Quarterly Report III/2011

QSC AG

Key Data

All amounts in € millions	01/07/–30/09/ 2011	01/07/–30/09/ 2010	01/01/–30/09/ 2011	01/01/–30/09/ 2010
Revenues	128.3	105.6	355.2	316.4
EBITDA	20.8	20.3	60.6	59.6
Depreciation/amortization [1]	12.8	13.8	38.2	44.0
EBIT	8.0	6.5	22.5	15.6
Net profit	6.4	5.8	16.8	13.2
Earnings per share [2] (in €)	0.05	0.04	0.12	0.10
Return on revenue (in percent)	5.0	5.5	4.7	4.2
EBITDA margin (in percent)	16.2	19.2	17.1	18.8
EBIT margin (in percent)	6.2	6.2	6.3	4.9
Free cash flow	6.1	8.5	35.0	20.6
Capital expenditures	6.8	8.2	25.9	21.9
Capex ratio [3] (in percent)	5.3	7.8	7.3	6.9
Equity			190.4 [4]	184.0 [5]
Long-term liabilities			19.0 [4]	7.2 [5]
Short-term liabilities			173.5 [4]	140.9 [5]
Balance sheet total			382.8 [4]	332.2 [5]
Equity ratio (in percent)			49.7	55.4
Xetra closing price as of 30/09/ (in €)			2.06	1.67
Number of shares as of 30/09/			137,257,877	136,998,137
Market capitalization as of 30/09/			282.8	228.8
Employees as of 30/09/			1,285	619

[1] including non-cash share-based payments

[2] basic and diluted

[3] ratio of capital expenditures to revenues

[4] as of September 30, 2011

[5] as of December 31, 2010

Highlights

Managed Services revenues more than double

In the third quarter of 2011, QSC grew its revenues in the Managed Services segment to € 46.6 million, compared to € 19.0 million for the same quarter one year earlier. In its ICT solutions business, the Company is benefiting especially from the consolidation of its two new subsidiaries, INFO AG and IP Partner, and their successes in winning new customers.

Stronger collaboration in sales paying off

Following the acquisition of the two IT providers INFO AG and IP Partner, QSC has pushed collaboration with the new subsidiaries in recent months, especially in selling operations. Thereby, it was quickly possible to win 20 joint projects with small and mid-size customers with an order volume totaling more than two million euros.

Share of IP-based revenues rises to 80 percent

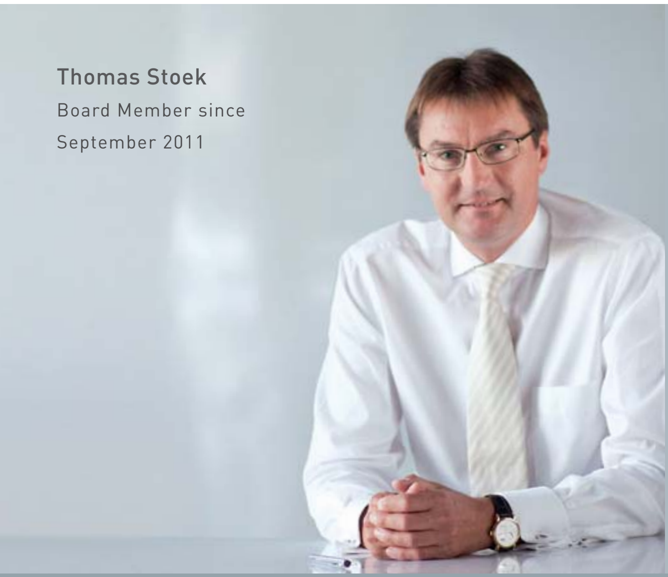
During the past quarter, strong growth in the Managed Services segment was offset by anticipated weaker development in the Products and Wholesale/Resellers segments; nevertheless, revenues rose by 21 percent overall to € 128.3 million. The Company's successes in its process of transforming itself into a provider of ICT services is demonstrated by the sharp rise in the share of IP-based revenues to 80 percent, compared to 69 percent the year before.

QSC striving to double revenues by 2016

On October 6, 2011, the Management Board debuted its strategy for the coming five years at an analyst conference. This strategy calls for sales of additional products and services to the existing customer base, along with the evolution of this range of products and services for Cloud applications, which will afford QSC considerable growth potential. The aim is to boost revenues to between € 800 million and € 1 billion by 2016, while achieving an EBITDA margin of 25 percent and a free cash flow of between € 120 and € 150 million.

QSC participating in a unique Open Access project

The Open Access platform that was launched in 2010 is likely to develop into a true growth driver in the years to come; it makes commercial utilization of fiber optic connections simpler and more efficient. QSC has been participating in a pilot project in Berlin as a network and services integrator since September 2011; under this project, more than 4,000 households will be equipped with fiber optic connections. The Company's partners are energy utility Vattenfall, real estate player degewo, as well as the Ericsson telecommunications group.



Thomas Stoek
Board Member since
September 2011

Arnold Stender »
Board Member since September 2011

QSC adds two members to Management Board

Thomas Stoek heads up the QSC Group's direct sales
In addition to his function as chief executive officer of INFO AG, Thomas Stoek is assuming responsibility for the QSC Group's direct sales activities. This includes the Managed Services business unit, INFO AG and IP Partner. The aim is to offer small and mid-size enterprises a complete portfolio of products and services for all of their ICT needs. Thomas Stoek (46) has been a member of the INFO AG management board since January 2010. He enjoys 20 years of IT experience at national and international players, including London-based Guardian iT (SunGard), Esker in Lyon, and Zend Technologies in Tel Aviv. Thomas Stoek holds a degree in Electrical Engineering.

Arnold Stender responsible for indirect sales
The tasks of this new member of the Management Board include intensifying sales and marketing activities through partners, as well as opening up new sales channels for the expanded portfolio of products and services, which has now been broadened to include IT products and Cloud services. Arnold Stender (46), who holds a post-graduate degree in Physics, has headed up the Products and Wholesale/Resellers business units since 2007; prior to that, he had been the management board member responsible for sales and marketing at Broadnet AG, which QSC acquired in 2006. Further stations in Arnold Stender's career include Freenet, Bertelsmann and Mediaways, where he was in charge of building new lines of business and sales of innovative products at each.

« Jürgen Hermann
Chief Financial Officer since 2009

Dr. Bernd Schlobohm
Chief Executive Officer since 1999

Dear Shareholders,

QSC is developing into a provider of comprehensive ICT services for small and mid-size enterprises. In recent quarters, we have informed you extensively about this transformation process and the related acquisitions of two IT providers, INFO AG and IP Partner. What growth potential will this produce for the entire QSC Group? And what strategy will QSC be pursuing in the future in the ICT market? Concrete answers to these questions are offered by our growth strategy for 2011 – 2016, which we debuted at an analyst conference in Hamburg on October 6, 2011. This strategy focuses on three growth paths:

1. The sale of additional products and solutions to our existing customer base, totaling more than 30,000 businesses in Germany. In the future QSC customers will also be able to utilize Housing, IT Outsourcing and IT Consulting offerings from our new subsidiaries INFO AG and IP Partner, in return for which their customers will receive access to the entire QSC portfolio for voice and data communication.
2. The evolution of our existing range of solutions for Cloud applications, enabling data to be processed from anywhere and on any end-user device.
3. The development of new, scalable products for the Cloud age.

QSC strives to double revenues by fiscal year 2016

We have quantified the growth potential that this will produce: QSC is striving for revenues of between 800 million and one billion euros by the year 2016 – that would double our current revenues within the space of five years. And we will continue to focus on profitable growth in the future. That’s why we have added to this vision two further target metrics for fiscal 2016: QSC is striving for an EBITDA margin of 25 percent and a free cash flow of between € 120 and € 150 million.

The capital market responded to our growth strategy with a mix of respect and skepticism. Respect, because QSC is daring to cite medium-term goals in the midst of a difficult economic situation, while simultaneously announcing a clear strategy for the coming years. And skepticism as to whether "small" QSC will really be able to succeed in establishing a place for itself in the market for Cloud Computing applications.

Yet our Company already possesses the key prerequisites for serving this new market: QSC has data centers in Hamburg, Cologne, Munich, Nuremberg and Oberhausen, where it can provision products and services for Cloud access while maintaining stringent security standards. In implementing this access, we are benefiting from our extensive know-how in IP-based telecommunications. Moreover, the Group possesses the requisite competence for implementing and operating IT applications that range right through to complex SAP programs – here, too, while maintaining the most stringent security standards.

QSC ready for the Cloud Computing era

So you can see, QSC is ready for the Cloud Computing era. Over the course of the coming quarters, we will be steadily broadening our range of products and solutions and implementing our growth strategy. What we plan, for example, is to provide storage capacities in the Cloud, and to offer Microsoft Cloud applications for mobile access, as well.

What the gradual implementation of our growth strategy means to you first and foremost, fellow shareholders, is this: a sustained rise in the value of the Company. In view of the turbulences on the capital market and the euro crisis, it would be presumptuous to draw conclusions from this about share price performance in the coming quarters. However, year in and year out you will definitely be participating in the growing value of your Company and ours in the form of an attractive dividend.

Cologne, November 2011

Dr. Bernd Schlobohm
Chief Executive Officer

Jürgen Hermann

Arnold Stender

Thomas Stoek

QSC Share Performance

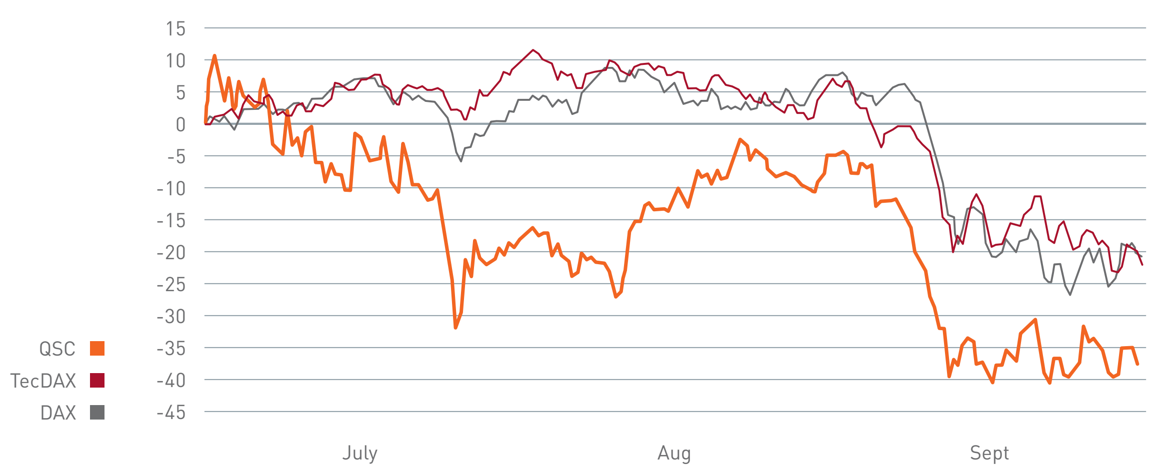
Worst quarter in nine years • The persistent euro crisis, coupled with concerns about a renewed recession, touched off a dramatic, broad-based slump in trading prices on international capital markets in the third quarter of 2011. Within the space of a single quarter, the DAX lost 25 percent; the last time its performance had been this poor was nine years ago. And the TecDAX was down by 26 percent.

QSC trading prices were unable to avoid this negative market trend: The Company's shares declined by 31 percent during the past quarter to close at € 2.06 on September 30, 2011. With the publication of its Semi-Annual Report on August 8, 2011, QSC again documented its progress in the transformation process, reiterating its forecast for the full 2011 fiscal year in this connection. Yet these facts were not sufficient for a smaller technology stock to avoid the grips of the general market correction.

The decline in trading prices occurred under relatively high trading volumes: On average, 790,000 QSC shares were traded on German stock exchanges each day in the third quarter of 2011, 40,000 more than in the preceding quarter and, in fact, 450,000 more than in the same quarter one year earlier. This is why trading volume slipped only moderately by comparison with the second quarter of 2011 to € 122 million; year on year, trading volume more than tripled. This improved QSC's ranking among the most highly traded TecDAX stocks from 33rd to 14th place within a single year.

The Company ranks 14th among most highly traded TecDAX stocks

SHARE PRICE PERFORMANCE (indexed)



Trading prices advance following analyst conference • In spite of the difficult market environment, QSC sustained its intensive investor relations work by participating in various capital market conferences and roadshows. On October 6, 2011, the Management Board then debuted the Company's growth strategy for the coming five years at an analyst conference conducted at the headquarters of subsidiary INFO AG in Hamburg. Many of the 14 analysts who regularly follow QSC then released updated assessments – predominantly positive. This, in turn, sparked a significant rise in trading prices through the end of October 2011.

FINANCIAL INSTITUTIONS THAT PUBLISH STUDIES ON QSC

Berenberg Bank	Exane BNP Paribas	Metzler Equities
Close Brothers Seydler Research	HSBC Trinkaus & Burkhardt	Silvia Quandt Research
Commerzbank	JPMorgan Cazenove	Warburg Research
Deutsche Bank	Kepler Capital Markets	WestLB
DZ Bank	Landesbank Baden-Württemberg	

In the third quarter of 2011, the number of shareholders declined moderately to 30,509. The largest shareholders continue to be U.S.-based investment company Baker Capital, which holds 18.4 percent of the Company's shares, as well as QSC's two founders, Dr. Bernd Schlobohm and Gerd Eickers, who each hold 10.1 percent. The free-float stands at 61.4 percent; the Register of Shares shows that 54 percent were held by institutional investors on September 30, 2011, and 46 percent were broadly held.

SHAREHOLDER STRUCTURE AS OF SEPTEMBER 30, 2011

Consolidated Interim Report QIII / 2011

ECONOMIC CONDITIONS

Economy cooling down • There were increasing signs in the third quarter of 2011 that the upswing in Germany was drawing to a close for the time being: The ifo Business Climate Index, a key indicator for the further development of the economy, gave way from month to month. In view of the persistent euro crisis and the lower growth rates in many industrialized and threshold countries, more and more companies are drawing down their expectations and operating increasingly cautiously. In spite of this, expectations are that German gross domestic product will rise by some three percent for the full 2011 year; the key factor in this was the good state of the economy at the outset of the year.

German IT market to grow by 3.4 percent in 2011 • IT business counts among the growth drivers in 2011. In a new study, market researcher IDC expects to see revenues in the German IT market rise by 3.4 percent this year. IT services, which also include Housing and Outsourcing, are expected to see growth of 3.3 percent. And IDC is predicting an annual average growth rate of 3.8 percent for the subsequent years.

DEVELOPMENT OF GERMAN IT SERVICES MARKET

The situation in parts of the TC market is totally different: Here, the economic cool-down is again deteriorating economic conditions. Shakeout competition is occurring, especially in conventional voice business, and, as a result, prices are declining noticeably. One indicator of the sustained price pressure is the consumer price index from the German Federal Office of Statistics. While consumer prices rose by 2.6 percent year on year in September 2011, the prices for TC services fell by -3.0 percent during the same period.

COURSE OF BUSINESS

Increased collaboration in selling • Following the acquisition of the majority interest in INFO AG in the second quarter of 2011, QSC has strengthened collaboration with this new subsidiary in recent months, as well as with IP Partner, which was acquired at the turn of 2010/2011. Increased collaboration began, especially in selling operations, while strictly observing the independence of INFO AG, which continues to be publicly traded. Thus far, this approach has enabled the Group to win 20 orders valued at a total of more than two million euros.

Collaboration in selling has already led to 20 orders

INFO AG CEO appointed to the QSC Management Board • This increased collaboration also extends to the management of the companies. Since QSC Chief Financial Officer Jürgen Hermann had already been serving in the same function at INFO AG since July 1, 2011, the QSC Supervisory Board appointed INFO AG Chief Executive Officer Thomas Stoek to the QSC Management Board in August 2011. Moreover, the INFO AG Annual Shareholders Meeting on September 23, 2011, elected QSC's two co-founders, Dr. Bernd Schlobohm and Gerd Eickers, as new members of the Supervisory Board of INFO AG.

Progress in the transformation process • In its operative business, QSC sustained its evolution from a TC network operator into a provider of ICT services during the third quarter of 2011. Year on year, the Company grew the IP-based revenues of an ICT provider by € 29.3 million to € 102.4 million; revenues in the conventional lines of business of a TC network operator, on the other hand, declined by € 6.6 million to € 25.9 million. The share of total revenues accounted for by IP-based revenues thus advanced to 80 percent, compared to 69 percent in the third quarter of 2010.

REVENUE MIX (in € millions)

This growth was based to a major extent on the consolidation of the Company's two new subsidiaries during the current fiscal year. Moreover, INFO AG was able to win new customers from the energy and gas sectors, as well as from the marine shipping industry. And QSC, itself, further expanded its customer base. In the future, the Company will be responsible for linking two data centers with redundantly designed fiber optic links for KIS Informations Services GmbH (KIS). As an IT service provider, KIS is predominantly active for metal and steel distributor Klöckner & Co.

QSC investing in IT market growth • Strong growth in ICT business, which manifests itself in the form of rising IP-based revenues and the ability to win multi-year contracts, necessitates the recruitment of additional IT specialists. INFO AG, alone, increased its workforce by 26 people to 638 in the third quarter of 2011; further recruitment is planned for the coming quarters. While near term these hirings impact operating profit, medium term they serve as a crucial prerequisite for sustained growth in ICT solutions business.

Growth in ICT business calls for recruitment of additional IT experts

QSC participating in unique pilot project for fiber optic connections

Open Access platform in Berlin now live • Within the framework of its transformation process, QSC is also broadening its competence in the field of innovative ICT services for resellers. Playing a major role in this connection in the coming years will be the Open Access platform; launched in 2010, it makes commercial utilization of fiber optic connections simpler and more efficient. Since September 2011, QSC has been participating in a unique pilot project for the Open Access model in Berlin as the network and services integrator; the Company's partners are energy utility Vattenfall, real estate player degewo, as well as the Ericsson telecommunications group. More than 4,000 households in southeast Berlin will be outfitted with fiber optic connections by 2012. The expected swift rise in the number of these connections will produce numerous opportunities for utilizing the Open Access platform in the coming years.

Focusing on core competencies • In August 2011, QSC sold EPAG Domainservices GmbH to Canadian-based Tucows Inc. for € 1.5 million (US$ 2.0 million) after deduction of liquid assets, recording the proceeds of this sale under other operating income. EPAG Domainservices, which specialized in the registration and administration of domain names, came to QSC through the acquisition of Bonn-based celox Telekommunikationsdienste in 2005.

PROFITABILITY

Revenues up by 21 percent • QSC grew its revenues by 21 percent in the third quarter of 2011 to € 128.3 million. Over the first nine months of 2011, this metric has risen by 12 percent year on year to € 355.2 million.
This sharp growth is attributable first and foremost to the initial consolidation of IP Partner (since January 3, 2011) and INFO AG (since May 2, 2011). An even higher rise in revenues was prevented by two decisions by the German Federal Network Agency. In December 2010, this regulatory authority reduced the termination fees for mobile calls by 49 to 53 percent; this was followed, effective July 1, 2011, by a nearly 20-percent reduction in the fees for utilization of the fixed-network infrastructures of third parties. Overall, these decisions impacted QSC in the form of lost revenues in the high single-digit million range in the third quarter of 2011.

Gross margin at 31 percent • In the third quarter of 2011, cost of sales increased to € 88.7 million, compared to € 69.3 million for the same quarter one year earlier. It should be noted that this line item records a major share of INFO AG's costs for its Outsourcing and personnel-intensive Consulting business, and that this subsidiary also specifically expanded its workforce in the third quarter of 2011 in response to the rising volume of new orders. Consequently, gross margin declined to 31 percent, compared to 34 percent in the third quarter of 2010.

The initial consolidation of INFO AG and IP Partner during the current fiscal year also impacted the other major cost line items. Sales and marketing expenses stood at € 11.3 million in the third quarter of 2011, € 0.9 million higher than in the same quarter the year before. During this period, general and administrative expenses increased by € 3.3 million to € 9.0 million. Following the acquisition of INFO AG, QSC is now operating two fully functioning headquarters of publicly traded corporations. Moreover, there were non-recurring costs in the third quarter of 2011 as a result of the acquisitions, stemming, among other things, from the conclusion of the public tender offer.

EBITDA rises to € 20.8 million • The acquisition of these two IT companies has resulted in a shift in cost structure toward higher operating costs, as opposed to lower depreciation expense. Nevertheless, QSC succeeded in increasing its EBITDA moderately to € 20.8 million in the third quarter of 2011, compared to € 20.3 million for the same quarter one year earlier; the EBITDA margin stood at 16 percent, compared to 19 percent the year before. After nine months, EBITDA stands at € 60.6 million, compared to € 59.6 million for the corresponding period one year earlier. EBITDA is defined as earnings before interest, taxes, amortization of deferred non-cash share-based compensation, as well as depreciation and amortization of property, plant and equipment, and intangible assets. During the past quarter, depreciation expense decreased to € 12.8 million, compared to € 13.8 million in the third quarter of 2010.

QSC generates EBITDA margin of 16 percent in third quarter of 2011

EBITDA (in € millions)

EBIT improves to € 8.0 million • Operating profit shows the profitability of the expanded QSC Group. This key steering metric for a provider of ICT services rose by 23 percent in the third quarter of 2011 to € 8.0 million; as in the year before, the EBIT margin stood at 6 percent. After nine months, EBIT totals € 22.5 million, compared to € 15.6 million for the same period one year earlier.

EBIT (in € millions)

Due to the higher financing debt stemming from the consolidation, the financial loss worsened to € -1.0 million in the third quarter of 2011, compared to € -0.4 million for the same quarter one year before. The Company earned € 7.0 million before income taxes, compared to € 6.1 million in the third quarter of 2010.

Consolidated net income advances to € 6.4 million • Consolidated net income rose to € 6.4 million in the third quarter of 2011, compared to € 5.8 million for the same quarter the year before. During the first nine months of the current fiscal year, consolidated net income has improved to € 16.8 million, compared to € 13.2 million for the same period one year earlier. This represents earnings per share in the amount of € 0.12, compared to € 0.10 for the first nine months of fiscal 2010.

NET INCOME (in € millions)

PROFITABILITY BY SEGMENT

INFO AG and IP Partner strengthen Managed Services business • QSC records the vast majority of the revenues of INFO AG and IP Partner in the Managed Services segment. This, first and foremost, was the reason for the increase in segment revenues to € 46.6 million in the third quarter of 2011, compared to € 19.0 for the same period one year earlier.

MANAGED SERVICES REVENUES (in € millions)

Growth in Consulting and Outsourcing business calls for expanded workforce

It should be noted, concerning the development of profitability, that the QSC Group is presently in the process of expanding the workforce, especially at INFO AG, in order to be equipped for the anticipated growth in Consulting and Outsourcing business. Moreover, Consulting is a personnel-intensive business, which affords only limited economies of scale regarding profitability. Nevertheless, segment EBITDA increased to € 7.3 million in the third quarter of 2011, compared to € 4.7 million for the comparable quarter one year earlier; this represents a margin of 16 percent. Segment EBIT also improved to € 3.1 million, in comparison with € 2.1 million in Q3 2010.

MANAGED SERVICES EBIT (in € millions)

Price war in legacy voice business burdens Products segment • Revenues in the Products segment declined to € 19.4 million in the third quarter of 2011, compared to € 21.4 million for the same quarter the year before; by comparison, revenues had risen moderately by € 0.2 million in the second quarter of 2011. The sustained price war in legacy voice telephony continues to burden this segment; revenues with Call-by-Call and Preselect offerings decreased by 15 percent, in comparison with the third quarter of 2010, to € 7.5 million.

PRODUCTS REVENUES (in € millions)

In addition to the pressure on margins as a result of the price war, this segment's results continue to be burdened by higher commission payments to marketing partners. Segment EBITDA declined to € 3.4 million in the third quarter of 2011, in comparison with € 5.4 million for the same quarter the year before. Thus, QSC nevertheless earned an EBITDA margin of 18 percent. At € 0.5 million, segment EBIT, too, was down sharply from the previous year's level of € 2.8 million.

PRODUCTS EBIT (in € millions)

Two-track development in the Wholesale/Reseller segment • Revenues in the Wholesale/Reseller segment totaled € 62.3 million in the third quarter of 2011, compared to € 65.2 million for the same quarter one year earlier. This decline was essentially attributable to anticipated declines in revenues in Wholesale ADSL2+ business. At € 18.5 million, revenues in this line of business, which is increasingly being characterized by price competition, were down by 22 percent year on year. The number of connected DSL lines decreased to 454,900 during this period, compared to 532,900 as of September 30, 2010. On the other hand, QSC was able to further increase revenues in voice business, which also includes the Wholesale Voice and Managed Outsourcing lines of business, in spite of price competition here that was also noticeable. The Company is benefiting especially in this connection from its highly efficient Next Generation Network.

QSC benefits from highly efficient NGN in voice business

WHOLESALE / RESELLERS REVENUES (in € millions)

At € 10.1 million, segment EBITDA in the third quarter of 2011 remained virtually unchanged year on year; the EBITDA margin amounted to 16 percent. As a result of declining depreciation expense, segment EBIT rose to € 4.4 million, compared to € 1.7 million in the third quarter of 2010.

WHOLESALE / RESELLERS EBIT (in € millions)

New segmentation beginning in fourth quarter of 2011 • In connection with the expansion of the Management Board, QSC has realigned its organizational structure in some areas and allocated individual customer groups on the basis of stringently defined individual sales sectors. This reallocation will have consequences for internal reporting, and thus for segmentation, which QSC has traditionally effected on the basis of customer categories.
QSC will report on the following three segments for the first time in the 2011 Consolidated Annual Report: Direct Sales, Indirect Sales and Resellers. The "Direct Sales" segment will correspond to the former Managed Services segment. In the future, the "Indirect Sales" segment will consist of business with all distribution partners that predominantly address business customers. This also includes Internet service providers as well as carriers that offer voice and data services to businesses – up until now, these lines of business had been part of the Wholesale/Reseller segment. The "Resellers" segment is where QSC will be bundling its business with marketing partners that predominantly address residential customers. It therefore also includes conventional voice business, since residential customers, in particular, utilize Call-by-Call and Preselect services.

FINANCIAL POSITION AND NET WORTH

Acquisitions impact cash flow from investing activities

Operating cash flow stands at € 15.0 million • In the third quarter of 2011, QSC earned € 15.0 million in cash flow from operating activities, compared to € 16.3 million for the same quarter one year earlier. Cash used in investing activities increased to € -21.3 million, compared to € -7.2 million in the third quarter of 2010. This line item records payments for the acquisition of INFO AG shares following the conclusion of the public tender offer, as well as the final tranche of the purchase price for IP Partner, along with the proceeds from the sale of EPAG Domainservices. As a result of new interest-bearing liabilities, cash used in financing activities rose to € 22.2 million, compared to € 4.7 million for the comparable quarter one year earlier, as QSC utilized bank loans to finance a portion of both acquisitions.

Free cash flow of € 6.1 million • In the third quarter of 2011, QSC generated a free cash flow in the amount of € 6.1 million. This key steering metric reflects the change in net liquidity/indebtedness prior to acquisitions. The table below shows all parameters as of the two closing dates, June 30 and September 30, 2011:

In € millions	Sept. 30, 2011	June 30, 2011
Liquidity		
Cash and cash equivalents	21.0	5.0
Available-for-sale assets	0.3	0.3
Liquidity	21.3	5.3
Interest-bearing liabilities		
Short-term liabilities under financing arrangements	(7.5)	(6.8)
Long-term liabilities under financing arrangements	(8.0)	(8.2)
Liabilities to banks	(44.7)	(20.4)
Interest-bearing liabilities	(60.2)	(35.4)
Net liquidity / indebtedness	(38.9)	(30.1)

Consequently, liquidity rose by € 16.0 million in the third quarter of 2011. Interest-bearing liabilities increased by € 24.8 million, which resulted in an € 8.8-million rise in net indebtedness to € -38.9 million. However, the effects of the most recent transactions must be taken into consideration in this connection:

- The final tranche of the purchase price for IP Partner lowered liquidity by € 7.5 million.
- QSC paid € 8.9 million for the shares of INFO AG that were submitted for sale within the framework of the public tender offer.
- Following deduction of liquid assets, the Company received € 1.5 million from the sale of EPAG Domainservices.

Overall, the acquisition-related changes amount to € 14.9 million. However, these numbers are not taken into consideration in viewing free cash flow, which is based upon the financial strength of operative business, resulting overall in a positive free cash flow in the amount of € 6.1 million.

Consolidation of new subsidiaries leads to a rise in debt • Long-term liabilities rose to € 19.0 million as of September 30, 2011, compared to € 7.2 million as of December 31, 2010. In addition to consolidation of the long-term liabilities of INFO AG under financing agreements, this increase was also attributable to the inclusion of this subsidiary's existing pension provisions in the Consolidated Interim Financial Statements.
Short-term liabilities increased to € 173.5 million as of September 30, 2011, in comparison with € 140.9 million at year-end 2010. As part of this, liabilities to banks, alone, rose to € 44.7 million, compared to € 10.0 million as of December 31, 2010, essentially as a result of the consolidated bank liabilities of IP Partner and INFO AG.

QSC concludes new €150 million line of credit

As announced, the Company concluded a new € 150 million, five-year line of credit in September 2011 with a banking consortium under the lead of Commerzbank. And it was offered at attractive terms and conditions in view of the difficult economic environment.

Equity ratio stands at 50 percent • Shareholders' equity rose to € 190.4 million as of September 30, 2011, compared to € 184.0 million as of December 31, 2010. Consolidated net income in the amount of € 16.8 million during the first nine months of the year was offset by entries against shareholders' equity to acquire shares of INFO AG. In spite of the two acquisitions and the increase in the balance sheet total that this brought with it, QSC recorded a high and extremely sound equity ratio of 50 percent as of September 30, 2011.

EQUITY RATIO

Low capital expenditures in the third quarter of 2011 • At € 6.8 million, capital investments in the third quarter of 2011 remained below the previous year's level of € 8.2 million. 41 percent of this total were invested in infrastructure, 40 percent were customer-related, especially for connecting new customers, while the remaining 19 percent were attributable to investments in plant and equipment.

CAPITAL EXPENDITURES (in € millions)

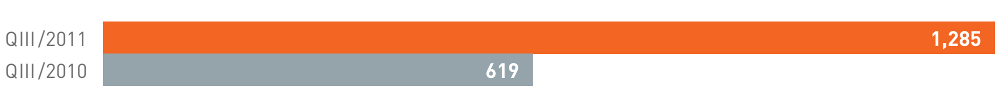
Acquisitions alter financial position • The two acquisitions played a major role in the rise in the value of long-term assets to € 277.6 million as of September 30, 2011, compared to € 189.3 million as of December 31, 2010. Goodwill, alone, provisionally rose to € 98.2 million, compared to € 49.3 million as of December 31, 2010. The value of property, plant and equipment increased to € 119.0 million, compared to € 108.1 million at the close of the 2010 fiscal year. For the first time, QSC is additionally recording a land and buildings line item in the amount of € 28.0 million; INFO AG owns its corporate headquarters in Hamburg, which also houses the data center.
Current assets decreased to € 105.2 million in the third quarter of 2011, compared to € 142.9 million as of December 31, 2010. Former Plusnet co-shareholder TELE2 had already settled the outstanding receivable in the amount of € 28.4 million, in the first quarter of 2011. The decline in cash and cash equivalents from € 46.2 million, as of December 31, 2010, to € 21.0 million was attributable first and foremost to the two acquisitions.

The Company owns INFO AG's Hamburg-based HQ and data center

HUMAN RESOURCES

INFO AG recruiting additional professionals and executives • As of September 30, 2011, the QSC Group employed a total workforce of 1,285 people, more than twice as many as at year-end 2010. This rise was a result, first and foremost, of the most recent acquisitions. At the end of September, 638 people were employed at INFO AG, 26 more than on June 30, 2011. QSC AG, itself, employed 521 people, network operating company Plusnet and IP Partner, 63 each.

EMPLOYEES



Management Board expanded • The Supervisory Board appointed Arnold Stender und Thomas Stoek to the Management Board of QSC AG effective September 1, 2011. These two individuals will be driving the QSC Group's selling and operative development into a leading German provider of ICT services for small and mid-size enterprises.

RISK REPORT

No major change in risk position • In the third quarter of 2011, there were no major changes to the risks discussed in the 2010 Annual Report. Due to the risks set forth therein, as well as other risks and incorrect assumptions, QSC's actual future results could vary from the expectations of the Company. All statements contained in this unaudited Consolidated Interim Report that are not historical facts are forward-looking statements. They are based upon current expectations and projections of future events, and could therefore change over the course of time.

OUTLOOK REPORT

QSC now anticipates a free cash flow of € 40 to € 45 million • With the acquisition of the two IT companies INFO AG and IP Partner, QSC has significantly accelerated its evolution into an ICT provider during the current fiscal year. In the fourth quarter of 2011, too, QSC will focus on intensifying collaboration with these subsidiaries and, in particular, on joint selling projects.

QSC still plans to distribute dividend for current fiscal year

In spite of the costs, time, and effort that this involves, QSC is raising the lower limit of its free cash flow forecast for the current fiscal year: The Company now anticipates a free cash flow of between € 40 and € 45 million, instead of the previous forecast of between € 35 and € 45 million. The Company continues to plan to distribute its first dividend for the current fiscal year.

FREE CASH FLOW (in € millions)

* Forecast February / ** Forecast November

Growth in the IT market – Price war in the conventional TC market • QSC continues to anticipate that the market will again fail to develop on a uniform basis. The weakening economy is likely to lead to a renewed heightening of price competition, especially in voice business. The same also applies with respect to both Wholesale DSL business as well as standard TC products. Given this difficult environment, QSC will continue to take a cautious approach and will continue to ensure that it earns a sufficient contribution margin on every product and every service.

Against this backdrop, the Company's evolution early on into a provider of ICT services is paying off handsomely, because QSC is benefiting from the growing demand in the IT market. In a new study, IDC is predicting average annual growth of 3.7 percent in the German IT market. According to the study, revenues from IT services, which include such QSC services as Consulting, Housing, and Outsourcing, will grow at an even faster pace.

Revenues in the German IT market expected to grow by 3.7 percent p.a.

Two-track revenue development • Analogously to the development of the market, QSC anticipates that revenues will develop on a two-track basis in the fourth quarter of 2011 and beyond: Declining revenues in the traditional lines of business of a TC network operator are likely to be offset by the rising revenues of a provider of ICT services. The Managed Services segment, now the Direct Sales Segment, is expected to benefit from this growth.

In view of the challenges in the TC market, QSC is sustaining its strict cost discipline throughout all of the Company's operations. At the same time, however, the Company is specifically investing in growth. This applies, in particular, to the recruitment of professionals and executives in the field of direct sales, especially at INFO AG. While the recruitment of IT specialists will burden results near term, it will serve as the crucial prerequisite for our plans to continue to outpace market growth in the coming years. A further temporary burden on profitability will result from the costs of increased collaboration with INFO AG and IP Partner, which amount to € 1 to € 2 million per quarter. In spite of these burdens, QSC continues to plan to distribute its first dividend for the 2011 fiscal year as well as to announce a dividend strategy for the following years.

Sound long-term financing • Even following the conclusion of the two acquisitions, which were largely financed from the Company's own resources, QSC possesses liquid assets in the amount of € 21.3 million. This liquidity, along with sustained positive free cash flows from quarter to quarter, serves as a sound basis for the Company's financing. Moreover, QSC can additionally access its newly concluded line of credit.

The financial strength of operative business is also making a major contribution toward financing the Company's planned investments. After capital expenditures of only € 6.8 million in the third quarter of 2011, QSC anticipates a higher volume again in the fourth quarter of 2011. The quarter-to-quarter fluctuations result from the fact that QSC has predominantly been investing in such larger IT projects as data centers in 2011, and will continue to do so in the following years. Generally speaking, however, the Company continues to plan on capital expenditures averaging 8 percent of revenues.

Consolidated Interim Financial Statements

CONSOLIDATED STATEMENT OF INCOME (unaudited)

Euro amounts in thousands (K€)

	01/07/–30/09/ 2011	01/07/–30/09/ 2010	01/01/–30/09/ 2011	01/01/–30/09/ 2010
Net revenues	**128,314**	**105,565**	**355,225**	**316,394**
Cost of revenues	(88,690)	(69,302)	(239,711)	(204,474)
Gross profit	**39,624**	**36,263**	**115,514**	**111,920**
Sales and marketing expenses	(11,286)	(10,428)	(33,151)	(33,011)
General and administrative expenses	(9,030)	(5,679)	(22,579)	(19,846)
Depreciation and non-cash share-based payments	(12,825)	(13,750)	(38,165)	(43,986)
Other operating income	1,535	648	1,707	1,296
Other operating expenses	(25)	(513)	(857)	(757)
Operating profit	**7,993**	**6,541**	**22,469**	**15,616**
Financial income	91	46	308	194
Financial expenses	(1,092)	(486)	(2,242)	(1,552)
Net profit before income tax	**6,992**	**6,101**	**20,535**	**14,258**
Income tax	(552)	(349)	(3,696)	(1,010)
Net profit	**6,440**	**5,752**	**16,839**	**13,248**
thereof attributable to non-controlling interests	198	-	586	-
thereof attributable to owners of QSC AG	6,242	5,752	16,253	13,248
Earnings per share (basic) in €	**0.05**	**0.04**	**0.12**	**0.10**
Earnings per share (diluted) in €	**0.05**	**0.04**	**0.12**	**0.10**

CONSOLIDATED BALANCE SHEET (unaudited)

Euro amounts in thousands (K€)

	Sept. 30, 2011	Dec. 31, 2010
ASSETS		
Long-term assets		
Property, plant and equipment	118,956	108,087
Land and buildings	28,040	-
Goodwill	98,154	49,279
Other intangible assets	20,719	22,959
Other long-term financial assets	1,682	498
Deferred tax assets	10.015	8,484
Long-term assets	**277,566**	**189,307**
Short-term assets		
Trade receivables	65,674	61,284
Receivables from former shareholders	-	28,358
Prepayments	8,545	2,883
Inventories	1,318	1,045
Other short-term financial assets	8,376	2,774
Available-for-sale financial assets	340	332
Cash and short-term deposits	20,994	46,233
Short-term assets	**105,247**	**142,909**
TOTAL ASSETS	382,813	332,216

	Sept. 30, 2011	Dec. 31, 2010
SHAREHOLDERS' EQUITY AND LIABILITIES		
Shareholders' equity		
Equity attributable to owners of QSC AG		
Capital stock	137,257	137,128
Capital surplus	139,760	139,593
Other capital reserves	(1,390)	(1,291)
Accumulated deficit	(86,567)	(91,382)
Equity attributable to owners of QSC AG	**189,060**	**184,048**
Equity attributable to non-controlling interests	1,327	-
Shareholders' equity	**190,387**	**184,048**
Liabilities		
Long-term liabilities		
Long-term liabilities under financing arrangements	8,023	2,044
Convertible bonds	21	20
Accrued pensions	6,068	1,067
Deferred tax liabilities	4,858	4,108
Long-term liabilities	**18,970**	**7,239**
Short-term liabilities		
Trade payables	48,832	38,043
Short-term liabilities under financing arrangements	7,531	5,493
Liabilities to banks	44,652	10,000
Other provisions	9,059	2,085
Accrued taxes	4,668	2,215
Deferred cost	51,210	69,842
Other short-term liabilities	7,504	13,251
Short-term liabilities	**173,456**	**140,929**
Liabilities	**192,426**	**148,168**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	382,813	332,216

CONSOLIDATED STATEMENT OF CASH FLOWS (unaudited)

Euro amounts in thousands (K€)

	01/01/ – 30/09/ 2011	01/01/ – 30/09/ 2010
Cash flow from operating activities		
Net profit before income taxes	20,535	14,258
Depreciation and amortization	38,108	37,219
Non-cash share-based payments	(66)	48
Loss from disposal of long-term assets	672	783
Changes in provisions	1,847	1,896
Changes in receivables from former shareholders	28,358	-
Changes in trade receivables	5,452	(1,702)
Changes in trade payables	1,963	(1,138)
Changes in other financial assets and liabilities	(34,077)	(9,786)
Cash flow from operating activities	**62,792**	**41,578**
Cash flow from investing activities		
Purchase of subsidiary less liquid assets acquired	(72,913)	-
Proceeds from sale of a subsidiary, net of cash disposed	1,429	-
Purchase of intangible assets	(9,824)	(14,252)
Purchase of property, plant and equipment	(11,732)	(4,089)
Cash flow from investing activities	**(93,040)**	**(18,341)**
Cash flow from financing activities		
Issuance of convertible bonds	1	-
Repayment of liabilities to other shareholders	-	(553)
Proceeds from issuance of common stock	240	-
Repayment of other short- and long-term liabilities	(576)	(1,633)
Borrowings	11,864	-
Repayment of liabilities under financing arrangements	(6,520)	(13,880)
Cash flow from financing activities	**5,009**	**(16,066)**
Change in cash and short-term deposits	**(25,239)**	**7,171**
Change in cash and short-term deposits as of January 1	46,233	40,952
Cash and short-term deposits as of September 30	**20,994**	**48,123**
Interest paid	1,890	1,335
Interest received	171	170
Income tax paid	586	490

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (unaudited)

Euro amounts in thousands (K€)

	01/01/ – 30/09/ 2011	01/01/ – 30/09/ 2010
Other comprehensive income		
Actuarial gains on defined benefit pension plans	(194)	-
Tax effect, total	62	-
Other comprehensive income	**(132)**	**-**
Net profit for the period	16,839	13,248
Total comprehensive income for the period	**16,707**	**13,248**
Total comprehensive income attributable to:		
Non-controlling interests	553	-
Owners of QSC AG	16,154	13,248

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (unaudited)

Euro amounts in thousands (K€)

	Equity attributable to owners of QSC AG				
	Capital stock	Capital surplus	Other capital reserves	Accumulated deficit	Total
Balance as of January 1, 2011	137,128	139,593	(1,291)	(91,382)	184,048
Net profit for the period				16,253	16,253
Other comprehensive income for the period, net of tax			(99)		(99)
Total comprehensive income			(99)	16,253	16,154
Acquisition with non-controlling interests					
Acquisition of non-controlling interests					
up to reporting date				(11,438)	(11,438)
Conversion of convertible bonds	129	111			240
Non-cash share-based payments		56			56
Balance as of September 30, 2011	137,257	139,760	(1,390)	(86,567)	189,060
Balance as of January 1, 2010	136,998	563,687	(1,129)	(539,844)	159,712
Total comprehensive income				13,248	13,248
Non-cash share-based payments		162			162
Balance as of September 30, 2010	136,998	563,849	(1,129)	(526,596)	173,122

Equity attributable to non-controlling interests	Total share-holders' equity	
-	184,048	**Balance as of January 1, 2011**
586	16,839	Net profit for the period
(33)	(132)	Other comprehensive income for the period, net of tax
553	16,707	**Total comprehensive income**
4,620	4,620	Acquisition with non-controlling interests
		Acquisition of non-controlling interests
(3,846)	(15,284)	up to reporting date
	240	Conversion of convertible bonds
	56	Non-cash share-based payments
1,327	190,387	**Balance as of September 30, 2011**
-	159,712	**Balance as of January 1, 2010**
	13,248	Total comprehensive income
	162	Non-cash share-based payments
-	173,122	**Balance as of September 30, 2010**

Notes to the Consolidated Interim Financial Statements

CORPORATE INFORMATION

QSC AG (QSC or the Company) offers small and mid-size enterprises a comprehensive range of ICT services – from telephony, data transfer, Housing and Hosting right through to IT Outsourcing and IT Consulting. With its subsidiaries INFO AG, a full-line provider of IT services headquartered in Hamburg, and IP Partner AG, a Housing and Hosting specialist headquartered in Nuremberg, the QSC Group numbers among the leading mid-size providers of ICT services in Germany. QSC offers custom-tailored Managed Services for individual ICT needs, as well as a comprehensive product portfolio for customers and marketing partners that can be modularly adapted to suit the communications and IT needs in question. QSC offers its services on the basis of its own Next Generation Network (NGN) and operates an Open Access platform, which unites a wide range of broadband technologies. QSC is a stock corporation registered in the Federal Republic of Germany whose legal domicile is Mathias-Brüggen-Strasse 55, 50829 Cologne, Germany. The Company is carried on the Register of Companies of the Local Court of Cologne under Number HRB 28281. QSC has been listed on the Deutsche Börse Stock Exchange since April 19, 2000, and on the Prime Standard since the beginning of 2003, following the reorganization of the equity market. On March 22, 2004, QSC was added to the TecDAX index, which includes the 30 largest and most liquid technology stocks in the Prime Standard.

BASIS OF PREPARATION

1 General principles

The unaudited Consolidated Interim Financial Statements of QSC AG and its subsidiaries (Consolidated Interim Financial Statements) have been prepared in accordance with International Financial Reporting Standards (IFRS) and their interpretations by the International Financial Reporting Interpretations Committee (IFRIC) in accordance with International Accounting Standards (IAS) 34, “Interim Financial Reporting.” The Consolidated Interim Financial Statements do not include all the information and disclosures required in annual financial statements and should be read in conjunction with the Group’s Consolidated Financial Statements as of December 31, 2010.
It is the opinion of the Management Board that the Consolidated Interim Financial Statements contain all adaptations that are necessary for a true and fair view of the assets, liabilities, financial position and profit or loss of the Group. The financial results presented in the Consolidated Interim Financial Statements for the period from January 1 through September 30, 2011, do not necessarily indicate the development of future results.

Except for the accounting policies described below, the Consolidated Interim Financial Statements have been drawn using the same accounting policies as applied in the Consolidated Financial Statements for the 2010 fiscal year. The new accounting policies result from the first-time inclusion of IP Partner AG and INFO AG in the Consolidated Interim Financial Statements for the nine-month period ended September 30, 2011:

Leasing • The Group decides on a case by case basis whether to lease or buy items. In accordance with IAS 17, items attributable to the Group as economic owner are recognized as assets and depreciated over their useful lives or, if shorter, over the lease period. The obligation arising from the leasing arrangements is recognized as a liability and reduced over the lease period by the capital portion of the lease payments. Contracts classified as finance leases relate primarily to arrangements for IT equipment and data center technology. Leased assets are measured at their fair value or, if lower, at the present value of the minimum lease payments during the noncancelable period of the lease.
Under the rules contained in IFRIC 4, the Group also is deemed to be the lessor in certain multicomponent arrangements. In these cases, the amounts due from the lessees under finance lease arrangements are recognized as discounted receivables at an amount equal to the net investment in the lease and reported within "Trade receivables". In the case of a multi-component contract, the arrangements are separated into a service component for services to be rendered and a trading component for the leased-out hardware. Revenues for services rendered are recognized on a time-allocated basis (pro rata temporis) over the term of the contract and revenues relating to trading are recognized in full in the year in which the contract is signed.

Construction contracts • Future receivables arising on construction contracts are accounted for using the percentage of completion (PoC) method in accordance with IAS 11 if there is a customer-specific order. Profit is recognized by reference to the stage of completion of the contract when total contract costs and contract revenue of the relevant contract can be measured reliably in accordance with the requirements of IAS 11. The stage of completion of a contract is determined using the cost-to-cost method (IAS 11.30a). When the above requirements are met, total contract revenue is recognized by reference to the stage of completion of the contract. Contract costs comprise costs relating directly to the contract as well as indirectly attributable production overheads. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized immediately as an expense.

The preparation of the Consolidated Interim Financial Statements in accordance with IFRS requires, to a certain extent, the use of judgments and estimates regarding recorded assets and liabilities, disclosures on potential trade receivables and payables, as well as presented income and expenses during the reporting period. Actual amounts may differ from those assumptions and estimates. In comparison with the Consolidated Financial Statements as of December 31, 2010, there were no material changes in management's assumptions regarding the use of accounting principles.
The Consolidated Interim Financial Statements are rounded, except when otherwise indicated, to the nearest thousand (K€).

2 Basis of consolidation

These Consolidated Interim Financial Statements comprise the financial statements of QSC AG and its subsidiaries for the period ended September 30, 2011. The circle of consolidated companies has been expanded to include the following companies by comparison with December 31, 2010:

IP Partner AG • On December 21, 2010, QSC published an ad hoc release relating to the acquisition of all of the shares of IP Partner AG, in Nuremberg. The effective date of the share transfer (acquisition date) was January 3, 2011. IP Partner AG operates two data centers, located in Munich and Nuremberg, with more than 10,000 servers serving in excess of 1,000 customers. Construction of further data centers with a total area of over 3,000 sqm is currently under way. The acquisition of IP Partner AG is part of the strategy of accelerating QSC's transformation from being a telecommunications provider to becoming an integrated information and communications technology (ICT) service provider, capable of providing a broader range of services to its predominantly mid-size corporate customers. The total purchase price amounted to K€ 24,684 and comprised three components, which were partially dependent on IP Partner Group's business performance. On January 3, 2011, QSC paid K€ 15,000 in cash to the former shareholders. The second installment in the amount of K€ 2,500 followed on May 5, 2011, and the third and final installment in the amount of K€ 7,500 was paid to the former shareholders on July 27, 2011. Transaction costs amounting to K€ 81 were also incurred in conjunction with the acquisition and have been recognized as an expense for the period and are included in other operating expenses. For the nine-month period ended September 30, 2011, the IP Partner AG Group contributed revenue of K€ 14,566 and earnings of K€ 2,321 to QSC.
Costs of purchase as well as the fair values of acquired assets and liabilities have thus far been measured on a provisional basis and will be finalized following submission of an expertise from an independent appraiser during the course of the 2011 fiscal year. As a result of this transaction, goodwill has been provisionally increased by K€ 22,864. This essentially reflects the anticipated synergies stemming from the joint activities of IP Partner and QSC, in particular in the field of Managed Services.

INFO Gesellschaft für Informationssysteme AG • On May 2, 2011, QSC concluded a purchase agreement with MZ Erste Vermögensverwaltungsgesellschaft mbH, Hamburg, a major shareholder of INFO Gesellschaft für Informationssysteme AG, Hamburg, (INFO AG) for the purchase of 58.98 percent of the 4,000,000 issued shares of INFO AG for a price of € 14.35 per share. MZ Erste Vermögensverwaltungsgesellschaft mbH has therefore sold all of its shares it previously held in INFO AG. INFO AG also held 251,403 of its own shares (treasury shares).
Transaction costs of K€ 810 arising in conjunction with the transaction have been recognized as an expense for the period and are included in other operating expenses.
INFO AG is an independent provider of IT outsourcing and IT consulting services in Germany. Its portfolio of services comprises the planning, implementation and subsequent operation of complex IT solutions for national and international mid-size companies. INFO AG has three data centers in Hamburg and Oberhausen with a total area of 6,000 sqm. At the same time INFO AG is also an SAP system-house and a Microsoft Gold Certified Partner. The takeover of INFO AG extends and enhances QSC's portfolio with additional IT expertise and will significantly accelerate QSC's transformation from a telecommunications provider to ICT service provider. With a workforce of just under 1,300 employees, the expanded Group is able to offer a comprehensive range of ICT services to mid-size corporate customers – ranging from voice and data communications, Housing, Hosting, IT outsourcing through to IT consulting, thus sustainably strengthening QSC's position as an independent ICT service provider. INFO AG contributed consolidated revenue of K€ 44,974 and earnings of K€ 3,496 to the QSC Group for the period from May 2 to September 30, 2011. If the acquisition had taken place with effect from January 1, 2011, management estimates that INFO AG's consolidated revenue for the first nine months of 2011 would have been K€ 76,342 and that the profit attributable to the QSC Group would have been K€ 3,259.
The fair values of acquired assets and liabilities have thus far been measured on a provisional basis, and will be finalized following submission of an expertise from an independent appraiser during the course of the 2011 fiscal year. As a result of this transaction, goodwill has been increased provisionally by K€ 26,011. This essentially reflects the anticipated synergies stemming from the joint activities of INFO AG and QSC, in particular in the field of Managed Services.
During the period from May 5 to 18, 2011, QSC acquired – outside the stock market – a further 446,000 shares of INFO AG from Joh. Berenberg, Gossler & Co. KG for a total consideration of K€ 6,394. As a result of the transaction, equity attributable to non-controlling interests was reduced by K€ 1,591 and the Group's accumulated deficit increased by K€ 4,802.

On June 9, 2011, QSC issued a public offer for the remainder of INFO AG's shares (943,512 shares). The period for accepting the takeover bid expired on July 7, 2011, and the extended term of acceptance ended on July 26, 2011. QSC had been offered a total of 619,483 shares for a total purchasing price of K€ 8,890 in conjunction with takeover bid. As a result of the share takeover in connection with the public takeover bid, equity attributable to non-controlling interests was reduced by a further K€ 2,255; the Group's accumulated deficit increased by K€ 6,636. Overall, as of September 30, 2011, QSC is thus entitled to 91.90 percent of the voting rights in INFO AG.

	Number of shares	Holding as of % (as proportion of 4,000,000 shares)	Holding as of % (as proportion of 3.748.497 shares)	in €
Shareholder				
MZ Erste Vermögensverwaltungs-gesellschaft mbH (May 2, 2011)	2,359,085	58.98	62.93	33,852,869.75
Purchase of shares from Berenberg (May 5-18, 2011)	446,000	11.15	11.90	6,393,850.00
Sub-total	**2,805,085**	**70.13**	**74.83**	**40,246,719.75**
Takeover bid	619,483	15.49	16.53	8,889,581.05
Treasury shares	251,403	6.29	-	-
Total	**3,675,971**	**91.90**	**91.36**	**49,136,300.80**

tengo 01052 GmbH • With a share capital of K€ 25, newly founded tengo 01052 GmbH has been fully consolidated in the Consolidated Financial Statements since March 11, 2011. tengo 01052 markets voice products for private customers, in particular call-by-call products.

EPAG Domainservices GmbH • On August 1, 2011, QSC sold 100 percent of its shares in EPAG to Toronto, Canada-based Tucows Inc. The capital gain amounted to K€ 1,493.

3 Segment reporting

In accordance with IFRS 8, QSC identifies reportable segments on the same basis as is used internally by management for evaluating performance and making decisions.

The Managed Services segment markets its activities to in excess of 8,000 large and mid-size enterprises in Germany. QSC offers tailored ICT solutions to this target group, selling directly to the entities concerned. The segment's services range from IP-based virtual private networks (IP-VPN) and related services, ITC outsourcing solutions such as Housing and Hosting through to IT consulting. The majority of the activities of the new subsidiaries, INFO AG and IP Partner, is attributable to the Managed Services segment.

The Products segment encompasses standardized products from QSC that enable small and mid-size companies to operate all of their voice and data communications over one and the same broadband line. The spectrum of offerings includes Internet connections, Voice over IP products, as well as innovative solutions such as the IPfonie centraflex virtual telephone system. The target market for the Products BU consists of nearly 900,000 small and mid-size companies in Germany who – as a general rule – procure ICT services from regional partners. QSC is therefore focusing on partnering with some 100 regional distribution partners and distributors.

The Wholesale/Resellers segment encompasses QSC's business with Internet service providers, as well as telecommunications providers who do not possess infrastructures of their own. The latter market DSL lines from QSC and the voice and value-added services that build upon them under their own name and for their own account. QSC supplies unbundled DSL preliminaries and ensures smooth order management for the individual, directly-supported resellers via highly scalable IT interfaces. Moreover, this business unit also operates QSC's Wholesale Voice business, under which QSC makes voice telephony services available to resellers who do not possess a corresponding nationwide infrastructure of their own.

Management has stipulated EBIT (in accordance with IFRS) as the key steering parameter for the segments. Thus, operating costs are fully attributed to their respective business units; plus, a complete calculation of profit or loss up to the operating results is made. Both the direct and indirect attribution of costs to the individual segments corresponds to the Company's internal reporting system and steering logic. With regard to assets and liabilities, there were also directly and indirectly attributable items. Assets and liabilities that are indirectly attributable are allocated according to financial viability based on contribution margins, except for deferred tax assets and liabilities.

in K€	Managed Services	Products	Wholesale / Resellers	Reconciliation	Consolidated
01/07/ – 30/09/2011					
Net revenues	**46,599**	**19,388**	**62,327**	**-**	**128,314**
Cost of revenues	(31,461)	(9,411)	(47,818)		(88,690)
Gross profit	**15,138**	**9,977**	**14,509**	**-**	**39,624**
Sales and marketing expenses	(3,582)	(4,787)	(2,917)		(11,286)
General and administrative expenses	(4,793)	(2,361)	(1,876)		(9,030)
Depreciation and amortization	(4,148)	(2,896)	(5,765)		(12,809)
Non-cash share-based payments	(3)	(3)	(10)		(16)
Other operating income	523	555	432		1,510
Operating profit	**3,135**	**485**	**4,373**	**-**	**7,993**
Assets	110,225	95,358	168,746	8,484	382,813
Liabilities	41,385	23,772	122,411	4,858	192,426
Capital expenditures	3,459	1,622	1,715	-	6,796

in K€	Managed Services	Products	Wholesale / Resellers	Reconciliation	Consolidated
01/07/-30/09/2010					
Net revenues	**19,001**	**21,370**	**65,194**	**-**	**105,565**
Cost of revenues	(9,272)	(11,202)	(48,828)		(69,302)
Gross profit	**9,729**	**10,168**	**16,366**	**-**	**36,263**
Sales and marketing expenses	(3,071)	(2,865)	(4,492)		(10,428)
General and administrative expenses	(2,053)	(1,942)	(1,684)		(5,679)
Depreciation and amortization	(2,547)	(2,639)	(8,522)		(13,708)
Non-cash share-based payments	(16)	(13)	(13)		(42)
Other operating income	45	45	45		135
Operating profit	**2,087**	**2,754**	**1,700**	**-**	**6,541**
Assets	66,848	76,387	157,622	-	300,857
Liabilities	10,439	13,962	99,477	3,857	127,735
Capital expenditures	1,574	1,766	4,830	-	8,170

in K€	Managed Services	Products	Wholesale / Resellers	Reconciliation	Consolidated
01/01/ – 30/09/2011					
Net revenues	**104,826**	**59,183**	**191,216**	**-**	**355,225**
Cost of revenues	(62,104)	(29,333)	(148,274)		(239,711)
Gross profit	**42,722**	**29,850**	**42,942**	**-**	**115,514**
Sales and marketing expenses	(11,107)	(10,964)	(11,080)		(33,151)
General and administrative expenses	(10,348)	(6,753)	(5,478)		(22,579)
Depreciation and amortization	(11,127)	(8,796)	(18,185)		(38,108)
Non-cash share-based payments	(13)	(11)	(33)		(57)
Other operating income	456	(39)	433		850
Operating profit	**10,583**	**3,287**	**8,599**	**-**	**22,469**
Assets	110,225	95,358	168,746	8,484	382,813
Liabilities	41,385	23,772	122,411	4,858	192,426
Capital expenditures	11,930	5,248	8,688	-	25,866

in K€	Managed Services	Products	Wholesale / Resellers	Reconciliation	Consolidated
01/01/-30/09/2010					
Net revenues	**55,649**	**64,149**	**196,596**	**-**	**316,394**
Cost of revenues	(25,856)	(34,074)	(144,544)		(204,474)
Gross profit	**29,793**	**30,075**	**52,052**	**-**	**111,920**
Sales and marketing expenses	(9,314)	(9,291)	(14,406)		(33,011)
General and administrative expenses	(6,891)	(6,880)	(6,075)		(19,846)
Depreciation and amortization	(7,881)	(8,258)	(27,684)		(43,823)
Non-cash share-based payments	(65)	(48)	(50)		(163)
Other operating income	30	33	476		539
Operating profit	**5,672**	**5,631**	**4,313**	**-**	**15,616**
Assets	66,848	76,387	157,622	-	300,857
Liabilities	10,439	13,962	99,477	3,857	127,735
Capital expenditures	4,589	4,839	12,482	-	21,910

4 Related party transactions

During the first nine months of 2011, QSC participated in transactions with companies affiliated with members of management. According to IAS 24 related parties are individuals or companies that have the possibility of influencing or even controlling the other party. All contracts with these companies require approval of the Supervisory Board and are concluded under normal market conditions.

in K€	Net revenues	Expenses	Cash received	Cash paid
01/01/ – 30/09/2011				
IN-telegence GmbH & Co. KG	450	25	506	31
Teleport Köln GmbH	15	6	16	7
QS Communication Verwaltungs Service GmbH	-	186	-	174
01/01/ – 30/09/2010				
IN-telegence GmbH & Co. KG	527	39	654	48
Teleport Köln GmbH	11	3	13	6
QS Communication Verwaltungs Service GmbH	-	115	-	158

in K€	Trade receivables	Trade payables
As of September 30, 2011		
IN-telegence GmbH & Co. KG	100	3
Teleport Köln GmbH	5	-
QS Communication Verwaltungs Service GmbH	-	47
As of December 31, 2010		
IN-telegence GmbH & Co. KG	126	-
Teleport Köln GmbH	2	-
QS Communication Verwaltungs Service GmbH	-	-

IN-telegence GmbH & Co. KG provides value-added telecommunications services. Teleport Köln GmbH provides support to QSC in the end-customer connection installation process. QS Communication Verwaltungs Service GmbH provides consultancy in the area of product management of voice products.

5 Management Board

	Shares		Conversion rights	
	Sept. 30, 2011	Sept. 30, 2010	Sept. 30, 2011	Sept. 30, 2010
Dr. Bernd Schlobohm	13,818,372	13,818,372	200,000	300,000
Jürgen Hermann	180,000	145,000	200,000	47,000
Joachim Trickl (until 31/08/2011)	5,000 [3]	5,000	250,000 [3]	250,000
Arnold Stender (from 01/09/2011)	-	-	25,000 [1]	25,000 [1]
Thomas Stoek (from 01/09/2011)	7,360 [2]	-	-	-

[1] Conversion rights granted during employee tenure
[2] Had existed prior to Management Board appointment
[3] Had been existing at the time of retirement from the Management Board

6 Supervisory Board

	Shares		Conversion rights	
	Sept. 30, 2011	Sept. 30, 2010	Sept. 30, 2011	Sept. 30, 2010
Herbert Brenke	187,820	187,820	-	-
John C. Baker	52,135	10,000	-	-
Gerd Eickers	13,877,484	13,877,484	-	-
David Ruberg	14,563	14,563	-	-
Klaus-Theo Ernst *	500	500	-	-
Jörg Mügge *	4,000	4,000	-	6,000

* Workers' representatives

7 Supervisory Board

On September 16, 2011, QSC concluded a €150 million syndicated loan with Commerzbank AG and six other financial institutions. On October 10, 2011, following the submission of the requisite documents, the previous €50 million syndicated loan was replaced through an initial borrowing under the new agreement. The newly concluded syndicated loan has a term of five years and the interest rate will be, depending on business performance, EURIBOR plus 1.50 percent.

Cologne, November 2011

Dr. Bernd Schlobohm Chief Executive Officer	Jürgen Hermann	Arnold Stender	Thomas Stoek

Calendar

Annual Shareholders Meeting
May 16, 2012

Conferences / Events
November 23, 2011
German Equity Forum Fall 2011
Deutsche Börse, Frankfurt

November 30, 2011
Berenberg Bank European Conference, London

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