QSC AG

QUARTERLY REPORT III/2014

QSC IS WORKING.

Key Data

All amounts in € million	01/07/–30/09/ 2014	01/07/–30/09/ 2013	01/01/–30/09/ 2014	01/01/–30/09/ 2013
Revenues	106.6	113.8	325.1	340.3
EBITDA	8.8	19.4	32.7	57.4
Depreciation / amortization [1]	12.7	13.8	37.5	39.0
EBIT	(3.9)	5.5	(4.8)	18.4
Net profit (loss)	(6.2)	4.7	(9.8)	15.0
Earnings per share [2] (in €)	(0.05)	0.04	(0.08)	0.12
Free cash flow	3.7	6.5	13.2	18.1
Capital expenditures (capex)	6.3	16.4	19.2	34.8
Capex ratio [3] (in %)	5.9	14.4	5.9	10.2
Liquidity			117.0 [4]	59.1 [5]
Equity			170.5 [4]	193.9 [5]
Long-term liabilities			184.1 [4]	103.3 [5]
Short-term liabilities			90.1 [4]	94.9 [5]
Balance sheet total			444.7 [4]	392.0 [5]
Equity ratio (in %)			38.3 [4]	49.5 [5]
Xetra closing price as of 30/09/ (in €)			2.23	4.00
Number of shares as of 30/09/			124,142,187	123,870,137
Market capitalization as of 30/09/			276.8	495.5
Employees as of 30/09/			1,709	1,664

[1] Including non-cash share-based remuneration

[2] Basic and diluted

[3] Ratio of capital expenditures to revenues

[4] As of September 30, 2014

[5] As of December 31, 2013

Highlights

Third quarter of 2014 weaker than planned

In contrast to expectations, both business with new ICT products as well as IT Consulting and IT Outsourcing operations failed to increase significantly in the face of a noticeable weakening of the economy. As a result, revenues of € 106.6 million and an EBITDA of € 8.8 million were down considerably year on year.

Highest order bookings in two years

Following a weak start this year, new orders recovered in the third quarter of 2014 to total € 55.3 million, the highest level in the past eight quarters. Existing customers contributed first and foremost to these good results; in September, for example, BEB Erdgas und Erdöl GmbH & Co. KG prematurely extended its framework agreement covering complete operation of its ICT services for a further 48 months through at least 2018.

Major Consulting contract from the Dussmann Group

In its Consulting business, QSC won a major contract – also in September – from the Dussmann Group, its existing IT Outsourcing customer. QSC is providing one-stop shopping for the group-wide deployment of the SAP HCM human resources solution, including Applications Management, Consulting, Implementation, as well as rollout support.

Guidance lowered for full 2014 fiscal year

Following the second quarter in a row to come in under planning targets, in mid-October QSC adjusted its guidance for the full 2014 fiscal year. The Company now anticipates revenues of at least € 430 million, an EBITDA of at least € 40 million and a free cash flow of not more than € -12 million, including a non-recurring working capital effect.

Proposed dividend for 2014 reiterated

Since QSC is generating liquidity in its operating business and is soundly financed, the dividend strategy remains unchanged. The dividend of 10 cents per share paid for the 2013 fiscal year is serving as the minimum amount for the next planned distribution in May 2015.

Dear Shareholders,

For the second time in succession, the quarterly figures are in line with neither your nor our expectations. This is without doubt a disappointment. Contrary to expectations, revenues from IT Outsourcing and IT Consulting, as well as from the new lines of business, did not pick up after the summer vacation. There are several reasons for this: Higher revenues were constrained both by the noticeable economic downswing and the concerns – fueled by the NSA debate – of many SMEs about now using Cloud-based products. Internal factors also played a role: Order bookings in the first half of 2014 were not high enough, and sales of the new ICT products did not prove strong enough.

We have already reacted to the weak second quarter of 2014 by initiating counter-measures in Direct Sales, which is one of the reasons why order bookings in the third quarter of 2014 were higher than they had been the two previous years. Now we are also strengthening the sale of new ICT products: In the future there will be members of QSC's own sales staff who will be exclusively managing the sale of these innovative products. A telesales team will be directly addressing small and mid-size businesses. And a new "onboarding" team will be actively helping larger customers enter the Cloud age.

QSC now strengthening the sale of new ICT products

All these measures will have a positive effect in the course of 2015. By contrast, a lowering of the guidance for the current financial year was unavoidable following the two weak quarters. As reported on 16 October, QSC now expects revenues of at least € 430 million, an EBITDA of at least € 40 million and a free cash flow of not more than € -12 million; the latter comprises a one-off negative working capital effect of some € 18 million, which will result from tightened payment management on the part of large suppliers. In view of these results, we will be scrutinizing all expense items and processes, and preparing a comprehensive package of measures to regain our customary profitability. This will be incorporated into the guidance for the 2015 fiscal year, which we intend to publish earlier than usual, at the end of January 2015.

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

The lowered guidance for the current year put QSC trading prices under pressure once again in October 2014; the performance of the shares has been considerably weaker than the overall market since the beginning of the year. Investors are increasingly wondering whether and when our strategy to systematically transform QSC into a fully-fledged ICT provider will be successful. We understand their doubts, but we continue to be convinced of the strategy: QSC's future lies in the ICT market. QSC is one of only a few companies to offer one-stop shopping for all ICT services and is therefore able to provide comprehensive and competent support to customers for forward-looking topics such as Cloud computing and Industry 4.0. The more visible our successes with these topics become, the sooner we will be able to overcome existing doubts.

Plans call for a dividend of at least 10 cents per share

Until that point we ask for your patience. We know that this may be asking a lot of you in light of the course of business and QSC share performance in 2014. Therefore, for the current financial year we continue to plan to pay a dividend of no less than the previous year's level of 10 cents per share.

What may be even more important for you, however, is the fact that – thanks to the measures that have now been taken – QSC is in a position to regain its customary profitability in the course of the coming year. It is this fact and the prospect of being able to participate in the success of the ICT market with QSC that will make our shares more attractive again for investors. And of that we are firmly convinced!

Cologne, November 2014

Jürgen Hermann
Chief Executive Officer

Barbara Stolz

Henning Reinecke

QSC Share Performance

High level of nervousness pervades the capital market • In the face of a global economic downturn and sustained political conflicts in the Ukraine and the Middle East, the mood on stock exchanges clouded during the third quarter of 2014. The DAX fell from its historic highs of over 10,000 points to 9,474 points at the end of September, thus losing 4 percent of the value it had at the end of June 2014. During this same period, the TecDAX went down by 5 percent to close at 1,249 points.

QSC SHARE PRICE PERFORMANCE (indexed)

QSC trading prices decline in the wake of weak quarterly numbers • In unsettled times like these, capital investors tend to avoid lower-cap issues as well as equities from corporations whose operating business is not living up to expectations. QSC numbers among the smaller-cap issues in the TecDAX, and was forced to report weak quarterly numbers on August 11, 2014. This was followed by significant declines in QSC trading prices. Overall, QSC trading prices were down 29 percent in the third quarter of the current fiscal year to close at € 2.23 on September 30, 2014. Trading volumes, on the other hand, again rose during the period under review, with an average of 680,000 QSC shares changing hands each day – some 7 percent more than for the preceding quarter and 15 percent more than in the third quarter of 2013. Given the declining trading prices, stock exchange trading volumes totaling € 115.7 million were down from the two reference quarters.
Following the close of the quarter, the trend of declining trading prices was sustained in an environment that continued to be volatile. After announcement of the Company's preliminary numbers for the third quarter of 2014 and its lowered guidance, trading prices for QSC shares declined to as low as € 1.41. In addition to disappointment about the current course of business, growing

skepticism about QSC's further development also contributed to this setback. The Company will be combating this skepticism with a comprehensive package of measures to regain QSC's customary profitability and to strengthen the sales and marketing organizations through measures that had already been initiated back in the summer.

Moreover, in announcing the preliminary numbers on October 16, 2014, the Management Board again reiterated its intention to propose that the Annual Shareholders Meeting resolve a dividend in the amount of at least the previous year's level of 10 cents per share. Given the trading price level at the end of October 2014, this results in a dividend yield of more than 6 percent.

FINANCIAL INSTITUTIONS THAT PUBLISH STUDIES ON QSC

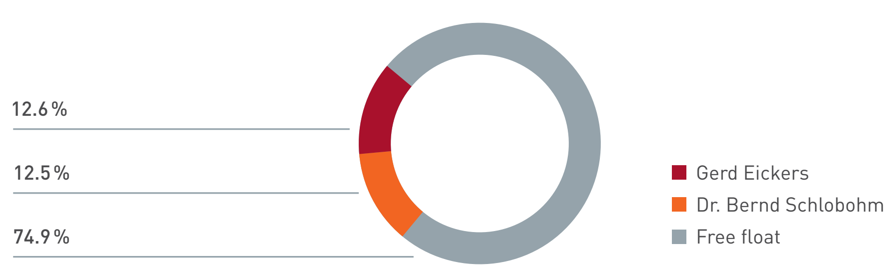
Bankhaus Lampe	Deutsche Bank	Kepler Cheuvreux
Berenberg Bank	Hauck & Aufhäuser	Landesbank Baden-Württemberg
Close Brothers Seydler Research	Independent Research	Metzler Equities
Commerzbank	JPMorgan Cazenove	Warburg Research

3 Buy and 9 Hold recommendations for the Company

Analysts see no need for action • In spite of the lower trading prices, the majority of the 12 analysts who follow QSC did not see any need for action during the past quarter: At the end of September 2014, there were 3 Buy recommendations as opposed to 9 Hold recommendations. Consequently, institutional investors, in particular, adopted a wait-and-see attitude in the third quarter of 2014. Their share of the free-float had declined by 3 percentage points by September 30 to 56 percent; at this time, 44 percent of QSC shares were in the hands of private investors. Overall, the percentage of the Company's shares that were widely held continued to stand at 74.9 percent, distributed among 27,887 investors. The Company's largest shareholders continue to be QSC's two founders, Gerd Eickers and Dr. Bernd Schlobohm, holding 12.6 percent and 12.5 percent, respectively.

In addition, information available to QSC shows that Netherlands-based fund offerer Kempen Capital Management and UK-based J O Hambro Capital Management each held more than 5 percent of QSC's shares at the end of September 2014, while Credit Suisse Fund Management and Allianz Global Investors each held more than 3 percent of the Company's shares.

SHAREHOLDER STRUCTURE AS OF SEPTEMBER 30, 2014



Interim Consolidated Report QIII/2014

GENERAL ECONOMIC CONDITIONS

Sharp economic downturn • Declining exports coupled with a hesitant attitude toward investments are increasingly impacting Germany's economic development. As a result, more and more enterprises are taking a skeptical view of their current situation and prospects: In October, the ifo Business Climate Index fell to its lowest level since year-end 2012; and expectations for the coming six months declined once again.
In the Autumn of 2014, the leading economic research institutes and the German federal government responded to this mood shift by significantly lowering their forecasts for the growth of gross domestic product (GDP) for the current year. The German government expects to see GDP rise by only 1.2 percent, after having still been forecasting a rise of 1.8 percent at the outset of 2014. This means that only modest economic growth, if any, can be expected for the second half of 2014.

Cloud market to triple by 2018 • The Cloud market, on the other hand, continues to be sailing a growth course. A recent survey of IT decision-makers showed that 61 percent of those surveyed are already using, planning or discussing Cloud models for their employees' IT work environments. The percentage of Cloud-user enterprises is likely to grow by 20 to 30 percent over the courses of the coming two to three years. Currently, though, many organizations are still hesitant about implementation – for two reasons: 82 percent of enterprises with a positive attitude toward the Cloud have security concerns, and 72 percent point to other priorities. Those surveyed fear, first and foremost, unauthorized access to their business-critical data; the NSA debate in Germany has left scars in its wake. Consequently, IT decision-makers are increasingly opting for national Cloud solutions: 57 percent would put their trust in Cloud offerings only if the data centers are located in Germany, as is the case with QSC.

IT decision-makers opting for national Cloud solutions

BITKOM, the industry's association, similarly points to the dampening effect of the NSA debate on the growth of the Cloud computing market. However, the advantages of using Cloud technologies for companies are so ample that it nevertheless forecasts a tripling of the market to € 19.8 billion by 2018.

COURSE OF BUSINESS

QSC, like many other enterprises, impacted by economic downturn • Following the weaker-than-expected course of business in the second quarter of 2014, QSC had still been assuming that revenues would rise sharply at the end of the summer vacation. Yet given the noticeable downturn, neither revenues in IT Consulting and IT Outsourcing nor revenues with new ICT products did rise as anticipated; Consequently, in contrast to expectations, rising ICT revenues were unable to offset the planned market- and regulatory-induced declines in conventional TC business.
As a result, revenues in the third quarter of 2014 stood at € 106.6 million, in contrast to € 113.8 million for the same quarter one year earlier. During the first nine months of the current fiscal year, revenues totaled € 325.1 million, by comparison with € 340.3 million for the corresponding period the year before.

Measures aimed at strengthening Direct Sales are beginning to take effect • QSC's largest business unit generated revenues of € 51.7 million in the third quarter of 2014, as opposed to € 52.4 million for the same quarter one year earlier. In this connection, QSC generated higher revenues than otherwise customary through resales of hardware, while benefiting less than usual from new orders. Overall, the Company had not succeeded in winning larger orders during the previous quarters, especially in IT Consulting, but also in Outsourcing business. Consequently, QSC had already initiated measures last summer aimed at strengthening Direct Sales again.

Order bookings at highest level since early 2013

These measures have already had a near-term effect: Order bookings of € 55.3 million in the third quarter of 2014 reached their highest level for the years 2013 and 2014. A major share of these orders is coming from existing customers and is testimony to the smooth collaboration in a spirit of trust over the course of many years. In September, for example, BEB Erdgas und Erdöl GmbH & Co. KG prematurely extended an existing framework agreement for complete ICT services by 48 months through at least 2018.

REVENUES, DIRECT SALES (in € million)

Major Consulting contract from the Dussmann Group • In its IT Consulting business, QSC won a major contract in the previous quarter from its existing IT Outsourcing customer, the Dussmann Group, which is one of the world's largest private multi-service providers. QSC will be responsible for the group-wide deployment of the SAP HCM human resources solution, including all Consulting and Integration activities.

Stable and sustainable revenues in Indirect Sales • In Indirect Sales, QSC generated revenues of € 30.8 million in the third quarter of 2014, in contrast to € 30.9 million for the same quarter one year earlier. While business with conventional products remained stable, in spite of heightened regulation in the TC sector, the Company's new, self-developed ICT products were not yet producing the anticipated revenue contributions.

REVENUES, INDIRECT SALES (in € million)

In the face of this, QSC took an entire bundle of measures following the summer vacation to boost sales of new products. A special onboarding team is now supporting customers in deploying Cloud-based products. A special telesales team is also directly addressing customers, as are members of QSC's own sales staff with regard to new ICT products. At the same time, QSC is intensifying online marketing of its innovative products.

Decline in importance of reseller business in line with expectations • In the third quarter of 2014, revenues with resellers declined to € 24.2 million, as opposed to € 30.5 million for the same quarter the year before. This means that QSC is now generating only 23 percent of its revenues with conventional TC products, such as Call by Call and ADSL2+ connections; two years ago, this metric stood at 32 percent. Conventional TC business is subject to stiff competition and therefore generates only low contribution margins. Plus constantly heightened regulation.

REVENUES, RESELLERS (in € million)

PROFITABILITY

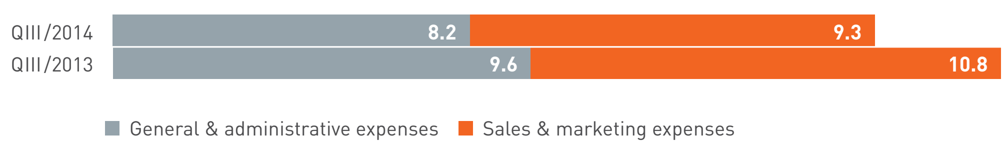
Higher cost of revenues • While revenues declined by € 7.2 million to € 106.6 million in the third quarter of 2014, cost of revenues rose by € 4.6 million to € 80.5 million by comparison with the same quarter the year before.

COST OF REVENUES (in € million)

There are three major reasons for this rise during the current fiscal year: First, in 2014 QSC is no longer benefiting in the amount of some € 5 million per quarter on the return of a deferred income item ("deferred income effect); this line item had been largely returned by year-end 2013. At the same time as the exit of Plusnet's former co-shareholder, TELE2, QSC had received a payment that it had been returning as income on a periodic basis due to continued performance obligations over the period through year-end 2013. Second, this line item also includes the personnel expense for Direct Sales, which had considerably augmented its workforce during the course of fiscal 2013. And third, QSC is significantly increasing its development expenditures during the current fiscal year. Given the significantly higher cost of revenues, gross profit decreased to € 26.1 million in the third quarter of 2014, by comparison with € 37.9 million for the same quarter one year earlier.

Lower sales and marketing expenses • Sales and marketing expenses in the third quarter of 2014 totaled € 9.3 million, by comparison with € 10.8 million for the corresponding quarter the year before; a major share of this decrease was attributable to declining commissions for sales partners. General and administrative expenses declined to € 8.2 million during this same period, in contrast to € 9.6 million the year before. QSC is benefiting here from the streamlining of its administration following the merger of INFO AG and QSC AG.

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



EBITDA margin decreases to eight percent

EBITDA down sharply year-on-year • Lower revenues, on the one hand, and higher cost of revenues, on the other, decreased EBITDA in the third quarter of 2014: It stood at € 8.8 million, as opposed to € 19.4 million for the same period one year earlier; the EBITDA margin amounted to 8 percent, down from 17 percent for the third quarter of 2013. After nine months, EBITDA totaled € 32.7 million, in contrast to € 57.4 million for the same period the year before. EBITDA is defined as earnings before interest, taxes, amortization of deferred non-cash share-based compensation, as well as depreciation and amortization of property, plant and equipment, and intangible assets.

EBITDA (in € million)

Depreciation expense decreased to € 12.7 million in the third quarter of 2014, in contrast to € 13.8 million for the corresponding quarter one year earlier. At the same time, other operating income of € 0.2 million was weaker than in the third quarter of 2013, when this metric had stood at € 1.8 million. Consequently, EBIT stood at € -3.9 million in the third quarter of 2014, as opposed to € 5.5 million for the same period the year before.

In entering into a promissory note loan in the amount of € 150 million, QSC had placed its financing on an extremely sound, long-term foundation in the second quarter of 2014. However, the interest this involves is increasing financing expense; the financial result for the third quarter of 2014 stood at € -1.7 million, as opposed to € -0.9 million for the same quarter the year before. The consolidated net loss amounted to € -6.2 million, in contrast to a consolidated net profit of € 4.7 million for the third quarter of 2013; after nine months, this metric totaled € -9.8 million, in contrast to € 15.0 million for the same period one year earlier.

PROFITABILITY BY SEGMENT

Investments in future growth in Direct Sales not yet paying off • The Company's largest business unit had made considerable investments in future growth in 2013. Yet revenues of € 51.7 million in the third quarter of 2014 were down modestly from the prior year's level of € 52.4 million; cost of revenues, on the other hand, rose to € 40.0 million during this period, in contrast to € 35.3 million the year before. Given this contrary development, QSC had already begun to take countermeasures back in the summer; order bookings rose again in the third quarter of 2014.
Higher cost of revenues in Direct Sales in the third quarter of 2014 were offset by lower sales, marketing, general and administrative expenses. However, declining revenues nevertheless produced a sharp decline in profitability; EBITDA stood at only € 4.5 million, by comparison with € 10.1 million in the third quarter of 2013. During this period, EBIT decreased from € 2.6 million the year before to € -1.8 million.

Indirect Sales earning sustainable profits • Given virtually unchanged revenues, cost of revenues in Indirect Sales rose by € 1.5 million to € 18.0 million in the third quarter of 2014, first and foremost against the backdrop of the elimination of the deferred income effect. Sales and marketing expenses, on the other hand, decreased by € 0.6 million to € 3.2 million, while general and administrative costs declined by € 0.7 million to € 2.6 million.
Given these cost reductions, the decline in EBITDA was only moderate: This metric stood at € 7.0 million, in contrast to € 7.9 million for the third quarter of 2013. Since there was a modest increase in depreciation expense, segment EBIT of € 3.9 million lagged somewhat more strongly behind the previous year's level of € 5.1 million. This means that Indirect Sales continues to be QSC's most profitable segment far and away.

Indirect Sales far and away the most profitable segment

Stiff pricing competition and heightened regulation impacting Resellers • Revenues with resellers, stemming predominantly from conventional TC business, decreased by a further € 6.3 million year on year to stand at € 24.2 million. Cost of revenues, on the other hand, was down by only € 1.6 million to € 22.5 million in the third quarter of 2014 in the face of enormous pricing competition. While the other operating costs also declined, EBITDA of € -2,7 million remained down sharply from the previous year's level of € 1.4 million. EBIT decreased to € -6.0 million from € -2.1 million for the third quarter of 2013.

New lines of business are to form their own segment

New segmentation from January 1, 2015, on • QSC will be revising its segment reporting beginning on January 1, 2015. In place of the classification by sales segments, there will be a classification by products. This will enable progress in the new lines of business and/or with new products to be tracked considerably better than in the past – in the future, they will form their own segment. The separation between IT Consulting and IT Outsourcing will afford a differentiated portrayal of the development and profitably of these two highly differing lines of business. The fourth segment will include business with ICT products as well as conventional TC business. The new segmentation is in line with QSC's profit center logic.

FINANCIAL POSITION AND NET WORTH

Strong liquidity influxes stemming from promissory note loan • During the first nine months of the current fiscal year, QSC earned a cash flow of € 20.8 million from operating activities, in contrast to € 53.3 million for the corresponding period the year before. This decline stemmed, on the one hand, from the lower level of earnings before interest and taxes, and on the other from the considerably lower change in trade accounts receivable by comparison with the year before.
Cash used in investing activities during the first nine months of 2014 amounted to € -22.3 million, as opposed to € -29.1 million for the same period the year before. Cash used in financing activities rose to € 59.5 million, by comparison with € -7.3 million the year before, as QSC had placed a promissory note loan totaling € 150 million in the second quarter of 2014.

Free cash flow stands at € 13.2 million for the first nine months of 2014 • In the third quarter of 2014, QSC earned a free cash flow of € 3.7 million; after nine months, this steering metric stood at € 13.2 million. Free cash flow represents the change in net liquidity/debt prior to acquisitions and distributions. The following table shows the relevant parameters in this connection as of September 30, 2014, and June 30, 2014:

in € million	Sept. 30, 2014	June 30, 2014
Liquidity	117.0	176.5
Interest-bearing liabilities		
Liabilities under financing and finance lease arrangements	(9.9)	(10.9)
Liabilities due to banks	(161.8)	(223.9)
Interest-bearing liabilities	(171.7)	(234.8)
Net debt	(54.7)	(58.3)

Accordingly, liquidity declined by € 59.5 million in the third quarter of 2014 to € 117.0 million, as QSC had, as planned, used the proceeds from the promissory note loan to provisionally redeem the consortial credit facility completely, which had continued to remain in place. This redemption played a major role in reducing interest-bearing liabilities by € 63.1 million to € -171.7 million. As a result, rounded net debt decreased by € 3.7 million to € -54.7 million.

Capital expenditures ratio of 6 percent in third quarter • QSC invested € 6.3 million during the past quarter, in contrast to € 16.4 million for the same quarter one year earlier; at that time, QSC had made non-recurring investments in modernizing the storage capacities of its own data centers while increasingly investing in assets and interfaces for customers, since Outsourcing projects had gone into regular operation sooner than had been planned. As in the previous quarters, QSC's investments during the past quarter focused first and foremost on customer-related projects as well as the Company's own technology.

CAPITAL EXPENDITURES (in € million)

FTAPI acquisition and depreciation expense change value of long-term assets • The balance sheet as of September 30, 2014, records long-term assets in the amount of € 265.3 million, by comparison with € 272.0 million as of year-end 2013. In this connection, regular depreciation decreased the value of property, plant and equipment to € 79.4 million, as opposed to € 93.9 million as of December 31, 2013. Goodwill, on the other hand, rose by € 9.5 million to € 85.8 million following the acquisition of encryption specialist FTAPI.

Short-term assets rose to € 179.4 million, in contrast to € 120.0 million as of December 31, 2013. The major reason: Cash and cash equivalents rose to € 116.7 million as of September 30, 2014, as opposed to € 58.7 million at year-end 2013, thanks to the successful placement of the promissory note loan. This metric has already declined considerably by comparison with June 30, 2014, as QSC had, as announced, utilized a portion of the free cash to provisionally redeem the consortial credit facility completely, which had continued to remain in place.

The Company provisionally redeems the consortial credit facility completely

Promissory note loan assures long-term financing • Placement of the promissory note loan and the resulting ability to optimize the Company's financing also characterized the Shareholders' Equity and Liabilities side of the balance sheet as of September 30, 2014. Long-term liabilities rose to € 184.1 million, as opposed to € 103.3 million as of December 31, 2013. The lion's share was attributable to liabilities due to banks. This line item stood at € 158.6 million as of September 30, 2014, with the promissory note loan, alone, accounting for € 150.0 million.

Short-term liabilities stood at € 90.1 million as of September 30, 2014, by comparison with € 94.9 million at year-end 2013. While there was a decline in short-term liabilities under financing and finance lease arrangements as well as other short-term liabilities, trade payables rose modestly to € 59.4 million, in contrast to € 58.0 million as of December 31, 2013.

Equity ratio of 38 percent • Shareholders' equity declined to € 170.5 million as of September 30, 2014, as opposed to € 193.9 million as of December 31, 2013, as the accumulated deficit rose from € -70.3 million at year-end 2013 to € -92.2 million. This rise stemmed from the consolidated net loss as well as from the fact that QSC recorded the dividend payment in the amount of € 12.4 million directly under "accumulated deficit."

HUMAN RESOURCES

Stable workforce • As of September 30, 2014, QSC was employing a workforce of 1,709 people, three fewer than as of June 30, 2014. Following the significant rise in the workforce last year, the Company is now focusing on optimizing the work of its existing professionals and executives during the current fiscal year.

WORKFORCE

REPORT ON OPPORTUNITIES AND RISKS

No major changes in opportunity and risk positions • In the third quarter of 2014, there were no major changes in the opportunities and risks portrayed in the 2013 Annual Report. Nevertheless, due to these and other risks and incorrect assumptions, QSC's actual future results could vary from its expectations. All statements contained in this unaudited Interim Consolidated Report that are not historical facts are forward-looking statements. They are based upon current expectations and predictions of future events and could therefore change over the course of time.

REPORT ON SUBSEQUENT EVENTS

QSC lowers guidance following weak quarter • After the presentation of initial preliminary numbers for the third quarter of 2014, QSC issued an ad-hoc release on October 16, 2014, lowering its guidance for the full 2014 fiscal year. Further information in this connection is contained in the following Outlook Report. Aside from this, QSC is not aware of any reportable events of particular importance subsequent to the close of the quarter.

OUTLOOK REPORT

QSC anticipates revenues of at least € 430 million

QSC now anticipating revenues of at least € 430 million • Following two weaker-than-expected quarters in a row, on October 16, 2014, QSC revised its guidance for the full 2014 fiscal year: The Company now anticipates revenues of at least € 430 million for the 2014 fiscal year, instead of some € 450 million, as well as an EBITDA of at least € 40 million, instead of the previously announced some € 60 million.
The full amount of the lower EBITDA will impact free cash flow, which will thus now amount to at least € 6 million, instead of the previously anticipated some € 26 million. Moreover, in the fourth quarter of 2014 QSC will be responding to tightened payment management on the part of major suppliers in view of the declining economy; this will produce an additional non-recurring negative working capital effect in the amount of some € -18 million. This will result in a negative free cash flow totaling not more than € -12 million for the full 2014 fiscal year. QSC continues to plan to distribute a dividend of at least 10 cents per share for the 2014 fiscal year.
In comparing profitability in fiscal 2013 and 2014, it is necessary to continue to take two factors into consideration: Declining TC revenues as well as heightened pricing competition, especially in ADSL2+ business, are hurting EBITDA on the order of a total of nearly € 10 million. Moreover, in 2014 QSC is no longer benefiting from the return of a deferred income item as income in the amount of some € 20 million per year; this line item had been formed in connection with a payment by former Plusnet co-shareholder TELE2 and had been returned on a periodic basis through 2013.

QSC strengthening its sales operations • QSC had already stepped up sales activities in Direct Sales in the summer of 2014; in the third quarter it then recorded the highest level of new orders in two years. Since autumn 2014, the Company has also been pushing the sale of new ICT products with a whole package of measures. These include dedicated sales staff for individual products, a telesales team to directly address small and mid-size businesses, and an onboarding team to support customers in the transition to the Cloud age. Alongside "Clarity," the efficiency enhancement program, which has been extended once again, these growth measures will have a positive effect in the course of 2015.

Package of measures aims at regaining the Company's profitability

An additional comprehensive package of measures aimed at regaining the Company's customary profitability will flow directly into the guidance for the 2015 fiscal year; QSC will be announcing this guidance at the end of January 2015 together with the preliminary numbers for the 2014 fiscal year. In connection with this package of measures, QSC is currently scrutinizing all expense items and processes; the preliminary work will be concluded by the beginning of 2015.

QSC planning further acquisitions • To strengthen its core business and new lines of business, the Company is planning one or two further acquisitions during the coming months. Most recently, QSC acquired encryption specialist FTAPI in February 2014, thus broadening its competence in the key issue of IT security.

Interim Consolidated Financial Statements

CONSOLIDATED STATEMENT OF INCOME (unaudited)

Euro amounts in thousands (K€)

	01/07/–30/09/ 2014	01/07/–30/09/ 2013	01/01/–30/09/ 2014	01/01/–30/09/ 2013
Net revenues	**106,631**	**113,819**	**325,079**	**340,283**
Cost of revenues	(80,526)	(75,884)	(241,036)	(226,845)
Gross profit	**26,105**	**37,935**	**84,043**	**113,438**
Sales and marketing expenses	(9,276)	(10,760)	(26,815)	(30,991)
General and administrative expenses	(8,196)	(9,587)	(24,975)	(26,914)
Depreciation and non-cash share-based remuneration	(12,702)	(13,829)	(37,461)	(38,991)
Other operating income	296	1,928	802	2,776
Other operating expenses	(147)	(143)	(344)	(926)
Operating profit (loss)	**(3,920)**	**5,544**	**(4,750)**	**18,392**
Financial income	100	66	184	227
Financial expenses	(1,816)	(1,002)	(4,510)	(3,078)
Net profit (loss) before income tax	**(5,636)**	**4,608**	**(9,076)**	**15,541**
Income tax	(584)	114	(682)	(514)
Net profit (loss)	**(6,220)**	**4,722**	**(9,758)**	**15,027**
Earnings per share (basic) in €	**(0.05)**	**0.04**	**(0.08)**	**0.12**
Earnings per share (diluted) in €	**(0.05)**	**0.04**	**(0.08)**	**0.12**

CONSOLIDATED STATEMENT OF CASH FLOWS (unaudited)

Euro amounts in thousands (K€)

	01/01/–30/09/ 2014	01/01/–30/09/ 2013
Cash flow from operating activities		
Net profit (loss) before income tax	(9,076)	15,541
Depreciation and amortization of fixed assets	37,046	38,673
Non-cash income and expenditure	527	318
Loss from disposal of fixed assets	1	17
Changes in provisions	(3,090)	(5,498)
Changes in trade receivables	2,354	15,050
Changes in trade payables	778	5,020
Changes in other assets and liabilities	(7,780)	(15,824)
Cash flow from operating activities	**20,760**	**53,297**
Cash flow from investing activities		
Proceeds from acquisition of subsidiary less liquid assets acquired	(3,629)	-
Purchase of intangible assets	(7,895)	(11,011)
Purchase of property, plant and equipment	(10,813)	(18,060)
Cash flow from investing activities	**(22,337)**	**(29,071)**
Cash flow from financing activities		
Dividends paid	(12,414)	(11,138)
Issuance of convertible bonds	6	10
Proceeds from issuance of common stock	179	296
Proceeds from loans granted	76,219	7,520
Repayment of liabilities under financing		
and finance lease arrangements	(4,470)	(3,967)
Cash flow from financing activities	**59,520**	**(7,279)**
Changes in cash and short-term deposits	**57,943**	**16,947**
Cash and short-term deposits as of January 1	58,716	34,820
Cash and short-term deposits as of September 30	**116,659**	**51,767**
Interest paid	2,684	1,996
Interest received	50	207
Income tax paid	3,464	3,523
Income tax received	89	-

CONSOLIDATED BALANCE SHEET (unaudited)

Euro amounts in thousands (K€)

	Sept. 30, 2014	Dec. 31, 2013
ASSETS		
Long-term assets		
Property, plant and equipment	79,398	93,869
Land and buildings	26,088	26,766
Goodwill	85,808	76,265
Other intangible assets	50,090	52,809
Trade receivables	7,114	5,223
Prepayments	1,384	2,226
Other long-term assets	268	349
Deferred tax assets	15,116	14,541
Long-term assets	**265,266**	**272,048**
Short-term assets		
Trade receivables	48,364	52,539
Prepayments	8,221	5,070
Inventories	1,937	1,746
Other short-term assets	3,918	1,565
Available-for-sale financial assets	343	343
Cash and short-term deposits	116,659	58,716
Short-term assets	**179,442**	**119,979**
TOTAL ASSETS	444,708	392,027

	Sept. 30, 2014	Dec. 31, 2013
SHAREHOLDERS' EQUITY AND LIABILITIES		
Shareholders' equity		
Capital stock	124,142	124,057
Capital surplus	141,634	141,286
Other capital reserves	(2,995)	(1,176)
Accumulated deficit	(92,237)	(70,302)
Shareholders' equity	**170,544**	**193,865**
Liabilities		
Long-term liabilities		
Long-term liabilities under financing		
and finance lease arrangements	5,758	8,835
Liabilities due to banks	158,612	82,697
Convertible bonds	25	19
Accrued pensions	6,862	6,765
Other provisions	350	370
Deferred income	607	712
Other long-term financial liabilities	7,966	-
Deferred tax liabilities	3,912	3,912
Long-term liabilities	**184,092**	**103,310**
Short-term liabilities		
Trade payables	59,374	58,002
Short-term liabilities under financing		
and finance lease arrangements	4,137	5,530
Liabilities due to banks	3,172	2,868
Other provisions	1,897	2,655
Accrued taxes	1,921	3,068
Deferred income	2,778	4,238
Other short-term liabilities	16,793	18,491
Short-term liabilities	**90,072**	**94,852**
Liabilities	**274,164**	**198,162**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	444,708	392,027

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (unaudited)

Euro amounts in thousands (K€)

	Equity attributable to equity holders of QSC AG					
	Capital stock	Capital surplus	Revaluation reserve	Cash flow hedge reserve	Accumulated deficit	Total
Balance as of January 1, 2014	**124,057**	**141,286**	**(1,176)**	**-**	**(70,302)**	**193,865**
Net loss for the period	-	-	-	-	(9,758)	(9,758)
Other comprehensive income (loss)						
for the period, net of tax	-	-	-	(1,819)	237	(1,582)
Total comprehensive loss	**-**	**-**	**-**	**(1,819)**	**(9,521)**	**(11,340)**
Conversion of convertible bonds	85	94	-	-	-	179
Dividends	-	-	-	-	(12,414)	(12,414)
Non-cash share-based remuneration	-	254	-	-	-	254
Balance as of September 30, 2014	**124,142**	**141,634**	**(1,176)**	**(1,819)**	**(92,237)**	**170,544**
Balance as of January 1, 2013	**123,677**	**140,542**	**(1,207)**	**-**	**(82,776)**	**180,236**
Net profit for the period	-	-	-	-	15,027	15,027
Withdrawal of treasury shares	-	13,630	-	-	(13,630)	-
Conversion of convertible bonds	193	103	-	-	-	296
Dividends	-	-	-	-	(11,138)	(11,138)
Non-cash share-based remuneration	-	318	-	-	-	318
Balance as of September 30, 2013	**123,870**	**154,593**	**(1,207)**	**-**	**(92,517)**	**184,739**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (unaudited)

Euro amounts in thousands (K€)

	01/01/ – 30/09/ 2014	01/01/ – 30/09/ 2013
Other comprehensive income (loss)		
Line items that are not reclassified in the income statement		
Actuarial losses from defined benefit pension plans	-	-
Tax effect	-	-
Line items that might subsequently be reclassified		
in the income statement		
Changes in unrealized fair values		
of available-for-sale financial assets	-	-
Changes in cash flow hedge reserve (including deferred taxes)	(1,819)	-
Other comprehensive loss	**(1,819)**	**-**
Net profit (loss) for the period	(9,758)	15,027
Total comprehensive income (loss) for the period	**(11,577)**	**15,027**

Notes to the Interim Consolidated Financial Statements

CORPORATE INFORMATION

QSC AG (hereinafter also called "QSC" or "the Company") offers small and mid-size organizations comprehensive information and telecommunications services ("ICT services") – ranging from telephony, data transfer, Housing and Hosting through to IT Outsourcing and IT Consulting. In its capacity as an SAP Gold Partner and Microsoft Gold Certified Partner, QSC AG is also a specialist in the areas of SAP and Microsoft implementations. The portfolio of products is rounded off by the provision of in-house developed Cloud services for a wide range of applications. Supported by a state-of-the-art network infrastructure and with its own data centers in Germany certified to TÜV and ISO standards, QSC is one of the leading SME providers of ICT services in Germany. The Company offers customized solutions for individual ICT requirements as well as a modular-based product portfolio for smaller business customers and sales partners.
QSC is a stock corporation registered in the Federal Republic of Germany. Its legal domicile is Mathias-Brüggen-Straße 55, 50829 Cologne, Germany. The Company is registered in the Commercial Register of the Cologne District Court under number HRB 28281. QSC has been listed on the Deutsche Börse Stock Exchange since April 19, 2000, and on the Prime Standard since the beginning of 2003, following the reorganization of the equity market. On March 22, 2004, QSC was added to the TecDAX, which includes the 30 largest and most liquid technology issues in the Prime Standard.

ACCOUNTING PRINCIPLES AND POLICIES

1 Basis of preparation

The unaudited Interim Consolidated Financial Statements of QSC AG and its subsidiaries (Interim Consolidated Financial Statements) have been prepared in accordance with International Financial Reporting Standards (IFRS) and their interpretations by the International Financial Reporting Interpretations Committee (IFRIC) in accordance with International Accounting Standards (IAS) 34, "Interim Financial Reporting." The Interim Consolidated Financial Statements do not include all the information and disclosures required in annual financial statements and should be read in conjunction with the consolidated group's financial statements as of December 31, 2013. It is the opinion of the Management Board that the Interim Consolidated Financial Statements contain all adaptations that are necessary for a true and fair view of the assets, liabilities, financial position and profit or loss of the consolidated group. The financial results presented in the Interim Consolidated Financial Statements for the period from January 1 through September 30, 2014, do not necessarily indicate the development of future results.
The accounting principles and policies applied in compiling these Interim Consolidated Financial Statements fundamentally correspond to the methods applied in compiling the Consolidated Financial Statements for the 2013 fiscal year, with the following exceptions described below.

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

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

Amendments to the IFRS whose mandatory application begins in fiscal 2014 did not have any impact on the Interim Financial Statements for the period ended September 30, 2014.
In connection with drawing up the interim consolidated financial statements under IFRS, it is necessary to make certain estimates and judgments that relate to the assets and liabilities recorded in the balance sheet as well as to information on contingent receivables and liabilities on the date of the balance sheet. Actual amounts may therefore differ from those estimates. No major changes have been made to the Management Board's estimates in conjunction with the application of accounting and valuation methods relative to the consolidated financial statements for the fiscal year ended December 31, 2013.
The Interim Consolidated Financial Statements are rounded, except when otherwise indicated, to the nearest thousand (K€).

2 Consolidation

The Interim Consolidated Financial Statements comprise the financial statements of QSC AG and its subsidiaries as of September 30, 2014. There has been a change in the composition of the consolidated companies by comparison with December 31, 2013:
Through a contract dated December 17, 2013, Collutio Holding GmbH, of Vienna, which was already a wholly owned subsidiary of QSC, was merged with QSC. The merger went into force upon being entered in the Commercial Register on March 24, 2014.

On February 24, 2014, QSC acquired a nominal 50.93 percent of the shares of Munich-based FTAPI Software GmbH (hereinafter also called "FTAPI"), which specializes in encrypted data exchange between business customers. Taking into consideration its own shares of the company, this calculates to an investment ratio of 57.23 percent on the part of QSC.

A cash purchase price of K€ 3,056 was paid to the former shareholders for shares amounting to a nominal 50.93 percent. Moreover, agreements are in place with the minority shareholders under which QSC is entitled to acquire the remaining shares of FTAPI under a defined price formula during defined exercise periods in the years 2017 through 2019 (purchase option). Conversely, the remaining shareholders are entitled to offer their shares of FTAPI to QSC for purchase under a defined price formula during the same exercise periods (sell option). Pursuant to the conditions contained in IAS 32.23, a financial liability in the amount of K€ 5,616 was taken into consideration for QSC's obligation stemming from the sell option held by the remaining shareholders. The cash value of the anticipated exercise price for the sell option was used as the basis for calculating the financial liability (fair value pursuant to Stage 3 under IFRS 13.81), with an interest rate of 4.28 percent, which is adequate in terms of risk and term, being applied. In this connection, the purchase price for the remaining shares is contingent upon the economic development of FTAPI during the option exercise period.

Moreover, incidental costs of acquisition in the amount of K€ 93 were incurred in conjunction with the acquisition, which were recorded in the Statement of Income.

According to preliminary determinations, the assets and liabilities identified at the time of acquisition were utilized, with fair values of K€ 161 and K€ 1,033, respectively.

In the initial consolidation of FTAPI, it was assumed that this sell option had already been exercised in determining a provisional difference with respect to the above-indicated sell option held by the remaining shareholders (so-called anticipated acquisition method). On the basis of the anticipated acquisition of 100 percent of the shares of FTAPI, no no-controlling shares were presented for the minority shareholders of FTAPI in these Interim Consolidated Financial Statements. As a result, the estimated fair value of the financial liability in the amount of K€ 5,616 at the time of acquisition, resulting from the sell option rights, was presented as additional costs of this corporate acquisition.

The difference arising upon initial consolidation results as follows as of September 30, 2014:

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

Identification of the acquired assets and liabilities, as well as determination of their fair values, were initially made on a provisional basis and had not yet been concluded at the time these interim financial statements were compiled. Due to a lack of other information, the difference of K€ 9,544 stemming from the corporate acquisition is provisionally being presented as goodwill in the Interim Consolidated Financial Statements for the period ended September 30, 2014.
This goodwill essentially reflects the synergies anticipated from the joint activities of FTAPI and QSC, as well as the future success potential of innovative products in the field of encryption technology.
The financial liability for the purchase options from the minority shareholders of FTAPI is presented under other long-term liabilities.
During the period from February 24 through September 30, 2014, FTAPI made only an immaterial contribution toward the consolidated group's revenues and profitability. Even if the acquisition had already been effected as of January 1, 2014, Management estimates that FTAPI's contribution toward revenues and profitability through September 30, 2014, would not have been material relative to the consolidated group's revenues and profitability.

3 Financial liabilities

QSC entered into a promissory note loan in the amount of € 150 million in the second quarter of 2014. Together with the promissory note loan, QSC entered into three interest rate swaps. The notational amount totals K€ 87,500 with a term running through May 20, 2019 (notational amount K€ 76,500) and May 20, 2021 (notational amount K€ 11,000). The interest rate swaps were entered into to hedge the interest rate risk arising from the variable interest rate tranches of the promissory note loan and satisfy the requirements of IAS 39 for hedge accounting. The negative fair value as per September 30, 2014, amounted to K€ 1,994 (including deferred interest in the amount of K€ 175). It is stated in other long-term liabilities.

4 Financial instruments

The following table presents the carrying amounts and fair values of all financial instruments included in the Interim Consolidated Financial Statements except for convertible bonds issued in conjunction with the stock option programs.

in K€	Classification category pursuant to IAS 39	Carrying amounts		Fair value	
		Sept. 30, 2014	Dec. 31, 2013	Sept. 30, 2014	Dec. 31, 2013
Financial instruments					
Cash and Short-term Deposits	ACAC	116,659	58,716	116,659	58,716
Available-for-sale Financial Assets	AFS	343	343	343	343
Long-Term Trade Receivables	ACAC	7,114	5,223	5,389	5,439
Short-Term Trade Receivables	ACAC	48,364	52,539	48,364	52,539
Trade Payables	FLAC	59,374	58,002	59,374	58,002
Liabilities due to Banks	FLAC	161,784	85,565	162,467	85,565
Liabilities under Financing and Finance	FLAC	9,895	14,365	10,146	14,556
Other long-term financial liabilities					
Interest Rate Swaps – Hedge Accounting	HA	1,994	-	1,994	-
Put Options granted to Minority Shareholders	FV	5,736	-	5,736	-
Others	FLAC	236	-	236	-
Other Short- and Long-Term Liabilities	FLAC	16,793	18,491	16,793	18,491
Aggregated according to classification categories					
pursuant to IAS 39:					
Financial Assets Carried at Amortised Cost	ACAC	172,137	116,478	170,412	116,694
Available-for-sale Financial Assets	AFS	343	343	343	343
Financial Liabilities Measured at Amortised Cost	FLAC	248,082	176,423	249,016	176,614
Hedge Accounting	HA	1,994	-	1,994	-
Financial Liabilities at Fair Value	FV	5,736	-	5,736	-

Cash and short-term deposits, available-for-sale financial assets as well as trade receivables largely have short remaining terms. Their carrying amount thus roughly corresponds to their fair value at the balance sheet date. The same applies to trade payables. The fair value of liabilities under financing arrangements and of other short- and long-term liabilities was calculated on the basis of regular interest rates. The fair value of available-for-sale financial assets was determined on the basis of market prices (Level 1 pursuant to IFRS 13.76). In determining the fair value of accounts receivable stemming from multicomponent contracts, the anticipated long-term payments are discounted at the interest rate for three-year industrial bond issues (Level 3 pursuant to IFRS 13.81).

in K€	From interests, dividends	Subsequent to initial recognition		Net loss	
		Allowance	At fair value	Sept. 30, 2014	Dec. 31, 2013
Assets carried at Amortised Cost (ACAC)	184	(179)	-	5	698
Financial Liabilities measured at Amortised Cost (FLAC)	(2,398)	-	-	(2,398)	(3,978)
Hedge Accounting (HA)					
Recorded in Balance Sheet	-	-	(1,819)	(1,819)	-
Recorded in Income Statement	(175)	-	-	(175)	-
Net results by classification category	(2,389)	(179)	(1,819)	(4,387)	(3,280)

5 Segment reporting

In accordance with the provisions of IFRS 8, the basis for identification of the segments consists of the Company's internal organizational structure, which is used by corporate management as the basis for business administration decisions and performance assessments. At QSC, segmentation is aligned to the customer structure, as presented below.

The Direct Sales Business Unit focuses on more than 8,000 larger and mid-size enterprises in Germany. Its portfolio comprises national and international site networking, outsourcing solutions, and data center services, such as Housing and Hosting. IT Consulting is a further important element of this business unit's portfolio; QSC is a consulting partner for SAP and Microsoft solutions.

The Indirect Sales Business unit addresses nearly 900,000 smaller and mid-size companies in Germany that typically do not have employees of their own on staff for information and communications technology, obtaining their ICT services from regional partners instead. QSC is therefore collaborating with regional service providers, sales partners and distributors, offering them Internet connections, direct connections to the QSC voice network, Voice over IP products, as well as standardized Cloud services, such as a virtual telephone system and a flexible modular design system for utilizing QSC data centers.

The Resellers Business Unit is where QSC bundles its business with ICT services providers that predominantly address residential customers; they include telecommunications carriers, cable network operators and Internet service providers. QSC makes a variety of preliminaries available for its customers, along with such conventional voice services as call-by-call offerings and unbundled DSL lines. Moreover, this business unit also includes Managed Outsourcing, under which QSC integrates the narrowband voice networks of alternative providers into its Next Generation Network (NGN) and provides full operation of their fixed network business.

in K€	Direct Sales	Indirect Sales	Resellers	Reconciliation	Consolidated
01/07/ – 30/09/2014					
Net revenues	**51,653**	**30,790**	**24,188**	-	**106,631**
Cost of revenues	(40,006)	(18,000)	(22,520)		(80,526)
Gross profit	**11,647**	**12,790**	**1,668**	-	**26,105**
Sales and marketing expenses	(4,106)	(3,198)	(1,972)		(9,276)
General and administrative expenses	(2,976)	(2,615)	(2,605)		(8,196)
Depreciation and amortization	(6,157)	(3,117)	(3,267)		(12,541)
Non-cash share-based remuneration	(91)	(39)	(31)		(161)
Other operating income	(101)	38	212		149
Operating profit (loss)	**(1,784)**	**3,859**	**(5,995)**	-	**(3,920)**
Assets	236,478	132,013	61,101	15,116	444,708
Liabilities	103,500	70,185	96,567	3,912	274,164
Capital expenditures	3,722	1,425	1,113	-	6,260

in K€	Direct Sales	Indirect Sales	Resellers	Reconciliation	Consolidated
01/07/ – 30/09/2013					
Net revenues	**52,444**	**30,855**	**30,520**	-	**113,819**
Cost of revenues	(35,305)	(16,470)	(24,109)		(75,884)
Gross profit	**17,139**	**14,385**	**6,411**	-	**37,935**
Sales and marketing expenses	(4,366)	(3,810)	(2,584)		(10,760)
General and administrative expenses	(3,328)	(3,344)	(2,915)		(9,587)
Depreciation and amortization	(7,438)	(2,708)	(3,503)		(13,649)
Non-cash share-based remuneration	(62)	(59)	(59)		(180)
Other operating income	616	640	529		1,785
Operating profit (loss)	**2,561**	**5,104**	**(2,121)**	-	**5,544**
Assets	202,269	111,184	63,048	11,855	388,356
Liabilities	79,921	44,567	74,848	4,281	203,617
Capital expenditures	13,176	2,026	1,176	-	16,378

in K€	Direct Sales	Indirect Sales	Resellers	Reconciliation	Consolidated
01/01/–30/09/2014					
Net revenues	**155,811**	**90,670**	**78,598**	**-**	**325,079**
Cost of revenues	(117,721)	(52,679)	(70,636)		(241,036)
Gross profit	**38,090**	**37,991**	**7,962**	**-**	**84,043**
Sales and marketing expenses	(11,570)	(10,082)	(5,163)		(26,815)
General and administrative expenses	(9,079)	(7,954)	(7,942)		(24,975)
Depreciation and amortization	(18,091)	(8,959)	(9,996)		(37,046)
Non-cash share-based remuneration	(247)	(95)	(73)		(415)
Other operating income	(86)	80	464		458
Operating profit (loss)	**(983)**	**10,981**	**(14,748)**	**-**	**(4,750)**
Assets	236,478	132,013	61,101	15,116	444,708
Liabilities	103,500	70,185	96,567	3,912	274,164
Capital expenditures	11,827	4,100	3,308	-	19,235

in K€	Direct Sales	Indirect Sales	Resellers	Reconciliation	Consolidated
01/01/–30/09/2013					
Net revenues	**153,322**	**92,128**	**94,833**	**-**	**340,283**
Cost of revenues	(101,354)	(49,219)	(76,272)		(226,845)
Gross profit	**51,968**	**42,909**	**18,561**	**-**	**113,438**
Sales and marketing expenses	(12,730)	(11,089)	(7,172)		(30,991)
General and administrative expenses	(9,129)	(9,515)	(8,270)		(26,914)
Depreciation and amortization	(18,724)	(8,129)	(11,820)		(38,673)
Non-cash share-based remuneration	(111)	(104)	(103)		(318)
Other operating income	644	743	463		1,850
Operating profit (loss)	**11,918**	**14,815**	**(8,341)**	**-**	**18,392**
Assets	202,269	111,184	63,048	11,855	388,356
Liabilities	79,921	44,567	74,848	4,281	203,617
Capital expenditures	25,189	5,490	4,168	-	34,847

Management has stipulated operating profit, i.e. earnings before interest and taxes (EBIT) in accordance with IFRS, as the key steering parameter for the segments. Thus, costs are fully attributed to their respective business units; also performed is a complete calculation of profit or loss with the exception of interest and taxes. Both the direct and indirect attribution of costs to the individual segments corresponds to the Company's internal reporting system and steering logic. There were also directly and indirectly attributable items of assets and liabilities. With the exception of deferred tax assets and liabilities, assets and liabilities that are indirectly attributable are allocated according to financial viability on the basis of contribution margins.

6 Stock option program

The stock option programs that had been put in place in previous years were continued as planned. Conversions of stock options raised the issued capital of QSC AG by K€ 85 in the first nine months of 2014.

7 Dividend

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

8 Litigation

In a judicial review proceeding ("Spruchverfahren") at the Hamburg Regional Court ("Landgericht") following the squeeze-out of the minority shareholders of what was originally INFO Gesellschaft für Informationssysteme Aktiengesellschaft (Hamburg District Court, HRB 36067, hereinafter called "Old INFO AG") within the framework of the merger of Old INFO AG with today's INFO Gesellschaft für Informationssysteme Aktiengesellschaft ("INFO AG", formerly IP Partner AG, following the merger renamed INFO Gesellschaft für Informationssysteme Aktiengesellschaft, since merged with QSC AG), the petitioners (a total of 45) were seeking an increase in the cash settlement paid to them by INFO AG (€ 18.86 per no-par share of Old INFO AG) in mostly unspecified amounts. With its ruling on February 3, 2014, the Hamburg Regional Court refused to hear the petitioners' case. Two petitioners have appealed this ruling within the required term. The ruling is therefore not yet final. In its decision on June 19, 2014, the Hamburg Regional Court ruled to deny the appeals and referred the matter to the Hamburg Higher Regional Court ("Oberlandesgericht") for decision.
Should the court find that the cash settlement has to be increased, it would apply to all former minority shareholders of Old INFO AG (307,943 shares).

INFO AG stipulated the cash settlement on the basis of an expertise on the value of the company drawn up by IVA VALUATION & ADVISORY AG Wirtschaftsprüfungsgesellschaft, Frankfurt am Main. The expert auditor that was selected and appointed by the Hamburg Regional Court, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, confirmed the appropriateness of the cash settlement. A provision has been recognized covering only the court costs and thus far foreseeable ancillary costs relating to the review proceeding.

In the judicial review proceeding brought before the Hamburg Regional Court by 30 former minority shareholders of Broadnet AG, it was ruled on September 20, 2013, that QSC must pay an additional contribution in cash of € 0.96 per share to all former minority shareholders of Broadnet AG (in total 999,359 shares). The additional contribution in cash is subject to interest at 2 percentage points above the base rate with effect from December 31, 2007, and at 5 percentage points above the base rate with effect from September 1, 2009. The costs of the proceedings are to be borne by QSC. The total amount of the additional contribution in cash amounting to K€ 959 plus interest corresponds to the provision recognized by QSC. Three petitioners filed an immediate appeal against this ruling with the Hamburg Higher Regional Court. Moreover, the ruling of the Hamburg Regional Court was not able to be served on several petitioners. Since the term for filing an immediate appeal commences upon service, the term has not yet expired for these petitioners. QSC has moved that the decision be served on the petitioners in question through public notice.

The appeals already lodged had been rejected by the Hamburg Higher Regional Court in its decisions on May 15, 2014, and May 21, 2014, which means that the decision of the Hamburg Regional Court of September 20, 2013, remains valid. However, since, as indicated above, it was not able to be served on all petitioners, the decision is still not yet final.

All minority shareholders of Broadnet AG had originally received 12 QSC shares for 11 Broadnet shares when Broadnet AG was merged with QSC, corresponding to an exchange ratio of 1 Broadnet share to 1.0908 QSC shares. In addition to the shares received, the applicants sought an additional cash payment and – in the court of first instance – were successful. If the payment of an additional cash payment becomes valid in law, this would also have to be paid to all former minority shareholders of Broadnet AG, who held Broadnet shares on the date when the merger took legal effect. A provision has been recognized for these proceedings.

9 Related party transactions

During the first nine months of the 2014 fiscal year, QSC participated in transactions with companies affiliated with members of Management and the Supervisory Board. According to IAS 24 related parties are individuals or companies that have the possibility of influencing or even controlling the other party. All contracts with these companies require approval of the Supervisory Board and are concluded under normal market conditions.

IN-telegence GmbH is a provider of value-added telecommunications services in the telecommunications industry and predominantly utilizes network services provided by QSC. To a small degree, subsidiaries of QSC AG utilize the value-added services provided by IN-telegence. Teleport Köln GmbH supports QSC in installing end-customer connections, and utilizes telecommunications services provided by QSC. QS Communication Verwaltungs Service GmbH provides consultancy on the product management of voice products.

in K€	Net revenues	Expenses	Cash received	Cash paid
01/01/ – 30/09/2014				
IN-telegence GmbH	1,080	49	1,083	-
Teleport Köln GmbH	22	2	-	2
QS Communication Verwaltungs Service GmbH	-	93	-	127
01/01/ – 30/09/2013				
IN-telegence GmbH	694	30	843	32
Teleport Köln GmbH	24	3	24	4
QS Communication Verwaltungs Service GmbH	-	156	-	185

in K€	Trade receivables	Trade payables
As of September 30, 2014		
IN-telegence GmbH	80	-
Teleport Köln GmbH	3	-
QS Communication Verwaltungs Service GmbH	-	-
As of September 30, 2013		
IN-telegence GmbH	76	2
Teleport Köln GmbH	6	-
QS Communication Verwaltungs Service GmbH	-	-

10 Management Board

In August 2014, Jürgen Hermann, Barbara Stolz and Henning Reinecke acquired shares on the stock exchange (see also our notifications relating to transactions by executive staff pursuant to § 15a, German Securities Trading Act ["WpHG"]).
Moreover, on August 25, 2014, each of these three members of the Management Board subscribed 150,000 QSC AG convertible bonds. These convertible bonds were allocated to them on August 29, 2013, by the Supervisory Board within the framework of the 2012 stock option program. The conversion price was set at € 2.30; conversion to QSC AG shares is not possible until after a waiting period of 4 years, i.e. not before August 26, 2018.
In addition, on August 19, 2014, Barbara Stolz subscribed 2,100 convertible bonds, which had been allocated to her on March 12, 2013, by the Management Board of QSC AG within the framework of the 2012 stock option program. This allocation was made on the basis of Ms. Stolz's employee status prior to her appointment to the Management Board of QSC AG.

	Shares		Conversion rights	
	Sept. 30, 2014	Sept. 30, 2013	Sept. 30, 2014	Sept. 30, 2013
Jürgen Hermann	240,000	225,000	350,000	200,000
Barbara Stolz	10,000	-	182,100	30,000 [1]
Henning Reinecke	6,000	1,000 [1]	150,000	-
Stefan Freyer (from September 1, 2013, through March 31, 2014)	-	-	-	-

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

11 Supervisory Board

	Shares		Conversion rights	
	Sept. 30, 2014	Sept. 30, 2013	Sept. 30, 2014	Sept. 30, 2013
Dr. Bernd Schlobohm, Chair	15,518,372	15,493,372[1]	200,000	200,000[1]
Dr. Frank Zurlino, Vice Chair	10,000	10,000[1]	-	-
Gerd Eickers	15,577,484	15,552,484	-	-
Ina Schlie	-	-	-	-
Anne-Dore Ahlers[2]	-	-	2,700	2,700[1]
Cora Hödl[2]	-	-	4,100	4,100[1]

[1] Holdings at the time of retirement from the Management Board

[2] Employee representative

Cologne, November 2014

Jürgen Hermann
Chief Executive Officer

Barbara Stolz

Henning Reinecke

Calendar

Annual Shareholders Meeting
May 27, 2015

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