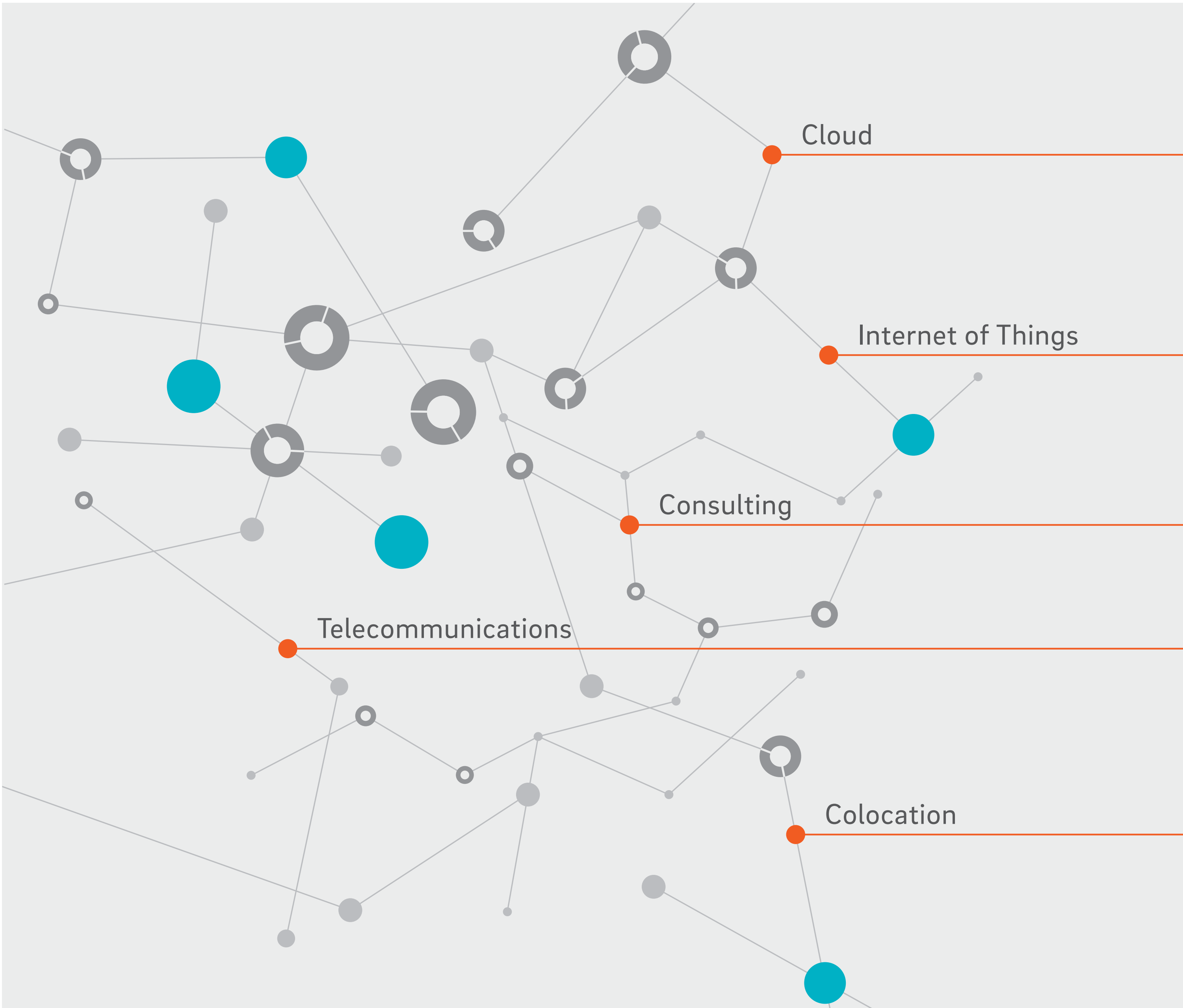

HALF-YEAR REPORT

1 January to 30 June 2018

SECURE.
INNOVATIVE.
AT YOUR SIDE.

QSC AG

KEY DATA

€ million	01/04/ – 30/06/ 2018	01/04/ – 30/06/ 2017	01/01/ – 30/06/ 2018	01/01/ – 30/06/ 2017
Revenues	92.1	87.2	186.2	175.9
EBITDA	9.0	9.7	18.2	20.2
Depreciation and amortisation[1]	6.8	8.0	13.6	15.8
EBIT	2.3	1.7	4.6	4.4
Net income	0.5	0.5	1.3	1.1
Earnings per share[2] (in €)	0.00	0.00	0.01	0.01
Free cash flow	3.6	2.8	2.8	6.4
Capital expenditure (capex)	5.0	5.6	7.9	9.8
Capex ratio[3] (in %)	5.4	6.4	4.2	5.6
Liquidity			58.0[4]	61.9[5]
Shareholders' equity			91.3[4]	89.5[5]
Long-term liabilities			47.9[4]	147.9[5]
Short-term liabilities			146.5[4]	59.6[5]
Balance sheet total			285.7[4]	297.1[5]
Equity ratio (in %)			32.0[4]	30.1[5]
Xetra closing price as of 30 June (in €)			1.40	1.74
Number of shares as of 30 June			124,172,487	124,172,487
Market capitalisation as of 30 June			173.8	216.1
Number of employees as of 30 June			1,305	1,371

[1] Including non-cash share-based compensation.

[2] Basic and diluted.

[3] Ratio of capital expenditure to revenues.

[4] As of 30 June 2018.

[5] As of 31 December 2017.

QSC INCREASES REVENUES BY 6% IN FIRST HALF OF 2018

Revenues up to € 186.2 million. Like in the first quarter, QSC also generated year-on-year revenue growth in the second quarter of 2018. At the end of the first six months, this key figure totalled € 186.2 million, as against € 175.9 million in the first half of 2017.

36% growth in Cloud business. The Cloud segment showed the strongest growth in percentage terms once again in the first half of 2018. Revenues here rose to € 15.6 million, up from € 11.5 million in the previous year, with both areas of activity – cloud services and Internet of Things (IoT) – making major contributions to this growth.

Revenues with TC services up € 13.1 million. The Telecommunications (TC) segment stood out from the rest in terms of its absolute growth volumes: Revenues here rose to € 103.8 million in the first half of 2018, up from € 90.7 million in the previous year. QSC particularly benefited from high demand in the international voice termination business.

Annual General Meeting approves spin-off of TC business. A large majority of shareholders at the Annual General Meeting on 12 July 2018 approved the spin-off of the TC business to a standalone company. Plusnet GmbH, a wholly owned subsidiary, can now focus all of its energies on its core business and, working together with strategic partners, access new potential.

Consolidated net income up 18%. QSC improved its consolidated net income year-on-year from € 1.1 million to € 1.3 million in the first half of 2018. Over the same period, EBIT rose from € 4.4 million to € 4.6 million. As expected, EBITDA came to € 18.2 million, compared with € 20.2 million in the first half of 2017.

QSC expects revenues at least at upper end of € 345 million to € 355 million range. Given its robust first-half performance, QSC now expects its full-year revenues for 2018 to at least reach the upper end of the € 345 million to € 355 million range. The Company still expects to post EBITDA of between € 35 million and € 40 million and free cash flow of more than € 10 million.

"Our operating business is benefiting from implementation of the new vertical organisational structure. We now expect the spin-off of our TC business into a standalone subsidiary to provide additional momentum."

Jürgen Hermann, Chief Executive Officer

"Our key earnings and financial figures are developing in line with expectations. But we are continuing to reorganise our structures, particularly in the Outsourcing business. In this respect, we will have to maintain strict cost discipline in the future as well."

Stefan A. Baustert, Chief Financial Officer

LETTER TO OUR SHAREHOLDERS

Dear Shareholders,

With year-on-year growth of 6%, QSC's total revenues for the first six months pointed in the right direction! Growth was driven above all by success in the Cloud and Telecommunications segments. In our Cloud business we are attracting new customers, such as most recently the financial services provider PEAC Germany, previously IKB Leasing, and also gradually extending the range of services we offer to existing customers. Our advantage here is that our multi-cloud enables us to combine individually structured private cloud platforms, such as our Pure Enterprise Cloud, with standardised public clouds solutions from major providers such as Microsoft, Amazon and Google, and all that in line with customers' specific wishes. QSC was very early to detect this trend and founded its own multi-cloud unit at the beginning of 2017 already. That move is now paying off.

Q-loud, our IoT subsidiary, is also positioning itself ever more successfully with its extensive range of software and hardware expertise. This is reflected not least in rising demand and growing numbers of satisfied customers. The "retrofit" approach, which draws on easy solutions to make older appliances fit for digitisation, is especially popular. Furthermore, our experts at Q-loud are also in demand as partners when it comes to connecting IoT solutions with SAP systems. This enables data collected via sensors to be evaluated for business management purposes, and that in real time. Links of this kind are of great interest, especially for smart energy management at large properties.

The growth in the Telecommunications segment shows that demand for traditional data and voice services remains robust. Not only that, it underlines the increasing attractiveness of new markets. At QSC, this latter factor is illustrated above all by cooperation agreements signed with municipal utility companies that are expanding their fibre optic networks. In June 2018, for example, the regional energy supplier "eins" in Saxony opted to work with QSC. In future, we will therefore be supplying voice services for the fibre optic broadband network in Chemnitz, to which around half of that city's companies and households are already connected. At present, however, the high volumes in the TC business are due above all to increased demand from resellers for international voice termination services. Corporate customers are also showing ever greater interest in TC services.

Against this backdrop, the spin-off of the TC business into a standalone company marks the beginning of a new era. This way, our TC unit can focus all of its energies on its core business and, together with strategic partners, access completely new potential – potential that will benefit Plusnet, and thus QSC as well.

Despite these positive developments, QSC has yet to achieve a turnaround in its revenue performance. We expect the higher level of demand shown by resellers for international voice termination services to weaken. In our Outsourcing business, the restructuring process aimed at achieving greater efficiency will have to continue as two major customers have opted to change IT service provider. The associated revenues will no longer be included in the figures for the second half and from early 2019 respectively.

We are nevertheless optimistic for the current financial year. We now expect our full-year revenues to at least reach the upper end of the € 345 million to € 355 million range communicated at the beginning of the year. Our EBITDA should amount to between € 35 million and € 40 million and our free cash flow should exceed € 10 million. That all marks a further step on the way to sustainably positive growth.

Cologne, August 2018

Jürgen Hermann
Chief Executive Officer

Stefan A. Baustert
Chief Financial Officer

INTERIM CONSOLIDATED REPORT

Business Performance

Revenues up 6% to € 186.2 million in first half of 2018. Like in the first quarter, QSC generated year-on-year revenue growth in the second quarter of 2018. This was driven by the two segments of Cloud and Telecommunications. At the end of the first six months, the Company's revenues totalled € 186.2 million, as against € 175.9 million in the first half of 2017. Given this robust performance in the first half of 2018, QSC now expects to generate full-year revenues at least at the upper end of the € 345 million to € 355 million range.

Revenues
(€ million)

36% growth in Cloud business. Revenues in the Cloud segment increased from € 11.5 million to € 15.6 million in the first half of 2018. This growth was due to success in both of the segment's areas of activity, namely cloud services and IoT.
In early June 2018, for example, PEAC Germany, formerly IKB Leasing, commissioned QSC to migrate its existing IT landscape to a multi-cloud environment. In future, this company will be centrally procuring traditional IT applications and sector-specific applications from QSC's Pure Enterprise Cloud. By contrast, Microsoft applications will be provided from the global Microsoft Office 365 Cloud. As a certified Cloud Solution Partner to Microsoft, QSC will also see to integrating and managing these applications. This way, QSC will orchestrate and be responsible for PEAC Germany's multi-cloud IT operations model in future. Other customers are also increasingly drawing on QSC's multi-cloud expertise and combining bespoke solutions from the Pure Enterprise Cloud with public cloud applications.
Q-loud, QSC's IoT subsidiary, demonstrated its all-round software and hardware expertise in numerous projects in the high-growth areas of smart home and smart city in the first half of 2018. This company provides hardware such as sensors and chips on the one hand and its own software-based cloud platform on the other, as well as individually developed products, all of which on a turnkey basis. This way, it offers easy solutions to make traditional appliances fit for the digital age. The EnergyCam, for example, photographs the current status of analogue meters on heating systems, converts these readings into digital data and thus enables them to be used in all IT processes. This easy "retrofit" has, for example, provided a convincing solution at Munich Airport since April 2018.

Cloud revenues
(€ million)

Gradual introduction of Cloud services at large Outsourcing customer. Consistent with expectations, the Outsourcing revenues of € 47.6 million reported for the first half of 2018 fell short of the previous year's figure of € 53.0 million. This reduction was due in part to changes in the customer base. In 2017, one major customer opted to work in future with an IT services provider with global operations. Not only that, the process of migrating existing customers to the Cloud has continued.
The extent to which traditional Outsourcing and Cloud services are gradually merging is underlined by the extension of the contract with QSC's longstanding customer Imperial Tobacco in June 2018. QSC will be taking care of major aspects of the company's IT operations and IT support in the next five years as well. This includes networking all German locations, providing applications and SAP services. Furthermore, QSC will in future be supporting Imperial Tobacco in implementing its global digitisation strategy. To this end, QSC will gradually be introducing cloud and multi-cloud services and optimising the group's proprietary IT resources in a data centre and hosting environment.

Outsourcing revenues
(€ million)

Specialist staff in short supply in Consulting business. The Consulting segment generated revenues of € 19.2 million in the first half of 2018, as against € 20.7 million in the previous year's period. Business activities here remain focused on consulting services for SAP software, and especially on introducing the new S/4HANA software generation. At present, insufficient numbers of experts are available in the market for this area in particular. The year-on-year decline in revenues is due not least to the noticeable shortage of specialists. QSC is therefore increasingly relying on in-house training and development measures and is training rising numbers of employees for S/4HANA consulting.

Consulting revenues
(€ million)

TC business grows by 14%. TC revenues rose to € 103.8 million in the first half of 2018, up from € 90.7 million in the previous year. This growth was driven above all by QSC's success in the international termination business with resellers, an area where it has benefited from a temporary favourable market constellation and the permanent benefits offered by the extremely efficient cost structure of its proprietary next generation network. Not only that, there is growing demand for TC services from corporate customers.

One increasingly important area of activity is QSC's cooperation with regional energy suppliers and municipal utility companies as they expand their fibre optic networks. Most recently, for example, QSC reached agreement with the energy supplier "eins" to supply voice services in Chemnitz, a city where around half of companies and households already have access to a fibre optic network.

By agreeing a new cooperation with Zattoo TV Solutions, in the first half of 2018 QSC also extended its range of services for regional energy suppliers and municipal utility companies. These are now able to provide a triple play offering of IP-based data, voice and TV services. To this end, QSC is supplementing its existing white label solutions with the IPTV services offered by Zattoo, Europe's leading provider.

Telecommunications revenues
(€ million)

Annual General Meeting approves spin-off of TC business. A large majority of shareholders at the Annual General Meeting on 12 July 2018 approved the spin-off of the TC business to a standalone company. Plusnet GmbH, a wholly owned subsidiary, can now focus all of its energies on its core business and, working together with strategic partners, access new potential.

Business Framework

Robust developments in ICT sector. The threat of a global trade war is a factor that, more than any other, is unsettling ever more companies in Germany. The ifo Business Climate Index, one of the country's key economic indicators, fell in all three categories, namely "Climate", "Situation" and "Expectations", in the first half of 2018. By July 2018, the ZEW Economic Expectations Index had even reached its lowest level since August 2012.

To date, the ICT sector has hardly felt any effects of this uncertainty. Demand is on the increase and is being driven above all by the ongoing digitisation of the Germany economy. The Bitkom sector association expects IT revenues in Germany this year to grow by 3.1% to € 88.8 billion.

62% of SMEs building on multi-cloud scenarios. Key growth drivers include cloud services and IoT, i.e. the two areas of activity in QSC's Cloud segment. Within the cloud business, multi-cloud solutions combining the benefits of public and private clouds are increasingly gaining ground. In a study compiled by the market research institute Crisp Research, 62% of small and medium enterprises (SMEs) stated that they were drawing on multi-cloud scenarios. The crucial motivation here was to ensure the availability of flexible and scalable IT that was capable of being adapted to new business models more quickly than in the past.
Numerous new business models, especially in industry, are drawing on the Internet of Things. As a result, this market is likely to explode in the years ahead. The latest forecasts assume a volume of € 50 billion for the German business customer market by 2020. According to a Bitkom survey, IoT platforms are now a topic at 8 out of 10 companies. SMEs in particular are now beginning to look into introducing the new technology. Here, QSC can draw on its advantages as a medium-sized player and build partnerships of equals. With its extensive IoT hardware and software expertise, the Q-loud subsidiary is already promoting numerous projects in an SME environment.

The German IoT market
(€ billion)

Earnings Performance

Growth necessitates higher cost of revenues. Given the increase in revenues, the cost of revenues rose from € 129.6 million in the previous year's period to € 141.5 million in the first half of 2018. This rise chiefly reflects the increased weighting of TC revenues with resellers in the international voice termination business. These revenues are characterized by preliminary services procured from other grid operators. Gross profit amounted to € 44.7 million in the first half of the current financial year, as against € 46.3 million in the previous year's period.
Sales and marketing expenses rose by € 1.0 million year-on-year to € 13.8 million. This increase was due to the stepping up of sales efforts in the new vertical organisational structure. By contrast, general and administrative expenses fell by € 0.9 million to € 12.4 million.
Due to the higher cost of revenues, EBITDA decreased from € 20.2 million in the previous year's period to € 18.2 million in the first half of the current financial year. EBITDA is defined as earnings before interest, taxes, amortisation of deferred non-cash share-based compensation, depreciation/amortisation and impairment losses on customer-related inventories and depreciation/amortisation of property, plant and equipment and intangible assets.

Consolidated net income rises by 18%. As planned, depreciation and amortisation fell to € 13.6 million in the first half of 2018, down from € 15.8 million in the previous year's period. As a result, operating earnings (EBIT) improved to € 4.6 million, compared with € 4.4 million in the first half of 2017. Consolidated net income rose over the same period from € 1.1 million to € 1.3 million.

Consolidated net income

(€ million)

Earnings Performance by Segment

Cloud segment posts its first double-digit margin. Substantial revenue growth enabled the Cloud business to demonstrate its scalability in the first half of 2018. Additional revenues of € 4.1 million only required additional cost of revenues amounting to € 1.4 million. The latter key figure rose from € 9.5 million year-on-year to € 10.9 million. This enabled the segment to more than double its gross profit to € 4.7 million, up from € 1.9 million in the first half of 2017. As sales and marketing expenses also only rose slightly, the segment contribution improved to € 1.8 million, as against € -0.8 million in the previous year's period. This corresponds to a segment margin of 12%.

Ongoing restructuring of Outsourcing business. Given the decline in revenues, QSC pressed ahead with restructuring its Outsourcing business in the first half of 2018. Among other measures, the Company reduced the number of employees working in this area. The non-recurring expenses associated with this measure were one reason why the cost of revenues only fell by € 0.7 million compared with the previous year to € 39.0 million in the first half of 2018. As a result, gross profit fell from € 13.3 million year-on-year to € 8.6 million. The segment contribution decreased from € 10.5 million to € 6.0 million and the segment margin now amounts to 13%.

Rising margin in Consulting business. In its personnel-intensive Consulting business, QSC was able to generate a convincing segment margin of 17% in the first half of 2018. This was due in particular to ongoing efforts to optimise capacity utilisation levels among existing employees. The segment contribution rose to € 3.3 million, as against € 2.9 million in the first half of 2017. Notwithstanding the decline in revenues, gross profit also increased, improving from € 3.4 million year-on-year to € 3.8 million in the first half of 2018.

Telecommunications generates highest segment margin. The substantial TC revenue growth seen in the first half of 2018 was accompanied by a higher cost of revenues, which rose from € 63.0 million year-on-year to € 76.2 million. This significant increase was due to the greater share of revenues with resellers in the international voice termination business, an area characterised by high preliminary services. In view of this, the gross profit € 27.6 million in the first half of 2018 was virtually unchanged on the previous year's figure of € 27.7 million. Given increased sales efforts, the segment contribution came to € 19.8 million in the first half of 2018, as against € 20.9 million in the previous year. At 19%, however, the segment margin was still higher than in any other segment.

Financial and Net Asset Position

QSC generates free cash flow of € 2.8 million in first half of 2018. In line with expectations, the free cash flow amounted to € 2.8 million in the first six months of the current financial year, as against € 6.4 million in the previous year. QSC calculates this key management figure as the change in net liquidity/debt before acquisitions and distributions. The table below shows the relevant parameters at the two balance sheet dates on 30 June 2018 and 31 December 2017:

€ million	30/06/2018	31/12/2017
Liquidity	**58.0**	**61.9**
Long-term other financial liabilities	(35.0)	(135.2)
Short-term other financial liabilities	(95.1)	(1.6)
Interest-bearing liabilities	**(130.1)**	**(136.8)**
Net debt	**(72.1)**	**(74.9)**

It can be seen that that liquidity fell by € 3.9 million to € 58.0 million in the first half of 2018. Over the same period, QSC reduced its interest-bearing financial liabilities by € 6.7 million. Within this item, the tranches of the promissory note loan due for repayment in the second quarter of 2019 were reclassified from the long-term to the short-term portion of other financial liabilities. Net debt fell by € 2.8 million to € -72.1 million as of 30 June 2018.

Capital expenditure still at moderate level. QSC invested € 7.9 million in the first half of 2018, as against € 9.8 million in the previous year's period. Of this total, 45% involved customer-related investments, including connections for new customers. A further total of 45% was channelled into technology, and thus into the ongoing process of modernising and optimising the Company's infrastructure. The remaining 10% related to other items of property, plant and equipment and other intangible assets.

Equity ratio rises to 32%. QSC's balance sheet as of 30 June 2018 was characterised by higher equity and one reclassification of liabilities. The increase in equity to € 91.3 million, up from € 89.5 million as of 31 December 2017, was due above all to the rise in consolidated net income. The equity ratio rose by 2 percentage points over the same period to 32%.
Long-term liabilities fell to € 47.9 million as of 30 June 2018, down from € 147.9 million at the end of 2017. This reduction was solely due to the reclassification of tranches of the promissory note loan maturing in May 2019 and previously reported under other financial liabilities. Conversely, short-term liabilities rose to € 146.5 million, up from € 59.6 million as of 31 December 2017.

QSC increases syndicated loan. QSC successfully negotiated an increase in its syndicated loan facility with the lending banks in the first half of 2018. Originally agreed at € 70 million in 2016, this facility has now been raised to € 100 million, thus prematurely safeguarding financing for the tranches of the promissory note loan due to mature next year.
On the asset side of the balance sheet, depreciation and amortisation reduced the value of long-term assets by € 5.0 million to € 169.9 million. Short-term assets decreased by € 6.3 million to € 115.9 million as of 30 June 2018.

Employees

1,305 employees as of 30 June 2018. The overall workforce contracted to 1,305 employees as of 30 June 2018, compared with 1,371 one year earlier, a development mainly due to the ongoing process of restructuring the organisation. By contrast, QSC also recruited additional experts, above all in its Cloud business. Personnel expenses fell to € 50.4 million in the first half of 2018, down from € 51.5 million in the previous year.

Personnel expenses
(€ million)

Opportunity and Risk Report

No material change in opportunity and risk situation. The first half of 2018 did not witness any material changes in the opportunities and risks presented in the 2017 Annual Report. Just like other risks or erroneous assumptions, however, the risks listed there could lead future actual earnings to deviate from QSC's expectations. Unless they constitute historic facts, all disclosures in this unaudited group interim report represent forward-looking statements. They are based on current expectations and forecasts concerning future events and may therefore change over time.

Outlook

QSC expects revenues at least at upper end of € 345 million to € 355 million range. Given its robust first-half performance, QSC now expects its full-year revenues for 2018 to at least reach the upper end of the € 345 million to € 355 million range. The Company still expects to post EBITDA of between € 35 million and € 40 million and a free cash flow of more than € 10 million. The highest revenue growth in the second half of the year will once again be in the Cloud business. On the other hand, the TC business is expected to normalise once more after the 14% growth reported for the first six months. Demand for international voice termination services from resellers already declined in the second quarter of 2018. In line with expectations, the loss of a major customer already announced previously will reduce second-half revenues in the Outsourcing segment. This will require the Company to make further organisational adjustments. QSC expects to see a further stabilisation in its Consulting business.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Income (unaudited)

Euro amounts in thousands (€ 000s)

	01/04/–30/06/ 2018	01/04/–30/06/ 2017	01/01/–30/06/ 2018	01/01/–30/06/ 2017
Net revenues	**92,086**	**87,160**	**186,165**	**175,891**
Cost of revenues	(68,808)	(64,240)	(141,492)	(129,555)
Gross profit	**23,278**	**22,920**	**44,673**	**46,336**
Sales and marketing expenses	(7,763)	(6,873)	(13,772)	(12,845)
General and administrative expenses	(6,422)	(6,412)	(12,393)	(13,262)
Depreciation and amortisation				
(including non-cash share-based compensation)	(6,758)	(7,963)	(13,595)	(15,843)
Other operating income	299	368	580	1,027
Other operating expenses	(371)	(313)	(850)	(1,056)
Operating profit (EBIT)	**2,263**	**1,727**	**4,643**	**4,357**
Financial income	20	23	92	70
Financial expenses	(1,086)	(1,166)	(2,165)	(2,350)
Net income before income taxes	**1,197**	**584**	**2,570**	**2,077**
Income taxes	(744)	(92)	(1,265)	(950)
Net income	**453**	**492**	**1,305**	**1,127**
Attribution of net income				
Owners of the parent company	516	550	1,432	1,243
Non-controlling interests	(63)	(58)	(127)	(116)
Earnings per share (basic) in €	0.00	0.00	0.01	0.01
Earnings per share (diluted) in €	0.00	0.00	0.01	0,01

Consolidated Statement of Comprehensive Income (unaudited)

Euro amounts in thousands (€ 000s)

	01/04/–30/06/ 2018	01/04/–30/06/ 2017	01/01/–30/06/ 2018	01/01/–30/06/ 2017
Net income for the period	**453**	**492**	**1,305**	**1,127**
Other comprehensive income				
Line items that are not reclassified in the income statement				
Actuarial gains (losses) from defined benefit pension plans	-	-	-	-
Tax effect	-	-	-	-
Line items that are not reclassified in the income statement	**-**	**-**	**-**	**-**
Line items that might subsequently be reclassified in the income statement				
Fair value measurement of cash flow hedge	207	204	402	498
Tax effect	(67)	(66)	(130)	(163)
Line items that might subsequently be reclassified in the income statement	**140**	**138**	**272**	**335**
Total fair value changes (net of tax) recognised directly	**140**	**138**	**272**	**335**
Total comprehensive income for the period	**593**	**630**	**1,577**	**1,462**
Attribution of total comprehensive income				
Owners of the parent company	656	688	1,704	1,578
Non-controlling interests	(63)	(58)	(127)	(116)

Consolidated Balance Sheet

Euro amounts in thousands (€ 000s)

	30/06/2018 (unaudited)	31/12/2017 (audited)
ASSETS		
Long-term assets		
Property, plant and equipment	54,482	57,481
Land and buildings	22,701	23,528
Goodwill	55,568	55,568
Other intangible assets	23,579	25,349
Trade receivables	2,124	2,461
Prepayments	3,745	2,549
Other long-term assets	158	156
Deferred tax assets	7,536	7,806
Long-term assets	**169,893**	**174,898**
Short-term assets		
Trade receivables	49,107	52,278
Prepayments	7,326	6,809
Inventories	402	649
Other short-term assets	1,032	569
Cash and cash equivalents	57,984	61,881
Short-term assets	**115,851**	**122,186**
TOTAL ASSETS	**285,744**	**297,084**

	30/06/2018 (unaudited)	31/12/2017 (audited)
SHAREHOLDERS' EQUITY AND LIABILITIES		
Shareholders' equity		
Issued capital	124,172	124,172
Capital surplus	143,971	143,787
Other capital reserves	(2,009)	(2,281)
Accumulated deficit	(174,180)	(175,612)
Equity attributable to owners of the parent company	**91,954**	**90,066**
Non-controlling interests	(665)	(538)
Shareholders' equity	**91,289**	**89,528**
Liabilities		
Long-term liabilities		
Other financial liabilities	35,037	135,244
Accrued pensions	5,745	5,924
Other provisions	3,032	3,031
Trade payables and other liabilities	3,785	3,357
Deferred tax liabilities	322	392
Long-term liabilities	**47,921**	**147,948**
Short-term liabilities		
Trade payables and other liabilities	44,478	46,896
Other financial liabilities	95,064	1,577
Other provisions	2,760	7,388
Accrued taxes	2,226	1,669
Deferred income	2,006	2,078
Short-term liabilities	**146,534**	**59,608**
Liabilities	**194,455**	**207,556**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**285,744**	**297,084**

Consolidated Statement of Changes in Equity (unaudited)

Euro amounts in thousands (€ 000s)

	Equity attributable to equity holders of QSC AG			
			Other capital reserves	
	Issued capital	Capital surplus	Actuarial gains (losses)	Cash flow hedge reserve
Balance as of 1 January 2018	**124,172**	**143,787**	**(1,350)**	**(931)**
Net income for the period	-	-	-	-
Other comprehensive income				
for the period, net of tax	-	-	-	272
Total comprehensive income	**-**	**-**	**-**	**272**
Non-cash share-based compensation	-	184	-	-
Balance as of 30 June 2018	**124,172**	**143,971**	**(1,350)**	**(659)**
Balance as of 1 January 2017	**124,172**	**143,217**	**(1,923)**	**(1,570)**
Net income for the period	-	-	-	-
Other comprehensive income				
for the period, net of tax	-	-	-	335
Total comprehensive income	**-**	**-**	**-**	**335**
Dividends	-	-	-	-
Non-cash share-based compensation	-	274	-	-
Balance as of 30 June 2017	**124,172**	**143,491**	**(1,923)**	**(1,235)**

Accumulated deficit	Total	Non-controlling interests	Total equity	
(175,612)	**90,066**	**(538)**	**89,528**	**Balance as of 1 January 2018**
1,432	1,432	(127)	1,305	Net income for the period
				Other comprehensive income
-	272	-	272	for the period, net of tax
1,432	**1,704**	**(127)**	**1,577**	**Total comprehensive income**
-	184	-	184	Non-cash share-based compensation
(174,180)	**91,954**	**(665)**	**91,289**	**Balance as of 30 June 2018**
(177,223)	**86,673**	**(325)**	**86,348**	**Balance as of 1 January 2017**
1,243	1,243	(116)	1,127	Net income for the period
				Other comprehensive income
-	335	-	335	for the period, net of tax
1,243	**1,578**	**(116)**	**1,462**	**Total comprehensive income**
(3,725)	(3,725)	-	(3,725)	Dividends
-	274	-	274	Non-cash share-based compensation
(179,705)	**84,800**	**(441)**	**84,359**	**Balance as of 30 June 2017**

Consolidated Statement of Cash Flows (unaudited)

Euro amounts in thousands (€ 000s)

	01/01/–30/06/ 2018	01/01/–30/06/ 2017
Cash flow from operating activities		
Net income before income taxes	2,570	2,077
Depreciation and amortisation of long-term assets	13,411	15,569
Other non-cash income and expenses	919	402
Gains from disposal of fixed assets	(28)	(21)
Income tax paid	(459)	(2,645)
Income tax received	9	2,058
Interest received	77	414
Net financial expenses	2,073	2,280
Changes in provisions	(4,936)	(2,496)
Changes in trade receivables	2,773	(468)
Changes in trade payables	1,002	2,543
Changes in other assets and liabilities	(4,247)	(618)
Cash flow from operating activities	**13,164**	**19,095**
Cash flow from investing activities		
Purchase of intangible assets	(3,568)	(2,231)
Purchase of property, plant and equipment	(4,822)	(8,327)
Proceeds from sale of property, plant and equipment	19	29
Proceeds from sale of a subsidiary,		
less liquid funds thereby disposed of	-	(430)
Cash flow from investing activities	**(8,371)**	**(10,959)**
Cash flow from financing activities		
Dividends paid	-	(3,725)
Issuance of convertible bonds	(1)	5
Repayment of loans	(5,912)	(12,683)
Interest paid	(2,631)	(3,058)
Repayment of liabilities under financing		
and finance lease arrangements	(146)	(1,163)
Cash flow from financing activities	**(8,690)**	**(20,624)**
Change in cash and cash equivalents	**(3,897)**	**(12,488)**
Cash and cash equivalents as of 1 January	61,881	67,781
Cash and cash equivalents as of 30 June	**57,984**	**55,293**

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Company Information

QSC AG is digitising the German SME sector. With decades of experience and expertise in its Cloud, Internet of Things, Consulting, Telecommunications and Colocation businesses, QSC accompanies its customers securely into the digital age. The cloud-based provision of all services offers increased speed, flexibility, and availability. The Company's TÜV and ISO-certified data centres in Germany and its nationwide All-IP network form the basis for maximum end-to-end quality and security. QSC's customers benefit from one-stop innovative products and services that are marketed both directly and via partners.
QSC is a stock corporation registered in the Federal Republic of Germany. Its legal domicile is Mathias-Brüggen-Strasse 55, 50829 Cologne, Germany. The Company is registered in the Commercial Register of Cologne District Court under number HRB 28281. QSC has been listed on the Deutsche Börse stock exchange since 19 April 2000 and, following the reorganisation of the stock market, in the Prime Standard since the beginning of 2003.

Accounting Policies

1 BASIS OF PREPARATION

These condensed interim consolidated financial statements of QSC AG and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), taking due account of International Accounting Standard (IAS) 34 "Interim Financial Reporting". The interim consolidated financial statements do not include all notes and disclosures required of full year-end financial statements and should therefore be read in conjunction with the consolidated financial statements as of 31 December 2017.
Based on the Management Board's assessment, the interim consolidated financial statements contain all adjustments necessary to provide a true and fair view of the Group's net assets, financial and earnings position. The results for the reporting period ending on 30 June 2018 do not necessarily provide an indication of the future development in results.

With the exception of the accounting standards IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers, both of which required application from 1 January 2018, the accounting policies applied in preparing these interim consolidated are basically consistent with those applied in the consolidated financial statements for the 2017 financial year.
Income tax expenses for the interim reporting period have been calculated using the effective tax rate expected for the financial year as a whole.
Those amendments to IFRSs requiring mandatory application from the 2018 financial year onwards have not had any implications for the interim financial statements as of 30 June 2018.
The preparation of interim financial statements in accordance with IFRS requires a certain degree of reference to estimates and judgements affecting the assets and liabilities as recognised and the disclosures made concerning contingent assets and liabilities as of the reporting date. The amounts actually arising may deviate from such estimates.
There have been no material changes in the Management Board's assessments concerning the application of accounting policies compared with the consolidated financial statements as of 31 December 2017.
Unless otherwise stated, all amounts are rounded up or down to the nearest thousand euro amount (€ 000s).
These condensed interim consolidated financial statements, including the interim management report, have neither been audited pursuant to § 317 of the German Commercial Code (HGB) nor subject to any audit review by any suitably qualified person.

2 SCOPE OF CONSOLIDATION AND AMENDMENTS UNDER COMPANY LAW

Alongside QSC AG, the scope of consolidation includes all of the subsidiaries it controls. These subsidiaries are fully consolidated.

3 FINANCIAL INSTRUMENTS

Disclosures on the balance sheet. No separate disclosures are provided for fair values as the carrying amounts largely correspond to market values. This is not the case for the promissory note loan included in other financial liabilities, whose market value as of 30 June 2018 exceeded its carrying amount by € 2.9 million.

€ 000s	Carrying amount	Loans and receivables	Fair value – hedging instruments	Other financial liabilities
30 June 2018				
Assets not measured at fair value				
Cash and cash equivalents	57,984	x		
Long-term trade receivables	2,124	x		
Short-term trade receivables	49,107	x		
Liabilities measured at fair value				
Interest swaps – hedge accounting	1,215		x	
Liabilities not measured at fair value				
Trade payables and other liabilities	38,774			x
Other financial liabilities	130,101			x

€ 000s	Carrying amount	Loans and receivables	Fair value – hedging instruments	Other financial liabilities
31 December 2017				
Assets not measured at fair value				
Cash and cash equivalents	61,881	x		
Long-term trade receivables	2,461	x		
Short-term trade receivables	52,278	x		
Liabilities measured at fair value				
Interest swaps – hedge accounting	1,617		x	
Liabilities not measured at fair value				
Trade payables and other liabilities	37,330			x
Other financial liabilities	136,820			x

Disclosures on fair values measured on a recurring basis. At the end of the reporting period, QSC AG determines whether any reclassifications between the measurement hierarchy levels are necessary. No reclassifications were made in the reporting period from 1 January 2018 to 30 June 2018.

Class	Measurement hierarchy level	Fair value in € 000s at 30 June 2018	Fair value in € 000s at 31 Dec. 2017	Description of measurement method
Liabilities due to banks	2	132,758	140,049	The liabilities are measured by first forecasting the expected cash flows based on the provisions of the respective contracts and then discounting these to account for risk. The risk-adjusted discount rate comprises an interbank interest rate (6M Euribor) and a QSC-specific risk premium derived from credit default swap rates for a peer group. The peer group has a BBB rating.
Interest swaps – hedge accounting	2	1,215	1,617	The fair value of interest derivatives is determined on the basis of present value models including market information (interest structure curves). The fair value measurement of interest swaps was performed by the intermediary bank; the fair value is derived either from the mid-market price or, if expressed as a bid and ask price, from the indicative price at which the bank would have bought back and sold the financial instrument at the close of business on the relevant marketplace on the respective measurement date.

4 REVENUES

Breakdown of revenues. The tables below provide a breakdown of revenues by geographical region and distribution channel. Furthermore, the tables reconcile revenues with the segments presented in Note 5.

€ 000s	Geographical region					
	Germany		Outside Germany		Total	
	01/01/–30/06/ 2018	01/01/–30/06/ 2017	01/01/–30/06/ 2018	01/01/–30/06/ 2017	01/01/–30/06/ 2018	01/01/–30/06/ 2017
Segments						
Telecommunications	97,990	88,434	5,843	2,240	103,833	90,674
Outsourcing	47,240	52,588	338	421	47,578	53,009
Consulting	18,398	19,822	785	911	19,183	20,733
Cloud	15,380	11,325	191	150	15,571	11,475
	179,008	**172,169**	**7,157**	**3,722**	**186,165**	**175,891**

€ 000s	Distribution channel					
	End customer		Reseller		Total	
	01/01/–30/06/ 2018	01/01/–30/06/ 2017	01/01/–30/06/ 2018	01/01/–30/06/ 2017	01/01/–30/06/ 2018	01/01/–30/06/ 2017
Segments						
Telecommunications	42,140	40,020	61,693	50,654	103,833	90,674
Outsourcing	47,578	53,009	-	-	47,578	53,009
Consulting	19,183	20,733	-	-	19,183	20,733
Cloud	15,571	11,475	-	-	15,571	11,475
	124,472	**125,237**	**61,693**	**50,654**	**186,165**	**175,891**

5 SEGMENT REPORTING

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

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

Outsourcing. This segment offers traditional outsourcing services to companies wishing to outsource their IT and data storage to QSC. As soon as cloud-based outsourcing services are provided, the respective revenues are allocated to the Cloud segment. As well as IT service offerings, the Outsourcing segment also includes the underlying IP-VPNs necessary to guarantee end-to-end quality.

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

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

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

€ 000s	Telecom-munications	Outsourcing	Consulting	Cloud	Consolidated Group
01/04/ – 30/06/2018					
Net revenues	**50,431**	**23,853**	**9,356**	**8,446**	**92,086**
Cost of revenues	(36,777)	(18,819)	(7,675)	(5,537)	(68,808)
Gross profit	**13,654**	**5,034**	**1,681**	**2,909**	**23,278**
Sales and marketing expenses	(4,186)	(1,592)	(371)	(1,614)	(7,763)
Segment contribution	**9,468**	**3,442**	**1,310**	**1,295**	**15,515**
General and administrative expenses					(6,422)
Depreciation and amortisation (including					
non-cash share-based compensation)					(6,758)
Other operating income and expenses					(72)
Operating profit (EBIT)					**2,263**
Financial income					20
Financial expenses					(1,086)
Net income before income taxes					**1,197**
Income taxes					(744)
Net income					**453**

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

€ 000s	Telecommunications	Outsourcing	Consulting	Cloud	Consolidated Group
01/01/ – 30/06/2018					
Net revenues	**103,833**	**47,578**	**19,183**	**15,571**	**186,165**
Cost of revenues	(76,222)	(38,975)	(15,392)	(10,903)	(141,492)
Gross profit	**27,611**	**8,603**	**3,791**	**4,668**	**44,673**
Sales and marketing expenses	(7,842)	(2,602)	(463)	(2,865)	(13,772)
Segment contribution	**19,769**	**6,001**	**3,328**	**1,803**	**30,901**
General and administrative expenses					(12,393)
Depreciation and amortisation (including					
non-cash share-based compensation)					(13,595)
Other operating income and expenses					(270)
Operating profit (EBIT)					**4,643**
Financial income					92
Financial expenses					(2,165)
Net income before income taxes					**2,570**
Income taxes					(1,265)
Net income					**1,305**

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

6 CASH FLOW FROM FINANCING ACTIVITIES

Financial liabilities developed as follows:

€ 000s	31 Dec. 2017	Cash-effective changes	Non-cash-effective changes		30 June 2018
			Reclassifi-cations	Fair value	
Financial liabilities					
Long-term loans	135,130	(130)	(100,000)	-	35,000
Short-term loans	281	(5,781)	100,000	-	94,500
Lease liabilities	371	(147)	-	-	224
Assets to secure long-term loans	(931)	-	-	271	(660)
Financial liabilities	**134,851**	**(6,058)**	**-**	**271**	**129,064**

7 DIVIDENDS PAID

The Annual Shareholders' Meeting of QSC AG held on 12 July 2018 approved the distribution of a dividend of € 0.03 per share with dividend entitlement. The dividend payment of € 3,725,174.61 was distributed by the depositary banks starting on 17 July 2018.

8 LEGAL DISPUTES

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

9 TRANSACTIONS WITH RELATED PARTIES

In the first six months of the 2018 financial year, QSC maintained business relationships with companies whose shareholders include members of the Company's management and its Supervisory Board. Persons and companies count as related parties pursuant to IAS 24 when one party has the possibility of exercising control or significant influence over the other party. All contracts with these companies require approval by the Supervisory Board and are agreed on customary market terms.

€ 000s	Net revenues	Expenses	Payments received	Payments made
01/01/ – 30/06/2018				
IN-telegence GmbH	95	57	120	67
Teleport Köln GmbH	6	1	9	1
QS Communication Verwaltungs Service GmbH	-	94	-	108
01/01/ – 30/06/2017				
IN-telegence GmbH	127	47	188	56
Teleport Köln GmbH	7	1	10	1
QS Communication Verwaltungs Service GmbH	-	81	-	111

€ 000s	Receivables	Payables
30 June 2018		
IN-telegence GmbH	31	12
Teleport Köln GmbH	1	-
QS Communication Verwaltungs Service GmbH	-	16
31 December 2017		
IN-telegence GmbH	38	12
Teleport Köln GmbH	3	-
QS Communication Verwaltungs Service GmbH	-	12

IN-telegence GmbH is a provider of value added services in the telecommunications industry and mainly draws on network services from QSC. QSC in turn also draws on value added services from IN-telegence GmbH. Teleport Köln GmbH supports QSC in installing end customer connections and also draws on QSC's telecommunications services. QS Communication Verwaltungs Service GmbH advises QSC in the development of concepts and software for cloud-based services.

10 MANAGEMENT BOARD

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

	Shares		Conversion rights	
	30/06/2018	30/06/2017	30/06/2018	30/06/2017
Jürgen Hermann	500,000	400,000	350,000	350,000
Stefan A. Baustert	40,000	40,000	200,000	200,000
Udo Faulhaber (until 31 December 2017)	- [1]	100,000	150,000	150,000
Felix Höger (until 31 December 2017)	- [1]	150,000	150,000	150,000

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

11 SUPERVISORY BOARD

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

	Shares		Conversion rights	
	30/06/2018	30/06/2017	30/06/2018	30/06/2017
Dr. Bernd Schlobohm, Chairman	15,519,910	15,519,910	132,000	132,000
Dr. Frank Zurlino, Deputy Chairman	10,000	10,000	-	-
Gerd Eickers	15,577,484	15,577,484	-	-
Ina Schlie	-	-	-	-
Anne-Dore Ahlers [1]	-	-	2,700	2,700
Cora Hödl [1]	-	-	4,100	4,100

[1] Employee representative.

12 EVENTS AFTER THE REPORTING PERIOD

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

Cologne, August 2018

QSC AG
The Management Board

Jürgen Hermann
Chief Executive Officer

Stefan A. Baustert
Chief Financial Officer

STATEMENT OF RESPONSIBILITY

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

Cologne, August 2018

QSC AG
The Management Board

Jürgen Hermann
Chief Executive Officer

Stefan A. Baustert
Chief Financial Officer

CALENDAR

Quarterly Statement
12 November 2018

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