1,649	2,435
Prepayments	2,838	3,161
Other long-term assets	174	190
Deferred tax assets	5,836	5,926
Long-term assets	**178,009**	**184,972**
Short-term assets		
Trade receivables	46,941	45,816
Prepayments	7,091	5,107
Inventories	147	73
Other short-term assets	905	1,533
Cash and cash equivalents	55,293	67,336
Subtotal for short-term assets	**110,377**	**119,865**
Assets held for sale	-	1,166
Short-term assets	**110,377**	**121,031**
TOTAL ASSETS	**288,386**	**306,003**

	30/06/2017 (unaudited)	31/12/2016 (audited)
SHAREHOLDERS' EQUITY AND LIABILITIES		
Shareholders' equity		
Issued capital	124,172	124,172
Capital surplus	143,491	143,217
Other capital reserves	(3,158)	(3,493)
Accumulated deficit	(179,705)	(177,223)
Equity attributable to owners of the parent company	**84,800**	**86,673**
Non-controlling interests	(441)	(325)
Shareholders' equity	**84,359**	**86,348**
Liabilities		
Long-term liabilities		
Long-term liabilities under financing		
and finance lease arrangements	224	370
Liabilities due to banks	135,273	145,412
Convertible bonds	38	33
Accrued pensions	6,962	7,133
Other provisions	3,053	3,050
Other financial liabilities	2,030	2,525
Deferred tax liabilities	539	775
Long-term liabilities	**148,119**	**159,298**
Short-term liabilities		
Trade payables	26,863	24,890
Short-term liabilities under financing		
and finance lease arrangements	335	1,352
Liabilities due to banks	628	4,003
Other provisions	9,512	11,724
Accrued taxes	3,152	2,166
Deferred income	2,675	2,441
Other short-term liabilities	12,743	12,630
Subtotal for short-term liabilities	**55,908**	**59,206**
Liabilities associated with assets held for sale	-	1,151
Short-term liabilities	**55,908**	**60,357**
Liabilities	**204,027**	**219,655**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**288,386**	**306,003**

Consolidated Statement of Changes in Equity (unaudited)

Euro amounts in thousands (€ 000s)

	Equity attributable to equity holders of QSC AG			
			Other capital reserves	
	Issued stock	Capital surplus	Actuarial gains (losses)	Cash flow hedge reserve
Balance as of 1 January 2017	**124,172**	**143,217**	**(1,923)**	**(1,570)**
Net income for the period	-	-	-	-
Other comprehensive income				
for the period, net of tax	-	-	-	335
Total comprehensive income	**-**	**-**	**-**	**335**
Dividends	-	-	-	-
Non-cash share-based compensation	-	274	-	-
Balance as of 30 June 2017	**124,172**	**143,491**	**(1,923)**	**(1,235)**
Balance as of 1 January 2016	**124,162**	**142,702**	**(1,420)**	**(1,576)**
Net income 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)**

Accumulated deficit	Total	Non-controlling interests	Total equity	
(177,223)	**86,673**	**(325)**	**86,348**	**Balance as of 1 January 2017**
1,243	1,243	(116)	1,127	Net income for the period
				Other comprehensive income
-	335	-	335	for the period, net of tax
1,243	**1,578**	**(116)**	**1,462**	**Total comprehensive income**
(3,725)	(3,725)	-	(3,725)	Dividends
-	274	-	274	Non-cash share-based compensation
(179,705)	**84,800**	**(441)**	**84,359**	**Balance as of 30 June 2017**
(149,986)	**113,882**	**(110)**	**113,772**	**Balance as of 1 January 2016**
102	102	(88)	14	Net income for the period
				Other comprehensive income
-	(441)	-	(441)	for the period, net of tax
102	**(339)**	**(88)**	**(427)**	**Total comprehensive income**
				Revaluation of financial liabilities relating
(28)	(28)	-	(28)	to business acquisition
(3,725)	(3,725)	-	(3,725)	Dividends
-	274	-	274	Non-cash share-based compensation
(153,637)	**110,064**	**(198)**	**109,866**	**Balance as of 30 June 2016**

Consolidated Statement of Cash Flows (unaudited)

Euro amounts in thousands (€ 000s)

	01.01. – 30.06. 2017	01.01. – 30.06. 2016
Cash flow from operating activities		
Net income (loss) before income taxes	2,077	(180)
Depreciation and amortisation of long-term assets	15,569	17,573
Other non-cash income and expenses	402	274
Profit (loss) from disposal of fixed assets	(21)	4
Income tax paid	(2,645)	(2,003)
Income tax received	2,058	388
Interest received	414	72
Changes in provisions	(2,496)	(2,153)
Changes in trade receivables	(468)	(780)
Changes in trade payables	2,543	3,816
Changes in other assets and liabilities	1,662	4,058
Cash flow from operating activities	**19,095**	**21,069**
Cash flow from investing activities		
Purchase of intangible assets	(2,231)	(3,945)
Purchase of property, plant and equipment	(8,327)	(8,140)
Proceeds from sale of property, plant and equipment	29	38
Proceeds from sale of a subsidiary,		
less liquid funds thereby disposed of	(430)	-
Cash flow from investing activities	**(10,959)**	**(12,047)**
Cash flow from financing activities		
Dividends paid	(3,725)	(3,725)
Issuance of convertible bonds	5	3
Repayment of loans	(12,683)	(1,066)
Interest paid	(3,058)	(4,162)
Changes in advance payments relating to financing activities	-	(358)
Repayment of liabilities under financing		
and finance lease arrangements	(1,163)	(2,372)
Cash flow from financing activities	**(20,624)**	**(11,680)**
Change in cash and cash equivalents	**(12,488)**	**(2,658)**
Cash and cash equivalents as of 1 January	67,781	73,982
Cash and cash equivalents as of 30 June	**55,293**	**71,324**

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Company information

QSC AG is digitising the German SME sector. With decades of experience and expertise in its Cloud, Internet of Things, Consulting, Telecommunications and Colocation businesses, QSC accompanies its customers securely into the digital age. Today already, cloud-based procurement models offer increased speed, flexibility and full service availability. 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 the Cologne District Court under number HRB 28281. QSC has been listed on the Deutsche Börse stock exchange since 19 April 2000 and, following the reorganisation of the stock 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 2016.

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 2017 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 2016 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 2017 financial year onwards have not had any implications for the interim financial statements as of 30 June 2017.

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 2016.

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 management report, have neither been audited pursuant to § 317 of the German Commercial Code (HGB) nor subject to any audit review by any suitably qualified person.

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.

Three companies were removed from the scope of consolidation in the first half of 2017. In January 2017, QSC AG sold its 50.93% stake in FTAPI Software GmbH. On 11 May 2017, tengo GmbH and tengo Vermögensverwaltungs GmbH were merged into Broadnet NGN GmbH in line with the merger agreement dated 3 May 2017.

3 FINANCIAL INSTRUMENTS

Disclosures on the balance sheet. 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.

Disclosures on fair values measured on a recurring basis:

Class	Measurement hierarchy level	Fair value as of 30 June 2017 € 000s	Description of measurement method
Interest swaps – hedge accounting	2	1,930	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.

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 2017 to 30 June 2017.

4 SEGMENT REPORTING

In accordance with the provisions of IFRS 8, the basis for identifying segments consists of the Company's internal organisational structure as used by corporate management for business administration decisions and performance assessments. This results in the following segments: Cloud, Outsourcing, Consulting, and Telecommunications.

Cloud. QSC pools all activities relating to its Pure Enterprise Cloud and the Internet of Things (IoT) in its Cloud segment. The Pure Enterprise Cloud, which has been developed on an in-house basis since 2015, is based on a modular system of cloud technologies, software solutions and service components, as well as network and infrastructure services enabling IT services to be linked on an industrialised basis. Furthermore, the Cloud segment also includes the business activities pooled at QSC's Q-loud subsidiary. Q-loud offers companies a full-stack service enabling them to network appliances and implement digital business models in the Internet of Things. This end-to-end range of services includes transformation consulting, software and hardware expertise, standard hardware, a proprietary IoT platform, security solutions and smart product manufacturing.

Outsourcing. This segment offers traditional outsourcing services to companies wishing to outsource their IT and data storage to QSC. As soon as cloud-based outsourcing services are provided, the respective revenues are allocated to the Cloud segment.

Consulting. QSC advises companies on how to optimise their business processes with two key focuses on SAP and Microsoft. As an SAP full-service provider, QSC performs services in the fields of basic operations, application management, implementation, user support and maintenance, as well as in managing the necessary software licenses. The Microsoft consulting services range from needs analysis to consulting, design and implementation services through to operations and ongoing optimisation measures.

Telecommunications. Here, QSC offers a broad range of voice and data transmission solutions. These include internet connections with asymmetric ADSL2+ lines, symmetric SDSL lines and premium internet access via wireless local loop. In this segment, QSC also offers All-IP telephony connections (voice over IP) and corresponding telephony systems.
Furthermore, the range of services also includes further forms of voice telephony, including open call-by-call and preselect offerings and value added services.

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

€ 000s	Telecom-munications	Outsourcing	Consulting	Cloud	Consolidated Group
01/04/ – 30/06/2017					
Net revenues	**44,511**	**26,344**	**10,033**	**6,272**	**87,160**
Cost of revenues	(31,114)	(19,734)	(8,319)	(5,073)	(64,240)
Gross profit	**13,397**	**6,610**	**1,714**	**1,199**	**22,920**
Sales and marketing expenses	(3,533)	(1,553)	(307)	(1,480)	(6,873)
Segment contribution	**9,864**	**5,057**	**1,407**	**(281)**	**16,047**
General and administrative expenses					(6,412)
Depreciation and amortisation (including non-cash share-based compensation)					(7,963)
Other operating income and expenses					55
Operating profit (EBIT)					**1,727**
Financial income					23
Financial expenses					(1,166)
Net income before income taxes					**584**
Income taxes					(92)
Net income					**492**

€ 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 and amortisation (including non-cash share-based compensation)					(8,749)
Other operating income and expenses					362
Operating profit (EBIT)					**1,960**
Financial income					37
Financial expenses					(1,259)
Net income before income taxes					**738**
Income taxes					(581)
Net income					**157**

€ 000s	Telecom-munications	Outsourcing	Consulting	Cloud	Consolidated Group
01/01/ – 30/06/2017					
Net revenues	**90,674**	**53,009**	**20,733**	**11,475**	**175,891**
Cost of revenues	(62,975)	(39,714)	(17,335)	(9,531)	(129,555)
Gross profit	**27,699**	**13,295**	**3,398**	**1,944**	**46,336**
Sales and marketing expenses	(6,811)	(2,778)	(482)	(2,774)	(12,845)
Segment contribution	**20,888**	**10,517**	**2,916**	**(830)**	**33,491**
General and administrative expenses					(13,262)
Depreciation and amortisation (including					
non-cash share-based compensation)					(15,843)
Other operating income and expenses					(29)
Operating profit (EBIT)					**4,357**
Financial income					70
Financial expenses					(2,350)
Net income before income taxes					**2,077**
Income taxes					(950)
Net income					**1,127**

€ 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 and amortisation (including					
non-cash share-based compensation)					(17,847)
Other operating income and expenses					440
Operating profit (EBIT)					**2,586**
Financial income					87
Financial expenses					(2,853)
Net loss before income taxes					**(180)**
Income taxes					194
Net income					**14**

5 DIVIDENDS PAID

The Annual General Meeting of QSC AG held on 24 May 2017 approved the distribution of a dividend of € 0.03 per share with dividend entitlement. The dividend payment of € 3,725,174.61 was distributed after the Annual General Meeting.

6 LEGAL DISPUTES

Neither QSC AG nor its group companies are involved in any court or arbitration proceedings that could materially impact on their economic position.

7 TRANSACTIONS WITH RELATED PARTIES

In the first six months of the 2017 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/ – 30/06/2017				
IN-telegence GmbH	127	47	188	56
Teleport Köln GmbH	7	1	10	1
QS Communication Verwaltungs Service GmbH	-	81	-	111
01/01/ – 30/06/2016				
IN-telegence GmbH	230	94	249	112
Teleport Köln GmbH	14	-	20	-
QS Communication Verwaltungs Service GmbH	-	78	-	93

€ 000s	Trade receivables	Trade payables
As of 30 June 2017		
IN-telegence GmbH	36	-
Teleport Köln GmbH	2	-
QS Communication Verwaltungs Service GmbH	-	17
As of 31 December 2016		
IN-telegence GmbH	73	-
Teleport Köln GmbH	4	-
QS Communication Verwaltungs Service GmbH	-	31

IN-telegence GmbH is a provider of value added services in the telecommunications industry. QSC draws on carrier services from the company and itself provides the company with network services.
The business activities at Teleport Köln GmbH involve managing telecommunications services, managed services and outsourcing services. This company draws on QSC's telecommunications services and itself provides QSC with a low volume of telecommunications services.
QS Communication Verwaltungs Service GmbH advises QSC in the development of concepts and software for cloud-based services. The expenses incurred relate to advisory services.

8 MANAGEMENT BOARD

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

	Shares		Conversion rights	
	30/06/2017	**30/06/2016**	**30/06/2017**	**30/06/2016**
Jürgen Hermann	400,000	340,000	350,000	350,000
Stefan A. Baustert	40,000	40,000	200,000	200,000
Udo Faulhaber	100,000	-	150,000	150,000
Felix Höger	150,000	-	150,000	150,000

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	
	30/06/2017	30/06/2016	30/06/2017	30/06/2016
Dr. Bernd Schlobohm, Chairman	15,519,910	15,519,910	132,000	132,000
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 2017

QSC AG
The 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 2017

QSC AG
The Management Board

Jürgen Hermann
CEO

Stefan A. Baustert

Udo Faulhaber

Felix Höger

CALENDAR

Quarterly Statement
6 November 2017

CONTACT

QSC AG
Arne Thull
Head of Investor Relations
Mathias-Brüggen-Strasse 55
50829 Cologne
T +49 221 669 – 8724
F +49 221 669 – 8009
invest@qsc.de
www.qsc.de

Overall Responsibility
QSC AG, Köln

Design
sitzgruppe, Düsseldorf

Photography
Marcus Pietrek, Düsseldorf

For further information: www.qsc.de