QSC AG

ANNUAL REPORT 2013

QSC IS WORKING.

Key Data

All amounts in € million	2013	2012	2011	2010	2009
Revenues	455.7	481.5	478.1	422.1	420.5
EBITDA	77.8	77.9	79.9	78.1	76.9
Depreciation/amortization [1]	51.3	53.4	53.7	57.2	67.2
EBIT	26.5	24.6	26.2	20.9	9.7
Net profit	23.6	19.0	28.0	24.2	5.5
Earnings per share [2] (in €)	0.19	0.14	0.20	0.18	0.04
Return on revenue (in %)	5.2	3.9	5.9	5.7	1.3
EBITDA margin (in %)	17.1	16.2	16.7	18.5	18.3
EBIT margin (in %)	5.8	5.1	5.5	5.0	2.3
Equity [3]	193.9	180.2	207.3	184.0	159.7
Long-term liabilities [3]	103.3	96.0	79.6	7.2	54.2
Short-term liabilities [3]	94.9	110.9	104.4	140.9	97.3
Balance sheet total [3]	392.0	387.1	391.3	332.2	311.3
Equity ratio (in %)	49.5	46.6	53.0	55.4	51.3
Return on equity (in %)	12.2	10.5	13.5	13.2	3.4
Free cash flow	25.6	23.6	41.0	27.7	12.9
Liquidity [3]	59.1	35.2	24.1	46.6	41.3
Capital expenditures (capex)	39.6	37.9	35.6	29.2	42.2
Capex ratio [4] (in %)	8.7	7.9	7.4	6.9	10.0
Dividend per share (in €)	0.10 [5]	0.09	0.08	-	-
Xetra closing price [3] (in €)	4.30	2.11	2.09	3.30	1.70
Number of shares [3]	124,057,487	137,307,152	137,256,877	137,127,532	136,998,137
Market capitalization [3]	533.4	289.7	286.7	452.5	232.9
Employees [3]	1,689	1,485	1,334	608	664

Consolidated Financial Statements 2009 to 2013 in accordance with IFRS

[1] Including non-cash share-based remuneration

[2] Basic

[3] As of December 31

[4] Ratio of capital expenditures to revenues

[5] Proposed to the Annual Shareholders Meeting

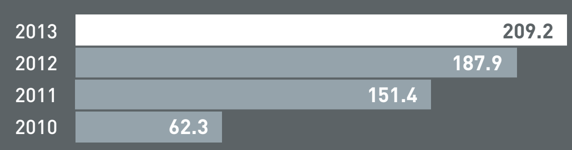
The strategy is working: Growth in ICT business

Since 2010, QSC has been working hard to drive its evolution from a telecommunications (TC) company into an integrated provider of information technology and telecommunications (ICT). In particular, the development of revenues in the individual business units illustrates the progress: While ICT revenues are growing significantly, principally in Direct Sales, predominantly conventional TC revenues with resellers are slumping as a result of market and regulatory conditions.

DIRECT SALES

Revenues in this largest business unit increased by 11 percent to € 209.2 million in fiscal 2013. This success was achieved by winning any number of requests for proposals from new and existing customers for Outsourcing, Networking and Consulting projects. In spite of considerable investments in future growth, Direct Sales increased its EBITDA margin to 20 percent in 2013.

REVENUES, DIRECT SALES (in € million)



INDIRECT SALES

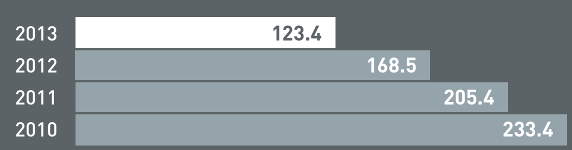
In addition to innovative ICT products, the Company has traditionally also offered its sales partners conventional TC products; declining TC revenues are therefore still masking the successes here in ICT business. Revenues for fiscal 2013 totaled € 123.2 million. At 25 percent, QSC continued to earn its highest EBITDA margin in Indirect Sales.

REVENUES, INDIRECT SALES (in € million)

RESELLERS

Heightened regulation and the sustained stiff price war in the conventional TC market in fiscal 2013 again impacted business with resellers, who mainly address residential customers. Revenues here fell by 27 percent to € 123.4 million. As expected, the EBITDA margin of 4 percent was down significantly from the year before.

REVENUES, RESELLERS (in € million)



// CUSTOMERS REPORT //

HOW QSC IS WORKING – DAY IN AND DAY OUT.

SIMPLER, FASTER, MORE FLEXIBLE – OUR PRODUCTS AND SERVICES ARE STREAMLINING WORK IN MORE THAN 30,000 ENTERPRISES. SECURITY INCLUDED.

»

QSC MAKES
THINGS POSSIBLE
THAT WOULD
BE IMPOSSIBLE
ELSEWHERE –
THAT'S WHAT
I CALL FLEXIBLE!

«

// Eyeworks TV Production // Cologne // Hürth Studio //


QSC IS WORKING.

Nothing beats availability wherever we’re shooting.

< **Marc Gerschewski** | Manager Postproduction, Eyeworks Germany

For years, IPfonie centraflex, the Cloud telephone system, has been in service at Eyeworks Germany GmbH. Users can control all functions online and from anywhere, making them available in the office, on the set or at the customer. The man responsible for IT, Marc Gerschewski, is satisfied: “We just make phone calls and the rest simply takes care of itself.”

Eyeworks Germany GmbH

Eyeworks Germany is a member of the globally operating Eyeworks Group. In Germany, it produces, shows, series and films for all major TV stations, including “The Restaurant Tester,” “Cash for Rarities,” “Nate light with Philip Simon,” as well as “Wilsberg,” “Marie Brand” and “The Lotto Kings.”

WORKFORCE: 150 – 200

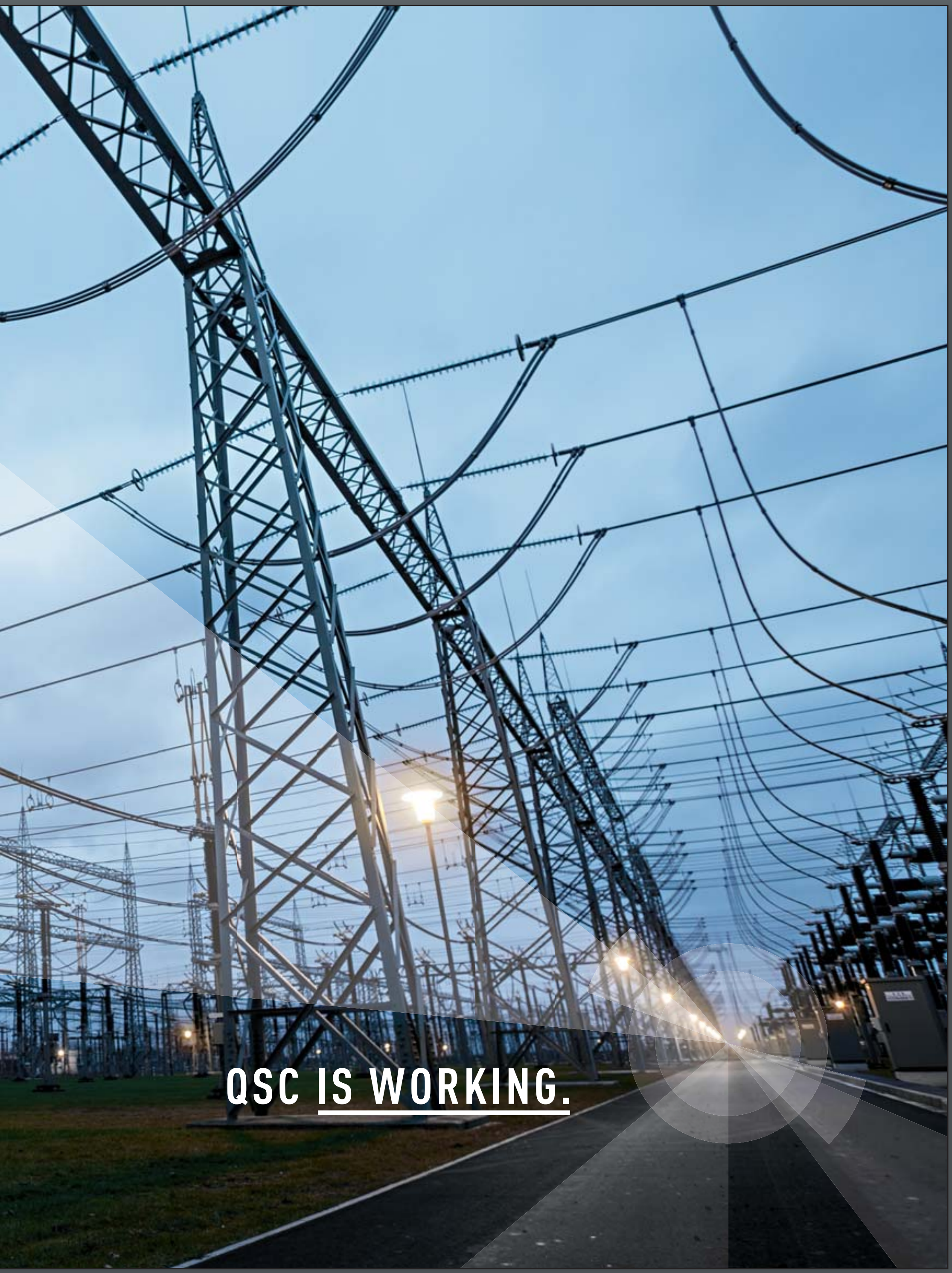
More information about QSC IPfonie centraflex

»

WE CAN NOW DEPLOY NEW IT SERVICES SIGNIFICANTLY FASTER.

«

// Amprion // Bergheim // Transformer Substation //


QSC IS WORKING.

Amprion GmbH

With a total length of some 11,000 kilometers as well as around 160 switching and transformer substations, Amprion operates Germany's longest high-voltage grid.

WORKFORCE: Some 950

POPULATION IN GRID SERVICE AREA: 27 million

High voltage: Both electricity transmission and IT have to run smoothly around the clock.

^ **FRANK BEULE** | Head of IT Management, Amprion

“Security is extremely important to Amprion,” stresses Frank Beule. Since May 2012, QSC has been responsible for smooth and secure IT operations. Within the framework of a major IT Outsourcing project, Amprion outsourced all IT services – from data network services to server services right through to applications management for SAP applications.

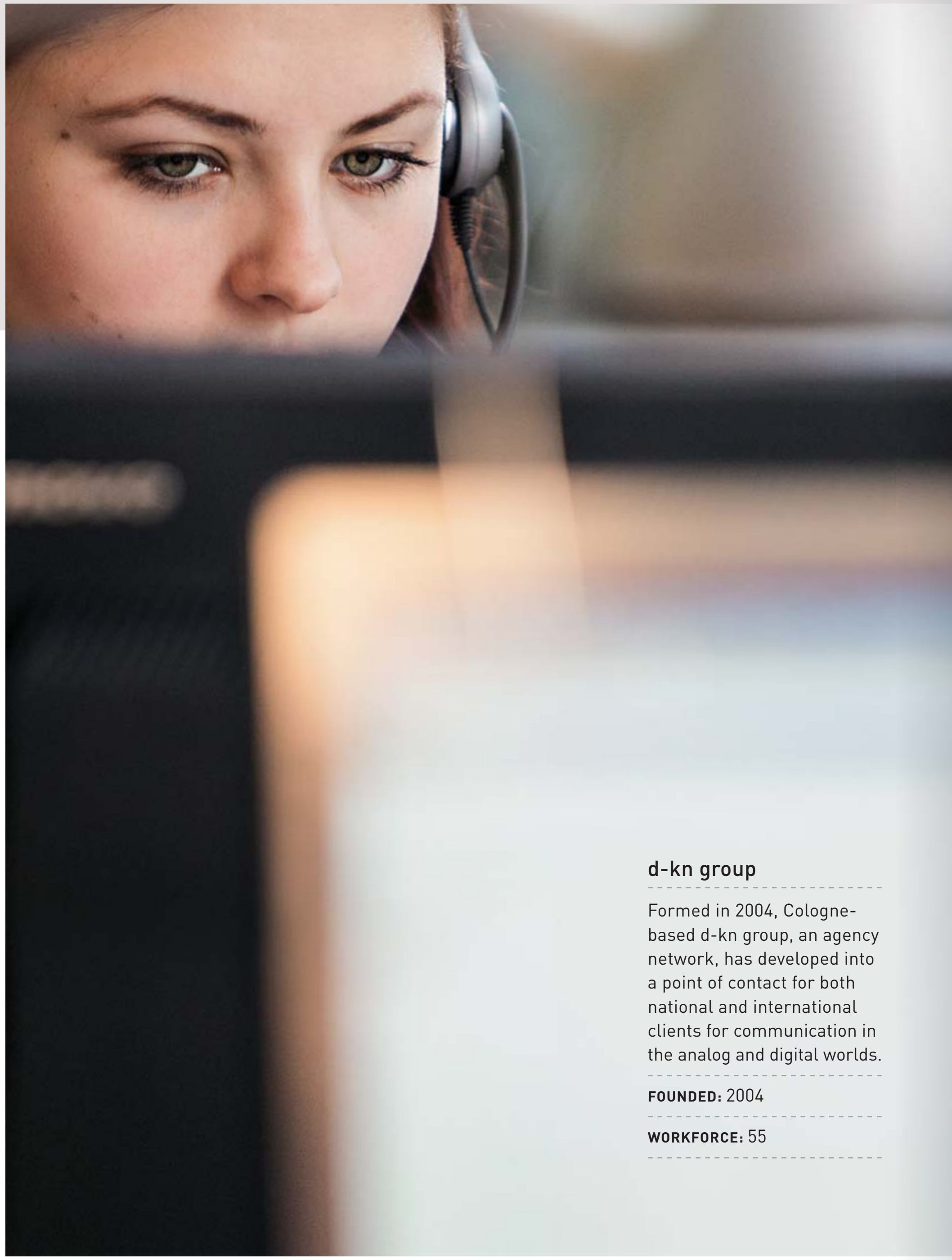
More information about
IT Outsourcing from QSC

»

WE ARE ALWAYS
AVAILABLE AND
DON´T HAVE TO
WORRY ABOUT
THE TECHNOLOGY.

«


QSC IS WORKING.



d-kn group

Formed in 2004, Cologne-based d-kn group, an agency network, has developed into a point of contact for both national and international clients for communication in the analog and digital worlds.

FOUNDED: 2004

WORKFORCE: 55

< Always online: Communication experts from the d-kn group use QSC-WLL technology.

< **Christian Felber** | Head of IT Services, d-kn group

You have to be swift and straightforward, especially in interactive marketing, says Christian Felber. That's why technology shouldn't be an end in its own right at the d-kn group, but has to provide the best possible support for its daily business. And that's precisely what we get with QSC's Wireless Local Loop technology.

More information about QSC-WLL business

» OUR WORK IS SIMPLER NOW THAT THE PROFESSIONALS FROM QSC ARE HANDLING SAP OPERATIONS. «


FRESSNAPF
QSC IS WORKING.

Fressnapf GmbH

Fressnapf | MAXI ZOO is the market leader for pet supplies in Europe. Founded in 1990, the company today offers a comprehensive line of products for pet owners and friends in twelve European countries.

STORES: More than 1,200

WORKFORCE: More than 10,000

^ **STEPHAN TENDAM** | General Manager, Fressnapf

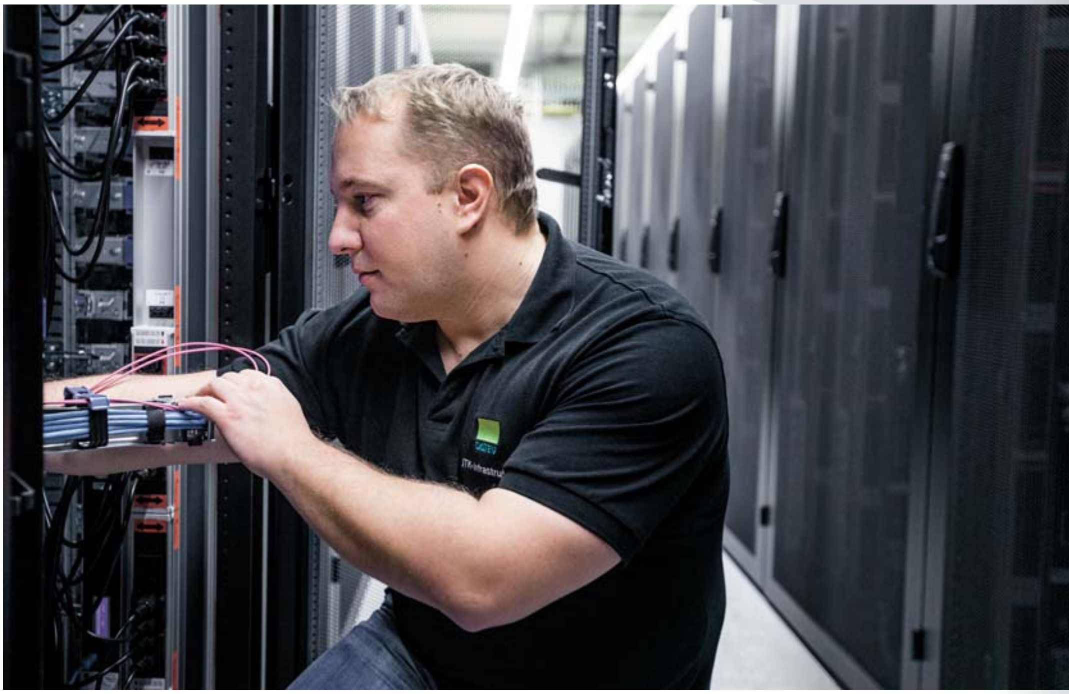
QSC supported Fressnapf in introducing a new merchandise management system. Also deployed within the framework of the SAP Consulting project was the SAP HANA in-memory database, which affords realtime access to data. At the same time, General Manager Tendam outsourced the SAP service desk. He values QSC first and foremost as a pragmatic service provider with strong roots in Germany.

< Dog lovers: Pets are welcome in the office at Fressnapf.

More information about QSC SAP HANA

» OPERATIONS ARE RUNNING SMOOTHLY AND THE QUALITY IS RIGHT. «


QSC IS WORKING.



DATEV eG

The DATEV eG cooperative is the software house and IT service provider of choice for tax advisors, certified public accountants, attorneys and their clients, and today numbers among Europe's largest information service providers and software houses.

2013 REVENUES: € 803 million

WORKFORCE: 6,600

MEMBERS: Around 40,300

< DATEV staff assure smooth server operations.

< **EDGAR ECK** | Head of DP Center, DATEV

Five years ago, Edgar Eck began looking for a partner to build and operate a data center that would conform to the highest security requirements. Since 2011, QSC has been providing resources on more than 1,000 square meters of floor space. The partnership is at a very high level, stresses Eck. That can already be seen from the IT availability numbers.

More information about QSC's data centers

Contents

To Our Shareholders 04

Letter to Our Shareholders	05
The Management Board	08
The Supervisory Board	10
Report of the Supervisory Board	11
QSC Share Performance	18

Group Management Report 25

Fundamentals of the Consolidated Group	26
Corporate Governance Report / Declaration of Corporate Management	37
Human Resources	50
Economic Report	54
Subsequent Events	71
Outlook Report	72
Report on Opportunities	76
Report on Risks	79
Information Relating to Acquisition Law	86

Financial Report 91

Consolidated Financial Statements	92
Notes to the Consolidated Financial Statements	99
Statement of Responsibility	160
Auditor’s Report	161

Further Information 162

Glossary	162
Index	164
Calendar, Contact	

From left to right: Henning Reinecke, Jürgen Hermann, Barbara Stolz, and Stefan Freyer

Dear Shareholders,

QSC is working. That's not just the title of this year's Annual Report, it's already reality in more than 30,000 enterprises in Germany. Our products and services are simplifying daily business operations there, accelerating processes and streamlining communications. Many enterprises are additionally utilizing our consulting competence and development know-how to enter the Cloud age. On behalf of the entire QSC team, we would like to thank all of our customers for their trust and good collaboration during the past fiscal year. Our personal thanks also go out to all of our people for their customer focus and willingness to achieve.

Fiscal 2013 was marked by QSC's evolution as an ICT and Cloud provider. The Company further broadened its strong position among German small and mid-size (SME) enterprises and drove the development of its own innovations. This involved increased investments in future growth. The development budget rose by nearly 200 percent in comparison with fiscal 2012. In addition, QSC won some 200 additional ICT experts, mainly for development activities, consulting and IT operations.

The true importance of swift expansion of ICT business was again demonstrated in the conventional TC market in 2013. Fixed-network business, in particular, contracted sharply – for multiple reasons: More and more Germans are now utilizing data services and mobile phones instead of the classical fixed network; and there, they are increasingly opting for flat-rate plans instead of Call-by-Call and Preselect offerings. Plus increasingly strict regulation. A number of decisions by the German Federal Network Agency cost QSC some € 30 million in revenues and € 4 million in EBITDA during the past fiscal year, alone. This year, as a result of new rulings, we are anticipating an additional revenue decline of € 8 million and an EBITDA impact of € 3 million.

QSC posting strong growth in ICT business year after year

As one of the first TC companies, this background prompted QSC to initiate its transformation process into an ICT provider early on. One number, in particular, illustrates the Company's progress here: In 2013, only 27 percent of QSC's total revenues were attributable to the Resellers Business Unit, and thus to the Company's traditional conventional TC business. At the outset of the transformation process in fiscal 2010, this metric had still stood at 56 percent. Conversely, this means that QSC's ICT business is growing significantly year in and year out. This applies, in particular, with respect to Outsourcing and Consulting business, as well as to marketing innovative ICT products.

Internally, QSC concluded its transformation process in fiscal 2013; a consistent organizational structure, leadership structure and control mechanisms are now in place on a cross-locational basis. There were also changes at the head of the Company: After serving 14 years as Chief Executive Officer, QSC co-founder Dr. Bernd Schlobohm passed on his office to Jürgen Hermann. Like no one else, Bernd Schlobohm has put his stamp on QSC. We would like to express our sincere thanks to him for his enormous achievements and his entrepreneurial vision and strength. We are pleased that he remains closely linked with his company as the Chair of the Supervisory Board. We would also like to thank those members of the Supervisory Board who were no longer candidates for re-election in 2013. Former Supervisory Board Chair Herbert Brenke, in particular, had accompanied QSC for many years with remarkable enthusiasm and commitment.

Under its new leadership, QSC will continue to rigorously pursue its existing strategy in the years to come. The focus in fiscal 2014 is on developing and marketing in-house developed ICT and Cloud products; some of these innovations will already be delivering initial revenue contributions this year. In addition to QSC-tengo, the Cloud workplace, this also includes QSC-WiFi. Utilizing WiFi technology, this service turns a smartphone into an intelligent advertising platform that enterprises can utilize for personalized, secure and interactive marketing measures. Initial installations, including one with German major league soccer club Hamburger Sport-Verein, are running successfully.

In the case of QSC-WiFi, QSC is utilizing a proven technology in order to tap into new markets; in the case of QSC-tengo, on the other hand, we are dealing with a new technology for existing markets. Moreover, a growing number of QSC developers is working on new technologies for new markets. A good foundation for these kinds of innovations is offered by solucon – The Enabling Technology. Building upon this in-house developed Cloud platform, it is possible to provision Cloud applications simply, swiftly and securely. And this is precisely what has already happened, for example, in connection with QSC-Cospace business, a Collaboration service for cross-locational communication. Further in-house developed products as well as innovations from and with partners will follow.

QSC also intends to tap into new markets through acquisitions of smaller technology companies. This began in mid February with encryption specialist FTAPI. Founded in 2010, this Munich-based start-up is already marketing a number of scalable products relating to highly secure transfer and storage of enterprise-critical data, and it counts enterprises like MAN Roland among its customers. This acquisition by QSC will afford FTAPI access to more than 30,000 business customers and a well-oiled, nationwide sales and marketing organization. In purchasing 51 percent of its shares, in turn, QSC is acquiring unrivaled technology know-how in a fast-growing market.

49 percent of the shares of FTAPI continue to be held by its founders; they are now driving the further growth of their company under the QSC umbrella. This is the kind of arrangement that is right in line with our strategy: We view ourselves as a partner of choice for entrepreneurs who want to team up with a strong ICT partner to help their business ideas make the breakthrough. We are planning on one or two further acquisitions of comparable size during fiscal 2014.

QSC can finance these kinds of corporate acquisitions, as well as increased investments in future growth, from within. This year's Consolidated Financial Statements document the soundness of QSC's financing and the kind of financial strength that its operating business is generating. Moreover, our rising free cash flow is creating a good foundation for you, our shareholders, to participate in the success of your Company. The Management and Supervisory Boards will propose that the regular Annual Shareholders Meeting again raise the dividend for fiscal 2013 – by 1 cent to 10 cents per share. This higher dividend also rewards the sustained engagement and trust of our shareholders, for which we would like to express our sincere thanks at this time.

Dividend again raised – to 10 cents per share

QSC investing in future fields of growth in 2014

Growing the value of the Company and enabling its owners to participate in this growth is one of our three strategic goals; the other two: Positioning the Company as an attractive, secure employer as well as an innovation driver in the German ICT market. Its evolution into an ICT provider has already sustainably increased the value of QSC. And QSC is presently tapping into new potential for value growth with our innovation and growth strategy. In fiscal 2013, we largely concluded the required internal preliminary work. In fiscal 2014, we will be increasingly investing in future fields of growth, first and foremost in our own innovations. Beginning in fiscal 2015, we will start to reap the fruits of these efforts. Because our strategy of evolving as an ICT provider is working – of that we are convinced.

Cologne, March 20, 2014

Jürgen Hermann
Chief Executive Officer

Barbara Stolz

Stefan Freyer

Henning Reinecke

The Management Board

Jürgen Hermann (*1964), Chief Executive Officer

A QSC man right from the very beginning, Jürgen Hermann assumed the office of Chief Executive Officer on May 30, 2013. In this position, he is responsible, in particular, for Strategy, Innovation and Communication. Prior to that, he had served as the Company's Chief Financial Officer and, on a temporary basis, also as the chief executive officer of INFO AG, which had formerly been the Company's largest subsidiary. Jürgen Hermann studied Economics at the Bundeswehr University in Hamburg, after which he served as an officer in the German army's telecommunications corps. He then moved to an executive position in the strategy department at Thyssen Telecom AG. In 1997, he joined the QS Communication Service GmbH consulting company. As the head of Finance, he played a major role in both shaping the initial public offering in April 2000 as well as in building QSC AG.

Barbara Stolz (*1968), Chief Financial Officer

Since June 1, 2013, Barbara Stolz has been the Company's Chief Financial Officer and has also been responsible for Human Resources, Corporate Purchasing, IT and Investor Relations. She joined QSC in 2005 to head up Accounting Operations. She had previously gathered extensive professional experience in such corporate groups as IVG Immobilien AG and METRO AG. One of her responsibilities at QSC was to accompany the acquisition of publicly traded Broadnet AG as well as the establishment of network operating company Plusnet GmbH & Co. KG. In September 2009, she was placed in charge of the entire Finance Department. Following the acquisition of IP Partner AG in late 2010, she was additionally appointed chief financial officer of this subsidiary, where she played a key role in driving its integration into QSC AG.

Stefan Freyer (*1967)

Stefan Freyer was a member of the QSC Management Board from September 1, 2013, through March 31, 2014, where he was responsible for Operations, ICT Solutions business as well as IT Consulting. He left the Company at his own request in order to devote himself to new professional challenges. Freyer, who holds a postgraduate degree in Information Technology, joined the former INFO AG in 1997 as a group leader for sales logistics, later assumed responsibility for customer projects and applications management, and starting in 2007 had been a member of the management board of the former INFO AG responsible for its operating business. With the merger of INFO AG and QSC AG, Freyer was appointed to the QSC Management Board in 2013.

Henning Reinecke (*1966)

Henning Reinecke, too, was appointed to the QSC Management Board effective September 1, 2013. He is responsible for Sales and Marketing, as well as for the market-driven evolution of the entire ICT portfolio. Until the merger of INFO AG, he had been in charge of its sales and marketing operations. He joined that company on October 1, 2010, as sales manager for Consulting operations. Beginning in 1994, he gathered over 16 years of national and international project, selling and management experience at IT service provider CSC. Reinecke studied Business Administration at the Wirtschaftsakademie in Hamburg, and then worked for four years in corporate purchasing at Beiersdorf AG in Hamburg.

The Supervisory Board

A new Supervisory Board has been in office since the Annual Shareholders Meeting on May 29, 2013. On this day, the Annual Shareholders Meeting, as is regularly done, elected four representatives for a term of office of five years each. Former Supervisory Board Chair Herbert Brenke along with David Ruberg had previously declined to run for re-election. The employees had already elected their two representatives to the Supervisory Board for the coming years in April 2013. In this case, the two former Supervisory Board members Klaus-Theo Ernst and Jörg Mügge did not run for re-election.

Dr. Bernd Schlobohm, Chair
This postgraduate engineer founded QSC in the year 1997, took the Company public in April 2000, and then managed it as Chief Executive Officer until May 2013. He is the largest shareholder together with his co-founder Gerd Eickers; at year-end 2013, these two individuals collectively held 25 percent of QSC shares.

Dr. Frank Zurlino, Vice Chair
Dr. Frank Zurlino, a postgraduate business engineer, was elected to the Supervisory Board in May 2013. Formerly the head of strategy consulting and development activities at IBM Deutschland, he is today the managing partner of the international management consulting firm Horn & Company.

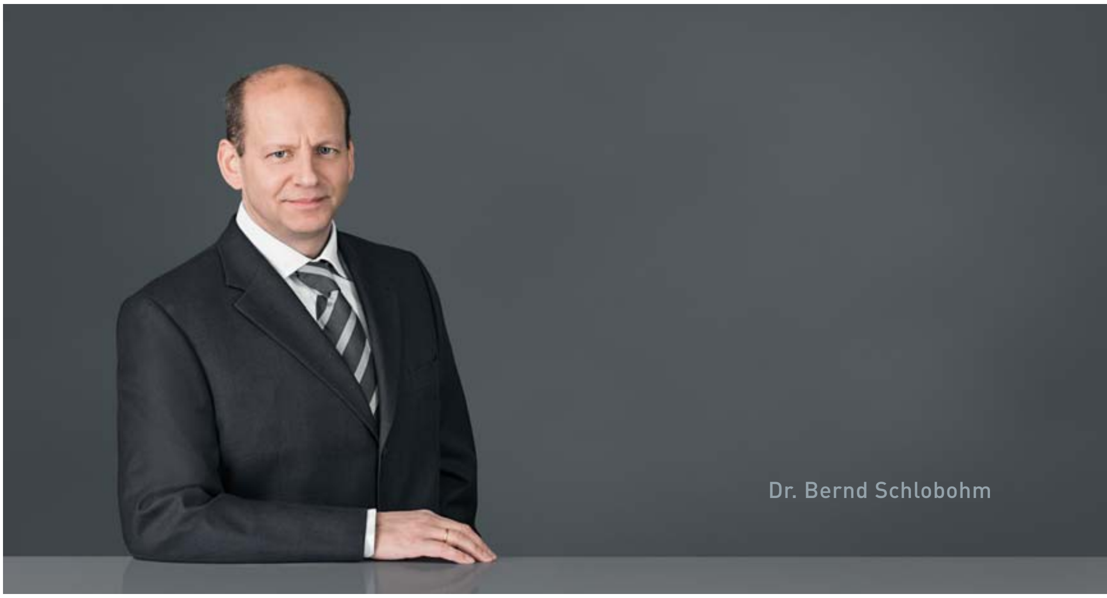
Gerd Eickers
After three years on the Management Board, QSC's second co-founder returned to the Supervisory Board in June 2004. During the ensuing years, he played a major role in shaping the political environment of the TC market, in particular as president of the VATM.

Ina Schlie
In September 2012, this head of the global tax department at SAP AG was appointed to the Supervisory Board and was confirmed by a sweeping majority at the Annual Shareholders Meeting in May 2013. This finance and tax expert also chairs the Audit Committee.

Anne-Dore Ahlers
In April 2013, the QSC workforce elected the group leader in QSC AG's SAP Competence Center to serve as one of its two representatives on the Supervisory Board. Anne-Dore Ahlers works in Hamburg and also chairs the Company's Employee Council.

Cora Hödl
In April 2013, the QSC workforce elected Cora Hödl, who heads up Voice services at QSC AG, as its second representative on the Supervisory Board. This certified electronic communications technician has been with QSC since 2002 and today works at Headquarters in Cologne.

Report of the Supervisory Board on the 2013 fiscal year regarding the Company and the consolidated group



Dear Shareholders,

In fiscal 2013, QSC sustained its evolution into an ICT provider and began to increasingly invest in future fields of growth, such as Cloud Computing and the Internet of Things. At the same time, the Company internally concluded its ongoing transformation process through the merger of INFO AG and QSC AG. A consistent, cross-locational organizational and leadership structure was created. At this point, we would like to express our thanks to all of our people for their enthusiasm, commitment and willingness to actively drive the Company's evolution. We also wish to thank the members of the Management Board, who are driving this far-reaching evolution with tremendous resolve and thus laying a good foundation for the profitable growth QSC is striving for over the medium term.

Tasks of the Supervisory Board • In fiscal 2013, the Supervisory Board again satisfied all of its responsibilities required by and in accordance with applicable legislation and the Articles of Association and Bylaws. It advised and oversaw the Management Board in its management of QSC. One particular focus of the deliberations was new staffing of the Management Board as well as the elections to the Supervisory Board. The Supervisory Board was directly involved in these and all other decisions and measures of fundamental importance, in particular those relating to the Company's net worth, financial position and profitability. After careful consideration, the Supervisory Board approved all measures for which its consent is required by law, the Articles of Association and Bylaws or the Rules of Procedure of the Management Board.

The Management Board regularly, promptly and comprehensively informed the Supervisory Board in written and oral form on the development of business, utilizing monthly and quarterly financial reports, in particular, as well as rolling actual vs. target comparisons. The Management Board reports also contained all relevant information on strategic development and corporate planning, on the Company's risk position, risk management and compliance. Inquiries and requests by the Supervisory Board for additional information were always answered promptly and thoroughly by the Management Board.

Issues of the Supervisory Board • In joint meetings, the Supervisory and Management Boards discussed key aspects of the Company's business policies and strategies, as well as its corporate development and planning. Moreover, the Chairs of both boards conducted regular conversations to discuss current issues arising between Supervisory Board meetings.

The main focuses of the Supervisory Board's meetings and resolutions in fiscal 2013 were:

1. Management Board • Long-serving Chief Executive Officer Dr. Bernd Schlobohm had notified the Supervisory Board in January 2013 that he wished to extend his term of office of Chief Executive Officer, which was set to expire as of April 30, 2013, only through adjournment of the regular Annual Shareholders Meeting on May 29, 2013. The Supervisory Board therefore resolved on January 22, 2013, to comply with this wish, and at the same time appointed former Chief Financial Officer Jürgen Hermann to serve as QSC's new Chief Executive Officer effective May 30, 2013. On March 19, 2013, the Supervisory Board appointed Barbara Stolz, who had long headed up the Finance operations of QSC AG, to succeed Jürgen Hermann as Chief Financial Officer effective June 1, 2013, for a period of three years. And, finally, on August 29, 2013, the Supervisory Board appointed the former management board members of INFO AG, Henning Reinecke and Stefan Freyer, to the Management Board for a period of three years each, effective September 1, 2013. At the same time as the above-indicated measures, the Supervisory Board authorized the Supervisory Board Chair to enter into the Management Board employment contracts that were developed in each case by the Human Resources Committee and approved by the full Supervisory Board. The rules governing compensation that were agreed with the new members of the Management Board are based upon the compensation system approved by the Annual Shareholders Meeting on May 16, 2012. In agreement with the Supervisory Board, former Management Board member Arnold Stender resigned his office effective August 31, 2013, and has since been focusing on managing subsidiary tengo GmbH. The Management Board employment contract with Arnold Stender was terminated amicably as of the same date. No settlement was paid.

2. Elections to the Supervisory Board • The regularly scheduled new election of the shareholder representatives to the Supervisory Board was scheduled for the Annual Shareholders Meeting on May 29, 2013. Following preparation in the Nominating Committee, the Supervisory Board therefore intensively dealt with the selection of suitable candidates to succeed former Supervisory Board Chair Herbert Brenke, who was not a candidate for re-election due to reasons of age, and David Ruberg, who did not run for re-election. In this connection, the Supervisory Board dealt with the proposal from shareholders Gerd Eickers and Dr. Bernd Schlobohm,

who collectively hold more than 25 percent of the voting rights in QSC, to elect retiring Chief Executive Officer Dr. Bernd Schlobohm to the Supervisory Board as a shareholder representative pursuant to § 100, Para. 2, Sent. 1, No. 4, German Stock Corporation Act. Following extensive review of this proposal and on the recommendation of its Nominating Committee, the Supervisory Board concurred with this proposal. The Supervisory Board was able to win Dr. Ing. Frank Zurlino as a further new candidate for a seat on the Supervisory Board. Moreover, the Supervisory Board proposed that the Annual Shareholders Meeting also elect sitting Supervisory Board members Ina Schlie and Gerd Eickers. The Annual Shareholders Meeting elected all candidates by sweeping majorities. The Supervisory Board would like to express its sincere thanks for the long years of remarkable enthusiasm and commitment on the part of Herbert Brenke and David Ruberg. They had helped to shape the Company since it went public in the year 2000. The sincere thanks of the Supervisory Board also go to the two employee representatives, Klaus-Theo Ernst and Jörg Mügge, who served from 2008 through 2013, for their constructive collaboration in a spirit of trust.

3. Merger of INFO AG • On March 19, 2013, the Supervisory Board agreed to the Management Board's proposal to initially merge four wholly-owned subsidiaries of INFO AG with this corporation, and to then merge INFO AG, in which QSC AG holds all shares, with QSC AG. This transaction was concluded upon being entered in the commercial register for QSC AG on August 6, 2013.

4. Cross-border internal merger • With its resolution of November 21, 2013, the Supervisory Board approved the cross-border merger proposed by the Management Board of Vienna-based Collutio Holding GmbH, in which QSC AG holds all shares, with QSC AG. The merger was effected on the basis of the German Corporate Transformation Act, the German Cross-Border Merger Employee Co-Determination Act ("MgVG") as well as – to the extent that Austrian law is applicable – the Austrian EU Merger Act. The objective of this measure is to avoid increasing the Supervisory Board to 12 members, which, under co-determination law, would have to occur should the number of people employed by QSC exceed the threshold of 2,000, and to retain a lean, effectively operating Supervisory Board. Nor will there be any change in the composition of the Supervisory Board, which calls for one-third of this body to comprise employee representatives. It is the opinion of the Supervisory Board that a six-member Supervisory Board has proven its worth and affords efficient Supervisory Board work. An effectively operating Supervisory Board is of major importance to QSC, not only with a view to business (e.g. granting the consent of the Supervisory Board for transactions requiring its approval), but also to ensure effective Corporate Governance. An increase in the size of the Supervisory Board would involve additional costs as a result of the additional members entitled to Supervisory Board compensation.
   Moreover, in fiscal 2013 the Supervisory Board dealt with QSC's internal control mechanisms, and in this connection especially with its risk management system as well as its corporate management and compliance in accordance with statutory requirements. The Supervisory Board reviewed these factors on the basis of submitted documents and Management Board reports and discussed these issues with the Management Board. It is the opinion of the Supervisory Board that the internal control and early risk identification systems are operating reliably.

Composition of the Supervisory Board • The term of office of both the shareholder representatives on the Supervisory Board, Herbert Brenke (Chair), Gerd Eickers (Vice Chair), David Ruberg and Ina Schlie, as well of employee representatives Klaus-Theo Ernst and Jörg Mügge, ended upon adjournment of the regular Annual Shareholders Meeting on May 29, 2013. The Annual Shareholders Meeting on May 29, 2013, elected Dr. Bernd Schlobohm, Gerd Eickers, Ina Schlie and Dr.-Ing. Frank Zurlino as new shareholder representatives for a term of office that will end upon adjournment of the regular Annual Shareholders Meeting that resolves approval of the acts of the members of the Management Board for the 2017 fiscal year. The employees of the QSC Group elected Anne-Dore Ahlers and Cora Hödl as employee representatives. In its constituting meeting on May 29, 2013, the Supervisory Board elected Dr. Bernd Schlobohm as its Chair and Dr.-Ing. Frank Zurlino as its Vice Chair. The particular reasons that in the opinion of the Supervisory Board justified a move by Dr. Bernd Schlobohm to the Supervisory Board were explained in detail to the Annual Shareholders Meeting.

Meetings of the Supervisory Board and its Committees • In addition to two regular meetings, the Supervisory Board that had been in office through May 29, 2013, also conducted two meetings in the form of conference calls during fiscal 2013. With the exception of David Ruberg, who did not attend two of these meetings, all members of the Supervisory Board attended all meetings. In addition to its constituting meeting, the Supervisory Board that was in office from May 29, 2013, conducted two regular meetings, which were attended by all members. In addition, where necessary the Supervisory Board that was in office through May 29, 2013, adopted written resolutions on individual issues in a round-robin procedure. The members of the Committees attended all meetings of their Committees in fiscal 2013.

The Supervisory Board has established four Committees to support it in its work: The Human Resources Committee, the Audit Committee, the Nominating Committee and – since May 29, 2013 – the Strategy Committee. The chairs of the respective Committees regularly report to the full Supervisory Board on the work of their Committees.

The Human Resources Committee met four times during the year under review. The members of this Committee through May 29, 2013, were its Chairman, Herbert Brenke, as well as Jörg Mügge and Gerd Eickers. Since May 29, 2013, this Committee has comprised Dr. Bernd Schlobohm (Chair), Gerd Eickers and Cora Hödl. In addition to preparing the decision by the Supervisory Board relating to attainment of targets by the members of the Management Board in fiscal 2012 and proposals for the Management Board target agreements for fiscal 2013, the Human Resources Committee especially dealt with the selection of suitable candidates for the Management Board and with negotiating the corresponding Management Board contracts.

Until May 29, 2013, the Audit Committee comprised Ina Schlie as its Chair and independent financial expert in the sense of §§ 100, Para. 5, 107, Para. 4, German Stock Corporation Act, as well as Herbert Brenke and Gerd Eickers. The newly elected Supervisory Board confirmed Ina Schlie to chair the Audit Committee and appointed Dr. Bernd Schlobohm and Dr.-Ing. Frank Zurlino as new members. The Audit Committee deals with monitoring the accounting process, the effectiveness of the internal control and risk management systems and internal controlling, as well as the annual audit and compliance issues, and readies required decisions for the full Supervisory Board. The Audit Committee monitors the requisite independence of the auditor, and deals with any additional services which might be provided by the independent auditor. The Committee issues the audit commission to the independent auditor, stipulates the focuses of the audit and negotiates and agrees upon the audit fees with the independent auditor.

The Audit Committee met five times during the past fiscal year. It conducted a preliminary review of the Annual Financial Statements for the 2012 fiscal year, thoroughly deliberated both these documents as well as the accompanying audit reports in the presence of the independent auditor, and adopted recommendations for the full Supervisory Board resolution relating to the Annual Financial Statements documents and their audit. The Audit Committee discussed the interim financial reports to be published with the Management Board. It stipulated the focuses of the audit for fiscal 2013 and negotiated and agreed upon the audit fees with the independent auditor. The Audit Committee recommended to the full Supervisory Board that KPMG AG Wirtschaftsprüfungsgesellschaft, domiciled in Berlin with a branch office in Cologne, again be proposed to the Annual Shareholders Meeting as the independent auditor for the Company and the consolidated group for the 2014 fiscal year. On the basis of this recommendation, at its meeting on March 20, 2014, the Supervisory Board resolved to make a corresponding proposal to the Annual Shareholders Meeting.

The task of the Nominating Committee is to submit to the full Supervisory Board suitable candidates to be nominated at the Annual Shareholders Meeting in connection with an upcoming election of shareholder-representative members of the Supervisory Board. Since May 29, 2013, the members of the Nominating Committee have been Gerd Eickers, its Chairman, and Dr. Frank Zurlino. The latter replaced Herbert Brenke, who retired from the Supervisory Board effective May 29, 2013. The Nominating Committee met twice in fiscal 2013 to deliberate on candidates for the new elections of shareholder representatives by the Annual Shareholders Meeting on May 29, 2013. With due consideration being given to the targets stipulated by the Supervisory Board for its composition, it recommended that the Supervisory Board propose Dr. Bernd Schlobohm, Gerd Eickers, Ina Schlie and Dr.-Ing. Frank Zurlino to the Annual Shareholders Meeting as candidates.

The members of the Strategy Committee, which has been in place since May 29, 2013, are Dr. Bernd Schlobohm as its Chair and Dr.-Ing. Frank Zurlino. The Strategy Committee has a purely advisory function and deals with the strategic, and thus long-term, evolution of QSC, and in particular with the development of ideas for forward-looking products and services. This Committee met four times in 2013.

Corporate Governance • The Supervisory Board continuously monitors the evolution of the German Corporate Governance Code and its implementation at QSC AG. Pursuant to the Code, during the past fiscal year the Supervisory Board also reviewed the efficiency of its own activities. No deficits were identified. At its meeting on November 21, 2013, the Supervisory Board reviewed and confirmed that QSC AG was in compliance with the recommendations of the German Corporate Governance Code during the preceding year pursuant to the Declaration of Compliance that had been adopted the year before. At the same time, the Management and Supervisory Boards jointly issued an updated Declaration of Compliance pursuant to § 161 of the German Stock Corporation Act ("AktG"), and made this statement permanently available on the Company's website.

The Management Board – also acting on behalf of the Supervisory Board – reports on corporate governance in the Corporate Governance Report, which is contained in the Consolidated Management Report. During the year under review, there were no conflicts of interest, which must be disclosed without delay to the Supervisory Board, with information thereon being provided to the Annual Shareholders Meeting.

Annual audit • KPMG AG Wirtschaftsprüfungsgesellschaft, domiciled in Berlin and with a branch office in Cologne, audited both the Annual Financial Statements of QSC AG for the year ended December 31, 2013, which were prepared by the Management Board in accordance with the accounting principles set forth in the German Commercial Code ("HGB"), along with the Consolidated Financial Statements for the year ended December 31, 2013, which were prepared in accordance with International Financial Reporting Standards (IFRS) and the supplementary regulations under German commercial law whose application is mandatory pursuant to § 315a of the German Commercial Code, as well as the Management Reports relating to the Company and the consolidated group. The audit commission had been awarded by the Audit Committee in accordance with the resolution adopted by the Annual Shareholders Meeting on May 29, 2013. The major focuses of the fiscal 2013 audit included: An audit of goodwill, the valuation of Ventelo GmbH, including its subsidiary Plusnet GmbH & Co. KG, the existence and valuation of the assets and liabilities assumed under the mergers of the former subsidiaries of INFO AG on this entity, as well as the merger of INFO AG and QSC AG, the assessment of work in progress, revenues, implementation of the new DRS 20 standard in the Management Reports relating to the Company and the consolidated group, as well as Management Board compensation and travel expenses.
The independent auditor issued an unqualified opinion both on the Company's Annual Financial Statements presented in accordance with "HGB" accounting principles as well as on the Consolidated Financial Statements presented in accordance with IFRS for the 2013 fiscal year.
The above-mentioned documents, including the audit reports from the independent auditor, were available in a timely fashion to all members of the Supervisory Board for review. At its meeting on March 20, 2014, taking into consideration the results of the preliminary review conducted by the Audit Committee, the Supervisory Board discussed all of the above-mentioned documents as well as the independent auditor's reports with the Management Board and the independent auditor, and additionally reviewed and discussed the Management Board's proposed disposition of unappropriated retained earnings. At this meeting, the independent auditor reported on the key findings of his audit and, in particular, that no major weaknesses had been identified in the internal control and risk management systems relating to the accounting process. He also informed the Supervisory Board about additionally provided services and noted that there were no circumstances that could give rise to concerns about any biases he might have.
Having conducted its own examination, the Supervisory Board has no objections to the Annual Financial Statements of QSC AG for the 2013 fiscal year presented in accordance with "HGB" accounting principles and no objections to the Consolidated Financial Statements presented in accordance with IFRS, or to the Management Report regarding QSC AG and the Management Report regarding the consolidated group, and concurs with the findings of the audit conducted by the independent auditor. In accordance with the recommendation of the Audit Committee, the Supervisory Board approves both the Consolidated Financial Statements presented in accordance with

IFRS as well as the Annual Financial Statements presented in accordance with "HGB" accounting principles, with the latter thereby being formally adopted. With due consideration to the interests of the shareholders and of QSC AG, the Supervisory Board concurs with the Management Board's proposal relating to the disposition of unappropriated retained earnings. At the Annual Shareholders Meeting on May 28, 2014, the Management and Supervisory Boards will propose that a dividend in the amount of € 0.10 per dividend-entitled share be distributed.

For the first time, the Management Board compiled a report on relations with associated companies for the period from March 4, 2013, through the balance sheet date on December 31, 2013. The auditor reviewed this report, reported in writing on the findings of his review, and issued the following unqualified opinion:

"Following our dutifully conducted audit and assessment, we confirm that:
1. The factual information in the report is correct.
2. Given the circumstances at the time they were made, the Company's performance was not unreasonably high in connection with the legal transactions set forth in the report."

The respective reports from the Management Board and the independent auditor were available in a timely fashion to all members of the Supervisory Board. These reports were thoroughly discussed at the meetings of the Audit Committee and the full Supervisory Board. The representatives of the independent auditor attending the meetings reported on the major findings of their audit. Having conducted its own examination, the Supervisory Board agreed to the report from the Management Board on relations with associated companies and additionally concurred with the independent auditor's findings following review of the report. As a result of its own examination, the Supervisory Board noted that it had no objections to the declaration of the Management Board contained in the conclusion of the report on relations with associated companies.

Cologne, March 20, 2014
On behalf of the Supervisory Board of QSC AG

B. Schlobohm

Dr. Bernd Schlobohm
Supervisory Board Chair

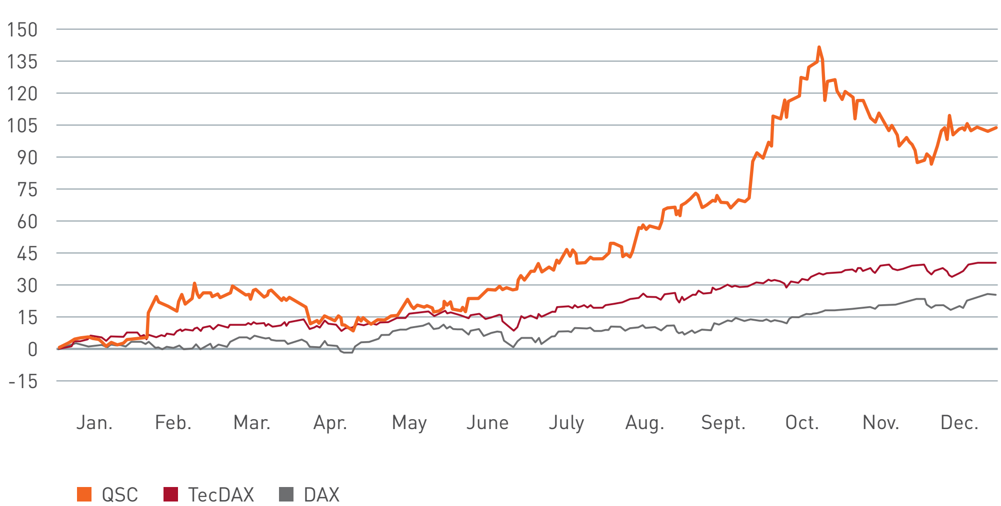
QSC Share Performance

German stock exchanges set new records • 2013 was a good stock market year, with Germany's lead index, the DAX, breaking the 9,000-point mark for the first time in its history to close at 9,552 points on December 30, 2013 – up 26 percent from its 2012 close. And the TecDAX posted an even stronger advance: This lead index for technology issues in Germany, which also includes QSC shares, rose by 41 percent over the course of the year to close at 1,167 points on December 30, 2013. During the second half of 2013, in particular, stock markets were already anticipating the upswing expected in many industrial nations for 2014, while at the same time rewarding the promises made by major central banks to sustain their extremely easy monetary policies medium term, as well. At the outset of 2013, on the other hand, the mood had been clouded by the persistent recession in major euro countries, along with weak economic data in other economies and concerns about an end to low-interest policies. This led to considerable volatility, with disappointing economic data putting a damper on good corporate numbers on many trading days.

TecDAX up 41 percent during fiscal 2013

QSC's share price doubles • In this friendly environment, QSC shares numbered among the winners of the 2013 stock exchange year, thus impressively overcoming the previous year's period of weakness. Over the course of the year, trading prices rose by 104 percent to € 4.30 on December 30, 2013; the trading price of € 2.11 that was reached on the first trading day of 2013 also marked its low for the year.

SHARE PRICE PERFORMANCE IN 2013 (indexed)

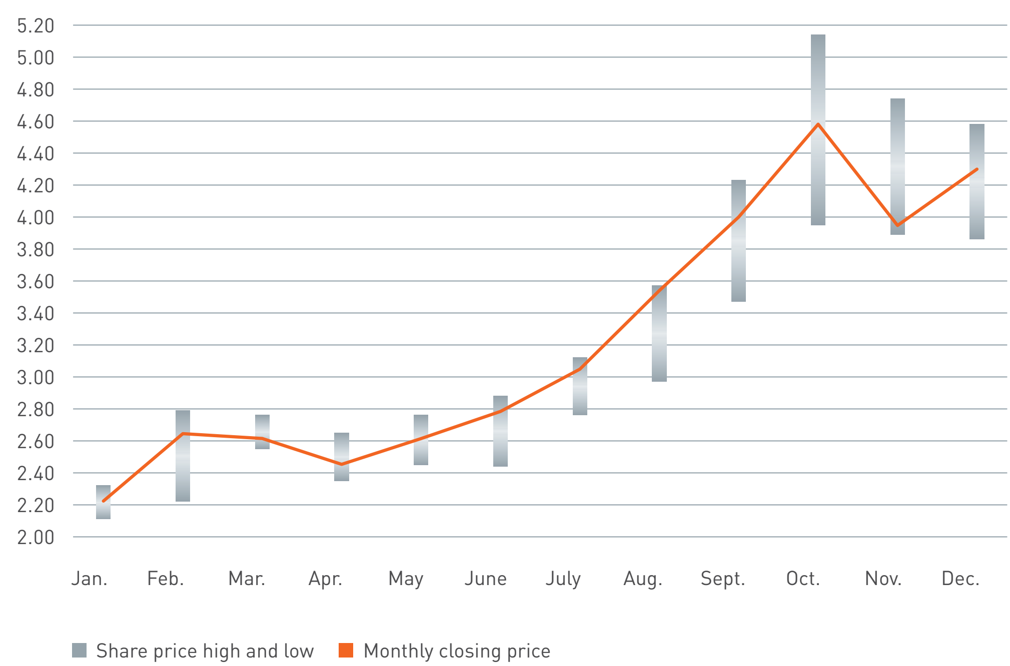


QSC shares had received their initial impetus from the announcement on February 1, 2013, relating to the purchase of 1,575,000 shares each by QSC's two founders, Gerd Eickers and Dr. Bernd Schlobohm. Investors assessed this move as a clear demonstration of confidence in the Company's strategy.

QSC's progress in evolving into an ICT provider then went on to manifest itself in the Company's quarterly numbers. QSC shares were additionally strengthened by both the payment of a higher dividend at the end of May 2013 as well as positive analyst assessments. During the summer months, more and more investors overcame their skepticism about the prospects of success for the transformation process – during the third quarter of 2013, alone, trading prices rose by 44 percent. Given the strong demand, trading prices for QSC shares even briefly crossed the five-euro mark in the second half of October, reaching their high for the year of € 5.14. During the weeks that followed, the situation eased again, with trading prices ranging between € 4.00 and € 4.50 – the last time trading prices had been this high was in the summer of 2007.

QSC shares trade at prices last seen in summer of 2007

QSC SHARES: MONTHLY SHARE PRICE DEVELOPMENT IN FY 2013 (in €)



Dividend up from year to year • Not only did QSC's shareholders benefit from a doubling of trading prices, they also enjoyed a higher dividend. Following the Company's first distribution for the 2011 fiscal year in the amount of € 0.08 per share, in March 2013 the Management and Supervisory Boards resolved to raise the dividend for 2012 to € 0.09 per share. The dividend was paid following adjournment of the Annual Shareholders Meeting on May 29, 2013, and represented a return of 3.5 percent at that point in time.

On February 26, 2014, the Management Board submitted a dividend proposal for fiscal 2013, calling for a further increase in the dividend to € 0.10. The Supervisory Board approved this proposal at its meeting on March 20, 2014. Both Boards are therefore proposing that the Annual Shareholders Meeting on May 28, 2014, resolve to distribute a dividend in the amount of € 0.10 per share. This renewed increase is in line with the Company's dividend strategy. QSC pursues the objective of enabling its owners to share in their Company's success, utilizing dividends, first and foremost, for this purpose. Each dividend that is paid for the past fiscal year thus represents the benchmark for subsequent years, with the Management Board striving for a steady increase.

QSC shares trading lively • The doubling of trading prices in 2013 went hand in hand with rising trading volumes. According to statistics from Deutsche Börse, an average of 638,000 QSC shares changed hands each day on Xetra and on the trading floor; the year before, this metric had stood at 527,000. As trading prices rose, these trading volumes, too, rose to € 574.3 million in 2013, by comparison with € 284.3 million the year before.

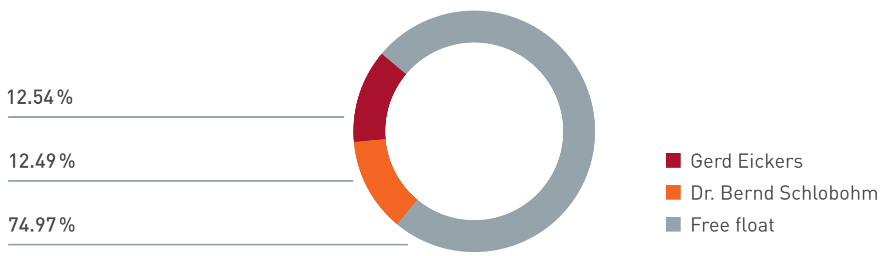
However, the numbers indicated here cover only a portion of the total trades in QSC shares. Institutional investors, in particular, also utilize over-the-counter platforms to buy and sell securities. It is estimated that these platforms account for some 30 percent of QSC share trades, which means that their total trading volume is considerably higher.

Founders again acquire further shares • In late January 2013, QSC's two founders, Dr. Bernd Schlobohm and Gerd Eickers, also utilized the option of acquiring shares over the counter. Each of them purchased 1,575,000 QSC shares at a price of € 2.25 per share, thus again strengthening their shareholdings. Neither founder has ever sold a single share since the Company went public in the year 2000.

Founders have never sold a single QSC share

Following this share purchase, each holds 12.5 percent of the Company's total shares. On March 4, 2013, they notified QSC that they had entered into a voting trust and pooling agreement and that 25 percent of QSC shares were now attributable to them jointly. The purpose of this agreement, they noted, was not to pursue strategic objectives or trading gains; it served exclusively to secure certain inheritance and gifting benefits under tax law.

SHAREHOLDER STRUCTURE AS OF DECEMBER 31, 2013



Kempen Capital Management holds more than 5 percent

Increasing weight of institutional investors • At year-end 2013, 75 percent of QSC shares were widely held, with this metric rising by 5 percentage points by comparison with December 31, 2012. This was attributable to a resolution adopted by the Management Board on January 9, 2013, under which the 13.6 million shares that had been acquired by QSC within the framework of the first share buy-back program were withdrawn from circulation, correspondingly reducing capital stock. At year-end 2013, 63 percent of the free float was in the hands of institutional investors, with private investors accounting for 37 percent. The percentage held by institutional investors thus again rose by 3 percentage points in fiscal 2013. According to information dated August 2013, Netherlands-based funds offerer Kempen Capital Management held more than 5 percent. UK-based J O Hambro Capital Management had notified the Company in December 2013, that it had dropped below this reporting threshold, but now held more than three percent of QSC shares. No further voting rights notifications had been received at year-end 2013. In spite of the growing percentage of institutional investors, the number of QSC shareholders, too, also rose in 2013, from 1,583 to 29,345. On the heels of the breathtaking pace of trading price development and the reporting that accompanied it, any number of private investors had once again discovered QSC shares.

Analysts boost share price targets • Interest on the part of many investors stems from analysts' studies and recommendations. At year-end 2013, 12 financial institutions were regularly publishing coverage. During the course of the year, DZ Bank and HSBC Trinkaus & Burkhardt ended coverage as their focus had changed. On the other hand, a further financial institution, Bankhaus Lampe, which focuses on German small- and mid-cap issues, published its first study.

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

The visible progress in the Company's operating business prompted numerous analysts to revise their forecasts during the first half of 2013, raising their trading price targets considerably. During the further course of the year, QSC shares had already achieved some of these ambitious targets, prompting analysts to revise their classifications accordingly. In spite of the fact that trading prices doubled during the course of the year, at the end of December 2013 three institutions were recommending QSC shares as a Buy, eight as a Hold, while only one institution ranked them as a Sell.

Analysts reward progress made in operating business

Intensive Investor Relations work • The Company's share price rally sparked interest on the part of numerous investors in 2013. The Management Board presented the Company, its current position and its strategy at capital market conferences conducted by such leading financial institutions as Berenberg Bank, Commerzbank, Deutsche Bank and Kepler Cheuvreux. Roadshows took the Management Board to all major European financial hubs. Moreover, the members of the Management Board conducted numerous individual talks in Cologne and Hamburg, and additionally fielded questions during conference calls and within the framework of major events like the German Equity Forum.

At an analyst conference on March 4, 2013, and an analyst roundtable on December 12, 2013, the Management Board provided first-hand information to the analysts. While in the spring the focus had been on the preliminary numbers for the 2012 fiscal year and the outlook for 2013, interest in December centered around the Company's innovation strategy. QSC showcased any number of innovations that are either already ready for market or under development, explaining the contributions they will be making toward achieving the Company's ambitious growth strategy.

One major instrument for capital market communication consists of conference calls on the day quarterly numbers are announced. QSC posts the presentations and recordings of the comments made by members of the Management Board on its IR website, thus enabling all interested parties to obtain first-hand information. Moreover, the presentations are also available on SlideShare, the world's largest platform for these kinds of documents.

FOR FURTHER INFORMATION: WWW.SLIDESHARE.NET/QSCAG

SlideShare is but one of the social media that QSC utilizes in its Investor Relations (IR) work. The Company additionally enables its latest news to be followed on Twitter. The IR Company's website serves as the key information platform. It contains all relevant information for capital market players, such as financial reports, IR press releases, a financial calendar, analyst assessments and detailed documents relating to the Annual Shareholders Meeting.

FOR FURTHER INFORMATION: WWW.QSC.DE/EN/QSC-AG/INVESTOR-RELATIONS

BASIC INFORMATION ON QSC SHARES

Securities control number	513 700
ISIN	DE0005137004
Trading symbol	QSC
Bloomberg symbol	QSC GR
Reuters symbol	QSCG.DE
Market segment	Prime Standard
Stock exchanges	Xetra and regional German stock exchanges
Index membership	TecDAX, CDAX, HDAX
	Midcap Market, Prime All Share
	Technology All Share
	DAX International Mid 100
	DAXsector All Technology
	DAXsector Technology
	DAXsubsector All Communications Technology
	DAXsubsector Communications Technology
	DAXsupersector Information Technology
	DAXplus Family
	Tradegate Indikator TecDAX
Designated sponsorship	Close Brothers Seydler Bank AG
Shares outstanding as of December 31, 2013	124,057,487
Share class	No-par-value registered shares of common stock
Xetra closing price on December 28, 2012	€ 2.11
Xetra share price high in 2013	€ 5.14
Xetra share price low in 2013	€ 2.11
Xetra closing price on December 30, 2013	€ 4.30

THE STRATEGY IS WORKING.

QSC'S SHAREHOLDERS ARE PARTICIPATING IN ITS SUCCESS AS AN ICT PROVIDER IN THE FORM OF A HIGHER DIVIDEND. PLUS TRADING PRICES FOR QSC SHARES DOUBLED IN THE 2013 FISCAL YEAR.

Group Management Report

Fundamentals of the Consolidated Group 26

Business Operations 26
Market and Competitive Position 29
Strategy 30
Organizational Structure 32
Steering 32
Research and Development 33
Corporate Social Responsibility 35

Corporate Governance 37

Corporate Governance Report and Declaration of Corporate Management 37
Declaration of Compliance 41
Compensation Report 44

Human Resources 50

Human Resource Management 50
Initial and Continuing Training and Education 50
Compensation 52
Corporate Culture 53

Economic Report 54

General Conditions 54
General Regulatory Conditions 56
Course of Business 57
Actual vs. Forecast Course of Business 59
Performance Indicators 60
Profitability 62
Profitability by Segment 65
Financial Position 68
Net Worth 69
General Remarks 70

Subsequent Events 71

Outlook Report 72

General Remarks on Further Development 72
Future Environment 72
Anticipated Profitability 73
Anticipated Profitability by Segment 74
Anticipated Financial Position and Net Worth 75

Report on Opportunities 76

Management of Opportunities 76
Individual Opportunities 76

Report on Risks 79

Management of Risks 79
Organization and Procedures 79
Assessment Methodology 80
Supplementary Information (§ 315 “HGB”) 82
Individual Risks 83
General Remarks 85

Information Relating to Acquisition Law 86

Fundamentals of the Consolidated Group

BUSINESS OPERATIONS

One-stop shopping for ICT services • QSC AG ("QSC" or "the Company") offers business customers one-stop shopping for comprehensive ICT services. In this connection, ICT stands for the convergence of Information Technology (IT) and Telecommunications (TC) into a consistent sector of the economy in the Internet age. QSC's spectrum of products, services and solutions includes both custom-tailored solutions for the individual needs of business customers as well as a modular product portfolio for smaller companies and distribution partners. The spectrum can be classified into four categories: TC services, Outsourcing, Consulting and Cloud Services.

QSC AG'S SPECTRUM OF PRODUCTS, SERVICES AND SOLUTIONS

TC services afford effective networking • In QSC, customers can find all of the products needed for network-based voice and data communication. They can choose between asymmetric ADSL2+ lines, symmetric SDSL lines as well as premium Internet access via Wireless Local Loop networks. An Open Access model for providers and users of Next Generation Internet connections, predominantly fiber optic connections, rounds out the Internet portfolio.
Many customers also utilize their Internet connections for voice telephony. QSC offers IP telephony connections (Voice over IP) and the appropriate TC systems. In addition, the Company's portfolio also includes further forms of voice telephony: from Open Call-by-Call and Preselect offerings to value added services right through to mobile communication.
One major element of QSC's TC offerings also consists of Virtual Private Networks (VPN). They afford a secure exchange of data and voice between corporate locations and branch offices, with team members, field personnel, partners and suppliers. A VPN like this can include both German and non-German sites.

Outsourcing assures high level of security • In this sector, the portfolio ranges from outsourcing services for IT workplaces right through to outsourcing complete IT infrastructures. Regardless of the scope of the project, QSC assures that the highest security standards are maintained.
The Service Desk focuses on support for users on the customer side; this also includes optimizing IT operations and service processes to assure an efficient work environment for the users. QSC's offerings also include SAP and Microsoft Application Service, with QSC staff supporting, maintaining and continuously evolving these kinds of systems.
Upon request, QSC can also assume IT Operations Management, and thus responsibility for the reliable operation of IT systems. This can include operating the SAP or Microsoft environment in question, database management systems, collaboration services and/or platforms for mobile devices. When an infrastructure is outsourced, QSC assumes the complete IT operation and assures smooth and trouble-free service. The range of services includes operation of the servers, appropriate firewall and security services, as well as their integration within fast, secure networking solutions. Moreover, QSC offers a broad portfolio of data center services: from provisioning an infrastructure in the form of Housing and Hosting right through to building and operating complete data centers for customers.

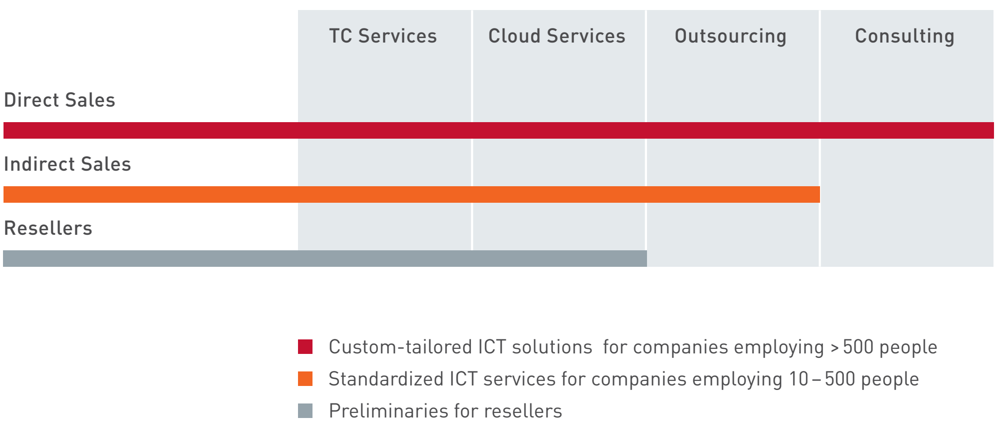
QSC a Gold Partner to SAP and Microsoft

Long years of competence in Consulting • QSC possesses long years of extensive experience in consulting enterprises on how to optimize their business processes with the two focal points of SAP and Microsoft. QSC is both an SAP Gold Partner as well as a Microsoft Gold Certified Partner. At year-end 2013, over 160 experts were concentrating on designing, implementing, optimizing and evolving SAP applications. In addition to applications development and customization of SAP systems, their project work also includes optimizing key business processes as well as reporting. QSC has more than 120 experts who are supporting the Company's customers in planning, implementing and integrating Microsoft applications and technologies. The focus is on implementing Cloud services with the aid of Microsoft Private Cloud solutions, as well as the employment of communications and collaboration solutions from the world's largest software company. They are uniting what have up until now been separate communications vehicles, such as telephone, fax, e-mail, audio- and videoconferencing, as well as Instant Messaging.

Cloud services afford tremendous flexibility • A growing number of Cloud services have recently been broadening the portfolio; what customers value, first and foremost, is the tremendous flexibility of QSC's in-house developments. The focus is on Software-as-a-Service (SaaS) and Infrastructure-as-a-Service (IaaS) solutions. QSC primarily offers mobile and scalable workplace components as SaaS solutions; these include Unified Communication and Collaboration solutions, as well as a Cloud-based virtual workplace, along with intelligent management of mobile devices. One of the first IaaS services consists of Storage as a Service. The Internet-based, highly available infrastructure for data storage assures that both start-ups as well as corporate groups can swiftly store, process and retrieve unlimited volumes of data.

Three business units marketing ICT services • In order to be able to specifically address the needs of the various customer groups, QSC's operating business is handled by three business units: Direct Sales, Indirect Sales and Resellers.

QSC'S BUSINESS UNITS



- Direct Sales focuses on solutions business, and thus addresses more than 8,000 larger and mid-size enterprises in Germany. Working in direct contact with customers, it develops custom-tailored ICT solutions, utilizing the entire portfolio of products and services – from simple Internet connections right through to outsourcing IT infrastructures as well as consulting in connection with complex SAP and Microsoft projects.
- Indirect Sales 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 what are now nearly 480 regional sales partners and distributors, who utilize standardized TC, Outsourcing and Cloud services.
- The Resellers Business Unit bundles its business with service providers that address residential customers, first and foremost; they currently include telecommunications carriers, cable network operators and Internet service providers, in particular. The focus in this connection is still on conventional TC services.

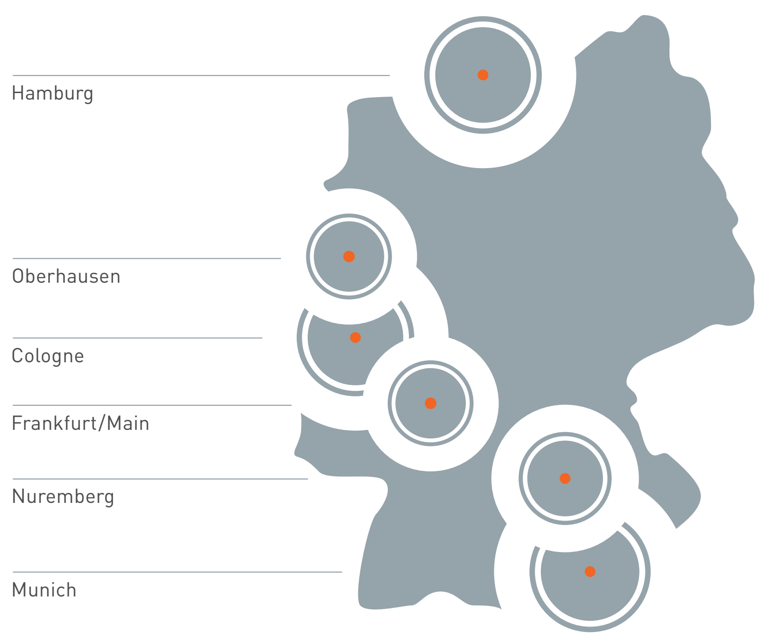
Nearly 480 regional sales partners and distributors

TÜV- and ISO-certified data centers in Germany • QSC offers ICT services on the basis of its own infrastructure. This enables the Company to assure its customers a consistently high level of quality along the entire value chain (end-to-end quality). The Company is among the few players that cover the entire spectrum of ICT products and services, from data centers right through to the workplace.

QSC operates its data centers only in Germany

One key element of the ICT infrastructure consists of TÜV- and ISO-certified data centers; QSC possesses data centers in six German locations (Cologne, Frankfurt, Hamburg, Munich, Nuremberg, Oberhausen) offering a total of 15,000 square meters of floor space. The Company operates its data centers exclusively in Germany, and is subject to that country's data protection requirements, which are very strict by international comparison. Their proven high level of quality and security as well as their proximity to the Company's SME customers are a key competitive advantage. The data centers are linked by QSC's own cutting-edge infrastructure. The foundation consists of the Next Generation Network (NGN), which assures the convergence of various technologies for voice and data transmission via the IP protocol. The Company has traditionally operated a nationwide DSL network, a nationwide IP-based voice network, as well as one of the largest Wireless Local Loop (WLL) access networks in Germany.

QSC'S DATA CENTERS



MARKET AND COMPETITIVE POSITION

Focusing on the German Market • QSC is an ICT provider serving enterprises of every size – from trade contractors right through to large corporate groups. Its activities focus on small and mid-size customers, as the Company – itself a mid-size enterprise – enjoys particular credibility here and can collaborate with these customers at eye level. Although all three business units focus on working the German market, Direct Sales is increasingly implementing transnational site networking as well as international Outsourcing and Consulting projects.

One-stop shopping for ICT solutions a competitive advantage • QSC enjoys a good market position in all three business units. Direct Sales is competing against the subsidiaries of globally operating IT and TC players, as well as against large German systems houses. In this competitive environment, QSC is benefiting from its ability to offer one-stop shopping for ICT solutions. In Indirect Sales, QSC sees itself competing, on the one hand, against traditional TC providers. On the other, the Company is in competition with IT systems houses and software makers. In this environment, QSC is scoring points, in particular, with its broad ICT portfolio and the quality of service offered by a mid-size provider. In the Reseller segment, the Company is competing against other alternative network operators.

STRATEGY

Growth opportunities in the ICT market • In recent years, QSC has evolved from a TC provider into an integrated ICT provider and is pursuing a highly ambitious innovation and growth strategy. The Company sees considerable potential stemming from the convergence of IT and TC into a consistent ICT market. There are two key drivers behind this: On the one hand, more and more enterprises are outsourcing their infrastructures, data and applications to central data centers and expect high bandwidths, quality and security from the data center to the connection network right through to the individual workplaces. QSC is outstandingly aligned to do just that, and today the Company is already one of the few players to offer consistent end-to-end quality. On the other hand, mobile devices are displacing stationary workplaces. This is increasing the importance of having an integrated IT infrastructure as well as applications that run centrally in the Cloud. QSC is therefore going with the development of Cloud-based services and products, first and foremost. Additional growth potential is being created in the ICT market through the spread of ICT into more and more new worlds of work and life, often enough collectively termed the "Internet of Things." In this connection, communication is no longer occurring only between users and servers, but increasingly also directly between machines or sensors. QSC is working on pilot projects in the field of machine-to-machine (M2M) communication, for example, thus producing a networked manufacturing environment in which work pieces, machinery and transport systems all interact through ICT.

Industrialization of IT offers QSC new opportunities

And ICT, itself, is poised for a technology leap; the industrialization of IT will break down traditional structures, thus offering new growth opportunities for innovative players like QSC. Up until now, many IT processes are still being performed manually and decentrally, which means that – just as in industry – automation holds the promise of high efficiency gains. The linchpin in this kind of industrialization consists of Cloud Computing with its extremely large advantages of size and scale by comparison with the Client-Server technology that still predominates today. And opportunities are also offered by the automation of running processes, such as in Outsourcing.

Focusing on ICT business • QSC's strategy is essentially derived from these market developments. The Company is driving ICT business and is predominantly expanding its spectrum of products and services relating to the issues of Cloud Computing and the Internet of Things. However, QSC continues to generate considerable conventional TC revenues, especially in its Resellers Business Unit. As a result of stiff pricing competition, the penetration of alternative offerings and increasingly heightened regulation, though, these revenues are likely to further decline and in part continue to mask the Company's successes in ICT business.

Focus on Cloud Computing and the Internet of Things

There are two thrusts in expanding ICT business: In its existing portfolio, on the one hand, QSC is driving the integration of what are still separate IT and TC services into integrated solutions and products and is automating further processes. Building upon this, the Company will be broadening its share of the ICT budgets of its more than 30,000 business customers and specifically prospecting for further customers.

On the other hand, QSC is going with innovations; they could just as well be new technologies for new markets as new technologies for existing markets, or existing technologies for new markets. The Company's QSC-WiFi product that debuted in late 2013, for example, utilizes QSC's long years of Wireless Local Loop competence to create an intelligent advertising platform for enterprises on smartphones in a WiFi environment. With QSC-tengo, the highly flexible Cloud-based workplace, QSC will be marketing a new technology to its existing customers in 2014. QSC is addressing new markets, for example, with its in-house developed Cloud platform that has been on the market since January 2014 under the solucon trademark. This secure, high-performance platform enables Cloud applications for the Internet of Things, for example, to be easily and swiftly provisioned. An open interface affords easy connectivity to external partners in this system. Further information about innovation activities is contained in the chapter entitled "Research and Development" that begins on page 33.

SEE PAGES 33ff.
RESEARCH AND DEVELOPMENT

Innovations crucial in achieving our Vision • Innovations are making a crucial contribution toward achieving QSC's Vision. In the autumn of 2011, the Company had named three strategic targets in this connection: Revenues of between € 800 million and € 1 billion, an EBITDA margin of 25 percent and a free cash flow of between € 120 and € 150 million. The sooner innovations are ready for market, the sooner QSC will be able to achieve these highly ambitious targets for profitable growth. When it comes to innovations, QSC does not depend solely upon the know-how of its own developers. The acquisition of smaller companies that possess strong technology or market competence is part and parcel of the Company's strategy. With its new organizational structure that went into effect in 2013, QSC put in place the prerequisites for being able to collaborate smoothly under one roof with founders, entrepreneurs and enterprises.

QSC views itself as being well aligned in early 2014 for achieving its desired growth, as well as for developing and marketing innovations. The Company possesses the requisite technology know-how, a scalable, secure infrastructure and more than 30,000 existing customer relationships. The key success factor, though, consists of QSC's nearly 1,700 qualified, enthusiastic and committed employees. Even in a difficult market environment, QSC is succeeding in winning additional experts and assuring their loyalty to the Company long term. Further information in this connection can be found in the chapter entitled "Human Resources" that begins on page 50.

SEE PAGES 50ff.
HUMAN RESOURCES

ORGANIZATIONAL STRUCTURE

Organizational integration of INFO AG concluded • QSC AG, which is domiciled in Cologne, is the parent corporation of this company. The merger of Hamburg-based INFO AG with QSC AG went into effect on August 6, 2013, upon being entered in the Commercial Register of Cologne. Both INFO AG, which was acquired in 2011, as well as its corporate name thus became defunct. However, the headquarters and locations of former INFO AG have been retained. In addition to the Hamburg location and Headquarters in Cologne, QSC maintains ten sales offices throughout Germany: in Berlin, Bremen, Dresden, Frankfurt, Hanover, Leipzig, Munich, Nuremberg, Oberhausen and Stuttgart. Following the merger, there are still two major direct and indirect equity investments, respectively:

Close to customers thanks to 12 locations in Germany

- Ventelo GmbH, which was fully acquired in fiscal 2002; its offerings for mid-size and larger enterprises include direct landline connections, Preselect and Call by Call, as well as value added services.
- Ventelo holds 100 percent of the shares of network operating company Plusnet GmbH & Co. KG, which was founded in fiscal 2006. Plusnet operates a nationwide DSL network.

A full overview of the consolidated companies as of December 31, 2013, is contained in Note 37 of the Notes to the Consolidated Financial Statements, beginning on page 137.

SEE PAGES 137f.
NOTES

Evolution of the internal organizational structure • The merger of INFO AG marked the internal conclusion of QSC's transformation into an integrated ICT provider. It affords a considerably more effective design – since it is now consistent – of internal organizational structures. The second half of the 2013 fiscal year marked the implementation of a system of profit, cost and service centers, thus strengthening the revenue and profitability responsibilities of the individual operations and fostering cross-locational collaboration. The heart of the organizational structure continues to consist of the Company's three business units. The profit center idea enables the competences of a given line of business to be bundled into autonomously operating companies. A good example of this is tengo GmbH, which has been driving marketing for the forward-looking Cloud-based workplace since February 2013.

STEERING

Steering by means of financial performance indicators • QSC utilizes the following financial performance indicators to steer the Company: Revenues, EBITDA, free cash flow and capital expenditures. Non-financial performance indicators are not employed for steering purposes.
EBITDA is defined as earnings before interest, taxes, amortization of deferred non-cash share-based remuneration, as well as depreciation/amortization of property, plant and equipment, and intangible assets; the EBITDA margin reflects the revenues-to-EBITDA ratio. Free cash flow results from the change in net liquidity/debt from operating business. QSC accounts for capital expenditures on the basis of timing and not payment flow, recording customer-related, research-driven and other capital expenditures, along with infrastructure investments, under this parameter.

These parameters assure that well-balanced decisions concerning liquidity, profitability and growth are being made throughout the organization. The following table provides an overview of the development of these key steering parameters in fiscal 2012 and 2013:

	Actual 2012	Forecast 2013	Actual 2013
Revenues (in € million)	481.5	≥ 450	455.7
EBITDA margin	16.2 %	≥ 17 %	17.1 %
Free cash flow (in € million)	23.6	≥ 24	25.6
Capital expenditures ratio	7.9 %	6 – 10 %	8.7 %

Reporting systems support steering process • The central steering instrument consists of monthly reports that contain all relevant metrics and target/actual comparisons. These monthly reports serve as a major basis for discussion at the bi-weekly meetings of the Management Board, as well as for the monthly reports to the Supervisory Board. Moreover, current target/actual comparisons are utilized as the basis for regularly updating the rolling planning for all areas of the organization; this serves as an early warning system for any variances, enabling corrections to be made early on. As described beginning on page 79 of this Consolidated Management Report, the risk management system is an integral element of reporting. This assures that any changes in opportunities and risks will be directly integrated into the steering system.

SEE PAGES 79f.
RISK MANAGEMENT SYSTEM

RESEARCH AND DEVELOPMENT

€ 5.9 million research and development budget in 2013 • During the past fiscal year, QSC strengthened its Research and Development efforts. At year-end 2013, 44 people were predominantly working on development projects; one year before, this number had stood at only 12. Expansion of the workforce went hand in hand with a rise in the corresponding budget. In 2013, QSC significantly beefed up its research and development budget from € 2.0 million the year before to € 5.9 million. The Company capitalized € 4.0 million of this total (2012: € 1.5 million) and expensed € 1.9 million (2012: € 0.5 million), chiefly under cost of revenues.

QSC's development budget up nearly 200 percent in 2013

RESEARCH AND DEVELOPMENT (in € million)

The focal points of development work in 2013 consisted of the completion of QSC-tengo and QSC-WiFi, the development of initial applications on the basis of the Company's in-house developed solucon Cloud platform, as well as involvement in a number of major research projects. After debuting an initial prototype at CeBIT 2013, QSC then went on to complete work on QSC-tengo in the subsequent months. This is a Cloud-based workplace and contains all of the functionalities that are required for this purpose – from a broadband Internet link and a telephone connection right through to central data storage. Initial sales partners had already been won for this innovation in 2013; the current fiscal year will mark the beginning of a broad-based appeal to end customers, especially by Indirect Sales. QSC-WiFi, too, is ready for market. In this case, QSC is putting to use its long years of competence with wireless networks; WiFi technology turns a smartphone into an intelligent advertising platform that enterprises can utilize for personalized, secure and interactive marketing measures. Initial pilot projects are already up and running at soccer stadiums and retailers.

solucon – The Enabling Technology – is paving the way for numerous innovations • One key element of QSC's innovation strategy consists of solucon, an in-house developed Cloud platform that can be utilized as the basis for simply, swiftly and securely provisioning Cloud applications. solucon has been in uninterrupted live operation for two years and offers the utmost in reliability thanks to its Zero Downtime Architecture. It affords a high level of data security and availability through splitting and geographic distribution, as well as by placing multiple copies of the stored data in various QSC data centers. This also enables Machine-to-Machine services with real-time requirements, for example, to be operated in a failsafe manner and with virtually no maintenance windows.

The simple, secure, fast way to new Cloud Applications

solucon can be deployed in any desired industry or sector, and an open API interface offers opportunities for partnering, space for numerous innovations, and thus considerable growth potential. The solution modules from the fields of Communications, Machine-to-Machine or Industrial Automation can be interconnected in a building-block system and offer high-performance operation. And as a true Cloud platform, solucon offers far more than just Connectivity. Integration into existing Customer Relationship, Supply Chain or Product Lifecycle Management systems, on the basis of SAP, for example, can be accomplished easily; this means that investments that have already been made in business processes or infrastructure are not lost.

With its QSC-Analyser and QSC-cospace business, the Company, itself, has already brought two solucon-based applications to market. The QSC-Analyser identifies the quality of data transmissions over IP links between two or more measurement points; moreover, sections can be metered in the event of high demand. Special QSC-Boxes located at the measurement points capture all relevant values. This method simplifies troubleshooting in the case of faulty connections. The results are portrayed in a browser interface in a transparent and understandable way. QSC-cospace business is a Collaboration Service for business customers that incorporates various functionalities, such as an e-fax, mailbox and Cloud storage.

At the International Radio Exhibition (IFA) in Berlin in September 2013, QSC debuted the kind of role that solucon and the QSC-Box can play in home automation. In the sample installation from the EEBUS Initiative – an organization comprising enterprises and associations from the electric power, energy and telecommunications industries –, a kitchen stove and front door lock were intelligently networked with one another via solucon. If the front door were then to close while the stove is left on, the Cloud sends a notification to a previously stipulated smartphone, with which the stove can then be easily switched off. The QSC-Box serves as the interface that allows stove, lock and Cloud to "talk" with one another. This is an example of how appliances and equipment can communicate with one another over the Internet of Things. At the same time, the solution underscored the wide variety of potential applications for solucon, ranging far beyond communication services in the everyday office environment. solucon is also suitable for data storage, for capture and analysis of sensor data or for controlling the power consumption of electrical equipment and appliances.

Ambitious research projects • New potential is additionally being opened up through QSC's involvement in major research projects. Since January 2012, QSC has been involved in O(SC)²ar, the "Open Service Cloud for the Smart Car." As part of a consortium under the lead of Aachen-based StreetScooter GmbH and the major involvement of RWTH Aachen University, QSC is working on a smartphone-style combination of applications offering open Internet services for a new generation of electric vehicles. Routes, for example, can be optimized with a view to the required battery charging periods. An initial pilot project here has been up and running at a logistics provider since 2013.

Virtual power plants: QSC develops Cloud-based solution

Also in the pilot phase is a solution that QSC developed itself for a virtual power plant. This Cloud-based application enables energy providers to steer purchases and sales of electricity. In contrast to the situation prior to the German energy reform, electric power utilities now have to balance the production output from hundreds or even thousands of independent regenerative energy sources against the respectively prevailing demand; and they need new steering instruments to do this.

CORPORATE SOCIAL RESPONSIBILITY

SEE PAGES 37ff. CORPORATE MANAGEMENT

SEE PAGES 50ff. HUMAN RESOURCES

Focusing on the immediate environment • QSC consolidates three issues within Corporate Social Responsibility (CSR): responsible corporate management, social commitment and sustainable business practices. Further information on corporate management can be found beginning on page 37 of this Annual Report. Itself a mid-size enterprise, QSC traditionally focuses its social commitment on initiatives within the Company and its immediate environment. Concentration has been on in-company training, even over and above QSC's own needs, as well as on assuring compatibility between family and work for the Company's some 1,700 people; further information is provided in the chapter entitled "Human Resources" that begins on page 50.

Partner in the "Hamburg Way" • In Hamburg, QSC has been a partner for years in the "Hamburg Way" initiative, which assumes social responsibility for people in the city of Hamburg. Among other things, QSC has assumed the sponsorship of the "SportXperts" project, where children and youths can learn to handle and utilize a wide range of media in a highly realistic manner. They are trained as child reporters and courses teach them how to develop their own questions, shoot on-scene video and then be involved in editing it. Before that, for example, QSC had equipped 20 selected daycare facilities with PC workstations within the framework of its sponsorship.
QSC is convinced that these kinds of initiatives are making a greater contribution to the evolution of society than focusing on environmental issues. This is because ICT services, themselves, are making a major contribution toward sustainable business practices in all industries. They enable work-at-home workstations to be set up, for example, thus reducing commuter traffic, and videoconferencing to be substituted for business travel, as well as allowing people in differing locations to work on projects jointly thanks to modern collaboration tools.

High energy efficiency in data centers • However, QSC AG naturally pays attention to the conservation of resources and ongoing optimization of energy inputs. This applies, in particular, to the data centers in Germany. Most recently, the energy efficiency of the data centers in Munich and Nuremberg were certified by the German TÜV in December 2013; both locations were awarded Efficiency Class A. This certifies the sustainable operation of the data centers as well as ongoing optimization of consumption and of air conditioning as a function of cooling need and target temperatures. Moreover, meaningful energy conservation options are largely implemented, with energy-saving, environmentally compatible systems primarily being employed.

Energy efficiency certified by TÜV

The other data centers, too, follow the same principles. In Hamburg, for example, older equipment is regularly being replaced with more energy-efficient alternatives and cooling systems are constantly being optimized. One key issue also consists of server virtualization, or operating so-called "shared" hardware; in other words, the utilization of hardware by multiple users. In addition, the Hamburg location is collaborating with the environmental authorities there in the field of energy-saving measures.
QSC also values high energy efficiency in operating its nationwide infrastructure. Savings can be achieved, among other things, by deactivating unused network components or consolidating lines. In 2013, the Company additionally installed further instrumentation in order to monitor energy quality and efficiency, and replaced some older power supplies with more efficient ones.
The Purchasing Department monitors the lifecycles of all resources and ensures that materials are largely reused. This department additionally assures that appropriate consideration is given to the fundamental ideas of sustainable business practices and energy efficiency.

Corporate Governance Report and Declaration of Corporate Management

Responsible, transparent corporate management • Ever since its founding, QSC has placed great emphasis on responsible, transparent management and oversight of the Company with the objective of sustained value creation. As a publicly traded, mid-size enterprise that is domiciled in Germany, QSC is guided essentially by German corporate law as well as the German Corporate Governance Code ("the Code"). The pertinent government commission issued the most recent revision of this Code on May 13, 2013. QSC largely complies with the Code's recommendations, yet it intentionally deviates from some of them in the case of a few points, which are detailed below. The current Declaration of Compliance, dated November 21, 2013, is a constituent part of this Report; as in the case of all previous Declarations, it is made permanently available on the QSC website.

Speaking on both its own behalf and on behalf of the Supervisory Board, the Management Board reports below on corporate governance pursuant to Point 3.10 of the Code. This Report also integrates the Compensation Report called for by Point 4.2.5 of the Code, and additionally contains information pursuant to § 289a of the German Commercial Code ("HGB") regarding corporate management.

MANAGEMENT AND OVERSIGHT

Dual leadership structure • QSC AG is a publicly traded stock corporation organized under German law with a dual leadership structure. The Management Board manages the Company under its own direction; the Supervisory Board appoints the Management Board, oversees it and advises it. The members of both corporate bodies are committed solely to the interests of the Company; there were no disclosable conflicts of interest in fiscal 2013.

Supervisory Board appoints three new members to the MB

Jürgen Hermann QSC's new Chief Executive Officer • Since September 1, 2013, the QSC Management Board (MB) has comprised four members: Jürgen Hermann (Chair), Barbara Stolz, Stefan Freyer and Henning Reinecke. Given the scheduled expiration of his term of office as Chief Executive Officer effective April 30, 2013, long-serving Chief Executive Officer Dr. Bernd Schlobohm requested in January 2013 that the Supervisory Board not extend his term of office beyond the Annual Shareholders Meeting on May 29, 2013. The Supervisory Board complied with this request on January 22, 2013, appointing former Chief Financial Officer Jürgen Hermann to serve as QSC's new Chief Executive Officer effective May 30, 2013.

At its meeting on March 19, 2013, the Supervisory Board appointed the former head of Finance operations, Barbara Stolz, to the Management Board as QSC's new Chief Financial Officer effective June 1, 2013. This was then followed on August 29, 2013, by the appointment of Stefan Freyer and Henning Reinecke to the Management Board effective September 1, 2013; both had previously served on the management board of INFO AG. Effective this same date, Arnold Stender resigned from the Management Board. As the managing director of QSC subsidiary tengo GmbH since September 1, 2013, he has been devoting his full energies toward evolving this innovative product family.

Collegial collaboration on the Management Board • Pursuant to the Rules of Procedure promulgated for the Management Board by the Supervisory Board, Management Board resolutions require a simple majority of the votes cast, with the Chair casting the deciding vote in the case of tie votes. All resolutions relating to measures and transactions that are of major significance to the Company or that involve a greater economic risk are adopted by the full Management Board; given QSC's SME structure, the Management Board refrains from forming committees. A division-of-responsibilities plan governs the areas of responsibility of the members of the Management Board. Each Management Board member manages those areas of responsibility under his or her own direction within the framework of Management Board resolutions.

The Supervisory Board typically appoints the members of the Management Board for a term of three years. In staffing the Management Board, it is guided solely by the qualifications of the candidates in question and does not give any preferential decision-making relevance to gender in this regard. In staffing executive positions within the Company, the Management Board is aware of its responsibility to take diversity into account. It strives to give due consideration to females for positions of leadership; however, as in the case of many other companies, QSC is faced with the challenge that not enough women in Germany are pursuing careers in technical professions, and thus in the ICT sector.

Six-member Supervisory Board • Pursuant to the Articles of Association and Bylaws, the QSC Supervisory Board comprises six members. Since the Company employs more than 500 people, the German One-Third Participation Act ("Drittelbeteiligungsgesetz") is applicable. This means that the shareholders elect two thirds of the members of the Supervisory Board, the employees one third. Unless otherwise mandated by legislation or the Company's Articles of Association and Bylaws, the Supervisory Board and its committees adopt resolutions by a simple majority vote. During the past fiscal year, three committees were in place for the full year, the Nominating, Audit and Human Resources Committees; since the new elections to the Supervisory Board on May 29, 2013, there has additionally been a Strategy Committee. All committees report regularly to the full Supervisory Board and prepare its resolutions. Detailed information relating to the work of the Supervisory Board and its committees is contained in the Report of the Supervisory Board beginning on page 11.

SEE PAGES 11ff. REPORT OF THE SUPERVISORY BOARD

Gender parity on the Supervisory Board • During the past fiscal year, new elections were held for all members of the Supervisory Board. The shareholders were able to inform themselves about the individual candidates in advance, with QSC declining to make a disclosure pursuant to Point 5.4.1 of the Code. The Company does not consider these recommendations to be concrete enough, and views the requirements set forth in the German Stock Corporation Act ("AktG") as satisfying the need for shareholder information.

By a sweeping majority, the Annual Shareholders Meeting on May 29, 2013, elected the following four shareholder representatives for a term of office of five years each: The Company's co-founder Gerd Eickers; the head of the corporate tax operation at SAP AG, Ina Schlie; QSC co-founder Dr. Bernd Schlobohm, and Dr. Frank Zurlino, managing partner of the international management consulting firm Horn & Company. The employees had already voted in April for Anne-Dore Ahlers, group leader in the SAP Competence Center, as well as for Cora Hödl, who heads up the QSC's voice services. Following the adjournment of the Annual Shareholders Meeting, the new Supervisory Board elected Dr. Bernd Schlobohm as its Chair and Dr. Frank Zurlino as Vice Chair.

Dr. Bernd Schlobohm elected as new Chair of the Supervisory Board

All objectives relating to the composition of the Supervisory Board achieved • The new Supervisory Board satisfies all objectives relating to its composition that this body had promulgated in August 2012 on the basis of the German Stock Corporation Act and the Code. Accordingly, the members of the Supervisory Board overall should possess the requisite knowledge, skills, abilities and professional experience required to properly execute their duties. At least one member who is independent in the sense of § 100, Para. 5, of the German Stock Corporation Act and possesses professional expertise in the fields of accounting or auditing should sit on the Supervisory Board – as the head of corporate tax operations at a globally operating enterprise, Ina Schlie satisfies these requirements par excellence.
Under the assumption that the employee representatives, too, fundamentally satisfy the criteria of independence in the sense of Point 5.4.2, Sentence 2, of the Code, at least two shareholder representatives who are independent in the sense of Point 5.4.2, Sentence 2, of the Code should sit on the Supervisory Board in addition to the two employee representatives. Currently these members are Ina Schlie and Dr. Frank Zurlino. The number of former Management Board members on the Supervisory Board is limited to a maximum of two. This presently relates to QSC's two founders, Dr. Bernd Schlobohm and Gerd Eickers; Eickers had served on the Management Board from 2001 to 2003. Moreover, no member of the Supervisory Board who exercises a function on a corporate body or a consulting function at major competitors of the Company or the consolidated group should hold a seat on the Supervisory Board. As a general rule, only candidates who are younger than 75 years of age should be nominated for election. Moreover, at least one seat on the Supervisory Board should typically be held by a female; presently, women make up one half of this body.

Supervisory Board is promptly and comprehensively informed

Regular interaction between corporate bodies • The Management Board informs the Supervisory Board promptly and comprehensively as to issues having corporate relevance relating to strategy, planning, business development, risk position and risk management, as well as compliance. The Management Board's Rules of Procedure require the consent of the Supervisory Board to conclude any major business transactions, such as stipulation of the annual planning, major capital investments, acquisitions and financing measures. These kinds of decisions by the Supervisory Board are intensively prepared and deliberated in the committees and by the full Supervisory Board.

RELEVANT CORPORATE MANAGEMENT PRACTICES

Integrity the foundation for business activities • QSC views corporate governance as the framework for managing and overseeing the entire Company; its internal policies are therefore in harmony with the Code. Moreover, management of the Company is based upon a common value system, with integrity playing a key role. The Company views integrity as a role model and yardstick for proper corporate management and strictly observes compliance with all laws and internal consolidated group rules. In this connection, QSC counts strongly on the self-direction and personal integrity of all of its people. QSC expects their everyday business actions to be legal and ethical in order to avoid harm to the Company and the general public.

The focus in this connection is on prevention: Improper behavior should be prevented right from the very beginning. Internal training events that are geared to the needs of the real world serve to sensitize all employees to such issues as legality and professionalism in their dealings with third parties. QSC strictly observes compliance with the four-eyes principle and the division of responsibilities. Policies on such critical points as insider trading law, information security, data protection, approval and signature authorizations, risk management and purchasing provide the necessary clarity for correct behavior in everyday operations. Yet even in this kind of environment, it is not possible to entirely preclude the risk of improper behavior on the part of some individuals. Should there be breaches in this connection in individual instances, in spite of all preventive measures, the facts will be ascertained and any breaches punished, without regard to the individual or his or her position.

Compliance a key leadership task

QSC views compliance as a major leadership responsibility that necessitates the ongoing attention of its leadership bodies. The Management Board, the Supervisory Board and its Audit Committee therefore regularly deal with this issue; in doing so, they draw upon the quarterly risk reports, internal controlling and internal audit reports, among other things. These discussions produce major impetus for steadily evolving the compliance management system.

INTERACTION WITH SHAREHOLDERS

QSC provides timely and comprehensive information • Transparency and openness are what characterize QSC's capital market communication. The Company utilizes its own website to report promptly on all relevant developments. Interested parties will find ad-hoc and press releases there, along with Quarterly and Annual Reports, current presentations as well as a financial calendar. This website is also where QSC provides all relevant documents for the Annual Shareholders Meeting. However, the Company sends out invitations only via postal mail. Thanks to the fact that its shares are registered, the Company possesses a complete overview of postal addresses, therefore eliminating the need for costly and time-consuming compilation and entry of the e-mail addresses for reasons of efficiency.

Annual Shareholders Meeting the central platform for interaction • The Annual Shareholders Meeting (ASM) represents the central event for interacting with shareholders. Some 43 percent of the capital stock were in attendance at the 2013 Annual Shareholders meeting, which was conducted in Cologne on May 29 last year. Shareholders who did not attend in person were able to have their voting rights exercised either by a proxyholder of their choice or by a voting proxy bound by the shareholder's instructions. The shareholders agreed to all items on the agenda by sweeping majorities. As in previous years, the Chair of the Meeting assured that it progressed smoothly, thus again complying with the time frame of 4 to 6 hours set forth in the Code. As in the past, the Management and Supervisory Boards did not choose to have this event transmitted over the Internet, as the resulting costs and legal imponderabilities outweighed the potential shareholder benefits.

During the course of the year, meetings with investors and analysts within the framework of roadshows and individual talks, first and foremost, as well as conference calls on the day the quarterly results are announced, provide further interaction with shareholders, assuring them current information. QSC makes the respective presentations, as well as a recording of the comments made by members of the Management Board, available to all shareholders. Further information relating to the Company's investor relations activities can be found in "QSC Share Performance" on pages 18 – 23 of this Annual Report.

SEE PAGES 18ff.
QSC SHARE PERFORMANCE

QSC founders increase shareholdings • One element of transparent communication, naturally, is prompt information relating to acquisitions and sales of QSC shares by members of the Management and Supervisory Boards, as well as individuals close to them in the sense of § 15a of the German Securities Trading Act ("WpHG"). On January 30, 2013, QSC's two founders, Gerd Eickers and Dr. Bernd Schlobohm, each acquired 1,575,000 QSC shares at a price of € 2.25 per share over the counter, with each paying € 3.5 million for the acquisition. Each of the two founders thus holds 12.5 percent of QSC shares; 75 percent of the shares are widely held. In March 2013, these two founders notified QSC that they had entered into a pooling agreement and that their joint voting rights now accounted for in excess of 25 percent. Further information is contained beginning on page 86 under "Information Relating to Acquisition Law."

SEE PAGES 86ff. INFORMATION
RELATING TO ACQUISITION LAW

DECLARATION OF COMPLIANCE

Declaration Pursuant to Section 161 of the German Stock Corporation Act ("Aktiengesetz") regarding QSC AG's Compliance with the German Corporate Governance Code ("Deutscher Corporate Governance Kodex") in the version dated may 15, 2012, as of its validity from may 13, 2013

Since its formation, QSC AG ("QSC") has been committed to good corporate governance and has viewed transparency and value-driven management as essential. Consequently, the company implements nearly all recommendations set forth in the German Corporate Governance Code ("Deutscher Corporate Governance Kodex") and adheres to them in its daily work. Since the submittal of its last Declaration of Compliance, the company has complied and continues to comply with the recommendations of the Government Commission "German Corporate Governance Code" in the version dated May 15, 2012, as of its validity from May 13, 2013, with the following exceptions:

- **No sending of the notification of the convening of the Annual General Meeting together with the convention documents to all domestic and foreign financial services providers, shareholders and shareholders' associations by electronic means (Item 2.3.2 of the Code in the version dated May 15, 2012)** • There are two reasons why QSC sends the convention documents only by mail: Firstly, experience has shown that an invitation provided by mail leads to a higher attendance of the shareholders at the Annual General Meeting. Secondly, as QSC is in possession of all postal addresses of its shareholders due to the fact that QSC has issued registered shares, QSC refrains from collecting e-mail addresses of its shareholders for reasons of efficiency. With effect from the date on which the current version of the Code became valid, the procedure applied by QSC does not constitute an exception.

- **No agreement regarding a deductible in the D&O insurance for members of the Supervisory Board (Section 93, Paragraph 2 of the German Stock Corporation Act ("Aktiengesetz") (Item 3.8 Paragraphs 2 and 3 of the Code)** • QSC complies with the recommendation of the German Corporate Governance Code insofar as the D&O insurance policy has, since July 1, 2010, included a deductible for Supervisory Board members of 10 percent of the respective damages per damage event. However, and contrary to the recommendation, the liability per year is capped at 100 percent of the fixed annual remuneration of the Supervisory Board members, since QSC does not deem it appropriate for the deductible to exceed their annual remuneration.

- **No cap on all variable remuneration components of the Management Board members and on total remuneration (Code item 4.2.3, paragraphs 2, sentence 6 in the version dated May 15, 2013)** • Only one Management Board member still holds convertible bonds awarded in conjunction with the SOP 2006 (i.e. before the new version of the Code became valid) as part of a variable remuneration component. Although the relevant Management Board member's contract contains a cap in the event of exceptional developments, it does not, however, contain any fixed cap on the amount of gains that might arise on exercise of the conversion rights in conjunction with the SOP 2006, nor, as a consequence, any cap on total remuneration. With the exception of this one point, QSC complies fully with the Code's new recommendation with respect to current Management Board remuneration and will comply with it in the future when any new remuneration arrangements are put in place.

- **The contracts of the Management Board members do not contain a cap on severance payments in case of premature termination (Item 4.2.3, Paragraph 4 of the Code)** • QSC AG's Supervisory Board – in its earlier composition, and during whose period of office the employment contracts of two of the current members of the Management Board were signed – was previously of the opinion that any advance agreement with respect to severance payment cap would be contrary to the spirit of a contract, which is usually concluded for a fixed term and does not, in principle, provide for the possibility of an ordinary termination by notice. Similarly, it was argued that it would be difficult in practice to enforce a contractual severance payment cap against a Management Board member in the circumstances where it would be relevant. Furthermore, it was considered unfeasible that any such advance stipulation would be reasonably able to take into account the particular facts and the surrounding circumstances that might later give rise to the premature ending of a Management Board member's contract. Accordingly, no cap was agreed with the Management Board members concerned. The Supervisory Board in its current composition since the Annual General Meeting on May 29, 2013, has relinquished this opinion and – for new Management Board members as from that date – has agreed a severance cap which complies with the Code. The Supervisory Board also intends to continue this policy in the future.

- **No aiming for an appropriate consideration of women when appointing the Management Board (Item 5.1.2, Paragraph 1, Sentence 2 of the Code)** • The Supervisory Board does not follow this recommendation insofar as its decisions when filling Supervisory Board positions are guided solely by the qualifications of the persons available as it has been in the past. In this respect the Supervisory Board does not give decision priority to gender.

- **No disclosure of the private and business relationships of each individual candidate with the company, its representative bodies and any significant shareholder of the company in the event of proposals for election at the Annual General Meeting. (Item 5.4.1, paragraphs 4 to 6)** • In QSC's opinion, the recommendation of the German Corporate Governance Code does not specify clearly enough which relationships of a candidate must be disclosed and the extent to which such disclosures are required to be made for proposed elections at the Annual General Meeting, in order to comply with the recommendation. In the interests of legal certainty with respect to future elections to the Supervisory Board, the Management Board and Supervisory Board have decided to declare a divergence from the recommendation. QSC is of the opinion that the existing disclosure requirements contained in § 124 paragraph 3 sentence 4 and in § 125 paragraph 1 sentence 5 of the German Stock Corporation Act ("AktG") are sufficient to meet the informational needs of the shareholders and will, at an appropriate date in the future, investigate and decide – voluntarily and without tying itself to the Code's recommendation – whether to disclose additional information about candidates proposed for election at the Annual General Meeting.

Cologne, November 21, 2013

On behalf of the Management Board Jürgen Hermann	On behalf of the Supervisory Board Dr. Bernd Schlobohm

COMPENSATION REPORT

Transparent presentation of Management Board compensation • One major element of good corporate governance consists of a transparent presentation of the total compensation paid to members of the corporate bodies. The fundamental compensation system for members of the Management Board has been evolved in recent years with a view toward modified statutory requirements (e.g. the German Appropriateness of Management Board Compensation Act ["VorstAG"]) and was most recently adopted by the Annual Shareholders Meeting on May 16, 2012. Pursuant to § 315, Para. 2, No. 4, of the German Commercial Code, QSC reports below on the principles of this compensation system, with individualized presentation of the compensation paid to members of the Management Board.

Compensation system approved by 2012 Annual Shareholders Meeting

Performance-based compensation system • The Supervisory Board stipulates the total compensation to be paid to members of the Management Board, taking into consideration the responsibilities and personal achievements of the respective Management Board member, the Company's economic and financial positions, as well as sustainable development of the Company, the usual and customary nature of the compensation, taking into consideration the environment at comparable companies, as well as the compensation structure that is otherwise in place at QSC. The design of the variable compensation element takes into consideration both positive and negative developments. Moreover, in determining the compensation the Supervisory Board takes pains to assure that it is structured in such a manner as to be competitive in the marketplace and offer highly qualified executives an incentive to sustainably develop the Company and its value in a dynamically changing environment.

A maximum of 50 percent of the annual target compensation is fixed • The fixed salary elements fundamentally account for a maximum of 50 percent of the target compensation for each member of the Management Board. This fixed salary is paid in monthly cash installments as base compensation. Moreover, the Management Board members additionally receive fringe benefits, in particular in the form of the use of a company car or the utilization of a car allowance, as well as pension commitments, which can be for old-age, survivors and disability benefits and are secured by reinsurance coverage, and, in part, defined contribution commitments for benefits provided by insurance companies and welfare relief funds. Moreover, QSC maintains liability indemnification insurance coverage that includes the members of the Management Board. Since July 1, 2010, the policy has provided for a corresponding deductible for members of the Management Board, in accordance with the requirements of the German Stock Corporation Act. Management Board members do not receive any separate compensation for assuming further offices within the consolidated group.

The variable compensation element is committed in the form of a fixed amount for each year in office in the event that 100 percent of the targets are achieved and is based upon annual and multiple-year targets agreed annually in target agreements. These targets can include such key corporate performance indicators as free cash flow and consolidated net income, as well as individual parameters that result from non-quantifiable strategic targets. The target agreements are made on the basis of the coming fiscal years; in the case of Company-based metrics, they can contain minimum targets that are more ambitious than the externally communicated outlook.

Supervisory Board sets upper and lower limits for each target

Management Board members must achieve minimum targets • In entering into the annual target agreements, the Supervisory Board takes pains to assure that the portion of the variable target compensation attributable to the attainment of the multiple-year target represents at least the percentage attributable to the attainment of the annual target. The Supervisory Board defines lower and upper limits for each individual target, with the upper limit serving to cap the variable compensation element in the event of out-of-the-ordinary developments at not more than 1.5 times the target compensation attributable to the variable compensation element at 100 percent target attainment, and the lower limit stipulating the minimum target. If this minimum target is not attained, the Management Board member will not receive any variable compensation element for the corresponding target. Failure to attain the lower limit for the multiple-year target that is determined in a fiscal year will additionally result in the reduction or elimination of the variable compensation element for the subsequent fiscal years in a multiple-year period that is attributable to the multiple-year target. The underage determined for the multiple-year target also leads to a reduction or the elimination of the variable compensation element attributable to the multiple-year target for the subsequent fiscal years in the multiple-year period.
The Supervisory Board can commit to paying the entire Management Board or individual Management Board members an appropriate further bonus in cash or in the form of shares or stock options, with waiting, holding and exercise terms being agreed upon, in recognition of the attainment of multiple-year targets and to foster sustained corporate development, as well as to acknowledge exceptional achievements. Reference in this connection is made to Note 39 to the Notes to the Consolidated Financial Statements. These conditions also apply with respect to the conversion rights of Management Board members shown below.
The variable compensation element is due and payable following adoption of the Annual Financial Statements relating to the respective target agreement.

Performance-based Management Board compensation for fiscal 2013 • The total compensation to members of the Management Board for the 2013 fiscal year amounted to K€ 1,726, by comparison with K€ 1,061 the year before. As in the previous year, no non-period compensation elements were granted for the 2013 fiscal year.

The increase in the total compensation was attributable to the fact that Management Board members were again able to be awarded variable compensation totaling K€ 790 due to achieving the performance targets stipulated by the Supervisory Board; there had been no entitlement to variable compensation for the previous fiscal year, 2012, as the 2012 annual target had not been achieved. The following table shows the compensation paid to the individual members of the Management Board:

Management Board again receives variable compensation for 2013

in K€	Cash Compensation			
	Fixed Salary Elements	Fixed Salary Elements	Fringe Benefits	Total Compensation
Fiscal year 2013				
Dr. Bernd Schlobohm (Chief Executive Officer through May 29, 2013)	144	151	8	303
Jürgen Hermann (Chief Executive Officer from May 30, 2013)	304	269	16	589
Arnold Stender (Through Aug. 31, 2013)	161	141	8	310
Barbara Stolz (From June 1, 2013)	124	107	9	240
Stefan Freyer (From Sept. 1, 2013)	77	61	1	139
Henning Reinecke (From Sept. 1, 2013)	77	61	7	145
Total	**887**	**790**	**49**	**1,726**

in K€	Cash Compensation			
	Fixed Salary Elements	Fixed Salary Elements	Fringe Benefits	Total Compensation
Fiscal year 2012				
Dr. Bernd Schlobohm, Chief Executive Officer	350	(29)	19	340
Jürgen Hermann	292	(18)	16	290
Arnold Stender	254	(6)	11	259
Thomas Stoek (Through Aug. 31, 2012)	167	(6)	11	172
Total	**1,063**	**(59)**	**57**	**1,061**

The variable salary elements in 2012 in the amount of K€ -59 relate to gains from the return of the provision for bonuses for fiscal 2011.
The variable compensation is based upon the target agreements entered into at the outset of the 2013 fiscal year or at the beginning of their term of office in the case of the newly appointed Management Board members; in this connection, equal annual and multiple-year targets have been agreed for all Management Board members. Pro rata calculations of the variable compensation are made for Management Board members who leave or are newly appointed during the course of the fiscal year.

2013 annual target linked to EBITDA and free cash flow

The 2013 annual target was linked to free cash flow and EBITDA. In this connection, lower limits were agreed for these two sub-targets, which would have led to elimination of the entire variable compensation for the 2013 fiscal year had they not been attained. The upper limit for variable target achievement was 150 percent in 2013.
The multiple-year target is geared toward maintaining, stabilizing and increasing the Company's sustainable dividend position out of income from ordinary business operations that was achieved in fiscal 2011. The Supervisory Board has determined that the multiple-year target was attained in fiscal 2013.

Benefits in the event of premature termination • Management Board members Stefan Freyer and Henning Reinecke have each been promised a settlement in the amount of K€ 400 in the even of premature termination of their Management Board term of office due to an effective revocation of their appointment by the Company within the first two years of their employment contracts; during the third employment contract year, the settlements will reduce by 1/12 per month in which the employment relationship had existed. There is no entitlement to payment of a settlement in the event of termination of the employment relationship for cause (§ 626, German Civil Code ("BGB")). In the event of an amicable termination of the Management Board term of office without cause, the total value of the benefits committed by the Company within the framework of an agreement of this nature will not exceed the amount of K€ 400.
Moreover, Management Board member Stefan Freyer possesses a direct pension commitment, which was granted to him in fiscal 1997 by a predecessor corporation of INFO Gesellschaft für Informationssysteme Aktiengesellschaft; this pension commitment continues to retain its validity following the merger of INFO AG and QSC AG in fiscal 2013. Under the terms of this pension commitment, Mr. Freyer is entitled to old-age, disability and survivors insurance beginning at the age of 60. The actuarial cash value of this pension commitment amounted to K€ 64 as of December 31, 2013, prior to offsetting an asset value for reinsurance in the amount of K€ 16. In fiscal 2013, personnel expense of K€ 2 was recorded in this connection.

Shares and conversion rights held by Management Board members • The following table presents individualized information relating to the number of shares and conversion rights held by members of the Management Board:

	Shares		Conversion Rights	
	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2013	Dec. 31, 2012
Dr. Bernd Schlobohm	15,493,372 [1]	13,918,372	200,000 [1]	200,000
(Through May 29, 2013)				
Jürgen Hermann	225,000	225,000	200,000	200,000
Arnold Stender (Through Aug. 31, 2013)	-	-	25,000 [1]	25,000
Thomas Stoek (Through Aug. 31, 2012)	-	30,385 [1]	-	-
Barbara Stolz (From June 1, 2013)	-	-	30,000 [2]	-
Stefan Freyer (From Sept. 1, 2013)	-	-	-	-
Henning Reinecke (From Sept. 1, 2013)	1,000 [2]	-	-	-

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

Dr. Bernd Schlobohm increased his shareholdings in calendar year 2013 through additional over-the-counter purchases (see also the notifications relating to transactions by executive staff pursuant to §15a, German Securities Trading Act, at www.qsc.de).
No loans were granted to Management Board members.

Information relating to retired Management Board members • The compensation paid to Management Board members who retired in fiscal 2013 is included in the table containing the individualized information. They did not receive any special compensation for this retirement.
In 1997, Dr. Bernd Schlobohm was granted a direct commitment for old-age, disability and widow's pension. The commitment as of the balance sheet date amounts to K€ 1,172 before offsetting the entitlement under reinsurance in the amount of K€ 722. Old-age pension expense in the amount of K€ 130 was added to the pension provision in fiscal 2013.

Supervisory Board compensation • Under the provisions of QSC's Articles of Association and Bylaws, each member of the Supervisory Board (SB) receives fixed annual compensation in the amount of K€ 35, payable subsequent to the close of the fiscal year; the Chair and his or her Vice Chair receive K€ 70 and K€ 50, respectively. In addition to compensation for service on the Supervisory Board, each Supervisory Board member receives special compensation in the amount of K€ 5 for his or her work on a Supervisory Board committee (with the exception of the Nominating Committee), and the committee chair K€ 10. The total compensation for their committee work paid to members serving on multiple committees does not exceed K€ 25 per member. Supervisory Board members who sat on the Supervisory Board or a committee for only a portion of the fiscal year receive the compensation on a pro rata basis.

Fixed compensation of K€ 35 p.a. for each member of the SB

For their activities in the 2013 fiscal year, the members of the Supervisory Board received aggregate compensation in the amount of K€ 302 (2012: K€ 272). The table below presents individualized information relating to the compensation paid to, and the number of shares held by, members of the Supervisory Board.

	Compensation * (in K€) [1]				Shares		Conversion Rights	
	2013		2012		Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2013	Dec. 31, 2012
Herbert Brenke, Chair (Through May 29, 2013)	35	(6)	85	(15)	187,820 [3]	187,820	-	-
Dr. Bernd Schlobohm, Chair (From May 29, 2013)	56	(15)	-	-	15,493,372 [4]	-	200,000 [4]	-
John C. Baker, Vice Chair (Through May 31, 2012)	-	-	17	(6)	-	203,072 [3]	-	-
Gerd Eickers, (Vice Chair Through May 29, 2013)	48	(7)	45	(5)	15,552,484	13,977,484	-	-
David Ruberg (Through May 29, 2013)	7	-	35	-	14,563 [3]	14,563	-	-
Ina Schlie (Since Sept. 3, 2012)	45	(10)	15	(3)	-	-	-	-
Dr. Frank Zurlino, Vice Chair (From May 29, 2013)	36	(6)	-	-	10,000 [4]	-	-	-
Klaus-Theo Ernst [2] (Through May 29, 2013)	14	-	35	-	500 [3]	500	-	-
Jörg Mügge [2] (Through May 29, 2013)	16	(2)	40	(5)	4,000 [3]	4,000	-	-
Anne-Dore Ahlers [2] (From May 29, 2013)	21	-	-	-	-	-	2,700 [4]	-
Cora Hödl [2] (From May 29, 2013)	24	(3)	-	-	-	-	4,100 [4]	-
Total	**302**	**(49)**	**272**	**(34)**				

* Pursuant to § 15a of the Articles of Association and Bylaws
[1] Numbers in parentheses relate to the amount of compensation from committee work
[2] Employee representative
[3] Holdings at the time of leaving
[4] Holdings at the time of joining

In calendar year 2013, Supervisory Board member Gerd Eickers increased his shareholdings through over-the-counter purchases (see also our notifications relating to transactions by executive staff pursuant to § 15a, German Securities Trading Act.
With the exception of reimbursed travel and other out-of-pocket expenses, no member received any further compensation or other advantages for personal services rendered over and above the remuneration set forth herein. Nor were any loans granted to members of the Supervisory Board. QSC AG maintains liability indemnification insurance coverage, in which the members of the Supervisory Board are included.

Human Resources

HUMAN RESOURCE MANAGEMENT

Strategic expansion of the workforce • QSC's success is based upon the commitment and will to succeed of all of its people. Their recruitment, loyalty and further development are crucial prerequisites for being able to achieve the Company's ambitious innovation and growth strategy. In fiscal 2013, the Company expanded the workforce, continued its intensive initial and continuing training and education, and lent consistency to working conditions in all locations.
During the course of the year, the number of employees rose by 204 to 1,689 people as of December 31, 2013. This strategic growth of 14 percent can be viewed as a success given the shortage of professionals in the ICT sector. QSC benefited from its good reputation as an employer, from its traditional commitment to training and education, as well as from the fact that customer employees moved to QSC in connection with major Outsourcing projects. Recruitment was predominantly in the high-growth SAP area, in IT operations, as well as in Development.

QSC workforce up 14 percent – despite shortage of ICT professionals

EMPLOYEES (as of December 31)

As of December 31, the majority of employees were working in one of the two headquarters locations, Cologne and Hamburg, with 441 people working in Headquarters in Cologne, and 887 in Hamburg. 75 ICT experts were working in Nuremberg, where QSC is predominantly driving its Housing business. The remaining 286 people were distributed among the sales and branch offices throughout Germany. 4 percent of the workforce are working on a home office basis. Following the merger of INFO AG and QSC AG in August 2013, QSC lent consistency to working conditions. From 2014 onward, all locations will be governed by the same rules relating to such issues as old-age pensions, working hours and variable compensation.

INITIAL AND CONTINUING TRAINING AND EDUCATION

QSC again increases number of trainees in 2013 • QSC has traditionally been highly engaged in training and education, as the Company views this as both a crucial lever in assuring new blood as well as a contribution toward assuming social responsibility. As of December 31, 2013, 107 young adults were undergoing training at QSC; one year earlier, this number had stood at 102. The training ratio thus amounted to 6 percent.

Start to working life: work-study program or in-house training

At QSC, young adults could choose between two ways of entering the working world: in-house traineeships as information technologists in systems integration and applications development and as computer, IT systems, and business operations specialists, or a work-study program.
In order to present these attractive training options to the largest possible number of young people, especially at the Company's two large locations in Hamburg and Cologne, QSC was involved in numerous regional events and initiatives. In Cologne there was also a Speed Day event, which offered interested young people on-site information about training opportunities at QSC. Further opportunities for contact early on consist of pupil internships, school partnerships and involvement in Germany's nationwide Girls' & Boys' Day.

NUMBER OF TRAINEES (as of December 31)

Specifically recruiting university graduates • In addition to trainees, QSC also recruited university graduates. As of December 31, 2013, three graduate trainees were working in business and sales operations, and another three in the Microsoft, project management and Cloud environments. Plus 12 participants in an SAP junior program. Five graduate trainees successfully concluded their training program in 2013. QSC collaborates with universities to spark interest in this form of qualified entry into working life early on. The Company is the major sponsor of the IT Management and Consulting Master's curriculum at Hamburg University; and there is close collaboration with the technical university in Cologne.
QSC is also among the now some 1,500 companies throughout Germany that have joined the Fair Company initiative and comply with its rules. They include a commitment to not substitute internships for full-time positions and to not console university graduates who are applying for regular full-time employment with internships. On the contrary, internships serve to provide professional orientation and are adequately compensated.

Broad range of continuing training and education offerings • The breathtaking pace of technological advances in the ICT world necessitates ongoing continuing education and development on the part of all employees, focusing, in particular, on the Company's strategic development. In this connection, QSC concentrates first and foremost on in-house offerings and a sharing of experiences across departmental borders. The QSC Academy offers a broad spectrum of seminars that are competence and career oriented and includes professional- and behavioral-specific modules. Moreover, new employees are typically trained in the rules that prevail in the field of IT Service Management in order to enable them to better understand the internal processes and interfaces.

Selected female employees are additionally fostered through the PepperMINT initiative, with MINT standing for the fields of Mathematics, Information Technology/Computer Science, Natural Science and Technology. PepperMINT pursues the objective of fostering women who possess MINT qualifications and advancement potential through special executive workshops and a mentoring program and of qualifying them for executive positions.

COMPENSATION

Market-based compensation system • QSC pays all of its people competitive compensation. The Company is not subject to any collective bargaining agreements, preferring instead to utilize a compensation system and fringe benefits that are geared toward both individual and company-specific needs as well as market standards. In addition to a fixed salary, all employees also receive a variable compensation element. Consistency was instituted here in fiscal 2013. In the future, all employees will receive a variable compensation element that is based upon the achievement of corporate targets. The percentage of the total salary accounted for by the variable compensation element rises along with increasing responsibility.

All employees receive variable compensation

In addition, stock options as well as an attractive Company-sponsored old-age pension model serve to promote long-term loyalty. Depending upon their activities, company cars are also provided to professionals and executives. Plus rules governing sick pay and termination protection that reward long years of seniority.

Higher personnel expense in 2013 • The increase in the workforce went hand in hand with a corresponding rise in personnel expense in fiscal 2013, totaling € 108.4 million as of December 31, 2013, in contrast to € 94.8 million the year before. This represents an average cost per employee of € 67,100 a year. Detailed information relating to the compensation paid to members of the Management Board is contained on pages 44ff.

SEE PAGES 44ff.
COMPENSATION REPORT

PERSONNEL EXPENSE (in € million)

CORPORATE CULTURE

Merger fosters common corporate culture • Following the merger of INFO AG and QSC AG, in the second half of the year the Company instituted a new cross-locational organizational structure incorporating a consistent management structure. It fosters a common corporate culture in all locations. The underlying value system can be condensed into the following five principles:

1. **We want to win**
2. **We are shaping change**
3. **We pay attention to one another**
4. **We work results driven**
5. **We interact with respect and appreciation**

These principles stand for a corporate culture that is characterized by respect and appreciation, as well as for an orientation toward achievement and results in our daily work.

Flexible working hours, time accounts, work and family • This value-based corporate culture includes an understanding for the personal situation of every employee and takes his or her wishes into consideration within the range of capabilities available to a mid-size employer. The use of flexible working hours throughout the organization facilitates compatibility between family and work. There are no core working hours, and all employees are free to handle a portion of their work from home, as coordinated with their supervisors. Time accounts enable salary elements to be saved up for sabbaticals of up to three months in length.

Aid in organizing work and family

QSC offers professional assistance in organizing the needs of work and family; the prestigious Fürstenberg Institute, which has been active at the Company since fiscal 2011, offers an extensive range of advisory services. Parents' re-entry into working life is also eased through part-time work options and home workplaces, as far as this is possible.

Economic Report

GENERAL CONDITIONS

Weak growth in Germany • QSC focuses on the German market, where for the second year in a row the economy developed only sluggishly. According to calculations by the German Federal Office of Statistics, gross domestic product grew by only 0.4 percent in 2013, in contrast to 0.7 percent the year before. The economy was burdened by both the slowdown in global economic development as well as by the persistent recession in several European countries. As a result, domestic consumption replaced exports as the growth driver; enterprises continued to remain cautious and reduced their capital spending again in 2013.

DEVELOPMENT OF GERMANY'S GROSS DOMESTIC PRODUCT (GDP)

This investment hesitancy also affected areas of the German ICT market. Overall, according to industry association BITKOM, however, revenues remained stable during the past fiscal year, totaling € 151.9 billion. IT revenues, alone, rose by 2.0 percent to € 74.7 billion; the market for IT services, such as Outsourcing, which is of interest to QSC, recorded growth of 2.6 percent to € 35.7 billion. TC revenues of € 66.0 billion, on the other hand, remained at the previous year's level. While there was strong growth in business with mobile data services, mobile and fixed-network operators were forced to incur further shortfalls. This was caused, according to BITKOM, not only by stiff pricing competition, but also by intervention on the part of government regulatory authorities. Further information in this regard is available below in "General Regulatory Conditions."

IT revenues in Germany rise by 2 percent in 2013

THE GERMAN ICT MARKET (value in € billion)

Declining use of voice services • At the same time, the TC market is undergoing far-reaching change; this is documented by an October 2013 study from VATM, an association of alternative TC providers, showing that utilization of fixed-network voice services continued to decline. In 2013, the total number of voice minutes per day stood at only 233 million, as opposed to 266 million in 2008. More and more customers are utilizing flat-rate connections. Their share of daily fixed-network voice volume rose to 89 percent in 2013; in 2008, this metric had stood at only 66 percent. On the other hand, there was a dramatic decline in the importance of Call-by-Call and Preselect offerings.

The reduction in voice volume can be attributed, in part, to the increasing use of mobile phones and, in part, to a changing communication patterns. Germans are more and more often sharing via data services and social networks. The result has been a rise in the importance of data traffic. In 2013, according to information from VATM, the number of broadband connections again rose by 0.6 million to 28.6 million. The primary beneficiaries of this were cable network operators, whose advertising praises their very high bandwidths and flat-rate connections at affordable prices. 2013 saw a sharp decline in the number of lines from alternative competitors like QSC.

Cloud Computing revenues advance by nearly 50 percent • In fact, the entire ICT market is undergoing far-reaching change, with Cloud Computing increasingly displacing the Client-Server technology that had long predominated. According to BITKOM estimates, Cloud Computing revenues in Germany grew by nearly 50 percent to € 7.8 billion. In 2013. Almost 60 percent of this total was attributable to business customers.

THE GERMAN CLOUD COMPUTING MARKET (value in € billion)

40 percent of firms utilizing Cloud aspects

According to a survey conducted by BITKOM and the certified public accounting firm of KPMG in January 2014, 40 percent of all enterprises are now utilizing at least individual aspects of the Cloud; a further 29 percent are either planning to do so or discussing the prospect. In this connection, large enterprises are already more frequently opting for Cloud Computing than small and mid-size enterprises. Regardless of their size, business customers prefer Private Cloud solutions like those implemented by QSC; the number of Private Cloud users is more than twice as high as the number of Public Cloud users.

The greatest hurdle in deploying Cloud Computing consists of concerns about unauthorized access to sensitive data: In the survey, 77 percent cited this as a reason for not employing this technology or utilizing it more intensively. Moreover, 45 percent fear a loss of data. Consequently, business customers are paying very keen attention to the regional proximity of their IT service providers. For 75 percent of them, it is an absolute must that these data centers are operated exclusively within the legal territory of the EU, and a domicile in the EU is extremely important to 73 percent. Since QSC operates its data centers exclusively in Germany, with the country's especially strict data regulations, the Company can score points in this connection in setting itself apart from the competition.

QSC feeling the impact of changes to the environment in its operating business • In 2013, QSC benefited from the noticeably rising demand for ICT solutions that incorporate the Cloud. The Company experienced the negative consequences of the change in the ICT market first and foremost in its business with resellers. As a result of market and regulatory conditions, there was a sharp decline in revenues with DSL preliminaries as well as Call-by-Call and Preselect services.

GENERAL REGULATORY CONDITIONS

Broad areas of the TC market subject to regulation • Even as an ICT provider, QSC continues to be active in the German TC market. Large areas of this market are subject to regulation by the German Federal Network Agency with the aim of continuing to assure fair competition in this market, which has only been liberalized for the past 15 years. Up until 1998, Deutsche Telekom had operated as a monopolist on the German market; among other things, it still possesses a nationwide infrastructure into all households that dates back to those days. Especially in connection with the subscriber line (local loop) – the distance between the central office or cable branch and the respective customer connection –, alternative providers continue to be dependent upon this infrastructure, which was built during Deutsche Telekom's time as a monopoly. Nor can the fiber optic networks that have recently been built in several cities serve to bring about any fundamental change in this situation. During the past fiscal year, the German Federal Network Agency issued the following rulings that are of relevance to QSC's business operations.

Final approval of fixed-network interconnection fees • On August 30, 2013, the German Federal Network Agency confirmed its provisional ruling of November 30, 2012, consisting first and foremost of a 20- to 40-percent reduction in the interconnection fees for Telekom Deutschland GmbH. This ruling was made following an extended European consolidation process and considerable criticism from the European Commission relating to the non-utilization in some cases of the so-called interconnection recommendation. The corresponding fees were also stipulated for initial alternative subscriber network operators. The term of the approval is through November 30, 2014.

Interconnection fees sink by 20 to 40 percent in 2013

Final reduction in mobile interconnection fees • On July 22, 2013, the German Federal Network Agency issued a final ruling on mobile interconnection fees. The provisional ruling of the German Federal Network Agency issued on November 19, 2012, had already contained reductions of between 45 and 47 percent relative to the previously applicable fees, and even after an extended European consolidation process and considerable criticism from the European Commission had remained unchanged. The term of this approval, too, is through November 30, 2014.

Fees for access to unbundled local loops • Following conclusion of the European consolidation process, the German Federal Network Agency approved new fees for access to local loops effective July 1, 2013. For the first time, the fees for the local loop beginning at the central office rose by € 0.11 to € 10.19 per month thanks to lower imputed depreciation terms. On the other hand, the fees for the unbundled local loop from the so-called cable branch, which are not relevant for QSC, declined by € 0.38 to € 6.79 per month. This ruling will remain valid through June 30, 2016.

Regulatory orders for alternative subscriber network operators • Multiple QSC companies received final regulatory orders relating to the approval obligation for their interconnection services effective November 20, 2013. Since these orders are based upon the actually existing network structure and there is no longer any symmetry to the spheres of influence of Deutsche Telekom, the Company will see a further shortfall in available receipts from interconnection to its own networks. For QSC, this is expected to result in a negative effect of € 8 million in revenues and € 3 million in EBITDA for fiscal 2014.

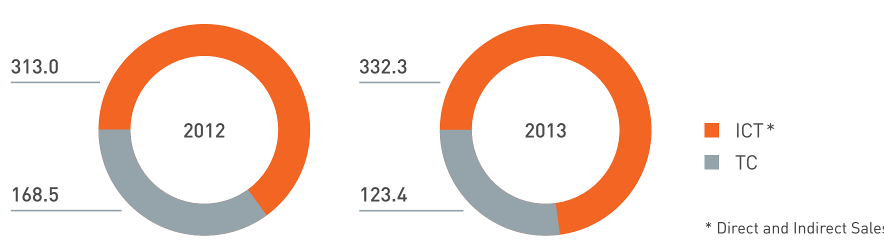
Final approval of fees for leased lines and new provisional fees • In the question of leased line products that are subject to regulation, on April 18, 2013, the German Federal Network Agency finalized the adjustment of the fees for Ethernet leased lines to reflect the pricing system for SDH (Synchronous Digital Hierarchy) leased lines, thus raising the prices to a level that is higher than the applicable SDH fees. As a result of the short approval term, which ended on October 31, 2013, the German Federal Network Agency already approved new provisional fees effective November 1, 2013, although these fees must still go through the national and European consulting processes. As opposed to the initial 2013 ruling, many of the fees that are relevant for QSC have been lowered, especially in connection with its existing-customer business, while there were further price rises for new connections.

EU recommendation on cost accounting and non-discrimination • On September 11, 2013, following intensive internal and external discussions, the European Commission promulgated its recommendation on cost accounting and non-discrimination. In addition to provisions governing the increasingly discrimination-free provisioning of local loop- and bitstream-based preliminaries, what are important, first and foremost, are the statements contained in the recommendation relating to the stability of local loop prices. In this case, the EU Commission is heightening the existing insecurity about future price development by prescribing that the existing fees be indexed, on the one hand, as well as by prescribing that network components that have already been fully depreciated be taken into consideration, on the other. The latter would lead to considerable price reductions both in Germany as well as in other countries.

COURSE OF BUSINESS

Two-track development of business • During the past fiscal year, QSC generated revenues of € 455.7 million, in contrast to € 481.5 million the year before. Regulatory- and market-induced shortfalls in conventional TC revenues were offset by rising ICT revenues.

REVENUES (in € million)



Heightened regulation reduces revenues by nearly € 30 million • Beginning in December 2012, the significant reduction in fixed-network and mobile routing and interconnection fees, alone, produced a revenue shortfall totaling nearly € 30 million year on year in the Resellers and Indirect Sales Business Units. However, since QSC typically passes on these kinds of fees to its customers, this did not result in any noteworthy profitability shortfalls. The German Federal Network Agency, however, also altered the structure of the fixed-network fees effective December 1, 2012. Since QSC, itself, operates a fixed network, this new rule reduced EBITDA by nearly € 4 million in fiscal 2013.

In addition to heightened regulation, conventional voice business was also impacted by declining voice volumes as well as stiff pricing competition in 2013. After having been able to partially avoid this market trend during the first half of 2013, QSC was forced to incur shortfalls during the second half of the year. As a result, revenues with resellers, which stem predominantly from TC business, declined by 27 percent to € 123.4 million in fiscal 2013.

Voice business burdening Indirect Sales • Nor was the Indirect Sales Business Unit able to completely offset the regulatory- and market-induced revenue shortfalls in conventional TC business in 2013 through growth in innovative ICT products, especially during the second half of 2013. Revenues totaled € 123.2 million in fiscal 2013, as opposed to € 125.1 million in 2012. Indirect Sales was especially successful in marketing IP-based voice and data services. Plus growing interest in products for the Cloud age.

Small and mid-size enterprises look for these kinds of products first and foremost at IT systems houses, IT specialty retailers, as well as regional IT service providers; QSC's targeted expansion of its partner network to include companies with the appropriate specialization that had begun in 2012 is proving its worth. However, considerable lead times are necessary before these new partners can deliver revenue and profitability contributions. Fiscal 2013 was therefore characterized by the training of new partners as well as the onset of their certification, especially for the QSC-tengo product.

Largest business unit sailing a growth course • Revenues in Direct Sales rose by 11 percent to € 209.2 million in fiscal 2013, in contrast to € 187.9 million the year before. This rise in the Company's largest business unit was based upon its ability to win numerous requests for proposals from new and existing customers, some of them stemming from the previous year. In fiscal 2012, QSC had won three major projects valued at a total of € 120.4 million and recorded total order bookings of € 193.1 million. New orders from regular business with small and mid-size customers totaled € 72.7 million. During the course of the past fiscal year, QSC was able to more than double this parameter for success in its core business to € 153.9 million, with the Company benefiting considerably more than in previous years from contract extensions with existing customers. In the case of major projects, on the other hand, there was heightened competition from globally operating IT and TC players. In connection with every request for proposals, QSC continued to adhere to the principle that each project must be able to earn a sufficient margin as well as a sufficient positive free cash flow, and has even withdrawn from ongoing requests for proposals for this reason.

Order bookings of € 153.9 million in 2013

The situation is different in the SME environment, where such factors as service, security and proximity are the decisive factors, in addition to price. Aside from numerous Outsourcing projects, the Company was also able to win challenging Consulting projects, such as the implementation of the SAP Business Warehouse on HANA at MDM Deutsche Münze, the world's largest numismatic retailer.

INFO AG merger concluded • During the past fiscal year, there were no major events relating to the course of business, itself. However, entry of the merger of INFO AG and QSC AG in the commercial register on August 6, 2013, marked the conclusion of the Company's transformation process into an ICT provider. Following the merger, QSC put in place a cross-locational organizational structure and lent consistency to its leadership structures. Further information in this regard is contained in the chapter entitled "Organizational Structure" on page 32. There were also changes at the Management Board level, as described in the chapter entitled "Corporate Governance" that begins on page 37.

SEE PAGE 32
ORGANIZATIONAL STRUCTURE
SEE PAGES 37ff.
CORPORATE GOVERNANCE

Investing in future growth • Moreover, the Company's profitability position was impacted by investments in future growth in 2013, predominantly in two areas: people and development operations. During the course of the year, the workforce rose by 204 to a total of 1,689 people, with recruitment occurring first and foremost in Direct Sales as well as in Development. (Further information is contained in the chapter entitled "Human Resources" that begins on page 50.) Higher personnel expense played a major role in the € 3.9-million rise in the development budget to € 5.9 million in fiscal 2013; the section entitled "Research and Development" that begins on page 33 contains information on the most important activities in this field.

SEE PAGES 50ff.
HUMAN RESOURCES
SEE PAGES 33ff.
RESEARCH AND DEVELOPMENT

In addition, the periodic return of a deferred income item impacted profitability for the last time during the past fiscal year. In late 2010, former Plusnet co-shareholder, Düsseldorf-based Communication Services TELE2 GmbH (TELE2), had prematurely exited as a shareholder, paying to QSC an amount totaling € 66.2 million. This amount corresponded to its pro rata share of Plusnet's ongoing costs through year-end 2013. QSC deferred this payment against TELE2's continued performance obligations, completely returning the deferred income item by year-end 2013 with an impact on profitability.

ACTUAL VS. FORECAST COURSE OF BUSINESS

QSC achieves all target parameters • Overall, operating business developed within the framework of the Company's planning in fiscal 2013. On March 4, 2013, QSC had announced guidance for the current fiscal year, predicting a two-track development with sharply rising ICT revenues and both market- and regulatory-induced declines in TC revenues. QSC thus anticipated revenues of at least € 450 million, an EBITDA margin of at least 17 percent and a free cash flow of at least € 24 million. Ultimately, QSC generated revenues of € 455.7 million in fiscal 2013, an EBITDA margin of 17 percent and a free cash flow of € 25.6 million, thus achieving all target parameters.

On the profitability side, investments in future growth were clear to see during the course of the year. In fiscal 2013, QSC increased its workforce and its development budget. While these investments serve as a foundation for rising revenues and margins over the medium term, they do impact margins near term.

PERFORMANCE INDICATORS

Regulatory-induced revenue shortfalls • QSC generated revenues of € 455.7 million in fiscal 2013, as opposed to € 481.5 million the year before. This decline was attributable to heightened regulation of conventional TC business: QSC incurred a shortfall of nearly € 30 million year on year as a result of this. Without this regulatory effect, the Company would have been able to modestly increase its revenues year on year, with declining conventional TC revenues being offset by sharply rising ICT revenues.

Regulation leads to decrease in revenues by nearly € 30 million

REVENUES (in € million)

EBITDA margin rises to 17 percent • The EBITDA margin is the second steering parameter. It rose by 1 percentage point to 17 percent in fiscal 2013, even though heightened regulation burdened profitability by nearly € 4 million and investments in growth were being pushed. This increase was attributable to successes in ICT business. In 2013, for example, Direct Sales earned an EBITDA margin of 20 percent, in contrast to 14 percent the year before; Indirect Sales earned an EBITDA margin of 25 percent, as opposed to 27 percent in 2012. In the Resellers Business Unit, on the other hand, this steering parameter stood at only 4 percent in 2013, by comparison with 11 percent the year before. Nevertheless, this business unit continues to make an important contribution toward covering infrastructure costs.

EBITDA MARGIN

Free cash flow improves to € 25.6 million • At € 25.6 million, free cash flow in fiscal 2013, too, was up from the previous year's level of € 23.6 million. QSC benefited from the high level of cash generated by operating activities and the ongoing optimization of payment streams. The following table shows the amounts of all parameters as of December 31, 2012 and 2013.

In € million	Dec. 31, 2013	Dec. 31, 2012
Net debt		
Cash and short-term deposits	58.7	34.8
Available-for-sale financial assets	0.3	0.3
Liquidity	**59.1**	**35.2**
Liabilities under financing and finance lease arrangements	(14.4)	(11.3)
Liabilities due to banks	(85.6)	(79.2)
Interest-bearing liabilities	**(100.0)**	**(90.5)**
Net debt	**(40.9)**	**(55.3)**

This increased liquidity by € 23.9 million to € 59.1 million in fiscal 2013. Interest-bearing liabilities, too, rose by € 9.5 million to € -100.0 million. This reduced net debt by € 14.4 million to € -40.9 million.
Free cash flow reflects the financial strength of operating business and therefore does not include cash used for other purposes. This applies, in particular, to obligations arising from the acquisition of enterprises and to measures aimed at enabling the shareholders to participate in the Company's success. QSC paid a dividend in the amount of € 0.09 per share last fiscal year, expending a total of € 11.1 million for this purpose. This dividend payment is not taken into consideration in calculating free cash flow, thus producing a free cash flow in the amount of € 25.6 million (rounded) for fiscal 2013.

FREE CASH FLOW (in € million)

Capital expenditures account for 9 percent of revenues • The capital expenditures (capex) ratio rose to 9 percent of revenues in fiscal 2013, by comparison with 8 percent the year before; in absolute numbers, capital expenditures rose to € 39.6 million, by comparison with € 37.9 million the year before. In fiscal 2013, this steering parameter thus again remained within the target corridor of between 6 and 10 percent of revenues.

CAPITAL EXPENDITURES (in € million)

QSC investing primarily in new customers

The higher level of capital expenditures stemmed first and foremost from preliminaries for new customers, and in particular from transitioning large Outsourcing projects that had been won in 2012 into regular operations. This necessitated preliminary investments in fixed assets and interfaces in order to assure smooth operation of the customer's IT. Overall, customer-related capital expenditures accounted for 42 percent of total capex.
22 percent of capital expenditures were used to acquire new technology, in particular for data centers. In the third quarter of 2013, for example, QSC modernized storage capacities ahead of schedule in view of increasing demand. A further 18 percent were attributable to software and licenses. Development investments are playing a growing role; capitalization of development costs accounted for 10 percent of capital expenditures during the past fiscal year. The remaining 8 percent of investments went first and foremost toward operational and office equipment.

PROFITABILITY

Disproportionate decline in cost of revenues • During the past fiscal year, cost of revenues totaled € 345.4 million on revenues of € 455.7 million. Given a revenue decline of € 25.8 million, this largest expense line item decreased by € 13.8 million from 2012. The sharp rise in personnel expense that is contained in this line item prevented an even stronger decrease: This line item rose by € 13.7 million to € 65.4 million. This rise was attributable to the Company's investments in future growth, and here in particular to the recruitment of numerous experts, especially in Direct Sales. Cost of materials, on the other hand, declined by € 24.7 million to € 200.3 million; as a result of regulation, lower interconnection fees, which QSC treats as pass-through items, impacted these revenue-based costs. The costs of building, operating and maintaining QSC's own infrastructure, too, decreased from € 43.5 million in fiscal 2012 to € 37.8 million. This line item already reflected the initial effects of the long-term contract with another network operator to optimize the Company's infrastructure that was announced in 2012. On the other hand, depreciation expense, which – in contrast to the quarterly reports and pursuant to IFRS – QSC includes in the individual expense line items in the Annual Financial Statements, rose to € 42.0 million, in contrast to € 38.9 million the year before.
Moreover, in view of the development of cost of revenues it should be noted that fiscal 2013 marked the last time that there would be a positive effect stemming from the partial return of the deferred income line item in the amount of € 20.9 million. QSC utilized this line item to record the payment received in fiscal 2011 from former Plusnet co-shareholder TELE2 and had been returning it over the course of the existing performance obligation through year-end 2013.
In fiscal 2013, the disproportionately low decrease in cost of revenues caused gross margin to decline by 1 percentage point to 24 percent. Gross profit stood at € 110.3 million, by comparison with € 122.3 million the year before.

Changes in the revenue mix make for lower sales and marketing expenses • At € 47.7 million in fiscal 2013, sales and marketing expenses were down sharply from the previous year's level of € 56.2 million. This line item essentially records personnel expense and commission payments, advertising expenses, as well as depreciation expense. In this connection, both depreciation expense as well as commissions remained below the previous year's level. In the case of commissions, this was attributable to the rising percentage of revenues generated by Direct Sales as well as ICT products, which are subject to different commission models than conventional voice products, for example.

Stable general and administrative costs in fiscal year 2013

As in the year before, general and administrative expenses amounted to € 39.0 million. This line item includes non-recurring expenses for the merger of INFO AG and QSC AG, as well as the subsequent ongoing integration of the administrations at the Cologne and Hamburg locations. This integration process had made great strides at year-end 2013; a consistent organizational and leadership structure is now in place throughout all corporate operations.

Other operating expenses decreased to € -0.5 million in fiscal 2013, by comparison with € -3.5 million the year before. On the other hand, other operating income rose from € 1.0 million to € 3.4 million. This change essentially resulted from the formation of provisions for litigation in 2012 and their partial return in fiscal 2013. Further information in this connection is contained in Note 42 of the Notes to the Consolidated Financial Statements.

Stable operating profitability • It is possible to get a better grasp of just how well profitability developed in fiscal 2013 if – as in the quarterly reports – depreciation, amortization and non-cash share-based compensation are recorded as separate line items in the Statement of Income. In conformity with IAS 1, these metrics are included in the line items for cost of revenues, sales and marketing as well as general and administrative expenses. The following abbreviated statement of income presents depreciation/amortization separately:

In € million	2013	2012
Revenues	455.7	481.5
Cost of revenues *	(303.5)	(320.2)
Gross profit	152.3	161.3
Sales and marketing expenses *	(41.8)	(46.7)
General and administrative expenses *	(35.6)	(34.1)
Other operating income	3.4	1.0
Other operating expenses	(0.5)	(3.5)
EBITDA	77.8	77.9
Depreciation/amortization		
(Incl. non-cash share-based remuneration)	(51.3)	(53.4)
Operating profit (EBIT)	26.5	24.6

* Excluding depreciation/amortization and non-cash share-based remuneration

EBITDA margin rises to 17 percent • At € 77.8 million in fiscal 2013, EBITDA remained virtually unchanged from its previous year's level of € 77.9 million. In view of regulatory-induced lower revenues, the EBITDA margin rose by 1 percentage point to 17 percent. QSC was thus able to compensate for the regulatory-induced profitability shortfalls in the amount of nearly € 4 million as well as the expensed investments in growth through the higher profitability of its operating business.

EBITDA (in € million)

Depreciation expense declined to € 51.3 million in fiscal 2013, as opposed to € 53.4 million the year before. This line item also contains non-recurring depreciation expense on the INFO AG and IP Partner brands in the amount of € 1.6 million, as – following the merger of INFO AG – QSC decided to operate consistently under the QSC brand name in the future.
Lower depreciation expense increased operating profit to € 26.5 million in fiscal 2013, by comparison with € 24.6 million the year before. The EBIT margin rose by 1 percentage point to 6 percent. As in 2012, the financial loss stood at € -3.8 million. In this connection, low market interest rates led to both a decline in financial income and expense. Earnings before income taxes thus reached € 22.7 million, as opposed to € 20.7 million in 2012.

QSC grows EBIT to € 26.5 million in 2013

Consolidated net income totals € 23.6 million • Tax profit amounted to € 0.9 million in fiscal 2013, in contrast to € -1.7 million the year before. Consolidated net income therefore totaled € 23.6 million in fiscal 2013, by comparison with € 19.0 million the year before. Undiluted earnings per share stood at € 0.19, in contrast to € 0.14 the year before.

CONSOLIDATED NET INCOME (in € million)

PROFITABILITY BY SEGMENT

Direct Sales boosts revenues and invests in growth • QSC's largest business unit, Direct Sales, grew its revenues by 11 percent to € 209.2 million in fiscal 2013. It benefited from winning numerous requests for proposals and, in particular, from winning three major projects during the course of 2012. Within the scope of these orders, some customer employees also went on the QSC payroll. At the same time, the Company recruited additional ICT experts in order to implement both these orders as well as further projects. The resulting personnel expenses played a major role in increasing cost of revenues by 16 percent to € 139.7 million in 2013.

REVENUES, DIRECT SALES (in € million)

At € 16.9 million, on the other hand, sales and marketing expenses were down from their previous year's level of € 20.0 million. Direct, targeted addressing of potential customers and the close linkage between the sales organization and project work are paying off. Given the increasing integration of INFO AG and its merger with QSC in August 2013, Direct Sales no longer had to solely bear the general and administrative expenses in fiscal 2013 of what used to be QSC's largest subsidiary. Consequently, general and administrative expenses decreased to € 12.0 million in 2013, by comparison with € 20.2 million the year before.

EBITDA margin of 20 percent in Direct Sales

Direct Sales posts sharp rise in profitability • Significantly higher revenues and lower costs enabled Direct Sales to make a leap in profitability in fiscal 2013. EBITDA improved from € 26.2 million in 2012 to € 41.6 million, while the EBITDA margin reached 20 percent, as opposed to 14 percent in 2012. Since Direct Sales is responsible for the lion's share of customer-driven capital expenditures and additionally incurred non-recurring depreciation expense on the INFO AG and IP Partner corporate names, depreciation expense rose to € 24.4 million in 2013, in contrast to € 23.3 million the year before. Similarly to EBITDA, QSC's largest business unit nevertheless succeeded in dramatically boosting its operating profit, which increased from € 2.7 million in 2012 to € 17.0 million. During this period, the EBIT margin increased from 1 percent the year before to 8 percent.

SEGMENT EBITDA, DIRECT SALES (in € million)

Direct Sales responsible for 66 percent of capital expenditures • Direct Sales' capital expenses rose to € 26.2 million during the past 2013 fiscal year, in contrast to € 25.4 million the year before. The vast majority of these capital expenses were attributable to preliminaries for new customers, in particular for transitioning Outsourcing projects into regular operations. Plus investments for ongoing modernization and optimization of the data centers.

Indirect Sales offsets virtually all regulatory-induced shortfalls • In fiscal 2013, Indirect Sales' revenues decreased only modestly from € 125.1 million the year before to € 123.2 million, even though, like the Resellers Business Unit, it was impacted by heightened regulation of the conventional TC market beginning December 1, 2012. Indirect Sales was able to offset the regulatory- and market-induced decline in conventional TC revenues through stronger demand for ICT products as well as through temporarily higher revenues with IP-based voice services.

Stronger demand for ICT products strengthens revenues

REVENUES, INDIRECT SALES (in € million)

Similarly to revenues, cost of revenues decreased by € 2.2 million to € 65.3 million in fiscal 2013. On the other hand, since Indirect Sales further expanded and strengthened its partner network, sales and marketing expenses rose to € 15.2 million, as opposed to € 14.6 million the year before. The rise in general and administrative expenses was more significant: This line item increased from € 8.3 million to € 12.6 million, as QSC has been apportioning the corresponding costs of INFO AG among all three business units since 2013.

Indirect Sales posts EBITDA margin of 25 percent • The higher general and administrative costs, which resulted from the apportionment, decreased this business unit's EBITDA in fiscal 2013: This line item reached € 31.1 million, down from € 34.0 million the year before. The EBITDA margin amounted to 25 percent, in contrast to 27 percent one year earlier. However, this means that Indirect Sales continued to achieve the highest margin of any business unit.

SEGMENT EBITDA, INDIRECT SALES (in € million)

Indirect Sales earns EBIT margin of 16 percent

Given virtually unchanged depreciation expense, the operating profit of € 20.1 remained below the previous year's level of € 22.9 million. However, this business unit's EBIT margin of 16 percent, as opposed to 18 percent the year before, continues to demonstrate the continued high profitability of partner business.

Capital expenditures down moderately • Capital expenditures of € 7.5 million in Indirect Sales remained modestly down from the previous year's level of € 7.9 million. These investments were essentially development- as well as customer- and partner-driven.

Resellers Business Unit impacted by price war and regulation • With revenues declining by € 45.1 million to € 123.4 million, cost of revenues in the Resellers Business Unit decreased merely by € 33.6 million in fiscal 2013 to € 98.5 million. This disproportionately low decline resulted first and foremost from the sustained price war in the conventional TC market. While sales and marketing expenses were down from € 12.1 million to € 9.7 million, general and administrative expenses rose from € 5.6 million in 2012 to € 11.0 million in 2013 as a result of the reapportionment of the costs of the former INFO AG.

REVENUES, RESELLERS (in € million)

Given this backdrop, EBITDA fell sharply from € 17.8 million in 2012 to € 5.0 million, with the EBITDA margin reaching only 4 percent, in contrast to 11 percent the year before. With depreciation expense in the amount of € 15.5 million, the Resellers Business Unit sustained an operating loss of € -10.7 million in 2013, as opposed to € -1.0 million one year earlier. In viewing this profitability, however, it should be remembered that the Resellers Business Unit continues to bear a considerable share of the Company's infrastructure costs, which are so important for QSC's business model.

SEGMENT EBITDA, RESELLERS (in € million)

Moderate capital expenditures for infrastructure maintenance • In fiscal 2013, the Resellers Business Unit's capital expenditures rose from € 4.7 million the year before to € 5.8 million. This rise was attributable to higher development investments and the ongoing modernization of the infrastructure.

FINANCIAL POSITION

Three major objectives in financial management • QSC's financial management serves to assure smooth financing of operating business and upcoming capital expenditures. There are three major objectives in connection with financing and investments of capital:

- Efficient management of available liquidity
- Maintaining and optimizing financeability
- Reducing financial risks

QSC invests its surplus liquidity exclusively in money market and low-risk investments; consequently, as in previous years, the Company did not have to make any write-downs on investments of capital in fiscal 2013. Foregoing the use of derivative financial instruments also helps minimize financial risks. QSC is not subject to any foreign-currency exchange rate risks, as it operates virtually exclusively within the euro zone. No guaranties existed outside the balance sheet. Further information on financial risk management is contained beginning in Note 44 to the Notes to the Consolidated Financial Statements, which begins on page 151.

SEE PAGES 151ff.
NOTES

In its financing, the Company depends primarily upon three sources: First, the Company generates a high influx of cash from operating activities, and consequently an attractive free cash flow. Second, working capital is constantly being optimized with a view to management of accounts payable and receivable. And third, the Company utilizes a line of credit totaling € 140 as of December 31, 2013. This line of credit, which was arranged with a banking consortium in September 2011, has a term of five years; 63 percent of this line of credit were being utilized as of December 31, 2013. Guarantees accounted for € 15.7 million of the € 88.7 million amount that was being utilized from the line of credit.

QSC utilizing
€ 140-million
line of credit

Rising cash flows from operating activities • QSC's operating financial strength is underscored by the rise in cash flow from operating activities from € 61.0 million in 2012 to € 64.2 million. Here, too, the ongoing optimization of working capital had a positive impact.
Cash used in investing activities declined to € -31.7 million in fiscal 2013, as opposed to € -33.2 million the year before. At € -8.6 million, cash used in investing activities was down sharply from the previous year's level of € -16.7 million, as QSC took out fewer new loans in fiscal 2013 than the year before. In 2012, the share buy-back program, alone, had led to cash outflows in the amount of € 29.1 million.

CASH FLOW FROM OPERATING ACTIVITIES (in € million)

NET WORTH

Very solid balance sheet structure • Moderate capital expenditures and ongoing depreciation are reducing the value of long-term assets in the Consolidated Balance Sheet from year to year. As of December 31, 2013, long-term assets totaled € 272.0 million, in contrast to € 279.4 million the year before. These long-term assets accounted for 69 percent of the balance sheet total of € 392.0 million as of December 31, 2013; 31 percent were attributable to short-term assets, which rose from € 107.7 million the year before to € 120.0 million as of December 31, 2013, primarily due to the strong rise in liquidity.

Equity ratio stands at 49 percent

On the Shareholders' Equity and Liabilities side, 49 percent of these assets are financed through shareholders' equity, and 51 percent through outside capital. This rise in the equity ratio was attributable to QSC's ongoing cumulative consolidated income as well as to the withdrawal of treasury shares. At year-end 2013, shareholders' equity and long-term liabilities were covering 109 percent of the value of long-term assets; as of December 31, 2012, this metric had stood at only 99 percent. This rise underscores the soundness of the balance sheet.

Regular depreciation decreases value of property, plant and equipment • Long-term assets essentially contain four major line items: Property, plant and equipment; land and buildings; goodwill; as well as other intangible assets. As a result of scheduled depreciation, the value of property, plant and equipment declined to € 93.9 million as of December 31, 2013, by comparison with € 107.6 million one year earlier. For the same reason, the valuation of land and buildings decreased modestly to € 26.8 million, compared to € 27.3 million the year before. Goodwill remained unchanged at € 76.3 million; further information on its valuation is contained in Note 16 to these Consolidated Financial Statements. Due to capitalization of in-house developments, the value of other intangible assets rose to € 52.8 million from € 50.5 million as of December 31, 2012.

Liquidity up significantly as of December 31, 2013 • Within short-term assets, trade accounts receivable totaling € 52.5 million as of December 31, 2013, were down from their previous year's level of € 63.8 million at the balance sheet date. Further information on the value of these accounts receivable can be found in Note 18 to the Consolidated Financial Statements. The second major line item within short-term assets, cash and cash equivalents, rose significantly to € 58.7 million as of December 31, 2013, in contrast to € 34.8 million at year-end 2012.

Shareholders' equity up following withdrawal of treasury shares • On the Shareholders' Equity and Liabilities side of the Consolidated Balance Sheet, shareholders' equity rose to € 193.9 million as of December 31, 2013, compared to € 180.2 million as of December 31, 2012. Capital stock decreased by € 13.2 million to € 124.1 million; a decline in the amount of € 13.6 million due to the withdrawal of treasury shares at the outset of the year was offset by a € 0.4-million rise stemming from the conversion of convertible bonds by employees during the course of the year.

Within the framework of the share buy-back program, QSC had still been recording the shares that had been acquired during the course of fiscal 2012 separately at their nominal value as of December 31, 2012.
The accumulated deficit decreased to € -70.3 million as of December 31, 2013, compared to € -82.8 million one year earlier. QSC recorded the dividend payment in the amount of € 11.1 million directly under this line item. On the other hand, consolidated net income of € 23.6 million reduced the accumulated deficit during the past fiscal year.

Declining liabilities • Total liabilities declined from € 206.9 million the year before to € 198.2 million as of December 31, 2013. In this connection, long-term liabilities rose to € 103.3 million, in contrast to € 96.0 million as of December 31, 2012. This was caused essentially by a € 7.9-million rise in liabilities due to banks to € 82.7 million.
Short-term liabilities, on the contrary, declined from € 110.9 million as of December 31, 2012, to € 94.9 million. While trade accounts payable rose by € 5.5 million to € 58.0 million as of December 31, 2013, deferrals decreased by € 19.3 million to € 4.2 million Euro. QSC utilized this line item first and foremost to record payments received from former Plusnet co-shareholder TELE2 through year-end 2013.

Debt at moderate level • QSC's sound financing position is underscored with a view to its net debt. As detailed on page 61 of this Annual Report, this metric decreased by € 14.4 million to € -40.9 million as of December 31, 2013. QSC continues to far surpass the values of other technology players with a 0.5 ratio between net debt and EBITDA. Given large influxes of cash from operating activities and moderate capital expenditures, the Company continues to view itself as being very well and soundly financed.

SEE PAGE 61
PERFORMANCE INDICATORS

GENERAL REMARKS

Evolution into an ICT provider is paying off • In fiscal 2013, QSC achieved all of the goals it had announced at the outset of the year. In this connection, the Company benefited from rising revenues in its largest business unit, Direct Sales. While Indirect Sales was able to further expand its ICT business, it was forced to incur regulatory- and market-induced shortfalls in TC revenues. The difficult environment in TC business led to a significant decrease in revenues with resellers in 2013. QSC views the two-track development of ICT and TC business as an affirmation of the strategy that it has pursued of rigorously evolving into an ICT provider. In fiscal 2013, the Company made considerable investments in future growth, beefing up its human resources and development budgets, in particular. In this connection, it was found that it can take longer than originally anticipated before an in-house developed product is truly ready for market and can begin generating revenues.

QSC investing considerably in future growth

For the last time in 2013, the Company enjoyed a positive profitability effect from the return of the deferred income line item that had been formed in conjunction with the payment to QSC by former Plusnet co-shareholder TELE2. This return did not have any impact on the Company's financial position during the past fiscal year. QSC was again able to grow its free cash flow in 2013, even though the Company invested in future growth and considerably increased capital expenditures, themselves. This growing financial strength serves as the foundation for the Management Board's proposal that the dividend again be increased for the past fiscal year.

Subsequent Events

QSC is not aware of any reportable events of particular importance subsequent to the close of the fiscal year.

Outlook Report

GENERAL REMARKS ON FURTHER DEVELOPMENT

2014 sees QSC investing in future growth • During the past fiscal year, QSC increasingly invested in future growth and specifically expanded the Company's marketing and development know-how. The Company will sustain this strategy in fiscal 2014, first and foremost driving the development of innovative ICT and Cloud products; this might also occur through the acquisition of smaller technology companies. Depending upon the progress that is made in bringing these kinds of innovations to market, QSC anticipates revenues of between € 450 and € 470 million for 2014, along with an EBITDA of between € 60 and € 70 million and a free cash flow of between € 26 and € 32 million.

Free cash flow of between €26m and €32m anticipated for FY'14

As in 2013, revenues are likely to develop on a two-track basis: Rising ICT revenues will be offset by significant market- and regulatory-induced TC revenue shortfalls. This decline, as well as heightened pricing competition, chiefly in ADSL2+ business, are expected to impact the Company's EBITDA on the order of nearly € 10 million in fiscal 2014. Moreover, QSC will no longer be able to benefit from the return of a deferred income line item in the amount of some € 20 million per year, with its impact on the income statement; this deferral had been created in connection with a payment received from former Plusnet co-shareholder TELE2 and had been returned on a periodic basis through 2013. Since this return had no impact on liquidity, the Company's planning calls for a renewed rise in free cash flow in fiscal 2014, in spite of higher investments in future growth. The Reports on Opportunities and Risks that begin on pages 76 and 79, respectively, provide information about potential developments that could result in variances from the guidance contained in this Annual Report.

SEE PAGES 76ff.
REPORT ON OPPORTUNITIES

FUTURE ENVIRONMENT

Economy recovering • Following two years of stagnation, most economic experts feel that the German economy is poised for an upswing in 2014. It is benefiting both from the recovery of the world economy and the ability of key European countries to overcome the recession, as well as from the positive mood on the part of consumers and producers in Germany. Given this basis, in its annual economic report for the current year, the German Federal Government anticipates that gross domestic product will rise by 1.8 percent.

DEVELOPMENT OF GERMANY'S GROSS DOMESTIC PRODUCT (GDP)

The ICT market is also included in this upswing. Industry association BITKOM is forecasting that the previous year's stagnation will be followed by a 1.6-percent rise in revenues to € 154.4 billion in 2014. And the association expects to see even stronger growth in the IT industry: Revenues here could rise by 2.8 percent to € 76.8 billion. In addition to software business, revenues with IT services like Outsourcing are also growing – at an expected rate of 3.1 percent to € 36.8 billion. The TC market is developing on a weaker note. While BITKOM is calling for modest growth of 0.5 percent overall here, this is attributable solely to booming smartphone sales and the resulting higher revenues with mobile data services. Revenues generated by fixed-network voice services, on the other hand, are expected to once again contract, decreasing by 7 percent over the course of the year to € 10.5 billion. And the declines in mobile communication will be even greater. BITKOM emphasizes that these declines are attributable not only to stiff pricing competition, but also to intervention on the part of government regulatory authorities.

THE GERMAN ICT MARKET (value in € billion)

As a result of the new regulatory orders issued by the German Federal Network Agency in November 2013, QSC will incur estimated revenue shortfalls on the order of € 8 million and an EBITDA decrease of € 3 million during the current fiscal year. And both the EU and the German Federal Network Agency are likely to strive for further decreases in regulated fees in the future, as well. Approval for the fixed-network and mobile interconnection fees are set to expire on November 30, 2014. It can be expected that the regulators will urge further reductions.

Cloud revenues rise by 39 percent

Cloud Computing establishing itself • While the conventional TC market is suffering from heightened regulation, new opportunities are opening up in the ICT market: Cloud Computing is developing into the key growth driver. BITKOM is predicting that revenues in Germany will rise by 39 percent to € 10.8 billion during the current fiscal year, with business customers accounting for nearly two-thirds of these revenues.

ANTICIPATED PROFITABILITY

TC business masking successes in ICT business • QSC anticipates revenues of between € 450 and € 470 million for the current fiscal year, in contrast to € 455.7 million in fiscal 2013. Rising ICT revenues will be offset by market- and regulatory-inducted TC revenue shortfalls. QSC expects to see the current fiscal year get off to a slow start. Outsourcing and Consulting business traditionally does not pick up speed until later in the year.

REVENUES (in € million)

Investments in future growth to impact EBITDA near term • QSC's planning calls for an EBITDA of between € 60 and € 70 million for fiscal 2014. This year-on-year decrease is essentially attributable to the return of the deferred income line item, which occurred for the last time in fiscal 2013; QSC had received a payment in connection with the timing of the exit of former Plusnet shareholder TELE2, which it had been returning as income over the period through year-end 2013. In fiscal 2013, this resulted in a € 20.9-million contribution to profitability. A long-term contact with another network operator is producing savings of a similar magnitude in the costs of operating and maintaining the Company's own infrastructure. In fact, some of these savings had already been achieved in fiscal 2013.

EBITDA (in € million)

In addition, stiff pricing competition in the TC market as well as investments in future growth during the current fiscal year will additionally burden profitability. QSC's planning calls for an approximately € 15-million higher personnel budget than in 2013, as well as an approximately € 5-million higher development budget. On the other hand, profitability will be increased by the sustained shift in revenues from low-margin TC to higher-margin ICT business.

Higher personnel and development budgets at QSC

ANTICIPATED PROFITABILITY BY SEGMENT

Sustained growth in Direct Sales • Direct Sales is likely to again grow faster than the market for IT services in Germany in fiscal 2014. However, since total order bookings in 2013 had been down from the previous year's level, the growth rate is unlikely to be able to match the 11-percent mark that was achieved in 2013. Nevertheless, Direct Sales will further broaden its position as the Company's largest business unit, intensify its relationships with existing customers, and push new SME business. While the significant expansion of the workforce during the course of fiscal 2013 will temporarily impact the margin situation during the current fiscal year, the larger team has now created the basis for winning new requests for proposals as well as for QSC's planned growth beyond 2014.

As in the year before, QSC anticipates that Indirect Sales will develop on a stable note. Rising ICT revenues will offset declining TC revenues. QSC is increasingly also offering its sales partners

standardized Cloud services. The faster Cloud Computing is accepted by small and mid-size enterprises and the sooner QSC can bring its in-house developed products to market, the greater will be this business unit's anticipated revenue and profitability contributions.
The Company anticipates that revenues in business with resellers will decline in fiscal 2014 due to the continued difficult environment in conventional TC business. Moreover, pricing competition in these lines of business is likely to have a greater impact on margins than in previous years. Nor are in-house developed Cloud-based services yet able to compensate for these declines in revenues and profitability. However, interest in pilot projects on the basis of QSC's own solucon Cloud platform shows just how much profitability potential the Company's intensive development work will open up for this business unit, too, in the coming years.

ANTICIPATED FINANCIAL POSITION AND NET WORTH

High cash influxes from operating business • As in previous years, QSC expects to see operating activities generate high levels of cash in fiscal 2014. On the other hand, the cash burn for investing activities is expected to be moderate. The focus is on customer-related investments, especially during the run-up to the launch of new Outsourcing projects, on ongoing optimization of data center capacities, as well as on investments related to development. The capex ratio is likely to remain within a corridor of between 6 and 10 percent of revenues. Moderate capital expenditures, on the one hand, and a strong influx of cash from operating activities, on the other, will enable the Company to again increase free cash flow, to between € 26 and € 32 million. This metric relates only to operating business, and not to obligations stemming from acquisitions or measures aimed at enabling shareholders to participate in the Company's success, such as the dividend.

FREE CASH FLOW (in € million)

The positive free cash flow increases the Company's freedom of action in financial matters and strengthens its ability to finance from within. Moreover, a line of credit that is currently being only partially utilized affords the necessary financial strength for the planned investments in both internal and external growth. Nevertheless, given the sustained low interest-rate phase, QSC plans to realign its financing during the current fiscal year.

Management Board striving to steadily increase dividend

QSC striving to further increase the dividend • Given its sound financing, QSC will be able to continue to enable its shareholders to participate in the Company's success. The planned dividend for the 2013 fiscal year in the amount of € 0.10 per share would represent the benchmark for subsequent years, with the Management Board striving for a steady rise in the dividend.

Report on Opportunities

MANAGEMENT OF OPPORTUNITIES

Decentralized responsibility for opportunity management • Far-sighted, intelligent management of opportunities is an absolute prerequisite for implementing the Company's ambitious growth and innovation strategy. Moreover, the ICT and Cloud markets, themselves, are characterized by strong dynamics; this is repeatedly producing new opportunities for QSC. The responsibility for identifying and taking advantage of opportunities rests with the business units. They are familiar with their specific market environments and are aware of the resulting potential. In addition, the leaders there utilize market and competition analyses, internal studies and market research findings, as well as feedback about customer interaction provided by the Sales organization. The leaders regularly report to the Management Board on existing opportunities and the measures needed to seize them; the Supervisory Board's Strategy Committee also regularly deals with this issue. Concrete opportunities are input into the rolling planning, with a review being made early on as to the risks involved in pursuing and implementing these opportunities. The payoff from the close linkage between managing risks and opportunities is especially clear to see here. QSC reports below on future developments and events that could lead to a positive variance from the Company's guidance, as described within the context of this Consolidated Management Report. Similarly to risks, the Company classifies opportunities as "major" opportunities with a comparatively high probability of occurring and making a considerable positive contribution toward QSC's profitability, financial position and net worth.

INDIVIDUAL OPPORTUNITIES

Acquisitions • In generating innovations in all three business units, QSC relies not only on its in-house resources, but also includes acquisitions in its strategic considerations. The focus is on smaller enterprises that possess special technology or market know-how. During the current fiscal year, QSC might be able to acquire one or even several companies of this type. On the one hand, these acquisitions could provide a positive contribution toward revenues and profitability. On the other, the fact must be taken into consideration that acquisitions of this kind typically also involve additional expenses in an initial phase, for example for integration and sales and marketing support. Moreover, start-ups often incur start-up losses during the early years.

QSC planning one or even several acquisitions in 2014

QSC has recently broadened its ability to identify these kinds of young technology companies early on, and establish and intensify appropriate contacts. At the same time, the Company has created an organizational structure that allows it to give smaller units the necessary latitude for their further development, on the one hand, while offering them a framework for sales, marketing and administration on the other. Moreover, in the past QSC has repeatedly demonstrated its ability to assure swift and smooth integration and to master the risks involved. With a view to its considerable financial latitude, the Company therefore sees itself as being well equipped for potential acquisitions.

Winning major projects • Direct Sales is repeatedly participating in requests for proposals for major Outsourcing projects involving multiple-year terms and a contract volume that typically exceeds € 15 million. In going after these kinds of major projects, QSC is operating in a highly competitive environment, where globally operating IT and TC players are endeavoring to win market share at the expense of margin, sometimes utilizing a low-price strategy. QSC does not choose to participate in these kinds of bidding wars and withdraws from ongoing requests for proposals if it is not possible to earn a sufficient margin and a positive cash flow.
There are three reasons, first and foremost, why there are good prospects that Direct Sales will be able to win major projects in fiscal 2014, just as it most recently did in 2012: First, the Company's infrastructure and all of its data centers are located in Germany, and are thus subject to Germany's strict data protection rules – an important argument in times of intensive debate about the security of cross-border data communication. Second, QSC is hard at work driving the industrialization of IT, thus enabling the Company to further enhance its competitiveness. And third, because it is a mid-size enterprise, itself, QSC can set the Company apart from global providers and score points with such issues as proximity, personal service and fast decision-making.

Increased demand for Cloud products • The Company debuted its first in-house developed Cloud product to the public at CeBIT 2013: QSC-tengo. And further products followed during the course of the year. Experience with QSC-tengo shows that it can take quite some time to market an innovation like this. In this connection, the need is to both ready ongoing operations as well as to win and train sales partners and then conduct joint marketing campaigns with these partners. The opportunity exists, especially in Indirect Sales, that Cloud products like QSC-tengo will make faster inroads into the market than expected in fiscal 2014. In spite of the current debate regarding the eavesdropping potential of foreign secret services, a growing number of small and mid-size enterprises might be able to overcome their skepticism about Cloud solutions in view of the efficiency and cost advantages they offer, and talk with their sales partners about this issue. The greater the desire on the part of end-customers, the greater the demand on the part of QSC's partners in Indirect Sales (and also in the Resellers Business Unit) to swiftly add new Cloud products to their portfolios and actively market them. Given this backdrop, QSC is sustaining its intensive innovation activities, while at the same time utilizing direct customer contacts and sales to create the transparency that is required in order to further reduce the inhibition threshold regarding the use of Cloud products.

Cloud products offer efficiency and cost advantages

Broadening the portfolio of products, services and solutions • QSC is pursuing a dedicated innovation strategy, and significantly expanded its development capacities in fiscal 2013. With solucon, the Company possesses a high-performance, secure service platform as the basis for simply and swiftly provisioning Cloud applications. It has open interfaces, which also makes it suitable as a platform for external partners. Moreover, the Company is also involved in a number of highly promising research projects.

In the Indirect Sales and Resellers Business Units, there is a possibility that innovations which build upon the above will already be ready for market in fiscal 2014. On the one hand, this hinges upon making further progress in the Company's own development work and, on the other, upon the willingness of partners to drive innovations with the requisite resolve, either together with QSC or on their own. With pilot projects like the presentation of the potential applications for solucon in home automation at the 2013 International Radio Exhibition, QSC is familiarizing numerous decision-makers with this platform, while simultaneously systematically expanding its own network. These kinds of contacts also spark new approaches to applications that foster internal development work. Against this backdrop, QSC does not preclude the possibility of already readying for market innovations that offer considerable revenue and profitability potential during the further course of 2014.

Innovations could be ready for market as soon as 2014

Report on Risks

MANAGEMENT OF RISKS

SEE PAGES 76ff.
REPORT ON OPPORTUNITIES

Risk management the basis for decisions

Risk management the foundation for decision-making • QSC is pursuing an ambitious growth and innovation strategy. What is needed for this in view of constantly changing markets is a comprehensive system of risk and opportunity management. While the Report on Opportunities that begins on page 76 focuses on just this issue, the Company reports below on internal and external events, acts or omissions that could pose a potential threat to the success or even the very survival of QSC. The risk management system (RMS) comprises intercoordinated rules, measures and procedures for dealing with risks. It is intended to identify, analyze, assess, control and monitor these kinds of risk-laden developments as early on as possible in order to ensure the Company's success over the long term. The consistent risk management system serves as the basis for decision-making at QSC and all of its subsidiaries.

ORGANIZATION AND PROCEDURES

Risk management system optimized in fiscal 2013 • To assure the effectiveness of the risk management system and the aggregation of risks, as well as to enable transparent reporting, QSC instituted a consistent, integrated risk management system throughout the organization, and has further optimized it during the past fiscal year. The employment of risk management software afforded an even more precise classification of risks, and as a result an even stronger focus on major risks.

This risk management system is an integral element of the decision-making process. It assures that risk assessments are taken into consideration in connection with all decisions and that measures to reduce any risks are initiated early on. Regular reporting helps to raise the awareness for risk management on the part of all individuals who bear responsibility. The RMS is accompanied by guidelines, standard operating procedures and process instructions, which ensure its implementation in everyday operations.

Risk Management and Finance play a key role in the RMS: Corporate Risk Management is responsible for the quarterly risk reports, conducts personal, on-site quarterly audits and serves all areas throughout the organization as a constant point of contact. Finance is responsible for monitoring risks on the basis of operating and financial performance indicators.

Ongoing monitoring and assessment of risks that arise is in the hands of risk coordinators, who report their findings to Corporate Risk Management either ad hoc or within the framework of the quarterly audits. This assures that QSC will be able to identify potential risks in its operating business early on. The risk coordinators use this as the basis for regularly reviewing their areas of responsibility to determine whether previously unidentified risks have arisen and whether there has been a change in existing risks.

Ongoing reporting to the Management Board • Corporate Risk Management oversees the introduction of and compliance with all risk-avoidance and risk-reduction measures. It additionally handles consolidation and documentation of the risks assessed by the risk coordinators. Corporate Risk Management utilizes the risk reports as the basis for compiling a compact report utilizing the "R2C" software detailed under "Assessment Methodology." Reporting is performed quarterly and ad hoc if necessary.

At least once a year, the Management Board informs the Supervisory Board in the form of a detailed risk report, while additionally using the RMS as the basis for also informing the Supervisory Board about all newly arising major risks.

A risk management policy issued by the Management Board governs the way risks are dealt with in the manner described here and defines the risk management process and organization. The policy is regularly reviewed and modified as needed, however, at least annually.

The RMS is regularly reviewed by Internal Auditing. During the course of the annual audit, the external auditor additionally reviews whether the RMS is suitable for identifying survival-endangering risks.

Beginning on page 151, the Notes to the Consolidated Financial Statements contain further information on the RMS concerning the disclosure requirements relating to financial instruments in accordance with IFRS 7.

SEE PAGES 151ff.
NOTES

ASSESSMENT METHODOLOGY

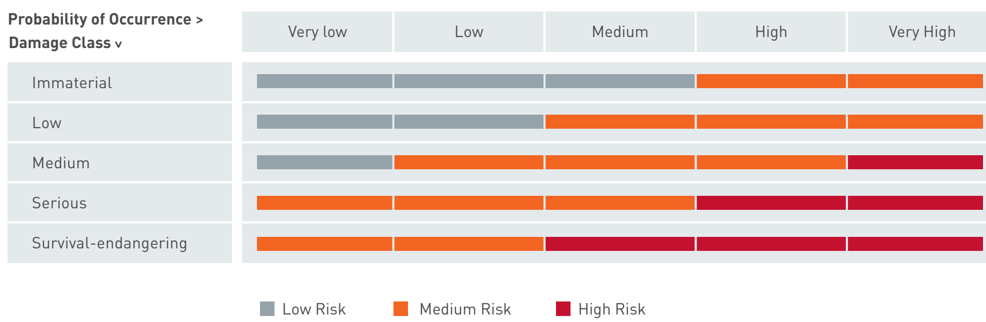
Risks classified on the basis of two parameters • The Risk to Chance (R2C) tool – a risk management suite of software – supports the entire risk management process throughout the organization. This tool uses a gross view to classify a risk as being "high," "medium" or "low" on the basis of the estimated probability of its occurrence and its potential impact. The classification results cumulatively from the allocation of risks to the respective categories; in the case of the probability of occurrence, these categories are "very low," "low," "medium," "high" and "very high," while their impacts are classified as "immaterial," "low," "medium," "serious" and "survival-endangering." In the case of the highest impact category, "survival-endangering," serious financial damage must be accompanied by an actual or legal circumstance that would endanger QSC's survival. All assessments and the accompanying comments and requirements are qualitative in nature, and quantitative only in exceptional cases.

Risks assessed qualitatively

This risk analysis and categorization is followed by measures aimed at dealing with and monitoring risks. These serve to

- Reduce existing risks through the employment of appropriate measures
- Secure against risks through accruals/provisions and insurance coverage where economically meaningful
- Heighten awareness for existing residual risks and/or risk acceptance.

CLASSIFICATION OF RISKS



Assessment of probability of occurrence

Very low:	The risk occurs rarely to never
Low:	The risk occurs with low frequency (not more than once every 5 years)
Medium:	The risk occurs with medium frequency (around once a year)
High:	The risk occurs frequently (more than once a year)
Very high:	The risk occurs very frequently (around once a month or more)

Damage class (Estimated damage in the event of occurrence)

Immaterial:	Under € 50,000
Low:	€ 50,000 to € 250,000
Medium:	€ 250,000 to € 1,000,000
Serious:	Over € 1,000,000
Survival-endangering:	As a result of legal or actual circumstances occurring

All risks are initially compiled in a gross view without consideration to their impact and to the institution of suitable measures. In this status, classification as "survival-endangering" will only lead to an overall assessment of "high" if there is at least a "medium" probability of occurrence. Survival-endangering risks that are assessed as having only a very low or little probability of occurrence – without any more far-reaching net view – are therefore not classified as "high" for ongoing observation, and are thus not viewed as directly endangering survival overall. These include such general risks as global catastrophes, collapse of the financial system, war, etc. It is not relevant to operating business for these unlikely scenarios to be intensively tracked, which is why they are not subject to the risk management system.

The net view is decisive • Given this backdrop, the decisive factor in the assessment is the net view of risks. An assessment of the above-indicated gross view is made by the risk coordinators, with the further procedure for dealing with these risks then being stipulated. As explained above, this can mean reduction of the risk exposure through appropriate measures, securing against the risk through accruals/provisions and insurance coverage, as well as heightening awareness for and/or acceptance of existing residual risks. The subsequent net view, which is typically determined on a qualitative basis, serves as the foundation for creating a ranking and the resulting risk report.

SUPPLEMENTARY INFORMATION PURSUANT TO § 315, Para. 2, No. 5 German Commercial Code

Accounting risks subject to ongoing monitoring • Accounting-related risk management is an integral element of the RMS. The billing and accounting risks are constantly monitored, with the results being included in the Group-wide reporting. Within the framework of the audit of the Annual Financial Statements, the auditor also reviews the accounting process and the IT systems that are employed for this purpose. On the basis of the auditor's observations, both the Supervisory Board's Audit Committee as well as the full Supervisory Board deal with the accounting-related internal control system.

QSC details the major characteristics of this RMS below:

- QSC possesses a clear management and corporate structure. The accounting for all subsidiaries is handled either by QSC AG, itself, on the basis of contracts for services or work, or is handled in close collaboration with the subsidiaries. The individuals at the subsidiaries who are responsible for the individual processes are clearly named.
- Among other things, QSC assures strict compliance with both statutory requirements as well as International Financial Reporting Standards (IFRS) through the employment of qualified professionals, specific and ongoing continuing education for these professionals, the strict observance of the four-eyes principle through the organizational separation of execution, billing and approval functions, as well as through a clear separation of roles in creating and posting documents, as well as in Controlling.
- QSC utilizes a suite of standard software from SAP; the process of lending consistency to the versions that were being employed began during the course of fiscal 2013.
- The accounting software is comprehensively safeguarded against unauthorized access. It ensures that all major business transactions at all companies are recorded consistently, properly and in a timely manner.
- A set of Accounting Principles serves as the basis for accounting and consolidation at all Group companies. After being drawn up, the individual financial statements are transferred to a consistent consolidation system that ensures elimination of intercompany transactions. This system then provides the basis for the Consolidated Financial Statements as well as the major information in the Notes to the Consolidated Financial Statements.
- Monthly Group-wide reporting ensures early identification of potential risks during the course of the year. It includes all accounting processes that are of relevance for the consolidated Group, such as consolidation of capital, debt, expense and earnings.

Monthly reporting enables early identification of risks

With these measures, QSC provides the required transparency in its accounting and prevents to the greatest possible extent the occurrence of potential risks in this process, in spite of the enormous complexity of IFRS.

INDIVIDUAL RISKS

The focus is on high risks • Risk monitoring does not focus on the risks identified by the gross evaluation, but on the actual risk exposure after taking measures into consideration. The following relevant risks were assessed as "high" within the framework of the net view.

Decline of conventional voice telephony • German fixed-network voice call volumes have been declining for years. Moreover, the share of this declining market that is accounted for by Call-by-Call and Preselect business is sinking. Instead, Germans are increasingly opting for fixed-network flat-rate plans and for mobile communication instead of a fixed network. In addition, stiff pricing competition prevails in this contracting market. Moreover, a heightened regulatory environment is reducing revenues. "Regulatory risks" below provides separate information relating to the risks in this connection.

QSC reducing its dependence on TC business for years

Through its evolution into an ICT provider, QSC has been reducing its dependence upon TC business for years. In addition, the Company has combated the risk of revenue losses in this traditional line of business by building a fully IP-based NGN early on. At the same time, QSC is reviewing whether and to what extent it would be possible to sustain its voice offerings under competitive conditions following a potential expiration of further regulation. Regardless of this, the Company is assuming that revenues in the conventional TC market will continue to decline in the coming years and that there will be a further heightening of pressure on margins. This applies to the Resellers Business Unit, in particular, and to Indirect Sales. On the other hand, the Company will be able to further grow its revenues in the ICT market.

Cross-border projects • QSC focuses on the German market. However, small and mid-size enterprises in Direct Sales are increasingly asking for cross-border services. International issues also play a role in many major requests for proposals; this could involve data center locations outside Germany, international links or international 24/7 services.
QSC is combating this risk in Direct Sales by strengthening and broadening its international activities. For years, the Company has already been offering cross-border solutions in connection with major networking projects, which gives it extensive experience in this field. Moreover, QSC is developing an international networking concept. Partners in other major markets are additionally playing a major role; QSC is expanding its partner network and intensifying existing partnerships in order to be able to offer its customers the international solutions they desire, especially in Direct Sales. In return, these partners also collaborate with QSC in implementing ICT solutions in Germany. Even though the focus of its business activities continues to be on the German market, QSC is thus gradually broadening its competence in cross-border projects.

License management • In Direct Sales, QSC utilizes licenses from other providers within the framework of Outsourcing and Consulting projects, on the one hand, and is steadily expanding its portfolio of Company-held licenses through increased developed activity, on the other. This is placing greater demands on both internal and customer-related license management, as licensing models are constantly evolving. The risk exists that there is potential for incurring considerable damages and indemnification claims as a result of over- or under-licensing in Direct Sales. QSC is combating this risk by expanding its license management operations, rigorously monitoring all licenses utilized, and systematically expanding the administration and marketing of its own licenses.

QSC rigorously monitoring all licenses in use

Regulatory risks • Even as an ICT provider, QSC continues to be active in the regulated German TC market. Following the creation of the new national German government in late 2013 and the resulting shift in competence for telecommunications issues to the Ministry of Transportation, in particular, there is a trend on the part of the political community, and thus indirectly the German Federal Network Agency, to end regulation of various markets and to restrict themselves in the future to monitoring these markets so as to intervene retroactively under general fair competition legislation if necessary. An amended recommendation regarding markets to be subject to preliminary regulation is expected in the autumn of 2014. There is a risk that the coming years will see a further decline in the number of regulated markets. This could increase the pricing latitude of Deutsche Telekom AG (DTAG) in markets that have already been removed from regulation. In addition, there is a risk that regionalization would be accomplished in certain regulated markets for preliminaries, in particular bitstream and subscriber lines (local loops), in such a way that certain preliminaries are no longer available in highly competitive geographical sub-markets (e.g. metropolitan areas).

Previous experiences with the end of regulation in various markets show that public monitoring of DTAG's competitive behavior will not be sufficient to keep it from exploiting its newly won freedom. However, QSC anticipates that a sustained public discussion in combination with public disclosure of pertinent cases will foster behavior that is in conformity with the rules of fair competition, and that the German Federal Network Agency or the German Cartel Office will otherwise make use of their legal options.

Moreover, because of its own infrastructure QSC is significantly less dependent upon DTAG's resale prices for voice and data services than most other ICT providers. Nevertheless, it is especially an aggressive pricing policy on the part of DTAG in both the preliminaries and end-customer markets outside the boundaries set by regulation or cartel law or in markets that are no longer being regulated that could have a negative impact on the margin situation in the German TC market. And this has been seen to be the case in several situations in fiscal 2013.

This being so, QSC is counting on viable oversight by the German Federal Network Agency and the European Commission. The Company is limiting the potential risks by intensively monitoring the regulatory landscape as well as through its ongoing participation in the discussion of and by commenting on various proceedings.

GENERAL REMARKS

No major identifiable risks • Given the potential scope of damage and the likelihood that these and further potential risks could occur, no risks can presently be seen that could lead to a sustained material impairment of net worth, financial position or profitability during the current fiscal year. Organizationally, all meaningful and reasonable prerequisites have been put in place so that the Company can be informed early on in the event of potential risk situations and thereby take appropriate action.

Nevertheless, due to these or other risks and incorrect assumptions, QSC's actual future results could vary materially from the expectations of the Company and its management. All statements contained in these Consolidated Financial Statements that are not historical facts are forward-looking statements. They are based upon current expectations and projections of future events, and are subject to regular review within the context of the risk management system.

Information Relating to Acquisition Law

Customary rules for a publicly traded corporation. The following overview contains comments on the mandatory statements pursuant to § 315, Para. 4, of the German Commercial Code ("HGB"). Overall, these are rules that are typical and customary at publicly traded corporations. The following information presents an overview of the conditions that prevailed on the balance sheet date.

Composition of capital stock • The capital stock of QSC as of December 31, 2013, amounted to € 124,057,487, and was classified into 124,057,487 no-par registered shares of common stock. According to the Register of Shares, the capital stock was divided among 29,345 shareholders as of December 31, 2013. On January 16, 2013, the capital stock was decreased by € 13,629,913 through the withdrawal from circulation of 13,629,913 no-par registered shares that had up until then been held by QSC AG, accounting for a mathematical percentage of capital stock of € 1.00 per share.

Limitations of voting rights or transfers of shares • Each share possesses one vote. On March 4, 2013, Dr. Bernd Schlobohm and Gerd Eickers notified QSC that they had entered into a voting trust and pooling agreement providing for consistent exercise of their voting rights and restrictions relating to the disposition of pool-bound shares, which Gerd Eickers Vermögensverwaltungs GmbH & Co. KG joined on June 10, 2013. Aside from this, the Management Board is not aware of either limitations to voting rights or restrictions on the transfer of shares.

Direct or indirect holdings of more than 10 percent of capital stock • Gerd Eickers and Dr. Bernd Schlobohm have each notified us that their direct and indirect voting rights pursuant to § 22, Para. 2, Sent. 1, German Securities Trading Act in QSC AG amounted to 25.09 percent (31,045,856 votes) on March 4, 2013. Of this total, 12.52 percent (15,493,372 votes) were allocated to Gerd Eickers by Dr. Schlobohm and 12.57 percent (15,552,484 votes) to Dr. Schlobohm from Gerd Eickers. Gerd Eickers Vermögensverwaltungs GmbH & Co. KG, of Cologne, has notified us that it indirectly held 25.09 percent (31,045,856 votes) on June 10, 2013 under an allocation pursuant to § 22, Para. 2, Sent. 1, German Securities Trading Act. These votes were allocated to Gerd Eickers Vermögensverwaltungs GmbH & Co. KG by Mr. Eickers and Dr. Schlobohm.

Holders of shares with special rights granting controlling authority • There are no special rights that grant controlling authority.

Controlling authority over voting rights enabling employees to share in capital • There are no controlling authorities with respect to voting rights.

Appointment and dismissal of members of the Management Board • The appointment and dismissal of members of the Management Board is governed by §§ 84, 85, German Stock Corporation Act ("AktG"), as well as by § 7 of the Articles of Association and Bylaws, as amended January 30, 2014. Pursuant to § 7 of the Articles of Association and Bylaws, the Management Board can comprise one or more individuals. The Supervisory Board determines the number of members of the Management Board. Even though the capital stock of the Company amounts to more than 3 million euros, the Supervisory Board can stipulate that the Management Board consist of only one individual. The appointment of deputy members of the Management Board is permissible.

Amendments to the Articles of Association and Bylaws • Pursuant to § 179, German Stock Corporation Act, in conjunction with § 20, Para. 1, of the Articles of Association and Bylaws, as amended January 30, 2014, amendments to the Articles of Association and Bylaws require a resolution adopted by a majority of at least 75 percent of the share capital represented at a Shareholders Meeting. Pursuant to § 15 of the Articles of Association and Bylaws, the Supervisory Board is authorized to resolve amendments to the Articles of Association and Bylaws that relate only to matters of form and do not involve any changes to the actual content thereof.

Acquisition and buy-back of QSC shares • The resolution of the Annual Shareholders Meeting on May 29, 2013, authorized the Management Board pursuant to § 71, Para. 1, No. 8, German Stock Corporation Act, to acquire QSC shares totaling up to 10 percent of the capital stock of the Company by May 28, 2018. The Management Board has thus far not utilized this authorization.

Authorized capital • The Management Board is authorized, subject to the approval of the Supervisory Board, to increase the capital stock of the Company on one or several occasions through May 19, 2015, to a total of not more than € 65,000,000 (authorized capital) through the issuance of new no-par registered shares against contributions in cash or kind. In utilizing the authorized capital, the Management Board can, with the consent of the Supervisory Board, preempt the shareholders' right of subscription in the following four cases: (1) to exclude rounding amounts from the shareholders' right of subscription; (2) if the new shares are issued against contributions in kind, especially in conjunction with corporate acquisitions; (3) if, pursuant to § 186, Para. 3, Sent. 4, German Stock Corporation Act, the new shares are issued against contributions in cash, and if, at the time of final stipulation, their issue price is not materially lower than the trading price of shares already issued; and (4) in order to ensure, if necessary, that shareholders and/or the creditors of option and/or convertible bond issues retain a right of subscription to new shares.
The purpose of the authorized capital is to enable QSC to respond swiftly and flexibly to opportunities that present themselves on the capital market and to obtain equity capital at favorable terms, if needed. It was not used during the past fiscal year.

Conditional capital • The Company's conditional capital as of the balance sheet date totaled € 31,292,974, and was classified as follows: Conditional Capital III, amounting to € 437,609; Conditional Capital IV, amounting to € 25,000,000; Conditional Capital VII, amounting to € 855,365; as well as Conditional Capital VIII, amounting to € 5,000,000.
With the exception of Conditional Capital IV, the conditional capital is employed to secure the conversion rights of holders of convertible bonds that QSC has issued or can issue within the framework of existing stock option plans to members of the Management Board, to the managing directors of affiliated companies, to employees, and to other individuals involved in the Company's success. The Management Board can utilize Conditional Capital IV to create publicly tradable option and/or convertible loans that will allow it to make available an additional, low-interest financing option for the Company, given favorable capital market conditions. Only in the following three

cases is the Management Board authorized, with the consent of the Supervisory Board, to preempt the shareholders' right of subscription to these option and/or convertible loans: (1) for rounding purposes resulting from the subscription ratios; (2) to ensure the right of subscription for the holders/creditors of previously issued conversion and option rights; and (3) if, pursuant to § 186, Para. 3, Sent. 4, German Stock Corporation Act, their issue price is not materially lower than their trading price. The Management Board has thus far not utilized the authorization to issue publicly tradable option and/or convertible loans.
The preemption of the shareholders' right of subscription and acquisition, which pursuant to § 186, Para. 3, Sent. 4, German Stock Corporation Act, is justified only in the case of a price that is similar to the stock market trading price, may apply only to an aggregate total of not more than 10 percent of the capital stock for treasury shares, authorized capital, option and convertible loans during the term of the respective authorization.

Major agreements in conjunction with the condition of a change in control resulting from an acquisition offer • In fiscal 2011, QSC entered into an agreement with seven financial institutions for a line of credit in the amount of € 140 million; this contract provides the financial institutions with the option of special termination should a natural or legal person, acting either alone or together with others, gain control over QSC. No further agreements exist for a situation in which a change of control results from an acquisition offer.

Indemnification agreements in the event of an acquisition offer • No indemnification agreements covering the event of an acquisition offer are in force with either the members of the Management Board or employees.

THE STRATEGY IS WORKING.

REVENUES IN ICT BUSINESS ARE RISING SHARPLY YEAR AFTER YEAR. QSC IS WINNING FURTHER CUSTOMERS AND BRINGING INNOVATIVE ICT AND CLOUD PRODUCTS TO MARKET.

Financial Report

Consolidated Financial Statements 91

- Consolidated Statement of Income 92
- Consolidated Statement of Cash Flows 93
- Consolidated Balance Sheet 94
- Consolidated Statement of Changes in Equity 96
- Consolidated Statement of Comprehensive Income 98

Notes to the Consolidated Financial Statements 99

- Corporate Information 99
- Accounting Principles and Policies 99
- Income Statement Disclosures 116
- Balance Sheet Disclosures 121
- Cash Flow Statement Disclosures 136
- Other Disclosures 137

Statement of Responsibility 160

Auditor's Report 161

CONSOLIDATED STATEMENT OF INCOME

Euro amounts in thousands (K€)

	Note	2013	2012
Net revenues	6	**455,724**	**481,496**
Cost of revenues	7	(345,449)	(359,150)
Gross profit		**110,275**	**122,346**
Sales and marketing expenses	8	(47,735)	(56,226)
General and administrative expenses	9	(38,987)	(38,998)
Other operating income	10	3,422	965
Other operating expenses	10	(474)	(3,503)
Operating profit		**26,501**	**24,584**
Financial income	11	363	756
Financial expenses	11	(4,192)	(4,621)
Net profit before income taxes		**22,672**	**20,719**
Income taxes	41	940	(1,698)
Net profit		**23,612**	**19,021**
thereof attributable to non-controlling interests		-	145
thereof attributable to owners of QSC AG		23,612	18,876
Earnings per share (basic) in €	12	**0.19**	**0.14**
Earnings per share (diluted) in €	12	**0.19**	**0.14**

CONSOLIDATED STATEMENT OF CASH FLOWS

Euro amounts in thousands (K€)

	Note	2013	2012
Cash flow from operating activities	34		
Net profit before income taxes		22,672	20,719
Depreciation and amortization of fixed assets	14, 17	50,830	52,926
Non-cash share-based remuneration		465	(676)
Loss from disposal of long-term assets		13	1
Changes in provisions	29, 31	(9,336)	(934)
Changes in trade receivables	18	10,576	989
Changes in trade payables	30	5,230	5,334
Changes in other assets and liabilities		(16,288)	(17,387)
Cash flow from operating activities	34	**64,162**	**60,972**
Cash flow from investing activities	35		
Purchase of intangible assets		(14,665)	(11,993)
Purchase of property, plant and equipment		(17,014)	(21,165)
Cash flow from investing activities	35	**(31,679)**	**(33,158)**
Cash flow from financing activities	36		
Dividends paid		(11,138)	(10,985)
Disbursements for share buy-back		-	(29,072)
Issuance (Redemption) of convertible bonds		6	(2)
Purchase of additional interest in subsidiary following acquisition		-	(5,812)
Proceeds from issuance of common stock		690	59
Proceeds of loans granted	28	6,398	35,583
Repayment of liabilities under financing arrangements		(4,543)	(6,520)
Cash flow from financing activities	36	**(8,587)**	**(16,749)**
Change in cash and short-term deposits		**23,896**	**11,065**
Change in cash and short-term deposits as of January 1		34,820	23,755
Cash and short-term deposits as of December 31	23	**58,716**	**34,820**
Interest paid		3,080	3,047
Interest received		336	738
Income tax paid		4,242	5,625

CONSOLIDATED BALANCE SHEET

Euro amounts in thousands (K€)

	Note	Dec. 31, 2013	Dec. 31, 2012
ASSETS			
Long-term assets			
Property, plant and equipment	14	93,869	107,614
Land and buildings	14	26,766	27,259
Goodwill	15	76,265	76,265
Other intangible assets	17	52,809	50,525
Trade receivables	18	5,223	4,525
Prepayments	19	2,226	1,976
Other long-term assets		349	707
Deferred tax assets	41	14,541	10,539
Long-term assets		**272,048**	**279,410**
Short-term assets			
Trade receivables	18	52,539	63,814
Prepayments	19	5,070	4,413
Inventories	20	1,746	1,365
Other short-term assets	21	1,565	2,963
Available-for-sale financial assets	22	343	343
Cash and short-term deposits	23	58,716	34,820
Short-term assets		**119,979**	**107,718**
BALANCE SHEET TOTAL		**392,027**	**387,128**

	Note	Dec. 31, 2013	Dec. 31, 2012
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Capital stock		124,057	137,307
Nominal value of treasury shares from share buy-back	24	-	(13,630)
Capital stock	24/26	124,057	123,677
Capital surplus	25	141,286	140,542
Other capital reserves	27	(1,176)	(1,207)
Consolidated retained earnings (Accumulated deficit)		(70,302)	(82,776)
Shareholders' equity		193,865	180,236
Liabilities			
Long-term liabilities			
Long-term liabilities under financing and finance lease arrangements	28	8,835	7,200
Liabilities due to banks	28	82,697	74,817
Convertible bonds	39	19	13
Accrued pensions	29	6,765	6,905
Other provisions	31	370	856
Deferred income	32	712	932
Deferred tax liabilities	41	3,912	5,306
Long-term liabilities		103,310	96,029
Short-term liabilities			
Trade payables	30	58,002	52,452
Short-term liabilities under financing and finance lease arrangements	28	5,530	4,147
Liabilities due to banks	28	2,868	4,351
Other provisions	31	2,655	6,452
Accrued taxes	31	3,068	3,505
Deferred income	32	4,238	23,500
Other short-term liabilities	33	18,491	16,456
Short-term liabilities		94,852	110,863
Liabilities		198,162	206,892
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		392,027	387,128

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Euro amounts in thousands (K€)

	Note	Equity attributable to equity holders of QSC AG				
		Capital stock	Capital surplus	Other capital reserves	Consolidated retained earnings / (Accum. deficit)	Total
Balance as of January 1, 2013		123,677	140,542	(1,207)	(82,776)	180,236
Net profit for the period		-	-	-	23,612	23,612
Other comprehensive income						
for the period, net of tax	27	-	-	31	-	31
Total comprehensive income		**-**	**-**	**31**	**23,612**	**23,643**
Conversion of convertible bonds	39	380	310	-	-	690
Dividends		-	-	-	(11,138)	(11,138)
Non-cash share-based remuneration	39	-	434	-	-	434
Balance as of December 31, 2013		**124,057**	**141,286**	**(1,176)**	**(70,302)**	**193,865**
Balance as of January 1, 2012		137,257	140,095	(362)	(72,069)	204,921
Net profit for the period		-	-	-	18,876	18,876
Other comprehensive income						
for the period, net of tax	27	-	-	(845)	-	(845)
Total comprehensive income		**-**	**-**	**(845)**	**18,876**	**18,031**
Acquisition of non-controlling interests						
(Squeeze-out)		-	-	-	(3,290)	(3,290)
Conversion of convertible bonds	39	50	9	-	-	59
Non-cash share-based remuneration	39	-	438	-	-	438
Acquisition of treasury shares		(13,700)	-	-	(15,372)	(29,072)
Issuance of shares to employees		70	-	-	64	134
Dividends		-	-	-	(10,985)	(10,985)
Balance as of December 31, 2012		123,677	140,542	(1,207)	(82,776)	180,236

Equity attributable to non-controlling interests	Total share-holders' equity	
-	**180,236**	**Balance as of January 1, 2013**
-	23,612	Net profit for the period
		Other comprehensive income
-	31	for the period, net of tax
-	**23,643**	**Total comprehensive income**
-	690	Conversion of convertible bonds
-	(11,138)	Dividends
-	434	Non-cash share-based remuneration
-	**193,865**	**Balance as of December 31, 2013**
2,378	**207,299**	**Balance as of January 1, 2012**
145	19,021	Net profit for the period
		Other comprehensive income
-	(845)	for the period, net of tax
145	**18,176**	**Total comprehensive income**
		Acquisition of non-controlling interests
(2,523)	(5,813)	(Squeeze-out)
-	59	Conversion of convertible bonds
-	438	Non-cash share-based remuneration
-	(29,072)	Acquisition of treasury shares
-	134	Issuance of shares to employees
-	(10,985)	Dividends
-	**180,236**	**Balance as of December 31, 2012**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Euro amounts in thousands (K€)

	2013	2012
Other comprehensive income		
Line items that are not reclassified in the income statement		
Actuarial losses from defined benefit pension plans	51	(1,247)
Tax effect	(20)	400
Line items that might subsequently be reclassified		
in the income statement		
Changes in unrealized fair values		
of available-for-sale financial assets	-	2
Tax effect	-	-
Other comprehensive income	**31**	**(845)**
Net profit for the period	23,612	19,021
Total comprehensive income for the period	**23,643**	**18,176**
thereof attributable to non-controlling interests	-	145
thereof attributable to owners of QSC AG	23,643	18,031

Notes to the Consolidated Financial Statements for the 2013 Fiscal Year

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 IT 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

Pursuant to Article 4 of Regulation (EC) No. 1606/2002 of the European Parliament and the Council dated July 19, 2002, the Company is required to prepare consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") and – in accordance with § 315a (1) of the German Commercial Code ("HGB") – is thus exempt from preparing consolidated financial statements in accordance with "HGB." QSC prepares the consolidated financial statements on a historical cost basis, except in the case of available-for-sale financial assets, which have been measured at fair value. QSC prepares the consolidated financial statements in accordance with the IFRSs issued by the International Accounting Standards Board (IASB), applicable as of December 31, 2013, as required to be applied in the EU. The supplementary requirements of § 315a (1), "HGB," are also complied with. All IFRSs and Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC) which are mandatory for the 2013 fiscal year have been applied by the Company.

The fiscal year of QSC and its subsidiaries (hereinafter also referred to as the "consolidated group") corresponds to the calendar year. The consolidated financial statements are presented in euros and all amounts, except when otherwise stated, are rounded to the nearest thousand (K€).
No events or transactions which would have a material effect on the consolidated group's net assets, financial position and earnings performance or cash flows occurred after the end of the reporting period and prior to March 19, 2014 (the date on which the consolidated financial statements were presented to the Supervisory Board for approval).

2 Consolidation

The consolidated financial statements comprise the financial statements of QSC AG and its subsidiaries as of December 31 of each fiscal year. The financial statements of subsidiaries are drawn up to the same balance sheet date and use the same accounting policies as applied by the parent company. All intra-group transactions and balances are eliminated in full. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated on this basis until the date that such control ceases. Information on the entities included in the consolidated financial statements is provided in Note 37.

3 Significant judgments and estimates

The application of accounting policies requires the use of judgments as well as of forward-looking assumptions and estimates. Actual outcomes may differ from those assumptions and estimates, with the consequence that there is a risk that a significant adjustment to the carrying amounts of assets and liabilities could become necessary within the coming fiscal year. The use of judgments, assumptions and estimates was necessary in particular for the accounting treatment of the following items:

Impairment of non-financial assets • At each reporting date, the consolidated group assesses whether there are any indications of impairment for non-financial assets. Goodwill and other intangible assets with indefinite useful lives are tested for impairment at least once a year and at other times when such indications exist. Impairment is determined by assessing the recoverable amount of the cash-generating unit ("CGU"), which is measured as the present value of the expected future cash flows from the CGU. The CGUs correspond to the reportable segments. An impairment loss is recognized if the recoverable amount of the CGU is less than its carrying amount. As of December 31, 2013, goodwill totaling K€ 76,265 (2012: K€ 76,265) was recognized. Further details are provided in Note 15.

Deferred tax assets • QSC recognizes deferred tax assets for all temporary differences, as well as for unused tax losses to the extent that it is probable that taxable income will be available against which the tax loss carryforwards can be utilized.
Estimates by management are required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with underlying tax planning strategies. As of December 31, 2013, corporation tax losses available for carryforward amounted to € 374 million (2012: € 395 million including the effect of the tax field audit for the assessment periods 2004 to 2009 completed in 2013), and municipal trade tax losses available for carryforward amounted to € 368 million (2012: € 389 million including the effect of the tax field audit for the assessment periods 2004 to 2009 completed in 2013). As of December 31, 2013, deferred tax assets totaling K€ 14,541 (2012: K€ 10,539) and deferred tax liabilities totaling K€ 3,912 (2012: K€ 5,306) were recognized. Further details are provided in Note 41.

Pension and other post-employment benefits • The expense for defined benefit pension plans and other post-employment medical benefits is determined on the basis of actuarial valuations, which require the use of assumptions for discount rates, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Actuarial gains and losses are recognized directly in equity (through OCI) and reported in other provisions. As of December 31, 2013, provisions for pensions and similar obligations amounted to K€ 6,765 (2012: K€ 6,905). Further details are provided in Note 29.

Share-based remuneration • QSC measures the expense recognized for share-based remuneration in cases where equity instruments are used to remunerate work performed using an appropriate option price model. The amount of the expense is calculated using assumptions relating to the risk-free interest rate relevant for the duration of the share options, the expected dividend to be paid and the shares' expected market price volatility. Due to the long-term nature of these remuneration agreements, such estimates are subject to significant uncertainty. Further details are provided in Note 39.

Trade receivables • QSC presents trade receivables in the balance sheet net of allowances. Allowances for doubtful debts are measured on the basis of regular reviews and assessments, which are performed in conjunction with credit monitoring. The assumptions applied to reflect future payment behavior and customer creditworthiness are subject to significant uncertainties. As of December 31, 2013, trade receivables totaled K€ 57,762 (2012: K€ 68,339). Further details are provided in Note 18.

Provisions • A provision is recognized when the consolidated group has a legal or constructive obligation as a result of a past event, when it is likely that an outflow of resources embodying economic benefits will be required to settle such an obligation, and when the amount of the obligation can be reliably estimated. Such estimates are subject to significant uncertainties. As of December 31, 2013, provisions totaling K€ 6,093 (2012: K€ 10,813) were recognized in the balance sheet. Further details are provided in Note 31.

Leases • QSC determines whether an agreement represents a lease or lease arrangement on the basis of the economic content of the agreement at the inception of the lease. Discretion is used in determining whether an agreement grants rights to usage of an asset and the extent to which fulfillment of the contractual agreement depends on usage of one or more specific assets. As of December 31, 2013, lease liabilities totaled K€ 14,365 (2012: K€ 11,347).

Construction contracts • Receivables arising on construction contracts are accounted for using the percentage of completion (PoC) method in accordance with IAS 11 if there is a customer-specific order. Revenue and expenses are recognized by reference to the stage of completion of contract activity, which, in turn, is based upon estimated total cost. As of December 31, 2013, accounts receivable under construction contracts totaled K€ 509 (2012: K€ 1,571).

4 Significant accounting policies

Revenue and expense recognition • QSC recognizes revenue to the extent that it is probable that the economic benefits will flow to the consolidated group, and when revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, less settlement discount, rebates, and other sales taxes or duties. The following specific recognition criteria must also be met before revenue is recognized:

- Revenue from services is recognized when the services have been provided. QSC recognizes revenue for services that have not been provided completely or throughout the entire reporting period on a time-apportioned basis up to the end of the reporting period by reference to the stage of completion.
- QSC defers non-recurring income from the installation of customer lines on a time-apportioned basis over an average contractual period of 24 months.
- Government grants are recognized as other operating income over the periods in which QSC recognizes as expenses the related costs for which the grants are intended to compensate.
- Construction contracts are accounted for under the percentage of completion (PoC) method. Reference is made to the comments contained under "Construction contracts."
- QSC recognizes interest income using the effective interest method (i.e. using the rate that exact-ly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset). Interest unwound on finance lease receivables from multi-component contracts is also presented as interest income.
- Multi-component contracts consist of a service portion and a hardware lease, for which the fair values of the two components are separable and can be determined reliably. Applying the requirements of IFRIC 4 to hardware leases means that the consolidated group's IT Outsourcing

unit functions as lessor in certain multi-component contracts. The lease agreements relate to identifiable assets usable exclusively by the customer. Revenue for services performed under the service contract is distributed pro rata over the contractual period. Revenue from contracts classified as finance leases is recognized at the start of the contract, and the interest portion is recognized on a monthly basis. In these cases, amounts owed by customers (lessees) under a finance lease are recorded as discounted receivables. Revenue from contracts classified as operating leases is recognized on a monthly basis over the contractual period. Total contract income is attributed to the respective components, applying the relative fair value method.
- Operating expenses are recognized when the performance has been utilized or at the time they are incurred.

Foreign currency translation • QSC presents the consolidated financial statements in euros. Transactions in currencies other than the euro are initially recorded using the spot exchange rate prevailing on the transaction date. Differences arising from changes in the exchange rate between the transaction date, on the one hand, and the settlement date or balance sheet date, on the other, are recognized by QSC in profit or loss. The functional currency for all consolidated group companies is the euro.

Property, plant and equipment • QSC reports property, plant and equipment in the balance sheet at acquisition or construction cost less accumulated depreciation and impairment losses. Replacement part costs for property, plant and equipment are added to the carrying amount of the asset in question at the time of replacement. Costs incurred after the commissioning of plants or first use of equipment are also capitalized if their incurrence enhances or significantly expands the asset in question; otherwise, the expense is recognized in profit and loss. The estimated useful lives of the assets are used as a basis for the application of straight-line depreciation.
Property, plant and equipment are depreciated straight-line over the estimated useful lives shown in the table below:

	Useful life in years
Property, plant and equipment	
Buildings	20 to 50
Networks and technical equipment	2 to 25
Leasehold improvements on third party land	4 to 20
Network components	2 to 10
Other operational and office equipment	3 to 13

Borrowing costs • Borrowing costs are recognized as an expense in the period in which they are incurred.

Business combinations and goodwill • QSC accounts for business combinations using the acquisition method, in accordance with which all identifiable assets and liabilities, as well as contingent liabilities of the acquired business, are recognized at their fair value. Goodwill arising in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Company's interest in the net fair value of identifiable assets, liabilities and contingent liabilities.
Subsequent to initial recognition, QSC measures goodwill at cost, less any accumulated impairment losses. QSC tests goodwill for impairment annually, and at other times when there are indications of a potential impairment in the carrying amount.

Other intangible assets • Intangible assets are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination corresponds to their fair value as of the date of acquisition. Internally generated intangible assets are capitalized if the recognition criteria stipulated in IAS 38 are met. Costs not required to be recognized as assets are recognized in profit or loss in the period in which they arise. An assessment is made initially as to whether the useful lives of intangible assets are finite or indefinite. Intangible assets with finite lives are amortized over their useful economic life and tested for impairment whenever there is an indication that the intangible asset may be impaired. A review of the amortization period and the amortization method for such assets with a finite useful life is performed, at a minimum, at the end of each financial year.
Intangible assets with indefinite useful lives are not amortized, but are tested for impairment at least once a year.
QSC's other intangible assets primarily include software, licenses and similar rights as well as non-recurring provisioning costs for activating customer connections. Moreover, brands and customer bases have been recognized as assets in conjunction with initial consolidations.
Licenses are amortized over a period of 5 to 10 years and software over a period of 3 to 5 years. Non-recurring provisioning costs for activating customer connections are amortized over an average contractual period of 24 months. Internally generated intangible assets (development costs) are amortized after completion of the development phase over a period of 3 to 5 years.
The useful lives of the intangible assets identified in conjunction with the initial consolidations of IP Partner and INFO AG in fiscal 2011 are 10 to 20 years for customer bases, 1.5 to 3 years for electricity contracts, and 3 to 4 years for software. Brand names recognized as assets were fully written off during the reporting period, since they are no longer used following the merger of the related entities with QSC AG.

Investments and financial assets • QCS classifies financial assets falling within the scope of IAS 39 as either financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, or available-for-sale financial assets, as appropriate. QSC determines the classification of its financial assets on initial recognition and tests this designation at the end of each reporting period. Items are reclassified where allowed and appropriate.

On initial recognition, QSC measures financial assets at fair value. QSC accounts for all regular way purchases and sales of financial assets on the basis of the trade date, which is the date that the consolidated group committed itself to purchasing or selling the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost, where applicable using the effective interest method and after deduction of impairment losses. Gains and losses are recognized in profit or loss when the receivables are derecognized or impaired, as well as through the amortization process.

Payment due notices are sent out immediately when receivables become overdue. Uncollected receivables outstanding for more than six months are reviewed for default risk. When receivables are overdue by 60 – 90 days, this is deemed to represent objective evidence that impairment testing is called for in accordance with IAS 39.58. Impairments are only made if other objective evidence of impairment in accordance with IAS 39.59 is identified which indicates that receivables are uncollectible or that an impairment loss has been incurred.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. Subsequent to initial recognition, QSC measures these at fair value, with unrealized gains and losses recognized in OCI, and therefore directly through equity in other reserves. When the investment is derecognized, the cumulative gain or loss previously recorded in equity is reclassified to profit or loss.

Other assets in the form of reinsurance claims on life insurance policies, which are not classified as plan assets within the meaning of IAS 19, are measured on the basis of the actuarial coverage reserves determined by the relevant insurance company. All other assets are stated at their nominal value and are presented in the balance sheet as "Long-term assets" and "Short-term assets," based on their due dates.

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

Inventories • QSC values inventories initially at their average acquisition cost. At the end of the reporting period, goods for resale are stated at the lower of cost and net realizable value.

Cash and short-term deposits • Cash and short-term deposits reported in the balance sheet and statement of cash flows comprise cash at banks, cash on hand and short-term deposits with an original maturity of three months or less.

Provisions • A provision is recognized when the consolidated group has a legal or constructive obligation as a result of a past event, when it is likely that an outflow of resources embodying economic benefits will be required to settle such an obligation, and when the obligation's amount can be reliably estimated. Where QSC expects some or all of a recognized provision to be reimbursed, the reimbursement is recognized as a separate asset if the reimbursement is virtually certain. The expense for allocations to the provision is recognized in the income statement net of any reimbursement.

Pensions • As stipulated in IAS 19, the valuation of provisions for pensions is based on the benefit entitlement procedure for defined benefit pension plans and is determined on the basis of an actuarial expertise. The obligation for defined benefit plans is determined separately for each plan using the projected unit credit method. Actuarial gains and losses are recognized directly in equity (through OCI) and reported in other provisions. The assumptions used by the Company to measure actuarial obligations are described in Note 29.

Stock option programs • QSC's employees may receive share-based remuneration in the form of equity instruments in return for work performed. QSC measures the expense of issuing such equity instruments on the basis of the fair value of the equity instrument at the grant or provision date (based on the stock option programs resolved or modified after November 7, 2002), respectively, using an appropriate option price model. Further details are provided in Note 39. The expense recognized for granting equity instruments (as well as the corresponding increase in equity) is spread over the vesting period of the options.
QSC does not recognize any expense for remuneration entitlements which cannot be exercised. If the terms and conditions of a share-based remuneration agreement are modified, QSC recognizes as a minimum the level of expense that would have arisen if the terms and conditions had not been modified. If a share-based remuneration agreement is cancelled, QSC accounts for the remuneration agreement as if it had been exercised on the cancellation date and recognizes the previously unrecognized expense immediately.

Leases • QSC determines whether an arrangement is or contains a lease on the basis of the substance of the arrangement at inception date. This requires judgment as to whether the fulfillment of the arrangement is dependent on the use of a specific asset, or assets, or the arrangement conveys a right to use the asset.

- **Finance leases – QSC as lessee** • In accordance with IAS 17, items attributable to QSC as their economic owner are recognized as assets and depreciated over their useful lives, or over the lease term if shorter. The obligation arising from the leasing arrangements is recognized as a liability and reduced over the lease period by the capital portion of the lease payments. Contracts classified as finance leases relate primarily to arrangements for computing hardware and data center technology. Leased assets are measured at their fair value or, if lower, at the present value of the minimum lease payments during the non-cancellable period of the lease. In the case of rent-to-own and financing arrangements, the payments are divided into their constituent elements of financing expense and capital repayment using the effective interest rate method, such that the remaining carrying amount of the lease obligation is subject to a constant interest rate. Financing expenses are recognized immediately as a charge against income. QSC's financing arrangements predominantly consist of rent-to-own arrangements with terms of between 2 to 3 years.

– **Operating leases – QSC as lessee** • QSC classifies lease arrangements which do not transfer substantially all the risks and rewards incidental to ownership from QSC to the lessee as operating leases. Operating lease payments are recognized as an expense in the income statement on a straight line basis over the lease term.

– **The consolidated group as lessor** • Based on the requirements of IFRIC 4, the consolidated group is the lessor in certain multi-component contracts. In such cases, amounts owed by the lessee under finance leases are recognized as discounted receivables in the amount of the net investment value from consolidated group leases and reported under "Trade receivables." For multi-component contracts, the overall contract with the customer is divided into a service contract for services to be rendered and a sale transaction for the leased hardware. Service revenue is recognized pro rata over the contractual period. In the case of finance leases, revenue from the sale transaction is recognized in full in the year in which the contract is concluded. Operating lease income is recognized as income through profit and loss on a straight line basis over the lease term.

Financial liabilities • QSC measures all interest-bearing loans on initial recognition at fair value, less directly attributable transaction costs. Subsequent to initial recognition, interest-bearing loans and borrowings are measured at amortized cost using the effective interest method. Gains and losses are recognized in the income statement when the liabilities are derecognized as well as through the amortization process.

Deferred income • QSC defers non-recurring income from installation of customer lines over an average contractual period of 24 months.
In January 2011, Communication Services TELE2 GmbH ("TELE2") paid a total of € 66.2 million at the time it ceased to be a co-shareholder of Plusnet. Due to QSC's continued contractual performance obligation to TELE2, this amount was recorded as deferred income and recognized as income on a time-apportioned basis over the period from November 1, 2010, to December 31, 2013. It is presented under short-term/long-term deferred income on the liabilities side of the balance sheet.

Taxes • QSC recognizes current income tax assets and liabilities for the current and for prior periods at the amount expected to be recovered from or paid to the taxation authorities. To compute the amount, QSC uses the tax rates and tax laws that are expected to apply for the relevant corresponding assessment period. Current income tax relating to items recognized directly in equity is also recognized in equity.
Deferred taxes are recognized using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. QSC recognizes deferred income tax liabilities for all taxable temporary differences, except

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

QSC recognizes deferred tax assets for all deductible temporary differences, unused tax losses available for carryforward and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, tax losses and tax credits can be utilized except

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the reported result for the period nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, if it is probable that the temporary differences will not reverse in the foreseeable future and insufficient taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Previously unrecognized deferred tax assets are also reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.
QSC measures deferred tax assets and liabilities at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted as of the balance sheet date. Future changes in tax rates are required to be taken into account if enacted or substantively enacted by the end of the reporting period.

Deferred taxes in connection with items recorded directly in equity as other income are likewise recorded directly in equity (through OCI) and not in profit or loss.
Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and deferred tax liabilities relate to the same taxable entity and the same taxation authority.
Revenue, expenses and assets are recognized net of the amount of sales tax except

- where QSC is unable to recover the sales tax incurred on a purchase of assets or services from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables (with the exception of provisions) that are stated with the amount of sales tax included.

QSC includes the net amount of sales tax recoverable from or payable to the taxation authority in the balance sheet under "Other short-term assets" or "Other short-term liabilities," respectively.

5 Changes in accounting policies

QSC AG has observed the following amendments in financial reporting pronouncements, whose application was mandatory for the first time in fiscal 2013. Changes which are materially relevant for the consolidated financial statements of QSC AG are presented in the following section. None of the amendments described below had a major impact on the consolidated financial statements of QSC AG.

Amendments to IAS 1 – Presentation of Items in Other Comprehensive Income • This amendment changes the presentation of other comprehensive income (OCI) in the statement of total comprehensive income. Items reported in OCI which will subsequently be reclassified to the income statement ("recycling") are now reported separately from those that will never be recycled. If items are presented gross (i.e. without offset of the deferred tax impact), deferred taxes are also allocated to the two groups of items (and not shown as a single amount).
QSC adopted the new presentation requirements and adjusted comparative figures accordingly.

IAS 19 – Employee Benefits (revised 2011) • The most significant change resulting from the revision of IAS 19 (revised 2011) was the accounting treatment of pension obligations for defined benefit plans:
Previously, entities had an option as to how they reported actuarial gains and losses in the financial statements. These could be recognized (a) through profit and loss, (b) through OCI or (c) using the so-called "corridor method." The new version of IAS 19 removed this choice and replaced it with a more transparent and comparable treatment, such that all amounts must now be recognized through OCI. Past service costs are now recognized in profit or loss in the period in which they arise.

Previously, the expected return on plan assets was required to be determined at the beginning of the accounting period on the basis of management's expectations with regard to the future changes in value of plan assets. Following the application of IAS 19 (revised 2011), the return on plan assets must now be determined at the beginning of the period using the same interest rate that is applied to discount pension obligations.
In addition to the changes in accounting policy due to revised IAS 19, disclosure requirements have also changed, including the requirement to provide information based on sensitivity analyses.
Since actuarial gains and losses were already recognized at QSC in full through OCI in the year in which they arose, application of the amendments to IAS 19 has not had any significant impact.
The amended definition of termination benefits affects the accounting treatment of top-up amounts due in conjunction with part-time early retirement working arrangements. In the past, the top-up amounts were classified as termination benefits and a provision recognized for the full amount as of the date of the contract. As a result of the change in definition of termination benefits, top-up amounts no longer meet the criteria for termination benefits contained in IAS 19 (revised 2011). The top-up amounts are now deemed to represent other long-term employee benefits, which are required to be recognized in installments over the relevant period of employment.
As a result of the new definition of termination benefits, the top-up amounts relating to part-time early retirement working arrangements are now treated as long-term employee benefits. Retroactive application of the change did not have any impact, since employees currently in part-time early retirement working arrangements had already started the non-working phase before December 31, 2012.

IFRS 13 – Fair Value Measurement • This Standard stipulates uniform requirements with respect to fair value measurement in IFRS financial statements. All fair value measurements required by other Standards must now be carried out in accordance with the uniform rules contained in IFRS 13; the only Standards for which specific rules apply are IAS 17 and IFRS 2. The Standard also replaces and supplements disclosures about fair value measurement in other IFRSs.
Fair value is defined in IFRS 13 as an exit price, i.e. the price that would be received to sell an asset or paid to transfer a liability. Similar to the existing fair value measurement of financial assets, the Standard introduces a three-level hierarchy system based on the dependence of measurement on observable market prices.
In accordance with the transition requirements of IFRS 13, the consolidated group has applied the new rules for fair value measurement prospectively and has not disclosed comparative figures for the previous year. Regardless of this, the amendment has not had any significant impact on the measurement of assets and liabilities within the consolidated group.

Improvements to IFRS 2009 – 2011 • Five Standards were amended in conjunction with the IFRS Annual Improvement Project. The amendments related, in part, to the clarification of existing rules through the improved wording of individual IFRSs. Some amendments also had the effect of changing rules relating to the recognition and measurement of items as well as to disclosures in the notes to the financial statements. The Standards affected are IAS 1, IAS 16, IAS 32, IAS 34 and IFRS 1.
These amendments do not have any significant impact on the consolidated financial statements.

Amendments to IFRS 7 – Offsetting of Financial Assets and Financial Liabilities • These amendments to IFRS 7 expand the disclosure requirements for the offsetting of financial assets and financial liabilities. The amendments did not have any impact on the consolidated financial statements for the year ended December 31, 2013.

Recently published financial reporting pronouncements – not yet applied by QSC • The following new or amended Standards and Interpretations, a brief summary of which is provided below, do not become mandatory until subsequent fiscal years. QSC AG does not intend to apply any of the amendments early. Unless stated otherwise, the impact on the consolidated financial statements of QSC AG is still being investigated.

Standard	Endorsement on Dec. 31, 2013
IFRS 10 – Consolidated Financial Statements	Yes
IFRS 11 – Joint Arrangements	Yes
IFRS 12 – Disclosure of Interests in Other Entities	Yes
Amendments to IFRS 10, IFRS 11 and IFRS 12 – Transition rules	Yes
Amendments to IFRS 10, IFRS 11, IFRS 12 und IAS 27 – Investment entities	Yes
Amendments to IAS 27 – Separate Financial Statements	Yes
Amendments to IAS 28 – Investments in Associates and Joint Ventures	Yes
Amendments to IAS 32 – Offsetting of Financial Assets and Financial Liabilities	Yes
Amendments to IAS 36 – Recoverable Amount Disclosures for Non-Financial Assets	Yes
Amendments to IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting	Yes
IFRS 9 (2009/2010) – Financial Instruments	No
IFRS 9 (2013) – Hedge Accounting and Amendments to IFRS 9, IFRS 7 and IAS 39	No
Amendments to IFRS 9 and IFRS 7 – Mandatory Application Date and Transition Disclosure	No
Amendments to IAS 19 – Defined Benefit Plans: Employee Contributions	No
IFRIC 21 – Levies	No
Improvements to IFRS 2010–2012 – Amendments to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38	No
Improvements to IFRS 2011–2013 – Amendments to IFRS 1, IFRS 3, IFRS 13 and IAS 40	No

In addition to the new Standards and Interpretations discussed below, which could have a significant impact on the consolidated financial statements, a host of other Standards and Interpretations have been issued, which are not, however, expected to have any significant impact on the consolidated financial statements.

IFRS 10 – Consolidated Financial Statements • This Standard sets out a new and comprehensive definition of control. If one entity controls another entity, the parent company must consolidate the subsidiary company. Under the new concept, an entity controls another entity if it has the ability to direct its activities on the basis of voting or other rights, if it participates in positive and negative variable returns from the controlled entity and if it has ability to influence the amount of returns. The new Standard is mandatory for annual periods beginning on or after January 1, 2014, and – with specified exceptions – is required to be applied retroactively.
The amendments to IFRS 10 do not have any impact on the consolidated financial statements of QSC AG.

IFRS 11 – Joint Arrangements • IFRS 11 specifies new accounting requirements for joint arrangements. Under the new concept, it must be decided whether the joint arrangement is a joint operation or a joint venture. Joint operations exist when the parties that have joint control of the arrangement have direct rights to the assets, and obligations for the liabilities, relating to the arrangement. Each entity accounts for its own share of the individual assets and liabilities. In the case of a joint venture, the parties have rights to the net assets of the arrangement. These rights are accounted for in the consolidated financial statements using the equity method; it is no longer permissible to account for such an arrangement proportionately.
The new Standard is mandatory for annual periods beginning on or after January 1, 2014. Specific transitional provisions apply, e.g. transition from the proportionate consolidation method to the equity method.
The amendments to IFRS 11 do have any impact on the consolidated financial statements of QSC AG.

IFRS 12 – Disclosure of Interests in Other Entities • This Standard sets out disclosure requirements for interests in other entities. The necessary disclosures are considerably more extensive than those required by IAS 27, IAS 28 and IAS 31.
The new Standard is mandatory for annual periods beginning on or after January 1, 2014.

Amendments to IFRS 10, IFRS 11 and IFRS 12 – Transition rules • The amendments contain a clarification and additional exemptions relevant for the transition to IFRS 10, IFRS 11 and IFRS 12. Adjusted comparative information, for instance, is only required to be presented for the preceding comparative period. In addition, there is no longer a requirement to disclose comparative information for periods prior to initial application of IFRS 12 for non-consolidated structured entities. The Amendments to IFRS 10, IFRS 11 and IFRS 12 are mandatory for annual periods beginning on or after January 1, 2014.

Amendments to IAS 27 – Separate Financial Statements • In conjunction with the approval of IFRS 10 Consolidated Financial Statements, the rules relating to the control principle and the requirements for drawing up consolidated financial statements have been taken out of IAS 27 and are now dealt with in IFRS 10 (see comments on IFRS 10). The overall effect is that IAS 27

now only contains requirements for accounting for subsidiaries, joint ventures and associated companies in separate IFRS financial statements.
The Amendments are mandatory for annual periods beginning on or after January 1, 2014.

Amendments to IAS 32 – Offsetting of Financial Assets and Financial Liabilities • The amendments to IAS 32 clarify the criteria for offsetting financial instruments. Under the new rules, the significance of enforceable rights of offset is explained and the situations in which items should be reported on a gross or net basis are clarified.
The Amendments are mandatory for annual periods beginning on or after January 1, 2014.

Amendments to IAS 36 – Recoverable Amount Disclosures for Non-Financial Assets • A follow-up Amendment to IFRS 13 Fair Value Measurement introduced a new mandatory disclosure requirement for the goodwill impairment test pursuant to IAS 36, namely that the recoverable amount of the cash-generating units had to be disclosed, irrespective of whether an impairment loss is recognized or not. Since this disclosure requirement was added unintentionally, it was removed by the May 2013 Amendment. The new Amendment does, however, give rise to additional disclosures if an impairment loss is actually recognized and the recoverable amount was determined on the basis of a fair value.
The Amendments are mandatory for annual periods beginning on or after January 1, 2014.

IFRS 9 – Financial Instruments • The recognition and measurement requirements for financial instruments previously contained in IAS 39 will be superseded by IFRS 9. Financial assets must in the future be allocated into one of two measurement categories: amortized cost or fair value. The category “financial assets measured at amortized cost” comprises all financial assets which give rights to receive interest and repayment on pre-defined dates and which are held as part of a business model, the objective of which is to hold assets. All other financial assets must be allocated to the fair value measurement category. Under certain circumstances, an entity can elect – as previously – to apply the fair value option to measure items allocated to the first measurement category.
Changes in the value of financial assets allocated to the fair value measurement category must be recognized as a general rule through profit or loss. An entity can, however, also elect to recognize changes in the fair value of certain equity instruments through OCI; dividend entitlements attached to these assets must, however, be recognized through profit or loss.
The requirements for financial liabilities generally correspond to those contained in IAS 39. The most significant difference relates to the recognition of fair value gains and losses on financial liabilities. In the future, these have to be divided into the portion that relates to the entity’s own credit risk (to be recognized through OCI) and the remainder, which is required to be recognized through profit or loss.
The date of initial mandatory application of IFRS 9 has not yet been decided, but is not expected to be before January 1, 2017.

IFRS 9 – Hedge Accounting and Amendments to IFRS 9, IFRS 7 and IAS 39 • The objective of the new hedge accounting model pursuant to IFRS 9 is to align accounting more closely with an entity's risk management activities. Cash flow hedge accounting, fair value hedge accounting and the hedge of an investment in a foreign operation continue to apply as permitted hedging relationships.
A greater range of types of qualifying items – for both the hedged-item and the hedging-instrument sides – will be permitted. In particular, groups of hedged items are permitted, as long as they qualify individually for designation. Net positions and net zero positions can also be designated.
As a general rule, any financial instrument which is suitable for measurement at fair value can be designated as a hedging instrument. The exception to this are liabilities for which the fair value option (FVO) has been exercised and equity instruments accounted for at fair value through OCI (FVOCI option) in accordance with the requirements stipulated for the first phase of IFRS 9.
IFRS 9 no longer requires the ranges of 80 percent to 125 percent to be applied for the purposes of measuring effectiveness previously required by IAS 39, with the consequence that a retrospective effectiveness test is no longer required. The prospective effectiveness test as well as the recognition of any ineffectiveness must still be complied with.
It is only possible to end a hedging relationship if specified criteria are met; in other words designated hedging relationships must be continued unless there is a change in risk management objectives.
Expanded disclosures are required with respect to an entity's risk management strategy, the impact of risk management on future cash flows and the impact of hedge accounting on the financial statements.
It will also permit entities to account for the effects of changes in their own credit risk on financial liabilities, for which the FVO is applied in the future in OCI (and therefore directly through equity). This treatment will be possible in isolation, i.e. without having to apply all the other requirements stipulated in IFRS 9.
The initial application of the new requirements for hedge accounting is based on the requirements for the initial application of IFRS 9. Hedging relationships need not be terminated as a result of the transition from IAS 39 to IFRS 9, if the relevant criteria and qualitative characteristics continue to be fulfilled. An entity can also elect to continue to apply existing requirements contained in IAS 39 when it adopts IFRS 9.

Amendments to IFRS 9 and IFRS 7 – Mandatory Application Date and Transition Disclosure •
The amendments allow entities to not present adjusted prior year figures on the initial application of IFRS 9. Originally, this exemption was only to be permitted in the event of early application of IFRS 9 before January 1, 2012.
The exemption entails additional disclosures in the notes in accordance with IFRS 7 as of the date of transition.
Similarly to the requirements in IFRS 9, the date of initial mandatory application of these Amendments has not yet been decided, but is not expected to be before January 1, 2017.

IFRIC 21 – Levies • IFRIC 21 is an Interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The principal issue covered is when a present obligation arises for levies imposed by governments and when a provision/payable should be recognized. A number of items are excluded from the scope of the Interpretation, in particular fines and other penalties, levies relating to government contracts or outflows of resources that are within the scope of other IFRSs, such as IAS 12 Income Taxes. IFRIC 21 requires that a liability be recognized if the so-called "obligating event" – based on the wording of the underlying legislation – has occurred. The specific wording used can therefore be highly relevant for the accounting treatment.
The Amendments – subject to EU endorsement – are mandatory for the first time for annual periods beginning on or after January 1, 2014.

Improvements to IFRS 2010 – 2012 • Seven Standards were amended in conjunction with the IFRS Annual Improvement Project. The Amendments relate, in part, to the clarification of existing rules through the improved wording of individual IFRSs. Some amendments also have the effect of changing disclosure requirements. The Standards affected are IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38.
The Amendments – subject to EU endorsement – are mandatory for the first time for annual periods beginning on or after July 1, 2014, or, in the case of the Amendment to IFRS 2 to share-based remuneration awarded on or after July 1, 2014.

Improvements to IFRS 2011 – 2013 • Four Standards were amended in conjunction with the IFRS Annual Improvement Project. The amendments relate, in part, to the clarification of existing rules through the improved wording of individual IFRSs. The Standards affected are IFRS 1, IFRS 3, IFRS 13 and IAS 40.
The Amendments – subject to EU endorsement – are mandatory for the first time for annual periods beginning on or after July 1, 2014.

INCOME STATEMENT DISCLOSURES

6 Net revenues

Revenues are generated with resellers as well as with end-user customers. The resellers offer QSC's products and services to consumers under their own name and on their own account; in doing so, they serve as the interface to the consumer, thus also assuming the risk of bad debts. QSC defers non-recurring income from the installation of customer lines on a time-apportioned basis over an average contractual period of 24 months.
Revenues from construction contracts totaled K€ 5,599 for the year under review (2012: K€ 4,246), and losses on construction contracts amounted to K€ 116 (2012: K€ 0). Hardware leasing revenues from new multi-component contracts totaled K€ 2,929 in 2013 (2012: K€ 6,570).

7 Cost of revenues

Cost of revenues include the cost of materials, the cost of building, operating and maintaining the network and the data centers, personnel expenses and non-cash share-based remuneration under stock option programs for employees working in technology operations. It also includes depreciation and amortization on hardware and software utilized in technology operations. Moreover, this item includes personnel expenses from the Outsourcing and Consulting lines of business. Non-recurring provisioning costs for activating customer connections are capitalized and depreciated over the average contractual period of 24 months. In fiscal 2013, research expenses totaling K€ 1,879 were incurred (2012: K€ 500); development expenses totaling K€ 4,635 (2012: K€ 1,533) were capitalized as intangible assets.

in K€	2013	2012
Cost of materials	200,324	225,025
Building, operation and maintenance of the network	37,774	43,538
Depreciation and amortization	41,954	38,913
Personnel expenses	65,366	51,674
Non-cash share-based remuneration	31	-
Cost of revenues	**345,449**	**359,150**

8 Sales and marketing expenses

Sales and marketing expenses include, in particular, advertising expenses and regular commission payments to dealers and distributors, allowances for bad debt, personnel expenses and non-cash share-based remuneration related to SOPs for employees in sales and marketing, as well as depreciation and amortization on hardware and software utilized in sales and marketing operations. Similarly to the installation costs, the upfront commission payments to dealers and distributors for each new customer line are capitalized and amortized over the average contractual period of 24 months.

in K€	2013	2012
Personnel expenses	22,723	22,898
Commission payments	13,322	15,462
Other sales and marketing expenses	3,891	4,318
Allowance for bad debt and fair dealing payments	(174)	1,573
Advertising expenses	2,056	2,413
Depreciation and amortization	5,867	9,474
Non-cash share-based remuneration	50	88
Sales and Marketing expenses	**47,735**	**56,226**

9 General and administrative expenses

In addition to the personnel expenses and the non-cash share-based remuneration for the members of the Management Board and for staff positions, as well as for employees from Finance, Human Resources, Legal Operations, and IT who work in administration, the general and administrative expenses also include costs for the administration buildings, legal and consulting costs, corporate communications costs (including investor relations), as well as depreciation and amortization on hardware and software utilized in administrative operations.

in K€	2013	2012
Other general and administrative expenses	15,710	14,307
Personnel expenses	19,914	19,802
Depreciation and amortization	3,010	4,539
Non-cash share-based remuneration	353	350
General and administrative expenses	**38,987**	**38,998**

10 Other operating income and expenses

in K€	2013	2012
Other operating income	1,424	937
Gains from the reversal of provisions for litigation risks	1,981	-
Gains from disposal of fixed assets	17	28
Other operating income	**3,422**	**965**

in K€	2013	2012
Other operating expenses	471	3,474
Losses from disposal of fixed assets	3	29
Other operating expenses	**474**	**3,503**

Other operating income includes K€ 1,981 arising from the reversal of provisions for litigation risks. In the previous year, the "Other operating expenses" line item included an expense of K€ 2,641 in conjunction with the recognition of provisions for litigation risks. Further details are provided in Note 42. Other operating income in 2013 also includes K€ 593 relating to government grants received from the German Federal Ministry for Business and Technology and from the EU.

11 Financial result

Interest expense includes expenses of K€ 263 (2012: K€ 305) relating to financing arrangements. Borrowing costs, which would have had to be attributed to qualifying assets, were not incurred. Net interest expense from pension provisions amounts to K€ 209.

in K€	2013	2012
Interest income	363	756
Financial income	**363**	**756**

in K€	2013	2012
Interest expense	4,192	4,621
Financial expenses	**4,192**	**4,621**

12 Earnings per share

For the purpose of calculating undiluted earnings per share, QSC divides profit attributable to the holders of the Company's common stock by the weighted average number of shares of common stock in circulation during the year. The Company computes the weighted average number of issued shares of common stock approximately as a mean value from the respective number of common shares at the end of each quarter.
For the purpose of calculating diluted earnings per share, QSC divides profit attributable to the holders of the Company's common stock by the sum of the weighted average number of shares of common stock plus the weighted average number of shares of common stock that would arise if all potential shares of common stock with dilutive effect were converted into shares. As of December 31, 2013, the number of potential shares of common stock with a dilutive effect was 1,821,577.
During the period between the balance sheet date and the date on which the consolidated financial statements were issued, no transactions involving existing or potential shares of common stock have occurred which would have significantly changed the weighted average number of issued shares as of December 31, 2013.

	2013	2012
Net profit attributable to ordinary equity holders of the parent in K€	23,612	18,876
Weighted average number of issued shares	123,833,301	131,756,543
Earnings per share (basic) in €	**0.19**	**0.14**

	2013	2012
Net profit attributable to ordinary equity holders of the parent in K€	23,612	18,876
Weighted average number of issued and convertible shares	125,783,772	133,031,762
Earnings per share (diluted) in €	**0.19**	**0.14**

13 Personnel expenses and employees

in K€	2013	2012
Wages and salaries	92,527	81,195
Employer's social security contributions (pension fund)	7,615	6,756
Employer's social security contributions (other)	7,058	5,795
Net pension costs	803	628
Non-cash share-based remuneration	434	438
Personnel expenses	**108,437**	**94,812**

Wages and salaries include expenses for the termination of employment contracts totaling K€ 1,492 (2012: K€ 905).
During fiscal 2013, the consolidated group employed an average of 1,620 employees (2012: 1,409). The following table presents the employees' distribution by main corporate functions:

	2013	2012
Sales and marketing	135	142
Technology Operations, Outsourcing, Consulting	1,188	991
Administration	269	247
Board and staff positions	28	29
Number of employees by corporate function (average)	**1,620**	**1,409**

BALANCE SHEET DISCLOSURES

14 Property, plant and equipment

in K€	Land and buildings	Network and technical equipment	Operational and office equipment	Total
Gross value on January 1, 2012	28,877	332,089	50,615	411,581
Additions	1,568	21,492	2,906	25,966
Disposals	-	(9,581)	(564)	(10,145)
Reclassifications	(838)	-	838	-
Gross value on December 31, 2012	29,607	344,000	53,795	427,402
Additions	945	18,951	2,361	22,257
Disposals	-	948	(87)	861
Reclassifications	(594)	1,719	(1,213)	(88)
Gross value on December 31, 2013	29,958	365,618	54,856	450,432
Accumulated depreciation and amortization on January 1, 2012	564	225,287	40,677	266,528
Additions	1,784	31,395	1,999	35,178
Disposals	-	(8,613)	(564)	(9,177)
Accumulated depreciation and amortization on December 31, 2012	2,348	248,069	42,112	292,529
Additions	843	32,828	2,248	35,918
Disposals	-	1,632	(87)	1,545
Reclassifications	-	963	(1,159)	(195)
Accumulated depreciation and amortization on December 31, 2013	3,192	283,492	43,113	329,797
Carrying amounts on December 31, 2012	27,259	95,931	11,683	134,873
Carrying amounts on December 31, 2013	26,766	82,126	11,743	120,635

As of December 31, 2013, the carrying amount of plant and equipment, as well as of operational and office equipment held under financing arrangements and rent-to-own contracts totaled K€ 8,606 (2012: K€ 8,504). The carrying amount is made up of K€ 8,205 for technical equipment and of K€ 401 for operational and office equipment.
Additions during the 2013 fiscal year amounted to K€ 26,734 (2012: K€ 25,966). As of December 31, 2013, the "Network and technical equipment" line itemincluded assets under construction amounting to K€ 449 (2012: K€ 594), which stem primarily from expanding the data centers.
QSC presents depreciation and amortization in the income statement under "Cost of revenues," "Sales and marketing expenses" and "General and administrative expenses," respectively. There were no unplanned impairments recorded in fiscal year 2013.
Liens have been granted on real estate as collateral for liabilities under loan agreements (compare Note 28). Moreover, loans payable are secured by a mortgage lien provided to the lending bank for property, plant and equipment – furnishings and equipment – at the company's property situated at Grasweg 62 – 66 in Hamburg.

15 Goodwill

As of December 31, 2013, goodwill remained unchanged from the previous year's amount of K€ 76,265. Further details in this regard are more fully described under Note 16.

16 Impairment of goodwill

For the purpose of impairment testing, goodwill acquired in conjunction with business combinations was allocated to the following cash-generating units (CGUs), which were also reportable segments. Within the framework of the initial consolidation, the allocation was made to the cash generating units to which the acquired enterprises were associated.

in K€	2013	2012
Direct Sales	32,706	32,706
Indirect Sales	22,415	22,415
Resellers	21,144	21,144
Carrying amount of goodwiil	**76,265**	**76,265**

QSC initially determines the recoverable amount of the cash generating units (CGUs) on the basis of a calculated value in use employing three-year cash flow forecasts for this purpose. This planning is based upon the Management Board's planning for the Company. The planning is based upon the Management Board's expectations with respect to the future development of the individual business units and takes into consideration both external market analyses as well as internal assumptions relating to the marketing opportunities for innovative applications in the ICT market.

In the case of the Direct Sales GCU, QSC anticipates continued sound growth. The Indirect Sales and Resellers GCUs are expected to be characterized by a continued market- and regulatory-induced contracting development in conventional TC business, on the one hand, and by a positive development in the ICT sector with innovative applications, on the other. The development in these GCUs will depend, in particular, upon the marketing of the Company's own high-margin innovative products and services, where Management expects to see strong growth beginning in 2015. As in the past fiscal year, a sustainable growth rate of 1.0 percent was assumed for all three GCUs. The segment-specific weighted average costs of capital (WACC) were determined in discounting the anticipated future cash flows of the respective cash generating units. The after-tax capitalization interest rate is 11.61 percent (2012: 11.03 percent) for the Direct Sales GCU, 12.53 percent (2012: 11.84 percent) for Indirect Sales and 14.36 percent (2012: 13.47 percent) for the Resellers segment. These discount rates reflect Management's estimates with respect to Company-specific risks. In addition to a base rate and a market risk premium, they also include further risk-uplift factors that reflect the risk structure of the respective segment as well as that of the IT and Telecommunications industries. The base rate that represents a risk-free and periodically adequate alternative investment were determined on the basis of the interest rate structure curve for public-sector bond issues as of December 31, 2013. The higher capitalization interest rates for the Indirect Sales and Resellers GCUs reflect the fact that the significant rises in revenues and profitability that had been assumed in connection with the marketing of new products and services involve significantly greater uncertainties.

The calculation of the CGUs' value in use requires that estimates be made with respect to both the development of prices and market share, which must be taken into consideration in planning gross revenues and gross profit, as well as the capex ratio and discount rate. QSC believes that the basic assumptions that were applied in determining value in use for the CGUs, in particular regarding the capital interest rate, appropriately reflect the risk position. The planning also assumes that no fundamental capital investments will be necessary that would be required to improve or increase the profitability of the CGUs.

No need for impairment was determined.

Various scenario analyses were conducted within the scope of the impairment tests. The estimated amounts that could be achieved by the Indirect Sales and Resellers GCUs exceed their book values by K€ 80,132 and K€ 93,079, respectively. QSC has determined that a potential, yet unlikely, change in a major assumption could lead to the book value exceeding the achievable amount. The scenario calculations in connection with free cash flow relate to expectations regarding revenue and profitability contributions stemming from innovative products and services. There would be a need for impairment if during the detailed planning period QSC were to sustainably earn less than some 20.0 percent of planned revenues with innovative products and services in the Indirect Sales GCU and less than approximately 65.0 percent in the Resellers GCU.

17 Other intangible assets

in K€	Licenses	Software	Customer Connections	Customer Bases	Brands	Other	Total
Gross value on Jan. 1, 2012	1,387	24,127	114,601	36,223	2,426	15,264	194,028
Additions	276	4,232	7,374	-	-	100	11,982
Disposals	-	(297)	-	-	-	-	(297)
Reclassifications	-	-	-	-	-	-	-
Gross value on Dec. 31, 2012	1,663	28,062	121,975	36,223	2,426	15,364	205,713
Additions	207	10,860	6,137	-	-	100	17,304
Disposals	-	-	-	-	-	-	-
Reclassifications	-	88	-	-	-	-	88
Gross value on Dec. 31, 2013	1,870	39,010	128,112	36,223	2,426	15,464	223,105
Accumulated amortization and depreciation on Jan. 1, 2012	983	17,744	104,207	1,772	349	12,684	137,739
Additions	99	3,389	10,179	2,444	485	1,150	17,746
Disposals	-	(297)	-	-	-	-	(297)
Accumulated amortization and depreciation on Dec. 31, 2012	1,082	20,836	114,386	4,216	834	13,834	155,188
Additions	94	3,578	6,859	2,366	1,592	424	14,913
Disposals	-	-	-	-	-	-	-
Reclassifications	-	195	-	-	-	-	195
Accumulated amortization and depreciation on Dec. 31, 2013	1,176	24,609	121,246	6,581	2,426	14,258	170,295
Carrying amounts on Dec. 31, 2012	581	7,226	7,589	32,007	1,592	1,530	50,525
Carrying amounts on Dec. 31, 2013	694	14,401	6,866	29,642	-	1,206	52,809

Additions to the intangible assets include internally generated intangible assets (capitalized development cost) in the amount of K€ 4,635 (2012: K€ 1,533) for software. The gross value of capitalized development cost amounted to K€ 7,132 (2012: K€ 2,643). This amount is made up of K€ 217 for developments which have already been completed, and of K€ 6,915 for developments which have not yet been completed. The latter amount includes expenses totaling K€ 625, which were incurred for implementing the new SAP controlling logic. The remaining amount consists of services rendered for the development of QSC-tengo and Q-loud applications.
Capitalized development cost (internally generated software) has a useful life of four years and is depreciated on a straight-line basis over this period. Cumulative depreciation totals K€ 54 (2012: K€ 14).
Customer bases consist of undisclosed reserves which were identified in connection with the initial consolidations of IP Partner AG and INFO AG in fiscal 2011. Brand names recognized as assets in conjunction with initial consolidation 2011 were fully written down in 2013, since they are no longer used following the merger of the related entities with QSC AG.
QSC presents depreciation and amortization in the income statement under "Cost of revenues," "Sales and marketing expenses" and "General and administrative expenses," respectively. There were no unplanned impairments recorded in fiscal 2013.

18 Trade receivables

in K€	2013	2012
Long-term trade receivables	5,223	4,525
Short-term trade receivables	52,539	63,814
Trade receivables	**57,762**	**68,339**

The long-term trade receivables are essentially attributable to the accounting treatment of leasing receivables within the context of multi-component contracts. The receivables presented are not subject to any major restrictions on ownership or availability. The carrying amounts correspond to the fair values.
Full amortization contacts without a purchase option having an average rental term of from 36 to 48 months are typically entered into. Following the expiration of the base rental period, the consolidated group has the option of extending the contract or selling the leased items, for which no purchase option was granted, within the framework of exploitation of the residual value. No residual values are guaranteed.

Within the framework of a factoring agreement with Norddeutsche Landesbank Luxembourg S.A., which had originally been concluded by INFO AG, QSC regularly sells certain short-term trade receivables having a total volume of up to € 18.5 million to the bank. The framework agreement was transferred to QSC as a result of INFO AG's merger. The total volume was increased in 2013 from € 11.0 million to € 18.5 million. As of the balance sheet date, accounts receivable having a nominal total value of € 18.4 million (2012: € 8.0 million) were transferred. The nominal value corresponds to the attributable fair market value of the transferred receivables. The transferred receivables have been taken off the books. QSC bears a maximum default risk of K€ 370 with respect to those transferred receivables. As in the previous year, this amount, which is kept on deposit as collateral, was not utilized during the year under review.
Short-term trade receivables are non-interest-bearing and generally have an original maturity of between 30 and 90 days. As of December 31, 2013, trade receivables amounting to K€ 5,342 (2012: K€ 5,622) were impaired. Allowances developed as follows:

in K€	2013	2012
Allowance on January 1	5,622	4,075
Charge for the year	1,071	2,866
Utilised	(343)	(1,099)
Unused amounts reversed	(1,008)	(220)
Allowance on December 31	5,342	5,622

Trade receivables include receivables relating to uncompleted contracts for which the percentage-of-completion (PoC) method pursuant to IAS 11 is applied. The amount reported comprises cumulative contract costs incurred up to the balance sheet date plus a proportion of profit earned on the relevant contracts based on the cost-to-cost method. Advance payments received for these contracts are offset against the relevant PoC receivables. Contract revenue recognized in 2013 amounted to K€ 5,599 (2012: K€ 4,246). During the year under review (as in the previous year), no write-downs were recognized with regard to the valuation of long-term construction contracts. PoC receivables totaling K€ 509 (2012: K€ 1,571) are reported as trade receivables. The income statement impact of PoC accounting is explained in Note 6.

The analysis of trade receivables as of December 31 is as follows:

in K€	2013	2012
Gross trade receivables		
Impaired	4,950	6,690
Neither past due nor impaired	42,934	57,347
Past due but not impaired		
< 90 days	13,134	9,869
91 – 120 days	176	55
> 120 days	1,910	-
Gross trade receivables	**63,104**	**73,961**

19 Prepayments

Long-term prepayments amount to K€ 2,226 (2012: K€ 1,976) and essentially contain prepayments under service and maintenance agreements. Short-term prepayments amount to K€ 5,070 (2012: K€ 4,413) and essentially record prepayments for leased lines and technology premises, as well as for insurance.

20 Inventories

Inventories on December 31, 2013, totaled K€ 1,746 (2012: K€ 1,365) and included goods held for resale. End-user equipment is initially included in current assets at the time of purchase, measured at cost, and subsequently reclassified to fixed assets when supplied to the end-user customer.

21 Other short-term financial assets

Other short-term financial assets total K€ 1,565 (2012: K€ 2,963) and relate primarily to tax receivables. This item contains guarantees totaling K€ 370, whose availability is limited due to the factoring of those receivables.

22 Available-for-sale financial assets

Available-for-sale financial assets, which amount to K€ 343 (2012: K€ 343), consist of shares in a money market fund. These shares have been deposited with a bank as collateral for guarantees.

23 Cash and short-term deposits

Cash and short-term deposits amount to K€ 58,716 (2012: K€ 34,820) and consist of cash at banks and on hand. Cash subject to access restrictions – reported on December 31, 2012 within cash and cash equivalents – are now reported in the "Other assets" line item. The amounts so reported relate to cash deposited with banks as collateral for guarantees.

24 Issued capital

	2013	2012
Issued capital		
Capital stock in K€	124,057	123,677
No-par registered shares of common stock	124,057,487	123,677,239

Each share of stock entitles the registered owner to cast one vote at the Annual Shareholders Meeting and enjoys full dividend entitlement. The voting right is not subject to any restrictions. The capital stock rose by K€ 380 in fiscal 2013, solely as a result of the issuance of common shares in connection with stock option programs. Each share has a par value of € 1.00. All issued shares have been fully paid-in.

QSC AG's Management Board resolved on January 9, 2013, on the basis of the authorization resolution adopted at the Annual General Meeting on May 20, 2010, and with the approval of the Company's Supervisory Board, to cancel previously acquired treasury shares using the simplified procedure permitted in § 71 (1) No. 8 Sentence 6 "AktG" (share capital reduction).

As a result of this resolution, 13,629,913 no-par registered shares held by QSC AG, each arithmetically representing € 1.00 of share capital, were cancelled, as a result of which the Company's share capital was reduced by € 137,256,877 to € 123,626,964. The capital reduction took effect on January 11, 2013.

Outstanding shares each continue to represent € 1.00 of share capital.

25 Capital surplus

As of December 31, 2013, capital surplus amounted to K€ 141,286 (2012: K€ 140,542). This amount includes deferred share-based remuneration which relates to the Company's stock option program. Capital surplus may only be utilized in accordance with the rules of the German Stock Corporation Act ("AktG").

26 Authorized and conditional capital

Authorized capital • The Management Board is authorized, with the approval of the Supervisory Board, to increase the capital stock on one or several occasions through May 19, 2015, to a total of € 65,000,000 through the issuance of new no-par registered shares against contributions in cash and/or in kind. As a general rule, subscription rights are also required to be given to existing shareholders.

Conditional capital • As of December 31, 2013, conditional capital amounted to K€ 31,293, of which K€ 6,293 relate to conditional increases in share capital which will only be executed to the extent that holders of convertible bonds issued in connection with QSC stock option plans exercise their conversion rights.
Conditional capital in the amount of K€ 25,000 relates to a conditional increase in share capital issued in accordance with the authorization by shareholders given at the Annual General Meeting on May 20, 2010, and valid through May 19, 2015. The conditional capital will be executed only to the extent that holders of options bonds and/or convertible bonds issued or guaranteed by QSC or by a consolidated group entity – as defined by § 18 "AktG" and in which QSC directly or directly has a majority participation – exercise their option/conversion rights under the bond or fulfill their option/conversion obligation and, secondly, only to the extent that no cash settlement is given and no treasury shares of the Company or the shares of an another publicly traded company are used to service the options/conversion. New shares will be issued at the option/conversion price determined on the basis of the authorization resolution referred to above.

27 Other reserves

Other reserves include gains and losses on available-for-sale financial assets, as well as actuarial gains and losses on defined benefit pension plans. The values for fiscal 2013 and 2012 are presented in the consolidated statement of changes in shareholders' equity and in the consolidated statement of recognized income and expenses.
Other reserves as of December 31, 2013, comprise unrealized changes in fair value of available-for-sale assets amounting to K€ 1 (2012: K€ 1), as well as actuarial losses of K€ 1,175 (2012: K€ 1,206) on defined benefit pension plans, both of which were recorded through OCI. Those amounts are stated net of deferred taxes.

28 Interest-bearing liabilities

in K€	Average interest rate in % in 2013	Due date	2013	2012
Short-term liabilities				
Under financing and finance				
lease arrangements	5.20	2014	5,530	4,147
Due to banks	5.20	2014	2,868	4,351
Short-term liabilities			**8,398**	**8,498**
Long-term liabilities				
From convertible bonds	3.50	2014 – 2019	19	13
Due to banks	3.10	2014 – 2019	82,697	74,817
Under financing and finance				
lease arrangements	5.19	2014 – 2019	8,835	7,200
Long-term liabilities			**91,551**	**82,030**
Interest-bearing liabilities			**99,949**	**90,528**

Short-term liabilities under financing and finance lease arrangements consist of fixed payment obligations through year-end 2014.

In fiscal 2013, long-term liabilities due to banks essentially consisted of liabilities stemming from the consortium loan agreement that was concluded in September 2011. The borrowers include QSC, Ventelo, and Plusnet. This revolving line of credit totals K€ 140,000 and will run through September 16, 2016. The loan amounts already utilized (K€ 73,000; 2012: K€ 62,000) are generally utilized to finance operating assets. Utilization is subject to prerequisites, in particular compliance with specified key financial ratios. All of those ratios were complied with in fiscal 2013. The current interest rate is at EURIBOR plus an average 1.7 percentage points; the latter may change depending on financial position and profitability.

Loans payable at the level of QSC are secured by a mortgage lien of K€ 23,000 on that entity's land at Grasweg 62 – 66. Additional collateral has also been provided to the lending bank in the form of a storage assignment of assets. Utilization of the loans is subject to compliance with specified financial ratios. In order to obtain the loans, QSC has given a commitment to comply with specific financial ratios determined on the basis of changes in equity and which reflect the Company's ability to service liabilities. The stipulated ratios were complied with in 2013.

Further loans payable at the level of QSC are secured by a mortgage lien of K€ 2,300 on the plantsite of a subsidiary. In addition, all entitlements to receive rent and lease income under the general subcontract agreement between the subsidiary and a customer have also been assigned as collateral.
As of December 31, 2013, there were 1,896,803 convertible bonds issued in conjunction with stock option programs. See also Note 39 in this regard. The convertible bonds have a nominal value of € 0.01 each.
Long-term liabilities under financing arrangements comprise an annuity loan, in particular, that is utilized to finance buildings and data centers. Long-term liabilities under financing arrangements consist of fixed payment obligations for the period 2014 through 2019.

29 Accrued pensions

QSC operates defined benefit pension plans, which are partially secured through reinsurance and classified as plan assets in accordance with IAS 19.
The pension provision covers benefit entitlements of one former member of the QSC Management Board and two former members of the INFO AG management board as well as benefit entitlement granted to parts of the QSC and Ventelo GmbH workforce in previous years.
The pension entitlements relate to defined benefits which depend primarily of the period of service with the company and the relevant level of salary. These defined benefit plans expose the consolidated group to various actuarial risks, including longevity and interest rate risks.
The pension provision for defined benefit plans is measured using the projected unit credit method in accordance with the requirements of IAS 19 and takes future developments into account. Assumptions are based on the 2005G biometric tables issued by Prof. Dr. Klaus Heubeck.
Plan assets as defined by IAS 19 exist in the form of pension reinsurance policies.
As in the previous fiscal year, QSC recognizes all actuarial gains and losses directly through OCI. In fiscal 2013, the cumulative amount of all actuarial gains and losses as presented in the consolidated statement of directly recognized income and expenses was K€ 1,730 (2012: K€ 1,782).

in K€	2013	2012
Present value of defined benefit obligation on January 1	**7,449**	**5,715**
Service costs	132	90
Interest costs	232	253
Actuarial losses (gains)		1,206
due to changes in the demographic assumptions	39	
due to changes in financial assumptions	(152)	
Benefits paid	(132)	(101)
Transfer of obligations	306	286
Present value of defined benefit obligation on December 31	**7,874**	**7,449**
Fair value of plan assets on January 1	**(545)**	**(376)**
Interest income	(23)	(8)
Income from plan assets, exclusive of amounts contained		
in net interest expense and income	25	41
Transfer	(359)	-
Employer contributions to plan assets	(207)	(201)
Fair value of plan assets on December 31	**(1,110)**	**(544)**
Accrued pensions on December 31	**6,765**	**6,905**
Discount rate	2.70 % – 3.30 %	2.70 % – 3.30 %
Rate of compensation increase	3.00 %	3.00 %
Rate of pension indexation	2.00 % – 3.00 %	1.00 % – 3.00 %

Total actuarial losses after taxes amounted to K€ 31 (2012: K€ 846).
Actuarial gains and losses comprise the effect of changes in demographic assumptions (gains amounting to K€ 39) and the effect of changes in financial assumptions (losses amounting to K€ -152). These actuarial gains and losses as well as income from plan assets (excluding amounts reported in net interest income/expense) are recognized through OCI.
Expenses and income recognized in the income statement relating to defined benefit plans comprise the following:

in K€	2013	2012
Service costs	132	90
Interest costs	232	253
Expected return on plan assets	(23)	(8)
Net pension costs	**341**	**335**

Pension payments amounting to K€ 244 and funding contributions to plan assets amounting to K€ 218 are expected in 2014.
If the assumptions used to measure pension obligations at the end of the reporting period (as described above) were changed individually by a half percent, pension obligations would increase/decrease as follows:

	Change in pension obligations in K€	Pension obligations in K€
Change in interest rate +0.5%	(589)	7,285
Change in interest rate -0.5%	664	8,538

QSC did not make any experience adjustments to defined benefit obligation or fund assets in 2013.

30 Trade payables

All trade payables have a term of less than one year.

31 Provisions

in K€	2013	2012
Long-term provisions on January 1	**856**	**1,036**
Reclassification	(226)	-
Additions	17	69
Utilized	-	(249)
Unused amounts reversed	(277)	-
Long-term provisions on December 31	**370**	**856**

The long-term provisions relate to obligations for part-time early retirement working arrangements amounting to K€ 86 (2012: K€ 589), leasehold improvement obligations amounting to K€ 234 (2012: K€ 219) and other personnel provisions amounting to K€ 51 (2012: K€ 48). The provisions for part-time early retirement working arrangements will be due by October 31, 2015. The leasehold improvement obligations are typically incurred at the end of the rental period. The rental agreements have differing termination dates, ranging from 2019 to 2028, and the due dates of the leasehold improvement obligations are distributed accordingly.

Other short-term provisions essentially relate to litigation risks and human resources provisions. Valuation was made on the basis of the experience gained in past periods. Tax provisions include provisions for municipal trade tax in the amount of K€ 1,744 and provisions for corporation tax in the amount of K€ 1,324.

in K€	2013	2012
Other provisions on January 1	**2,265**	**1,338**
Reclassification from long-term provisions	226	-
Additions	1,062	2,076
Utilized	(2,199)	(1,149)
Unused amounts reversed	(185)	-
Other provisions on December 31	**1,169**	**2,265**
Provisions for invoices outstanding on January 1	**11**	**82**
Additions	-	11
Utilized	(11)	(82)
Unused amounts reversed	-	-
Provisions for invoices outstanding on December 31	**-**	**11**
Provisions for litigation risks on January 1	**4,176**	**1,459**
Additions	156	2,788
Utilized	(865)	(71)
Unused amounts reversed	(1,981)	-
Provisions for litigation risks on December 31	**1,486**	**4,176**
Other short-term provisions on December 31	**2,655**	**6,452**

in K€	2013	2012
Tax provisions on January 1	**3,505**	**5,764**
Additions	2,123	1,808
Utilized	(2,478)	(4,067)
Unused amounts reversed	(81)	-
Tax provisions on December 31	**3,068**	**3,505**

32 Deferred income

QSC defers non-recurring income from the installation of customer lines on a periodic and pro rata basis over an average contract term of 24 months. Advance payments from customers are also deferred up to the date the service is provided.
Moreover, a deferred income line item was formed in fiscal 2010 for a payment from TELE2 in the amount of K € 66,226. As a result of QSC's continued obligation of performance toward TELE2, this amount was returned in the income statement on a straight-line basis over the remaining term of the original contract through December 31, 2013.

33 Other short-term liabilities

All other short-term liabilities have a term of less than one year and consist essentially of revenue tax liabilities.

CASH FLOW STATEMENT DISCLOSURES

34 Cash flow from operating activities

Cash flow from operating activities amounted to K€ 64,162 in fiscal 2013, thus down K€ 3,190 from the previous year's level of K€ 60,972. A major factor in this connection was the K€ 9,587 change in accounts receivable. On the other hand, the change in provisions amounted to K€ -8,402, which was essentially attributable to the conclusion of litigation with Deutsche Telekom, for which provisions had already been formed in fiscal 2012.

35 Cash flow from investing activities

In fiscal 2013, cash flow from investing activities totaled K€ -31,679 (2012: K€ 33,158). K€ 7,562 of the total investments made in fiscal 2013 (K€ 39,561) were financed through lease financing arrangements and are thus not presented here.

36 Cash flow from financing activities

In fiscal 2013, cash flow from financing activities amounted to K€ -8,587 (2012: K€ -16,749). This development was primarily attributable to the payment of a dividend in the amount of K€ -11,138 (2012: K€ -10,985), the repayment of liabilities under financing arrangements in the amount of K€ -4,543 (2012: K€ -6,520) and the reverse effects from the assumption of loans in the amount of K€ 6,398 (2012: K€ 35,583). The year before, cash flow from financing activities had additionally been impacted in the amount of K€ -29,072 by the share buy-back program. Interest paid in the amount of K€ 3,080 (2012: K€ 3,047) and interest income in the amount of K€ 336 (2012: K€ 738) was allocated to cash flow from financing activities.

OTHER DISCLOSURES

37 Subsidiaries

QSC's consolidated financial statements include the following equity investments:

in K€	Shareholdings (in %) Dec 31, 2013	Shareholders' equity on Dec 31, 2013	Result for the year 2013
Subsidiaries (disclosures pursuant			
to the German Commercial Code ["HGB"])			
Ventelo GmbH ("Ventelo"), Cologne	100	169,738	(376)*
Plusnet GmbH & Co. KG ("Plusnet"), Cologne	100	10,404	247**
BroadNet Deutschland GmbH			
("BroadNet Deutschland"), Cologne	100	2,940	462*
IP Colocation GmbH ("IP Colocation"), Nuremberg	100	1,443	183
Q-DSL home GmbH ("DSL home"), Cologne	100	1,293	(22)*
010090 GmbH ("010090"), Cologne	100	156	61*
T&Q Netzbetriebs GmbH & Co. KG ("T&Q"), Cologne	100	50	9
T&Q Verwaltungs GmbH ("T&Q Verwaltung"), Cologne	100	30	5
01012 Telecom GmbH ("01012"), Cologne	100	27	30*
F&Q Netzbetriebs GmbH & Co. KG ("F&Q"), Cologne	100	26	354
Broadnet Services GmbH			
("Broadnet Services"), Cologne	100	25	441*
01098 Telecom GmbH ("01098"), Cologne	100	25	30*
010052 Telecom GmbH ("010052"), Cologne	100	25	30*
010088 Telecom GmbH ("010088"), Cologne			
– formerly tengo GmbH, Cologne	100	25	29*
01052 GmbH ("tengo 01052"), Cologne	100	25	29*
Q-loud GmbH ("Q-loud"), Cologne	100	25	(28)*
tengo GmbH ("tengo"), Cologne	100	25	(239)*
Broadnet NGN GmbH ("Broadnet NGN"), Cologne	100	25	(27)*
F&Q Netzbetriebs Verwaltungs GmbH			
("F&Q Vewaltung"), Cologne	100	25	2
Plusnet Verwaltungs GmbH			
("Plusnet Verwaltung"), Cologne	100	18	1***
Collutio Holding GmbH ("Collutio"), Vienna	100	9	(1)

* Annual result before profit and loss takeover agreement
** The shares are held by Ventelo GmbH
*** The shares are held by Plusnet GmbH & Co. KG

Three new subsidiaries were formed in February 2013: Broadnet NGN GmbH, Q-loud GmbH and tengo complete GmbH. All of these subsidiaries were capitalized in cash with share capital of K€ 25 and are domiciled in Cologne. tengo complete GmbH has been doing business as tengo GmbH since August 8, 2013. On December 11, 2013, Collutio Holding GmbH was formed with its domicile in Vienna and share capital of K€ 10 through entry in the commercial register.

Through contracts each dated April 3, 2013, the following four previously fully consolidated subsidiaries of INFO AG were merged with this corporation: INFO Business Systems GmbH, INFO Customer Service GmbH, both domiciled in Hamburg, as well as IP Exchange GmbH and IPX-Server GmbH, both domiciled in Nuremberg. Entry in the commercial register was made on May 27, 2013. The mergers were effected retroactively to January 1, 2013.

Through a contract dated June 4, 2013, INFO AG, of Hamburg, was merged with QSC AG, of Cologne. The merger became effective upon entry in the commercial register on August 6, 2013, and was also effected retroactively to January 1, 2013.

The following subsidiaries have exercised their option for exemption pursuant to § 264 (3) of the German Commercial Code ("HGB"): Q-DSL home GmbH, 010090 GmbH, BroadNet Deutschland GmbH, Broadnet Services GmbH, 01098 Telecom GmbH, 01012 Telecom GmbH, 010052 Telecom GmbH, 010088 Telecom GmbH, 01052 Communication GmbH, F&Q Netzbetriebs GmbH & Co. KG, T&Q Netzbetriebs GmbH & Co. KG, Plusnet GmbH & Co. KG, Ventelo GmbH, Broadnet NGN GmbH, Q-loud GmbH, and tengo GmbH.

38 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, 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.

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.

in K€	Direct Sales	Indirect Sales	Resellers	Reconciliation	Consolidated group
Fiscal year 2013					
Net revenues	**209,176**	**123,159**	**123,389**	**-**	**455,724**
Cost of revenues	(139,677)	(65,279)	(98,508)		(303,464)
Gross Profit	**69,499**	**57,880**	**24,881**	**-**	**152,260**
Sales and marketing expenses	(16,912)	(15,190)	(9,716)		(41,818)
General and administrative expenses	(12,015)	(12,639)	(10,971)		(35,625)
Depreciation and amortization	(24,431)	(10,869)	(15,530)		(50,830)
Non-cash share-based remuneration	(149)	(144)	(141)		(434)
Other operating income	1,033	1,097	818		2,948
Operating profit (loss)	**17,025**	**20,135**	**(10,659)**	**-**	**26,501**
Assets	205,516	107,822	64,148	14,541	392,027
Liabilities	78,057	46,372	69,821	3,912	198,162
Capital expenditures	26,177	7,542	5,842	-	39,561

in K€	Direct Sales	Indirect Sales	Resellers	Reconciliation	Consolidated group
Fiscal year 2012					
Net revenues	**187,871**	**125,085**	**168,540**	**-**	**481,496**
Cost of revenues	(120,630)	(67,477)	(132,130)		(320,237)
Gross Profit	**67,241**	**57,608**	**36,410**	**-**	**161,259**
Sales and marketing expenses	(19,997)	(14,615)	(12,053)		(46,665)
General and administrative expenses	(20,190)	(8,332)	(5,586)		(34,108)
Depreciation and amortization	(23,268)	(10,971)	(18,687)		(52,926)
Non-cash share-based remuneration	(173)	(145)	(120)		(438)
Other operating income	(887)	(646)	(1,005)		(2,538)
Operating profit (loss)	**2,726**	**22,899**	**(1,041)**	**-**	**24,584**
Assets	183,824	105,157	87,608	10,539	387,128
Liabilities	72,754	40,318	88,514	5,306	206,892
Capital expenditures	25,347	7,897	4,704	-	37,948

Deferred tax assets and liabilities are shown as reconciling items.

No material revenues were generated from business with companies outside Germany in fiscal 2012 or 2013, nor were intersegment revenues generated. Long-term financial assets are exclusively of a domestic nature. In fiscal 2013, there was one customer in the Resellers Business Unit whose share of total revenues exceeded 10 percent, namely 10.1 percent.

Information relating to products and services • The reporting structures were revised during the current fiscal year; consequently, the information pursuant to IFRS 8.32 will not be revised until the 2013 fiscal year. Revenues with external customers for categories of comparable products and services developed as follows:

in K€	2013
ICT products	319,389
Outsourcing and Consulting	136,336
Revenues	**455,724**

39 Stock option programs

Since 1999, QSC has established a total of seven stock option programs (SOPs), which call for the issuance of convertible bonds having a nominal value of € 0.01 each to employees and (with the consent of the Supervisory Board) to members of the Management Board as well as to consultants and suppliers. The participants in these programs are granted the right to convert each convertible bond into one share of registered, no-par stock against payment of the exercise price. The exercise price of the convertible bonds represents the market price of the share on the date of issuance. The convertible bonds have a term of four to eight years and are subject to a vesting period of up to four years. In connection with the 2006 SOP, the conversion right cannot be exercised until at least one of the following conditions is met: Either the trading price of the shares has developed better on a relative basis between the day of issue and the time of exercise of the conversion right than the comparison index (TecDAX), or the trading price has risen by at least 10 percent between the day of issue and the time of exercise of the conversion right.
On May 16, 2013, the QSC Annual Shareholders Meeting agreed to the 2012 stock option program (2012 SOP), calling for the issuance of up to 5,000,000 convertible bonds having a nominal value of € 0.01 each to employees and (with the consent of the Supervisory Board) to members of the Management Board. All employees of QSC whose employment had not been terminated as of December 1, 2012, are eligible to subscribe. The subscription period began in March 2013 and will end no later than May 15, 2017. The convertible bonds have a term of between four and eight years.

The conversion right may – no earlier than at the end of a waiting period of 4 years – only be exercised if at least one of the following two conditions have been met: Either the trading price of QSC shares is at least 20 percent higher than the conversion price or the development of the shares has exceeded that of the TecDAX index.

On the basis of IFRS 2, no personnel expenses were recorded for the convertible bonds issued under the 2000, 2000A, 2001 and 2002 SOPs. The option values for the convertible bonds under the 2006 SOP were computed at grant date using the Black-Scholes option-pricing model with the following assumptions.

	2013	2012
2006 SOP		
Expected average term of the 2006 SOP	8 years	8 years
Dividend yield	2.09 %	4.21 %
Average risk-free interest rate	1.60 %	0.98 %
Volatility (3 years)	40.22 %	50.54 %
Average fair value of options in €	-	-
Fair value of convertible bonds granted for the year in €	-	-

	2013
2012 SOP	
Expected average term of the 2012 SOP	8 years
Dividend yield	2.09 %
Average risk-free interest rate	1.60 %
Volatility (3 years)	40.22 %
Average fair value of options in €	1.52
Fair value of convertible bonds granted for the year in €	1,549,283

In fiscal 2013, only convertible bonds under the 2012 SOP were subscribed. Volatility was determined on the basis of daily closing prices over a historical period of three years.

The distribution of the convertible bonds outstanding under all programs as of December 31, 2012, and 2013, is as follows:

	Number of convertible bonds	Weighted average exercise price in €
Outstanding on December 31, 2011	**1,495,004**	**2.79**
Granted in 2012	-	-
Forfeited in 2012	(169,510)	4.85
Exercised in 2012	(50,275)	1.17
Outstanding on December 31, 2012	**1,275,219**	**2.58**
Granted in 2013	1,019,000	2.85
Forfeited in 2013	(17,168)	2.70
Exercised in 2013	(380,248)	1.82
Outstanding on December 31, 2013	**1.896.803**	**2.88**

The exercise prices of the remaining 1,896,803 convertible bonds range from € 1.17 to € 5.58, and the remaining term for exercise varies from "immediately exercisable" to December 30, 2021. The exercise price is set at the date of issuance and cannot be changed after that date. The Company expects conversion of the remaining bonds (depending on the market price development) to be completed by 2021 at the latest.
As of balance sheet date, 855,803 of the remaining convertible bonds were exercisable, with the remaining convertible bonds being subject to the agreed retention period.
During the year under review, expense incurred in conjunction with non-cash share-based remuneration amounted to K€ 434 (2012: K€ 438).

40 Related party transactions

In 2013, QSC participated in transactions with companies affiliated with members of the Management and Supervisory Boards. IAS 24 states that related parties are individuals or companies with the possibility of influencing or even controlling the other party. All contracts with those companies require the approval of the Supervisory Board and are concluded on the basis of prevailing market conditions.

in K€	Net revenues	Expenses	Cash received	Cash paid
Fiscal year 2013				
IN-telegence GmbH	947	39	1,137	35
Teleport Köln GmbH	31	4	34	5
QS Communication Verwaltungs Service GmbH	-	208	-	231
Fiscal year 2012				
IN-telegence GmbH	916	38	1,132	45
Teleport Köln GmbH	33	5	42	6
QS Communication Verwaltungs Service GmbH	-	219	-	260

in K€	Trade receivables	Trade payables
On December 31, 2013		
IN-telegence GmbH	83	4
Teleport Köln GmbH	6	-
QS Communication Verwaltungs Service GmbH	-	17
On December 31, 2012		
IN-telegence GmbH	96	-
Teleport Köln GmbH	3	-
QS Communication Verwaltungs Service GmbH	-	-

IN-telegence GmbH is a provider of value added services in the telecommunications industry and essentially utilizes network services from QSC. To a limited extent, subsidiaries of QSC AG also utilize these value added services from IN-telegence, Teleport Köln GmbH provides support to QSC in the installation of end-customer connections and utilizes telecommunication services from QSC. QS Communication Verwaltungs Service GmbH provides consulting services to QSC in connection with the product management of voice products.
Further information relating to the members of the Management and Supervisory Boards is contained in Notes 48 and 51, as well as in the Compensation Report.

41 Deferred taxes

As in the previous year, QSC used an aggregate tax rate of 32.21 percent (2012: 32.45 percent) to calculate deferred taxes. The deferred tax expense and income for the period and the allocation of temporary variances are presented below:

in K€	Asset	Liability	Asset	Liability	Consolidated Statement of Income	
	2013		2012		2013	2012
Deferred tax assets and liabilities						
Intangible assets	130	14,733	-	14,693	153	1,768
Property, plant and equipment	2,633	9,510	2,118	12,228	3,167	506
Other financial assets	100	12	282	13	14	280
Trade receivables (related parties)	-	-	2	2	-	-
Other trade receivables	-	3,135	-	3,575	442	(865)
Inventories	1,506	-	925	-	582	(1,255)
Deferred revenues	850	699	948	863	67	(698)
Accrued pensions and other provisions	1,334	92	1,317	235	17	473
Other liabilities	1,833	107	2,861	177	(1,013)	1,724
Total deferred taxes on temporary differences	**8,386**	**28,288**	**8,453**	**31,786**	**3,429**	**1,933**
Total deferred taxes on loss carryforwards	**30,532**	**-**	**28,566**	**-**	**1,966**	**-**
Total deferred taxes before being netted out	**38,918**	**28,288**	**37,019**	**31,786**		
Netting out	(24,376)	(24,376)	(26,480)	(26,480)		
Total deferred taxes	**14,542**	**3,912**	**10,539**	**5,306**		

The temporary differences in conjunction with interests in subsidiaries for which no deferred tax liabilities are recorded amount to K€ 19,473 in fiscal 2013 (2012: K€ 23,340).

The following table presents the reconcilement of the expected income tax to the actual income tax expense. The expected tax income is calculated by multiplying net loss before taxes with the assumed income tax rate:

in K€	2013	2012
Reconciliation		
Net profit	**22,672**	**20,719**
Tax rate	32,21 %	32,21 %
Expected tax expense	7,302	6,673
Tax effect of		
adjustments made to allowances on deferred taxes		
relating to carry forward of losses	(8,766)	(5,036)
non-deductible operating expenses	557	444
non taxable income	-	(530)
non-period expense (income)	(132)	220
change in taxation rate	-	22
Other	99	(95)
Reconciled tax expense	**(940)**	**1,698**

The reconciled tax income consists of current income tax expense totaling K€ 4,475 (of which K€ -132 relate to prior years), and deferred tax income of K€ 5,415. In fiscal 2013, tax income totaling K€ 20 relating to the recognition of actuarial gains and losses was recognized directly in equity.

As of December 31, 2013, the corporation tax loss carryforwards totaled € 374 million (2012: € 395 million, taking into consideration a tax audit for the 2004 through 2009 fiscal years that was concluded in fiscal 2013) and municipal trade tax loss carryforwards amounted to € 368 million (2012: € 389 million, taking into consideration a tax audit for the 2004 through 2009 fiscal years that was concluded in fiscal 2013). These tax losses can be carried forward without restriction for future offset against the taxable earnings of entities in which deferred taxes on loss carryforwards in the amount of € 30.5 million (2012: € 28.6 million) are recognized. In recognizing and measuring deferred taxes on tax loss carryforwards, it is assumed that tax loss carryforwards in the amount of € 95 million will be able to be utilized medium term. The long-term corporate planning calls for generating sustained taxable earnings; however due to the Company's loss history and the planning insecurities stemming from the consolidated group's transformation process, only those taxable earnings have been taken into consideration that are anticipated for a foreseeable period of 3 years. There were no deferred tax assets recorded in the balance sheet for still unutilized corporation tax loss carryforwards in the amount of € 279 million and municipal trade tax loss carryforwards in the amount of € 273 million.

42 Litigation

In the judicial review proceeding ("Spruchverfahren") brought before the Hamburg Regional Court ("Landgericht") 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 applicants immediately filed an appeal against the ruling with the Hamburg Higher Regional Court ("Oberlandesgericht"), with the consequence that the ruling is not yet legally binding.
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.

A lawsuit was filed against QSC with the Cologne Regional Court. The plaintiff is seeking a payment of K€ 2,271 plus interest.
Traffic to so-called value-added services numbers (e.g. 0900, 01805) was transferred from QSC's network to the network of the plaintiff company on the basis of an interconnection agreement. The plaintiff is of the opinion that, in breach of contract, QSC transferred the connections incorrectly, as traffic to value-added services numbers should have been transferred as close to the point of origin as possible. The plaintiff asserts that QSC did not satisfy this prerequisite. The end result of this alleged incorrect routing was that an incorrect rate zone was charged to the benefit of QSC. Depending upon the product in question, the plaintiff asserts that QSC either charged on the basis of an excessively expensive rate zone or the plaintiff granted excessive deductions from its entitlement in its own billing system. The claim asserted in the lawsuit is for the sum total of these amounts. The parties to this lawsuit concluded a judicial settlement on September 30, 2013. Under the terms of the settlement, QSC agreed to pay K€ 909 (i.e. 40 percent) of the total claim to the plaintiff. The parties each agreed to pay 50 percent of the costs of the lawsuit and the settlement. The proceedings have therefore been terminated. The provision recognized for the principal claim was released, giving rise to income of K€ 1,357.

A lawsuit was filed against Broadnet Services at the Commercial Division of the Cologne Regional Court. The plaintiff is seeking a payment of K€ 1,812 plus interest.
Broadnet Services and the plaintiff had previously signed a supplementary agreement to the interconnection agreement between the two parties, in accordance with which Broadnet Services agreed to bill telephone minutes terminated by the plaintiff to Broadnet Services' network for

specific regions, as if there were a physical point of interconnection between the parties in these regions, thus giving rise to a cost advantage to the plaintiff. Soon after this agreement went into force, there was a rapid drop in billable traffic, as Broadnet Services had lost a major account, namely QSC. QSC and its new network operator demanded that Broadnet Services port the telephone numbers that up until then had been routed through the Broadnet Services network on behalf of QSC to the new network operator's network. Broadnet Services felt obligated to agree to this porting. The plaintiff asserted that a major share of the traffic that should have been billed at a favorable rate structure under the agreement with Broadnet Services if it were still being terminated by the plaintiff in the Broadband Services network is instead being terminated by the other network operator at more costly terms. The plaintiff was of the opinion that Broadnet Services should have prevented the porting that had occurred on the basis of the supplementary agreement and is seeking a refund of the difference between the two prices.
The Cologne Regional Court rejected the claim in its ruling on June 6, 2013, whereupon the plaintiff filed an appeal on July 5, 2013 – and hence within the permitted time limit – with the Cologne Higher Regional Court.
The parties to this lawsuit subsequently concluded a judicial settlement on December 19, 2013. Under the terms of the settlement, Broadnet Services agreed to pay K€ 550 (i.e. 30 percent) of the total claim to the plaintiff. Broadnet Services agreed to pay 30 percent of the costs of the lawsuit and the settlement. The proceedings have therefore been terminated. The provision recognized for the principal claim was released, giving rise to income of K€ 617.

A lawsuit was filed at the Cologne Regional Court against Broadnet Services and 010090. The plaintiff is seeking payment of a total of K€ 2,563 (with an amount of K€ 1,624 being sought from Broadnet Services and an amount of K€ 939 from 010090) plus interest.
The plaintiff asserted that both Broadnet Services and 010090 had broken off the negotiations with the plaintiff relating to the physical expansion of points of interconnection between the telecommunication networks of Broadnet Services and 010090 on the one hand and the plaintiff on the other. With its lawsuit, plaintiff sought to be given the same status as if the negotiations had been successfully concluded.
The Cologne Regional Court dismissed the lawsuit in a ruling dated September 26, 2013. Since the plaintiff did not appeal, the ruling is binding in law. A provision had not been recognized with respect to this lawsuit.

In a judicial review proceeding ("Spruchverfahren") at the Hamburg Regional Court 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 (at the time doing business as INFO Gesellschaft für Informationssysteme Holding Aktiengesellschaft, formerly IP Partner AG) ("INFO 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. This ruling is not yet final. It is possible for the petitioners to appeal the decision to the Superior Court of Hamburg within a term of one month subsequent to service. 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.

43 Contingencies and other financial obligations

Obligations from operating leases • The consolidated group is party to various long-term operating lease arrangements as lessee, mostly for Technical rooms and offices, fiber optic connections, PCs and vehicles. The contracts are all partial amortization leases without purchase option and run for an average period of two to five years. The items concerned are not subleased to customers. As of December 31, future minimum lease payments under non-cancellable operating leases were as follows.

in K€	2013	2012
Up to 1 year	22,420	33,735
1 to 5 years	49,095	33,330
Over 5 years	13,645	17,640
Operating lease arrangements	**85,160**	**84,705**

In fiscal 2013, QSC recognized expenses totaling K€ 3,644 (2012: K€ 3,697) which were incurred in connection with operating lease arrangements and are presented under "Cost of revenues." As of balance sheet date, liabilities from operating lease arrangements amount to K€ 0 (2012: K€ 0).

Rights under operating lease arrangements – QSC Group as lessor • Arrangements similar to operating leases are in place with customers, mainly for the rental of computer center space, disk storage devices and shared hardware resources. The contracts are all partial amortization leases without a purchase option, and have an average contractual period of three to five years. The consolidated group will receive the following future minimum lease payments under non-cancellable arrangements similar to operating leases:

in K€	2013	2012
Up to 1 year	15,746	17,286
1 to 5 years	22,928	17,836
Over 5 years	234	-
Operating lease arrangements	**38,908**	**35,122**

For the purpose of measuring future minimum lease payments the 20 largest customers were taken into account for whom services were already provided at the reporting date and payments from whom were contractually stipulated at the balance sheet date. In 2013, K€ 21,552 (2012: K€ 21,851) were recorded under revenues as rental payments.

Rights under finance lease arrangements – QSC Group as lessor • Under the rules contained in IFRIC 4, the consolidated group also is deemed to be the lessor in specific multi-component arrangements. Future minimum lease payments from customers under finance lease arrangements can be reconciled to their net present value as follows:

in K€	2014	2015 – 2018	From 2019	Total
Future minimum lease payments				
Lease payments	3,145	5,156	-	8,301
Discounting fees	(215)	(218)	-	(433)
Present values	**2,930**	**4,938**	**-**	**7,868**

Lease payments received in 2013 totaled K€ 3,044 (2012: K€ 4,071).

Obligations under financing and rent-to-own arrangements • QSC has entered into financing arrangements and rent-to-own contracts, as well as finance lease arrangements for various items of technical equipment as well as for fixtures and furnishings. The future payment obligations under these arrangements can be reconciled to their cash values as follows.

in K€	2013	2012
Financing and hire purchase arrangements		
Up to 1 year	5,836	4,629
1 to 5 years	9,127	7,134
Over 5 years	76	381
Total payment obligations	**15,039**	**12,144**
less interest component	(674)	(797)
Present value of payment obligations	**14,365**	**11,347**

These obligations are presented by their respective maturity dates under short- and long-term liabilities.

Other financial obligations • Other financial obligations amount to K€ 12,051 (2012: K € 2,000). These consist of obligations in the amount of K€ 7,784 that are due and payable in fiscal 2014 and in the amount of K€ 5,939 that are due and payable in fiscal years 2015 through 2018. An amount of K€ 975 is due and payable subsequent to fiscal 2018. Purchase commitments to future investments amounted to K€ 2,647 (2012: K€ 1,547) in the past fiscal year and relate essentially to purchase orders for property, plant and equipment.

Guarantees • There were no guarantee obligations as of December 31, 2013.

44 Objectives and methods used in financial risk management

In connection with its business activities, QSC is subject to a number of financial risks that are inseparably linked with its entrepreneurial actions. QSC combats these risks through a comprehensive risk management system, which is an integral element of its business processes and corporate decisions. The key elements of this system are a Group-wide planning and controlling process, Group-wide policies and reporting systems, as well as Group-wide risk reporting. The Management Board stipulates the principles of the Company's financial policies annually and monitors the risk management system. Further information on risk management can be found in the Group Management Report.

The principal financial liabilities comprise essentially financing and rent-to-own arrangements, trade payables and liabilities due to banks. The main purpose of these financial liabilities is to raise finances for the consolidated group's operating activities. Financial assets which arise directly from the consolidated group's operating activities are, in particular, trade receivables, cash and short-term deposits, and available-for-sale financial assets. In fiscal 2013 and fiscal 2012, no trading in derivatives was concluded.
The consolidated group's major risks that arise from the use of financial instruments include interest rate risk, credit risk and liquidity risk. Since no material transactions in foreign currencies are carried out, there are no material foreign currency risks. The following is a summary of the strategies and procedures used for managing each of the aforementioned risks.

Interest rate risk • QSC is exposed to the risk of changes in market interest rates. This risk results primarily from the consolidated group's variable interest-bearing short-term liabilities due to banks, as well as from variable interest-bearing liquidity. Short- and long-term liabilities under financing arrangements, on the other hand, are outside capital having a fixed interest rate. As of December 31, 2013, the share of variable rate debts in total rate debts amounted to 73 percent. The following table reflects the sensitivity of the consolidated group's earnings before taxes to a reasonably possible change in interest rates in relation to variable rate debts as of December 31 and liquidity (including available-for-sale financial assets).

	Increase/ decrease in basis points	Impact on net profit before income taxes in K€
2013	+ 100	(143)
2013	- 100	143
2012	+ 100	(288)
2012	- 100	288

Credit risk • QSC is exposed to the risk of bad debt on the part of customers and issuers. The Company strives to trade with creditworthy third parties only, thereby trying to rule out this risk from the very beginning. For this reason, it is the consolidated group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. After establishing business relations, receivable balances are monitored on an ongoing basis in order to reduce the consolidated group's possible risk of bad debts. The maximum risk of bad debts is limited to the carrying amount of the trade payable as disclosed in Note 18. In the past fiscal year, there were no significant concentrations of credit risk within the consolidated group. As far as trade receivables not yet written down are concerned, QSC expects them to be collectible.

In investing financial assets, QSC is also subject to a credit risk in the event of the elimination of a contracting party. The maximum this risk represents is the book value of these instruments. QSC is therefore pursuing a highly conservative investment policy, and in the past fiscal year solely invested in securities with a first-class credit rating.

Liquidity risk • The consolidated group monitors its risk of a liquidity shortfall through monthly recurring liquidity planning, which takes into account the remaining term of available financial assets as well as the expected future cash flows from operating activities. The consolidated group strives to maintain an equilibrium between continuity of funding and flexibility through the use of short- and long-term liabilities and liabilities under financing arrangements. The following table is a summary of the consolidated group's maturity profile of short- and long-term liabilities as of December 31, based on contractual undiscounted payments.

in K€	Carrying amount	Due by end of 2014	Due by end of 2015	Due by end of 2016	Due by end of 2017	Due by end of 2018	Due after 2018	Total
Liabilities under financing and finance lease arrangements	14,365	5,838	4,608	2,829	1,391	306	76	15,048
Trade payables	58,002	58,002	-	-	-	-	-	58,002
Liabilities due to banks	85,565	4,978	4,653	77,314	3,985	327	148	91,405
Other short- and long-term liabilities	18,491	18,491	-	-	-	-	-	18,491
December 31, 2013	176,423	87,309	9,261	80,143	5,376	633	224	182,946

in K€	Carrying amount	Due by end of 2013	Due by end of 2014	Due by end of 2015	Due by end of 2016	Due by end of 2017	Due after 2017	Total
Liabilities under financing and finance lease arrangements	11,347	4,629	3,384	2,368	1,081	301	382	12,145
Trade payables	52,452	52,452	-	-	-	-	-	52,452
Liabilities due to banks	79,168	6,955	5,217	4,888	66,491	3,982	487	88,020
Other short- and long-term liabilities	16,456	16,456	-	-	-	-	-	16,456
December 31, 2012	159,423	80,492	8,601	7,256	67,572	4,283	869	169,073

Capital management • The primary objective of QSC's capital management is to ensure sufficient equity, a strong credit rating and the ability to maintain its business operations in an independent and flexible manner. Capital is monitored using the following parameters: equity ratio and net liquidity. Equity ratio is computed by dividing equity by the balance sheet total. Net liquidity is fixed rate debts less cash and short-term deposits as well as available-for-sale financial assets.

in K€	2013	2012
Capital management		
Liabilities under financing and finance lease arrangements	(14,365)	(11,347)
Liabilities due to banks	(85,565)	(79,168)
Interest-bearing liabilities	**(99,930)**	**(90,515)**
Plus cash and short-term deposits	58,716	34,820
Plus available-for-sale financial assets	343	343
Net debt	**(40,871)**	**(5,352)**
Equity	193,865	180,236
Balance sheet total	392,027	387,128
Equity ratio	**49 %**	**47 %**

As of the balance sheet date, all performance indicators stipulated by the loan agreements had been complied with. The indicators include financial ratios related to equity and earnings before interest, taxes and amortization.

45 Financial instruments

The following table presents the carrying amounts and fair values of all financial instruments included in the 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	
		2013	2012	2013	2012
Financial instruments					
Cash and Short-term Deposits	ACAC	58,716	34,820	58,716	34,820
Available-for-sale Financial Assets	AFS	343	343	343	343
Long-Term Receivables					
from Multi-Component Contracts	ACAC	5,066	3,981	5,282	4,356
Long Term Trade Receivables	ACAC	157	544	157	544
Short-Term Receivables					
from Construction Contracts	ACAC	509	1,571	509	1,571
Short-Term Trade Receivables	ACAC	52,030	62,243	52,030	62,243
Trade Payables	FLAC	58,002	52,452	58,002	52,452
Liabilities due to Banks	FLAC	85,565	79,168	85,565	79,168
Liabilities under Financing and Finance					
Lease Arrangements	FLAC	14,365	11,347	14,556	10,951
Other Short- and Long-Term Liabilities	FLAC	18,491	16,456	18,491	16,456
Aggregated according to classification categories					
pursuant to IAS 39:					
Financial Assets Carried at Amortised Cost	ACAC	116,478	103,159	116,694	103,534
Available-for-sale Financial Assets	AFS	343	343	343	343
Financial Liabilities Measured at Amortised Cost	FLAC	176,423	159,423	176,614	159,027

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 and liabilities due to banks. 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 multi-component 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 gain / (loss)	
		Allowance	At fair value	2013	2012
Assets carried at Amortised Cost (ACAC)	762	(64)	-	698	(2,348)
Available-for-sale financial assets (AFS)	-	-	-	-	2
Financial Liabilities measured at Amortised Cost (FLAC)	(3,978)	-	-	(3,978)	(4,662)
Net results by classification category	**(3,216)**	**(64)**	**-**	**(3,280)**	**(7,008)**

Expenses arising from the valuation adjustment on trade receivables are presented in the income statement under "Sales and Marketing expenses."

46 Declaration pursuant to § 161 "AktG" regarding compliance with the German Corporate Governance Code

The declaration pursuant to § 161 of the Stock Corporation Act ("AktG") regarding compliance with the German Corporate Governance Code, as amended May 12, 2012, and, since its enforcement, as amended May 13, 2013, respectively has been issued by the Management Board and the Supervisory Board and is permanently and publicly available to the shareholders on the Company's website. Future amendments to the rules relevant for compliance with the Corporate Governance Code will be posted on the QSC website without delay. Further information is provided in the separate Corporate Governance and Compensation Report.

47 Auditors' fees

In conjunction with services provided by the auditors of the consolidated financial statements, the following amounts were charged during the 2013 fiscal year: K€ 341 (2012: K€ 322) for audit services, K€ 95 (2012: K€ 0) for other services, and K€ 34 (2012: K€ 25) for other audit services.

48 Compensation of the Management Board

The total compensation to members of the Management Board for the 2013 fiscal year amounted to K€ 1,726, by comparison with K€ 1,061 the year before. This was divided into fixed compensation in the amount of K€ 887 (2012: K€ 1,063), variable compensation in the amount of K€ 790 (2012: K€ -59) and fringe benefits of K€ 49 (2012: K€ 57). As in the previous year, no compensation elements were granted that were not directly paid. There had been no entitlement to variable compensation for the previous fiscal year, 2012. The variable salary elements for 2012 in the amount of K€ -59 relate to income from the return of the bonus provision for fiscal 2011.

Management Board members Stefan Freyer and Henning Reinecke have each been promised a settlement in the amount of K€ 400 in the event of premature termination of their Management Board term of office due to an effective revocation of their appointment by the Company within the first two years of their employment contracts; during the third employment contract year, the settlements will reduce by 1/12 per month in which the employment relationship had existed. There is no entitlement to payment of a settlement in the event of termination of the employment relationship for cause (§ 626, German Civil Code). In the event of an amicable termination of the Management Board term of office without cause, the total value of the benefits committed by the Company within the framework of an agreement of this nature will not exceed the amount of K€ 400. Moreover, Management Board member Stefan Freyer possesses a direct pension commitment, which was granted to him in fiscal 1997 by a predecessor corporation of INFO Gesellschaft für Informationssysteme Aktiengesellschaft; this pension commitment continues to retain its validity following the merger of INFO AG and QSC AG in fiscal 2013. Under the terms of this pension commitment, Mr. Freyer is entitled to old-age, disability and survivors insurance beginning at the age of 60. The actuarial cash value of this pension commitment amounted to K€ 64 as of December 31, 2013, prior to offsetting an asset value for reinsurance in the amount of K€ 16. In fiscal 2013, personnel expense of K€ 2 was recorded in this connection.
In fiscal 1997, Dr. Bernd Schlobohm was granted a direct commitment for old-age, disability and widow's pensions. This commitment relates to entitlements accrued during his activities on the Management Board through the date of the balance sheet and amounts to K€ 1,172 prior to being offset by an entitlement from the reinsurance coverage in the amount of K€ 722. The expense recorded in the Consolidated Financial Statements amounts to K€ 161 (2012: K€ 193).

49 Risks

Risks are detailed in the Report on Risks contained in the Consolidated Management Report.

50 Proposed profit appropriation

The Management Board will propose to the Annual General Meeting that a dividend of € 0.10 per share be paid to shareholders.

51 Bodies of the corporation

Management Board • The following were members of the Management Board in fiscal 2013:

Management Board member	
Jürgen Hermann	Chief Executive Officer since May 30, 2013
Barbara Stolz	Chief Financial Officer since June 1, 2013
Stefan Freyer	Member of the QSC Management Board since September 1, 2013;
	responsible for Operations, IT Solutions business, and IT Consulting
Henning Reineke	Member of the QSC Management Board since September 1, 2013;
	responsible for Sales and Marketing, as well as for the market-driven
	evolution of the entire ICT portfolio
Dr. Bernd Schlobohm	Chief Executive Officer through May 29, 2013
Arnold Stender	Member of the QSC Management Board through August 31, 2013

Supervisory Board • The following were members of the Supervisory Board in fiscal 2013:

Supervisory Board member	
Dr. Bernd Schlobohm	Entrepreneur, Chair since May 29, 2013
Dr. Frank Zurlino	Managing partner of Horn & Company,
	Vice Chair since May 29, 2013
Ina Schlie	Head of Corporate Tax Operations at SAP AG
Gerd Eickers	Businessman
Anne-Dore Ahlers	SAP HCM team leader in the SAP Applications organization,
	employee representative since May 29, 2013
Cora Hödl	Head of TC Voice Services Department in the TC Technology
	organization, employee representative since May 29, 2013
Herbert Brenke	Telecommunications consultant, Chair through May 29, 2013
David Ruberg	Chief Executive Officer of Interxion N.V. through May 29, 2013
Klaus-Theo Ernst	Project manager, employee representative through May, 29 2013
Jörg Mügge	Head of processes and projects, employee representative
	through May 29, 2013

The term of office of the Supervisory Board ends upon adjournment of the Annual Shareholders Meeting that ratifies the acts of the members of the Management Board for the 2017 fiscal year.

Cologne, March 19, 2014

QSC AG
The Management Board

Jürgen Hermann Chief Executive Officer	Barbara Stolz	Stefan Freyer	Henning Reinecke

Statement of Responsibility

To the best of our knowledge, and in accordance with the applicable reporting principles, the Consolidated Financial Statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group 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.

Cologne, March 19, 2014

QSC AG
The Board of Management

Jürgen Hermann
Chief Executive Officer

Barbara Stolz

Stefan Freyer

Henning Reinecke

Auditor's Report

We have audited the consolidated financial statements prepared by the QSC AG, Cologne, comprising the consolidated statement of income, the consolidated statement of cash flows, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated statement of comprehensive income and the notes to the consolidated financial statements, together with the group management report for the business year from 1. January 2013 to 31. December 2013. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB is the responsibility of the parent company`s management. Our responsibility is to express an opinion on the consoli-dated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pur-suant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Cologne, 20. March 2014

KPMG AG
Wirtschaftsprüfungsgesellschaft

Pütz	Gall
Wirtschaftsprüfer	Wirtschaftsprüfer

Glossary

24/7 • Operational and available 24 hours a day, 7 days a week.

ADSL • The Asymmetric Digital Subscriber Line. Denotes the transfer of digital data over a twisted copper pair telephone line with an "asymmetric" transfer capacity.

ADSL2+ • An evolution of ADSL technology that improves the transfer rates and ranges of an ADSL connection.

BITKOM • Bundesverband Informationswirtschaft, Telekommunikation und neue Medien e. V.; the German ICT industry association.

Call-by-Call • Phone calls or Internet access on a call-by-call basis, in which a customer can dial the network prefix of their telephone provider of choice prior to each telephone call or Internet access.

Carrier • Telephone company or network operator.

Cloud Computing • The provision of IT infrastructures (e.g. data storage, computing capacity) and ready-to-use software over networks. Cloud Computing offerings and utilization are provided exclusively via defined technical interfaces and protocols.

Collaboration • Cooperation between multiple individuals or groups.

Compliance • Adherence to laws, regulations and self-stipulated codes.

DSL • Digital Subscriber Line. A transmission method that enables digital data to be transferred at high transmission rates over a simple twisted copper pair telephone line.

Hosting • Denotes the provision of IT resources in varying scopes, with a service provider provisioning the hardware (Web storage, Web databases or e-mail systems).

Housing • The provision of space and network links for a customer server at a data center, without any provision of hardware by the service provider.

IaaS • Infrastructure as a Service. The provision on an as-needed basis of IT infrastructure, such as computing or storage resources, with the charges being based on usage.

ICT • Information and Communication Technology. Denotes an Industry that offers both information technology (hardware, software and IT services) as well as telecommunication (voice and data services, end-user devices and infrastructure). Comprehensive utilization of the Internet Protocol is driving a growing convergence of IT and TC.

Infrastructure • QSC denotes infrastructure to mean its own nationwide interconnected network of data lines with differing bandwidths.

IP • Address in computer networks based upon the Internet Protocol (IP). It serves to transport data from sender to recipient, similar to a postal address.

IP Telephony • Placing telephone calls over computer networks that are built to Internet standards, with both voice and control information being transferred over the network.

IP-VPN • Internet Protocol Virtual Private Network. Subscribers in a private (self-contained) network can link to another network, without any need for the networks to be compatible.

LAN • Local Area Network.

Local Loop • Also termed subscriber connection line. The local loop is the line between the central office and the network termination at the subscriber. In most cases, the local loop consists of copper, making it DSL-capable. QSC obtains local loops from Deutsche Telekom AG at a price that is regulated by the German Federal Network Agency.

M2M • Machine to Machine. Automated information exchange between machines.

Managed Services • QSC uses this term to denote a complete ICT service offering that takes into consideration all customer-specific interfaces. From linking individual enterprise locations within a Virtual Private Network (VPN) for voice and data transfer to internal cabling and equipping of the local area network right through to the installation of telephone systems, including end-user devices.

Microsoft Lync • A Microsoft Instant Messaging application enabling multiple users to exchange content simultaneously in one pass.

NGN • Next Generation Network. An NGN denotes an IP-based communication network that unites all services from conventional networks, such as telephony, mobile communication and data. This ability is termed "convergence." QSC had already equipped its infrastructure with NGN components back in the year 2005.

Outsourcing • Outsourcing means contracting out IT tasks and functions to third parties.

Preselect • Preselection is the automatic dialing of a communication network operator's carrier selection code (prefix) to make calls. Every network operator has its own carrier selection code.

SaaS • Software as a Service. SaaS is a subset of Cloud Computing, where software and IT infrastructures are operated by an external service provider and utilized as a service by the customer. A Web browser is typically used to access the software.

VPN • Virtual Private Network. An enterprise's geographically separate locations are linked within a secure network via a public network. Only authorized persons can then communicate with one another as if they were both in a local area network.

WiFi • Denotes a wireless local area network. It is also used to denote an organisation that certifies hardware with wireless interfaces, as well as the corresponding brand name. The term is often used as a synonym for WLAN.

WLAN • Wireless LAN. Denotes a wireless local area network.

Index

B

Balance sheet	69f., 94f., 121ff.

C

Capital expenditures	61f., 75
Cloud Computing	30f., 55, 73
Compensation report	44ff.
Consolidated net income	64
Corporate Governance	37ff.

D

Direct Sales	28, 58f., 65f., 74
Dividend	20, 75

E

Earnings per share	119
EBIT	64
EBITDA	63f.

F

Free cash flow	60f., 75

H

Human resources	50ff.

I

ICT market	54f., 72
Indirect Sales	28, 58, 66f., 74f.
Innovation	6, 33ff.

L

Liabilities	70, 130f.
Liquidity	61, 69

M

Management Board	8f., 37f., 158

O

Opportunities	76ff.
Order bookings	58
Outlook report	72ff.

P

Performance indicators	32f., 60ff.

R

Regulation	56f., 73, 84
Research and development	33ff.
Resellers	28, 58, 67, 75

S

Segment reporting	65ff., 139ff.
Shareholders	20f.
Shareholders' equity	69f., 128f.
Shares	18ff.
Statement of Cash Flows	68, 31, 165
Statement of Income	60ff., 92, 165ff.
Strategy	30f.
Supervisory Board	10ff., 37ff., 158f.

T

Training	50f.
Transformation process	30f., 57ff.

Calendar

Annual Shareholders Meeting
May 28, 2014

Quarterly Reports
May 12, 2014
August 11, 2014
November 10, 2014

Contact

QSC AG
Investor Relations
Mathias-Brüggen-Straße 55
50829 Cologne
Phone +49-221-669-8724
Fax +49-221-669-8009
E-mail invest@qsc.de
Internet www.qsc.de

Certification

MIX
From responsible sources
FSC® C006024
www.fsc.org

ClimatePartner
climate neutral
Print | ID: 53124-1403-1002

Overall Responsibility
QSC AG, Cologne

Art Direction
sitzgruppe, Düsseldorf

Photography
Customers Report:
Kevin Kasper, Steinhagen

Management Board:
Nils Hendrik Müller, Braunschweig

Printing
das druckhaus, Korschenbroich

For further information: www.qsc.de