Annual Report 2011

VISION 2016

REVENUES:	x 2
EBITDA:	x 3
FREE CASH FLOW:	x 4

QSC AG

QSC has set itself highly ambitious goals with its Growth Strategy 2016:
The Company intends to double its revenues to between € 800 million and € 1 billion by 2016. During the same period, an EBITDA margin of 25 percent is being strived for, and EBITDA is scheduled to triple. Free cash flow, in fact, will at best quadruple – to between € 120 and € 150 million.

You still have questions?
The Management Board members respond!

WHY IS QSC SO OPTIMISTIC?

HOW CAN QSC COMPETE AGAINST IT GIANTS?

WHY IS QSC GOING WITH THE CLOUD?

WHY IS THE EBITDA MARGIN RISING?

WHAT'S QSC'S STRATEGY FOR DOUBLING REVENUES?

» TABLE OF CONTENTS ON PAGE 42 OF THE PDF VERSION

» More information about our growth strategy

WHAT'S QSC'S STRATEGY FOR DOUBLING REVENUES?

DR. BERND SCHLOBOHM, QSC AG CHIEF EXECUTIVE OFFICER:

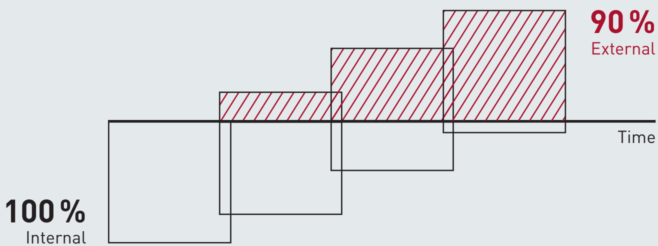
»WE ARE PLANNING TO GROW. IN 3 STAGES.«

QSC HAS SET ITSELF HIGHLY AMBITIOUS GOALS WITH ITS VISION 2016. AS WE TRAVEL THIS ROAD, WE WANT TO USE NEW AND EXISTING OFFERINGS TO BOOST THE PERCENTAGE OF THE ICT BUDGETS AT OUR SOME 30,000 CUSTOMERS. MOREOVER, WE ARE WORKING ON SCALABLE PRODUCTS FOR THE CLOUD AGE.

ICT is a forward-looking market in which we have now gained a foothold thanks to being strengthened by INFO AG and IP Partner. We are already reaping the first fruits of this strategy. **We are winning more and more orders together, enabling us to noticeably grow our volume of incoming orders.** There's lots of music – when it comes to our growth prospects – in the triad of "Housing, Hosting, Cloud." A gigantic market for QSC, in which we'll be further strengthening our competitive advantage through our clear positioning as "an SME for SMEs" and expanding the QSC network all the way to the Cloud.

PARADIGM CHANGE

THE DAYS OF INTERNAL ICT DEPARTMENTS ARE OVER; IN THE CLOUD AGE, BUSINESSES HAVE SERVICE PROVIDERS HANDLE A MAJOR PORTION OF THE TASKS.



We already have 30,000 satisfied customers, so what would be more logical than to build upon this sound customer base? Because anyone who's already had good experience with our virtual telephone system, for example, will be more receptive to IT offerings from the Cloud by way of cross selling. The reverse is also true for TC offerings. Just how much trust we enjoy from our customers is demonstrated by the fact that our Direct Sales business unit is especially successful in upselling to our customers, i.e. in steadily broadening our offerings. **We are generating some 70 percent of our new revenues with existing customers.** The basis for such services as Housing and Hosting, and ultimately for any number of Cloud services, consists of our data centers, with which we earn high margins and can build long-term customer relationships.

30.000

BUSINESS CUSTOMERS ALREADY TRUST THE QSC GROUP.

Stage 1

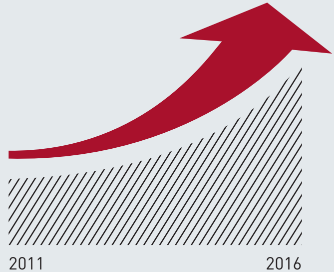
SELLING ADDITIONAL PRODUCTS AND SERVICES TO EXISTING CUSTOMERS

2 Stage

MARKETING PRODUCTS AND SERVICES FOR CLOUD APPLICATIONS

Cloud computing will be making sweeping inroads among small and mid-size enterprises (SMEs). Infrastructure as a Service, Platform as a Service, Software as a Service – we are developing and offering solutions in these three categories. The Cloud will be a part of any number of applications; overall, this is a significant growth market. As providers of integrated ICT services, systems houses are enormously important to us in this connection. We provide these promoters with solutions that enable them to use our Cloud products to become Cloud providers themselves.

The convergence of IT and TC is going to be significantly transforming the way we live and work, and will open up previously unused opportunities for QSC. With the Cloud, for example, it's possible to better harmonize the generation and consumption of energy and electricity – a process that is the next logical step in connection with decentralized energy production on the basis of photovoltaics and wind power. IT enables decentralized energy generation to be tabulated in realtime. Wherever the need is to capture, store and process huge volumes of data and then make them available over a network securely and in as-needed form, we have the opportunity to grow right along in a gigantic growth market.



ENORMOUS GROWTH POTENTIAL: THE CLOUD IS FUNDAMENTALLY TRANSFORMING BILLION-DOLLAR MARKETS LIKE ENERGY.

Stage 3

DEVELOPING SCALABLE CLOUD PRODUCTS

» More information about our profitable growth

WHY IS THE EBITDA MARGIN RISING?

JÜRGEN HERMANN,
QSC AG CHIEF FINANCIAL OFFICER:

»BECAUSE WE ARE CONTINUING TO GO WITH PROFITABLE GROWTH.«

QSC WILL CONTINUE TO FOCUS ON HIGHER-MARGIN LINES OF BUSINESS AND SPECIFICALLY TAP INTO HIGH-GROWTH MARKETS. STRICT COST DISCIPLINE IS ADDITIONALLY ASSURING GREATER PROFITABILITY.

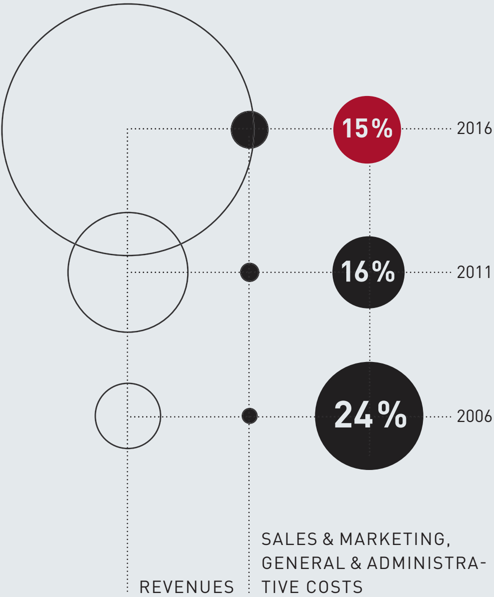
Over the past years, QSC has developed into a highly profitable company. In 2011, our EBITDA margin stood at 17 percent; five years earlier, it had been only 8 percent. As I see it, there are two major drivers in this success: **We've rigorously focused on higher-margin lines of business** and intentionally drawn down our engagement in low-margin markets; our early withdrawal from the residential DSL market serves as a good example of this. At the same time, strict cost discipline is what characterizes the entire organization. It's a foundation we can build upon.

1. STRICT COST DISCIPLINE IN SALES AND ADMINISTRATION, AS WELL AS SUSTAINED EFFICIENCY GAINS
2. RIGOROUS REDUCTION OF NETWORK INFRASTRUCTURE COSTS
3. GROWING SHARE OF HIGHER-MARGIN LINES OF BUSINESS

3 Factors

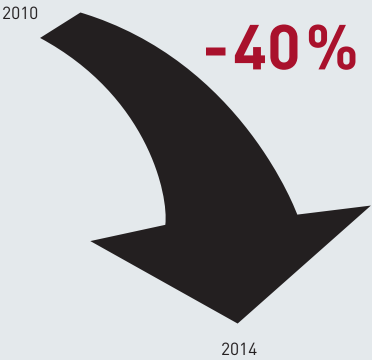
ESSENTIALLY LEAD TO EBITDA MARGIN GROWTH

PERCENTAGE SHARE OF REVENUES ATTRIBUTABLE TO SALES & MARKETING AND GENERAL & ADMINISTRATIVE COSTS



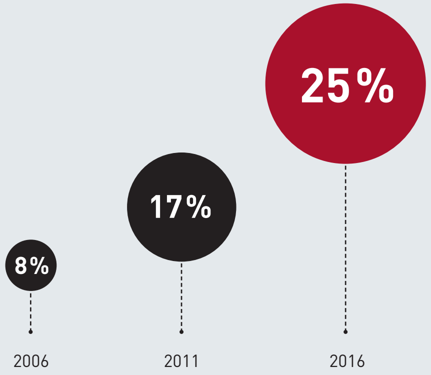
A high degree of cost discipline is already in QSC's genes. This is a result of our SME structure and entrepreneurial spirit. Our people spend their company's money as if it were their own. Thanks to this attitude, the percentage of total revenues accounted for by sales and marketing, and general and administrative costs had already declined significantly in the past. Definitely, this doesn't mean that we're cutting costs everywhere. On the contrary: QSC will be spending more money on sales and marketing, as well as general and administrative activities through 2016. However their share of total revenues will decline – and that will improve our EBITDA margin.

The situation is different in connection with network infrastructure costs, a cost factor that stems from our days as a TC network operator. We're constantly optimizing the costs of operating and maintaining our infrastructure, renegotiating contracts with suppliers and seeking contacts to other vendors. **This enabled us to already save some seven million euros in 2011**; and a further decline of some 15 million euros is planned by fiscal year 2014. We will thus be fully compensating, by the way, for the effect resulting from the early termination of the partnership with TELE2; this effect will end at year-end 2013. And there's one further aspect that we should not lose sight of: 22 million euros in lower costs mean 22 million euros more free cash flow.



NETWORK INFRASTRUCTURE COSTS ARE SCHEDULED TO DECLINE BY 40 PERCENT BY 2014, REPRESENTING SAVINGS OF € 22 MILLION.

The most important driver behind a higher EBITDA margin is and will continue to be our focus on high-margin lines of business. Entirely different margins can be achieved in ICT markets than in TC business. While shakeout competition via price prevails there, strongly rising demand – especially in the Cloud market – is making it easier to earn attractive margins in ICT lines of business. These high margins stem from the fact that Cloud services are often based upon our own developments (intellectual property). Plus the potential offered by economies of scale. The Cloud enables QSC to make one and the same product available to hundreds of customers in its data centers. **The higher the revenues from these kinds of scalable products, the higher the EBITDA margin.**



THE EBITDA MARGIN IS EXPECTED TO RISE TO 25 PERCENT BY 2016: OUR RISING PROFITABILITY IS BASED FIRST AND FOREMOST UPON OUR SUCCESSFUL FOCUS ON HIGHER-MARGIN LINES OF BUSINESS.

» More information about the workplace of the future

WHY IS QSC GOING WITH THE CLOUD?

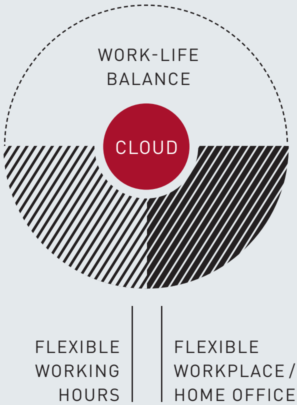
ARNOLD STENDER, QSC AG MANAGEMENT BOARD MEMBER:

»BECAUSE WE KNOW THE CLOUD. AND NOT JUST SINCE YESTERDAY.«

THANKS TO IPFONIE CENTRAFLEX, OUR VIRTUAL TELEPHONE SYSTEM, WE KNOW HOW THE CLOUD WORKS. AND MEDIUM-TERM, WE'LL ALSO BE BENEFITING FROM THIS KNOW-HOW IN CONNECTION WITH FURTHER PRODUCTS.

Medium-term, we will cover all of our customers' TC and IT needs. This means: **We'll provide everything that will be part of the workplace of the future – in the Cloud.** This includes, among other things, a wide variety of telephone- and desk-related solutions: Such as Office applications and communications or CRM tools. IPfonie centraflex, our proven virtual telephone system, is already a good example today of how the Cloud will work tomorrow: Whether I'm working in my office, at home or out and about with my smartphone – effortless access will be possible everywhere. And that's simply what the Cloud means: That the products reside centrally in a data center and are accessible from everywhere. Rising mobility, shortage of skilled professionals, working from a home office and the increasing trend toward work-life balance necessitate the kind of solutions that we will be making available in the Cloud: Secure, fast access to the corporate account, the provision of software and, of course, you'll continue to be able to make phone calls.

THE CLOUD ENABLES NEW WAYS OF WORKING



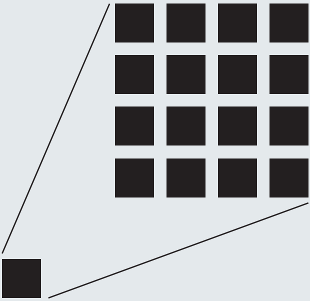
The energy costs for servers, which have steadily risen in recent years and will rise even faster in the future, are turning out to be the driving factor behind the Cloud. Our data centers offer so much space and modern technology that we are able to operate a server considerably more cost-effectively than a small business with a "broom closet solution" could even come near to matching. And if somewhere along the road this kind of business is then confronted with the need to procure a new air conditioning system for the server room, it's then only a small step to decide to outsource the server to the Cloud.

Tier 4

ALL QSC GROUP DATA CENTERS MEET THE STRICTEST REQUIREMENTS IN TERMS OF SECURITY AND SERVICE.

Whether I put a telephone on an employee's desk or make some kind of computer software available on his or her PC initially, doesn't make any difference at all. What I need for the Cloud aren't individual systems, but standards that numerous customers can access. All of it is scalable and can easily be adapted to the needs of the customer. What is especially interesting, though, are the processes behind all this. **Because QSC possesses a wealth of experience in automating these kinds of processes and in billing.** We learned that in the telecommunications world. We're thoroughly familiar with it! The huge challenge will be to converge our TC and IT experience with the aim of broadening scalability, with which we are thoroughly familiar from the TC world, toward IT in the form of Cloud systems.

FROM PRODUCT TO STANDARD



QSC KNOWS HOW TO INDUSTRIALIZE PROCESSES: THIS IS A GOOD BASIS FOR ACHIEVING ECONOMIES OF SCALE.

As an ICT player, we cover everything, from desk to network to the Cloud. That's something only a competent provider of ICT products, solutions and services like we are can do. We offer end-to-end availability. That creates trust. And that enables us to provide interesting offerings. The technology at a typical small or mid-size company always lags behind the state of the art. The Cloud enables us to offer these customers complete software coverage, including updates, at a fixed price. If the company wants to expand – no problem. The workstations can be set up in no time. For entrepreneurs, the Cloud means that they enjoy the previously unattainable flexibility of being able to precisely calculate their costs, and to focus on their core competencies. And for QSC, the Cloud – in spite of its name – means sunny prospects.

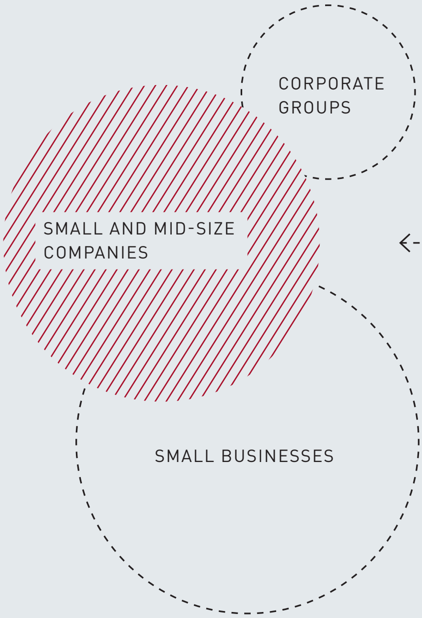
» More information about our security and quality standards

HOW CAN QSC COMPETE AGAINST IT GIANTS?

THOMAS STOEK, QSC AG MANAGEMENT BOARD MEMBER:

»WE CONVINCE. THROUGH SECURITY!«

AND THROUGH OUR PROXIMITY AND COMPETENCE. WE’RE OUTSTANDINGLY ALIGNED. FOR TODAY AND NOT JUST TOMORROW. AND THAT’S WHY WE’RE ALREADY GARNERING THE FIRST SUCCESSES.

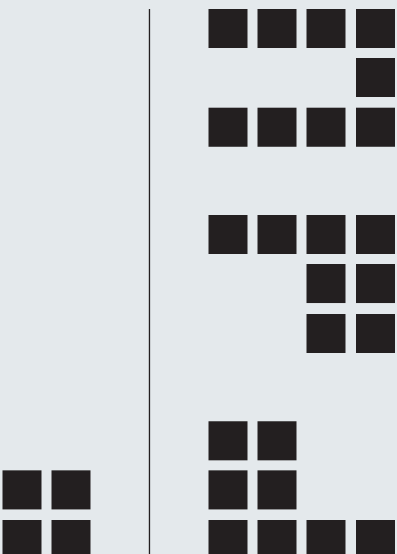


No. 1

QSC PURSUES A CLEAR GOAL:
TO BE THE LEADING ICT PROVIDER FOR SMALL AND MID-SIZE ENTERPRISES.

We're smaller, simpler and more agile than the big players. As a mid-size company, we know the needs of German SMEs better than a huge corporation ever can. Because building data centers or providing a network represents only the foundation of our business. It's necessary to have a precise understanding of our customers' business models in order to be able to specifically win larger Outsourcing contracts. And even if it might sound like a cliché: We offer communications at eye level. As a newly formed ICT player, QSC AG is outstandingly aligned. Because we're a mid-size company for small and mid-size companies, we can offer modular solutions for all aspects of project and service business. We have a pole position that's already paying off today: In our contract with Olympus, for example, involving an order volume of some 27 million euros.

We'll be benefiting more from the Cloud than the big players, because we – in contrast to other companies – offer two versions of the Cloud. One will consist of scalable standards for companies with 10 to 500 employees that do not have a large IT department of their own. Customers will get the entire TC and IT environment in the Cloud, and will not need to purchase any software. Instead, they pay a monthly fee – just as is already customary today for telephone and DSL. That's all. The other model does not lend itself to standards. What customers want here are custom solutions – expressly not an off-the-shelf product. In these cases, as with Olympus, we have to develop enterprise Cloud solutions, i.e. customer-optimized solutions.



PRODUCTS

SOLUTIONS

2

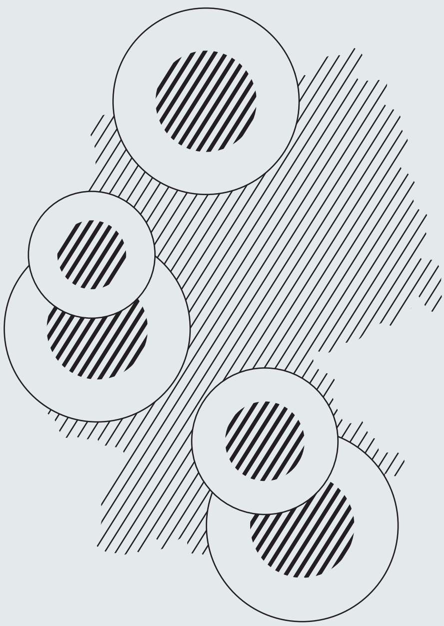
INDIRECT SALES MARKETS QSC'S STANDARDIZED PRODUCTS. DIRECT SALES ADAPTS THEM INDIVIDUALLY; THE CUSTOMER GETS A CUSTOM SOLUTION.

TÜV
ISO
DIN

TESTED QUALITY AND SECURITY: QSC HAS ITS DATA CENTERS, INFRASTRUCTURE AND PROCESSES CERTIFIED UNDER CURRENT STANDARDS, ASSURING THE BEST POSSIBLE SOLUTION FOR EACH CUSTOMER.

QSC isn't active in B2C, but in B2B business. This poses extreme demands upon security. I can also have a run-of-the-mill email address hosted at a run-of-the-mill data center. If power goes out for an hour it's troublesome, but ultimately no big deal. In our business, though, it would be inconceivable for a customer's system to be down for an hour or perhaps be unable to write any invoices at the end of the month. **That's why we operate high-security data centers.** This means that we're not only state of the art when it comes to access control, but also in connection with batteries and backup diesel generators. Every system is redundant, i.e. there are two of each, which means that we can assure a virtually 100-percent failsafe operation. Ongoing security audits ensure that our security measures are steadily being improved. And our cutting-edge air conditioning systems assure that our data centers satisfy the needs of Green IT, which many customers value.

Our German small and mid-size customers really do care where their data reside. And we do too. **That's why we not only offer them a German network, but a German data center, as well,** which is managed and hosted in accordance with the strictures of the German Data Protection Act. Instead of one mega data center, we operate smaller centers. Although this wouldn't be necessary from a purely technical standpoint, regional proximity is an extremely important emotional factor. And we cover this need with data centers in Hamburg, Oberhausen, Cologne, Nuremberg and Munich. All this creates a foundation of trust for our customers, trust we have to depend upon as an Outsourcing provider. Because although there's much to be said in favor of outsourcing processes in terms of cost, the leap of faith that's required for placing business data in the hands of third parties is great. And we can score points here as a full-line provider: By accompanying the customer as a dependable partner along the entire path – from desk to network to the Cloud in the data center.



Proximity

ALL QSC DATA CENTERS ARE LOCATED IN GERMANY AND THUS CLOSE TO OUR CUSTOMERS. A MAJOR COMPETITIVE ADVANTAGE, ESPECIALLY IN THE SMALL AND MID-SIZE SECTOR.

» More information about forward-looking projects

WHY IS QSC SO OPTIMISTIC?

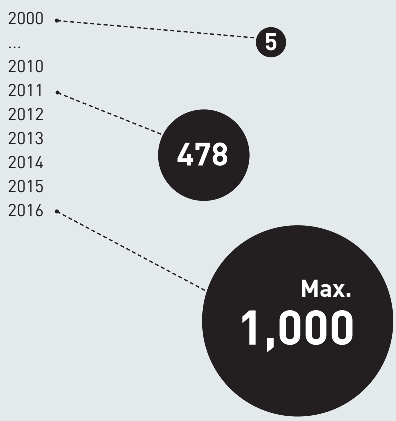
DR. BERND SCHLOBOHM,
CHIEF EXECUTIVE OFFICER OF QSC AG:

»WE ARE SUCCESSFUL AS PIONEERS.«

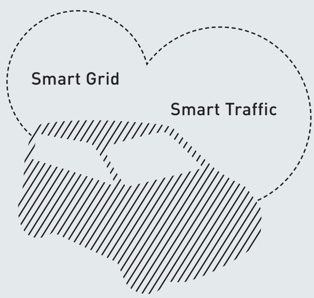
THE REASON FOR OUR SUCCESS IS THAT WE'VE REPEATEDLY REINVENTED OURSELVES. THAT'S SIMPLY THE WAY IT HAS TO BE IN OUR INDUSTRY. CHANGE IS THE ONLY CONSTANT IN THE ICT WORLD.

QSC was the first player to build an alternative DSL infrastructure nationwide in the year 2000. We again played a pioneering role in 2006, when we began building our Next Generation Network, thus enabling us to offer such modern services as Voice over IP early on. Today, we are operating Open-Access-capable fiber optic projects over this network. At QSC, innovations like these are simply part and parcel of our business. **Presently being created are Cloud offerings for small and mid-size enterprises, as well as forward-looking Cloud concepts** in the field of sensor technology that will be bringing about major societal changes over the coming years. Our SensorCloud project garnered a prize from the German Federal Ministry of Economics. This new platform will offer entirely new opportunities for automatically capturing, storing and processing measured data from a wide range of industries and applications. This is opening up major economic opportunities for us. As in the case of the SensorCloud, we're also collaborating closely with universities in connection with O(SC)²ar, a project that is being supported by the German Federal Ministry of Economics and Technology (BMWI). O(SC)²ar tests and improves the connection between electric vehicles and a smart grid and smart traffic system.

REVENUE DEVELOPMENT (IN € MILLION)



GROWTH IS SIMPLY IN QSC'S GENES: SINCE GOING PUBLIC, REVENUES HAVE RISEN FROM 5 TO 478 MILLION EUROS.



TOGETHER WITH PARTNERS, QSC IS WORKING TO CONNECT ELECTRIC VEHICLES TO SMART GRIDS AND INTELLIGENT TRAFFIC SYSTEMS.

Key Data

All amounts in € million	2011	2010	2009	2008	2007
Revenues	478.1	422.1	420.5	413.3	335.2
EBITDA	79.9	78.1	76.9	67.3	34.9
Depreciation/amortization [1]	53.7	57.2	67.2	61.2	46.4
EBIT	26.2	20.9	9.7	6.1	(11.5)
Net profit (loss)	28.0	24.2	5.5	0.8	(11.7)
Earnings per share [2] (in €)	0.20	0.18	0.04	0.01	(0.09)
Return on revenue (in percent)	5.9	5.7	1.3	0.2	(3.5)
EBITDA margin (in percent)	16.7	18.5	18.3	16.3	10.4
EBIT margin (in percent)	5.5	5.0	2.3	1.5	(3.4)
Equity [3]	207.3	184.0	159.7	153.7	152.2
Long-term liabilities [3]	54.7	7.2	54.2	76.4	85.0
Short-term liabilities [3]	129.3	140.9	97.3	122.4	126.3
Balance sheet total [3]	391.3	332.2	311.3	352.5	363.5
Equity ratio (in percent)	53.0	55.4	51.3	43.6	41.9
Return on equity (in percent)	13.5	13.2	3.4	0.5	(7.7)
Free cash flow	41.0	27.7	12.9	(32.3)	(57.8)
Liquidity [3]	24.1	46.6	41.3	49.2	78.0
Capital expenditures	35.6	29.2	42.2	91.4	122.9
Capex ratio [4] (in percent)	7.4	6.9	10.0	22.1	36.7
Xetra closing price [3] (in €)	2.09	3.30	1.70	1.24	2.90
Number of shares [3]	137,256,877	137,127,532	136,998,137	136,998,137	136,358,315
Market capitalization [3]	286.7	452.5	232.9	169.9	395.4
Employees [3]	1,334	608	664	678	820

Consolidated Financial Statements 2007 to 2011 in accordance with IFRS

[1] including non-cash share-based payments

[2] basic

[3] as of December 31

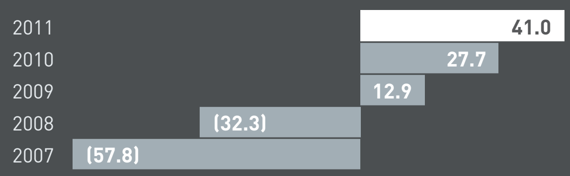
[4] ratio of capital expenditures to revenues

Objectives and Results

SIGNIFICANTLY HIGHER FREE CASH FLOW

At the outset of the year, QSC had been planning on a free cash flow of between € 35 and € 45 million, increasing its expectations to between € 40 and € 45 million in the autumn on the basis of the good course of business. QSC satisfied this forecast with a free cash flow of € 41.0 million.

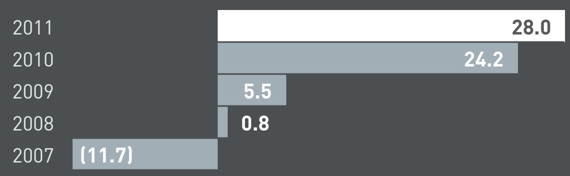
FREE CASH FLOW (in € million)



STRENGTHENING PROFITABILITY

QSC again improved its profitability in fiscal 2011: EBITDA rose by 2 percent to € 79.9 million, EBIT by 25 percent to € 26.2 million and consolidated net income by 16 percent to € 28.0 million.

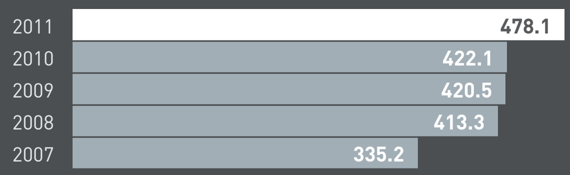
CONSOLIDATED NET INCOME (in € million)



EVOLVING INTO AN ICT PROVIDER

In fiscal 2011, QSC succeeded in accelerating its process of transformation into an ICT provider, with the share of IP-based revenues rising from 68 to 77 percent. Overall, revenues rose to € 478.1 million.

REVENUES (in € million)



FIRST DIVIDEND DISTRIBUTION

At the outset of the year, QSC announced its intention to distribute its first dividend, an attractive one, for fiscal 2011. The proposed dividend amounts to € 0.08 per share, representing a 3.8-percent return as measured on the basis of the closing trading price for 2011.

Contents

To Our Shareholders 01

The Management Board 02
The Supervisory Board 04
Report of the Supervisory Board 05
QSC Share Performance 11

Group Management Report 17

The Company 18
Human Resources 31
Corporate Governance Report / Declaration of Corporate Management 35
Declaration of Compliance 40
Compensation Report 43
Economic Environment 47
Profitability, Financial Position and Net Worth 52
Report on Risks 67
Subsequent Events 75
Report on Opportunities and Outlook 76

Financial Report 85

Consolidated Financial Statements 86
Auditor's Report 93
Notes 94
Statement of Responsibility 153

Further Information 154

Glossary 154
Index 157
Calendar, Contact

Dear Shareholders,

"Why is QSC so optimistic?" This is one of the questions we've frequently been asked since October 2011, when we presented our growth strategy for the years 2011 through 2016. This strategy illustrates our intentions as to the development of the QSC Group in the coming years, culminating in revenues of between € 800 million and € 1 billion in 2016, along with an EBITDA margin of 25 percent and a free cash flow of between € 120 and € 150 million. You'll find our detailed answers to this and further frequently asked questions at the beginning of this Annual Report.

That's why I'd only like to say this much at this point: With a view to QSC's history, its present and its strategy for the coming Cloud age, we are optimistic about being able to achieve these highly ambitious goals. Our 15-year history documents it: QSC is programmed for growth. Since going public in the year 2000, revenues have risen from € 5.0 million to € 478.1 million today. This success is based, in particular, upon our ability to repeatedly reinvent and evolve ourselves. In 2000, QSC was the first player to have built a nationwide alternative DSL infrastructure. Beginning in 2006, QSC was a pioneer in building its Next Generation Network, and thus in marketing Voice over IP. And now, QSC is once again in the lead: As an integrated provider of information and communications technology (ICT) that is virtually unrivaled in being able to offer one-stop shopping for the entire ICT spectrum.

The Company numbers among the first integrated ICT providers

QSC owes its broad ICT portfolio to the acquisitions of two IT providers last year. At the turn of 2010/2011, QSC acquired IP Partner, a company that offers extensive data center services. And in May 2011, we added INFO AG, a leading mid-size IT provider in two high-growth markets: IT Outsourcing, i.e. having IT services handed by third parties, and IT Consulting, which means support in introducing and operating IT systems.

At the outset of fiscal 2012, 30,000 business customers were already putting their trust in the quality and service offered by the QSC Group. It is now a central task of the Sales organization to offer our expanded portfolio to these customers and win a larger share of their ICT budgets. Specifically addressing our existing customer base forms one of the three pillars of our new growth strategy. The two further pillars are expanding our product portfolio for the Cloud age as well as developing scalable Cloud products. There are two reasons why Cloud computing is the wave of the future: Firstly, the working world of the future, which will be characterized by increasing mobility, changing locations and flexible working hours, will necessitate entirely new workplace concepts, and thus new ICT infrastructures. The solution for this is the Cloud, which can be accessed from differing end-user devices any time and anywhere.

The second reason is the outsourcing of an organization's entire information and communications technology to service providers that possess cutting-edge networks and data centers. Given the breathtaking pace of technological advancement, companies can no longer provide these systems in-house – nor do they want to. Instead, they are going with flexible, up-to-the-minute solutions from specialists. Their employees will increasingly be utilizing data and programs from the Cloud – and QSC will be providing them.

QSC will bring more and more Cloud-based products and services to market

In the years to come, QSC will be bringing more and more Cloud-based products and services to market. A taste of what's to come is offered by our first entirely self-developed Cloud product, cospace. Debuted as a Software-as-a-Service product at CeBIT 2012, it contains such functionalities as a local telephone number, voice mail, as well as comprehensive options for efficiently and transparently handling conference calls. Moreover, sufficient storage is reserved in the Cloud for each user. cospace thus makes users independent of their workplaces and makes it easier for them to organize themselves into teams and share content even across corporate borders. Further innovations are going to follow, including QSC-Housing, a standardized product for utilizing data center resources, as well as the QSC-Storage solution. Additionally in planning are products that will enable the QSC Group to tap into entirely new markets. Together with universities and industry partners, for example, we are working on Cloud solutions for energy management and electromobility.

Our history, our acquisitions of two IT providers and our alignment for the Cloud age are what make us so optimistic about the coming years. Plus a further factor: A tremendous team that now numbers more than 1,300 ICT experts. At this point, we would like to express our thanks to all of our people for their enthusiasm and commitment during the past fiscal year, and for their willingness to actively help shape and drive QSC's evolution into an ICT provider.

Our thanks also go out to you, our shareholders. Only through your continuing support and your capital were the successes of the past possible at all. As you perhaps already know, there was a change in our shareholder structure in mid-March 2012: Baker Capital transferred its remaining approx. 25.2 million QSC shares to the shareholders of its fund which had been established in April 1997. Although this transaction did temporarily put our shares under pressure, it will enhance their attractiveness medium-term: Because up until now, many institutional investors had shied away from a longer-term engagement in view of uncertainty as to the potential exit of this legacy shareholder. Moreover, the free float – and thus the number of shares readily available for trading – has risen to 79.8 percent.

Our first dividend distribution, too, will increase the attractiveness of QSC shares in the eyes of investors with a longer-term view. We will propose that the regular Annual Shareholders Meeting in May 2012 resolve to distribute a dividend in the amount of € 0.08 per share for fiscal 2011. And in the coming years, as well, you will be able to count on a dividend of at least € 0.08 per share, although we will be striving to steadily increase the dividend, not least with a view to our growth goals.

However fiscal 2012 will not be a year of fast-growing revenues and rising profitability. On the contrary, 2012 is a year of preparation in order to attain the full strength and power of the QSC Group. QSC's current transformation process into an ICT provider will not be largely concluded until the current fiscal year, and we will again have to "sweat out" conventional TC revenues in the amount of some € 25 million. Moreover, this year we also have to put the prerequisites in place under corporate law that will enable us to truly operate as one single company in the marketplace; the merger of INFO and IP Partner is scheduled to be concluded by October 2012. Nevertheless, we are also planning to grow in the current fiscal year: Revenues are expected to rise to between € 480 and € 510 million.

Cologne, March 22, 2012

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

To Our Shareholders

The Management Board 02

The Supervisory Board 04

Report of the Supervisory Board 05

QSC Share Performance 11

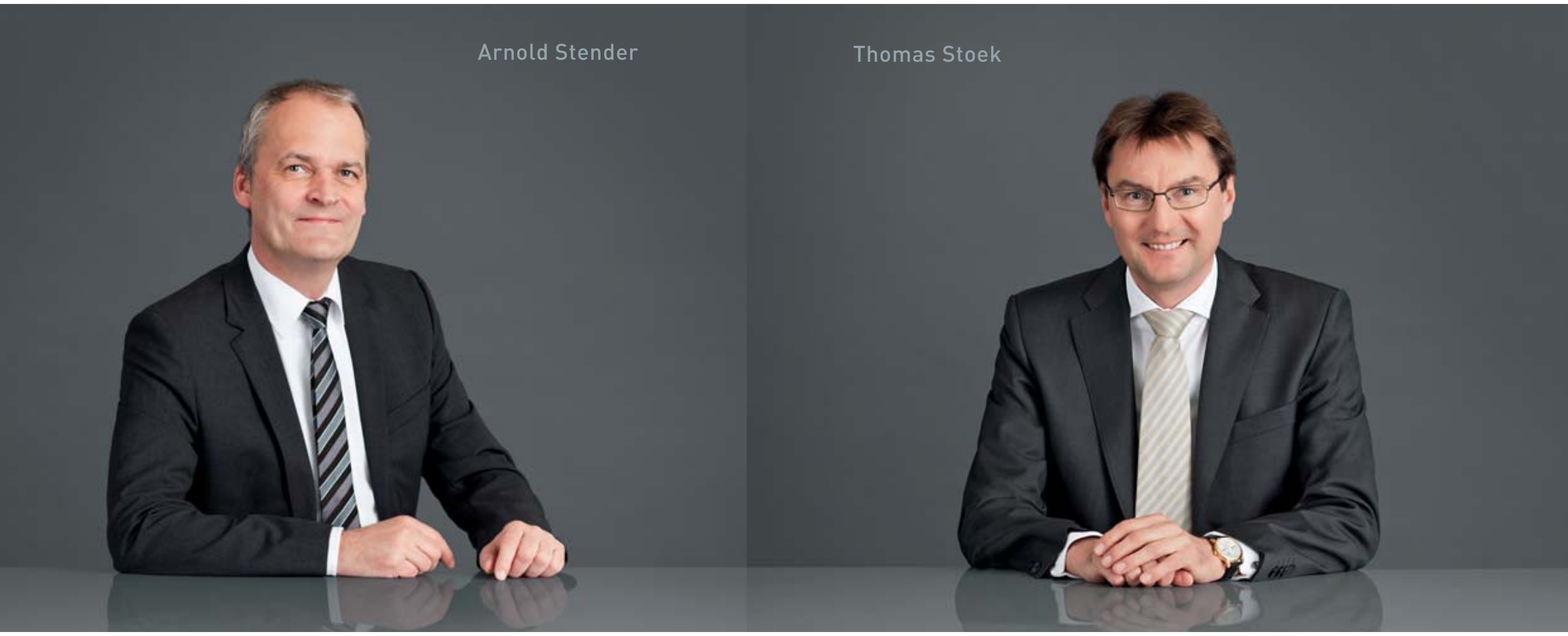
The Management Board

Dr. Bernd Schlobohm (*1960), Chief Executive Officer

This postgraduate engineer founded QSC in the year 1997 together with Gerd Eickers, and has since been the strategic head of the Company. He is responsible for both evolving the Company into an ICT provider as well as for formulating the 2016 Growth Strategy. In addition to Strategy, his work focuses on Human Relations, Corporate Communications, Quality and Complaint Management, Information Technology, as well as Voice and Data services. A passionate entrepreneur, he sees considerable potential for growing the value of "his" QSC in the coming years: This is yet another reason why he has never sold a single share during the twelve years since QSC went public in the year 2000; the same also holds true, by the way, with respect to his co-founder and today's Supervisory Board Chairman Gerd Eickers.

Jürgen Hermann (*1964)

The Chief Financial Officer also numbers among the very first QSCers. This economist headed up Finance for twelve years before the Supervisory Board appointed him to the Management Board in the spring of 2009. In addition to Finance, he is also responsible on the Board for the issues of Investor Relations, Legal Affairs and Purchasing. Within the framework of the 2016 Growth Strategy, his primary focus will be on sustainably strengthening the profitability and financial position of the QSC Group. In order to reach an EBITDA margin of 25 percent, he will be driving a further reduction in network infrastructure costs in the coming years and will be using numerous measures to steadily increase efficiency in Sales & Marketing and Administration. In conjunction with moderate capital expenses, this higher profitability will make for a sustained increase in free cash flow.



Arnold Stender (*1964)

Since September 1, 2011, this postgraduate physicist has headed up the Indirect Sales and Resellers Business Units as a member of the Management Board. His primarily tasks include intensifying partner marketing as well as opening up new marketing channels for the Company's portfolio, which has now been expanded to include IT products and Cloud services. He had headed up the Products and Wholesale / Resellers Business Units at QSC from 2007 to 2011, which is why he knows operative business from his own long years of experience. He came to QSC through the acquisition of Broadnet AG in 2006, where his responsibilities on the management board included Sales & Marketing. Further stations in Arnold Stender's career included Freenet, Bertelsmann and Mediaways, where he was responsible at each for building new lines of business and for the sale of innovative products.

Thomas Stoek (*1964)

On September 1, 2011, this postgraduate engineer assumed responsibility for all Direct Sales operations. This business unit was newly created from the former Managed Services Business Unit and the two new subsidiaries INFO AG and IP Partner. Stoek had been a member of the INFO AG management board since January 1, 2010, retaining the post of chairman and chief executive officer until the end of March 2012. For personal reasons, he has since been concentrating on his tasks at QSC, and here, in particular, on the important aspect of creating strategic alliances. He will be aided in this endeavor by his more than 20 years of experience in the IT industry at both national and international players, including London-based Guardian iT (SunGard), Esker in Lyon, as well as Zend Technologies of Tel Aviv.

The Supervisory Board

This body is made up of both entrepreneurial individuals and large shareholders as well as two employee representatives. All shareholder representatives have been elected through the adjournment of the regular Annual Shareholders Meeting for the 2012 fiscal year.

Herbert Brenke • Chairman
An independent telecommunications consultant, he has been a member of the Supervisory Board since the Company's initial public offering. In the 1990s, he had built mobile communications provider E-Plus, and was in charge of its business from 1993 to 1998. Prior to that, he had been in charge of Thyssen Rheinstahl Technik and had been a member of the management board of Thyssen Handelsunion since 1983. // **Other mandates:** Chairman of the Supervisory Board, ASKK Holding AG, Hamburg; Member of the Supervisory Board, SHS VIVEON AG, Munich

John C. Baker • Vice Chairman
Since 2000, the founder and general partner of the Baker Capital Group, a private equity firm based in the U.S., has represented QSC's largest shareholder on the Supervisory Board. A Harvard graduate, he has been active in the private equity industry for more than 25 years, and had already invested in QSC in 1999, prior to its initial public offering. // **Other mandates:** Chairman of the Supervisory Board, Interxion, Schiphol-Rijk, Netherlands; Member of the Supervisory Board, Voltaire Ltd., Ra'anana, Israel, until February 2011

Gerd Eickers
After three years on the Management Board, the second QSC co-founder returned to the Supervisory Board in June 2004. Since February 2005, this postgraduate economist has additionally been serving as the president of the VATM, the premier telecommunications industry association in Germany. // **Other mandates:** Chairman of the Supervisory Board, Contentteam AG, Cologne; Member of the Supervisory Board, Amisco NV, Brussels, Belgium

David Ruberg
Since November 2007, this postgraduate information technology professional has been the CEO of Netherlands-based Interxion, a leading European provider of data centers and managed services. A native of the United States, he has been a member of the QSC Supervisory Board since 2000. // **Other mandates:** Vice Chairman of the Supervisory Board, Interxion, Schiphol-Rijk, Netherlands; Member of the Board of Directors, Broadview Networks Inc., New York, USA, until Jan 2011

Klaus-Theo Ernst
In May 2008, the workforce elected the Head of Project Management at network operating company Plusnet as one of its two representatives on the newly formed QSC Supervisory Board. Klaus-Theo Ernst has worked at QSC since early 2001.

Jörg Mügge
In May 2008, the QSC workforce elected the Head of Processes and Projects at Plusnet as its second representative on the QSC Supervisory Board. Jörg Mügge has been employed at the Company since April 2002.

Report of the Supervisory Board for the 2011 fiscal year regarding the Company and the Consolidated Group

Herbert Brenke

Dear Shareholders,

During the past fiscal year, the QSC Group significantly accelerated its process of transformation into a provider of ICT products, solutions and services, thus laying the key groundwork for sustained profitable growth in the coming years. The acquisitions of two IT providers, IP Partner Aktiengesellschaft (IP Partner) and INFO Gesellschaft für Informationssysteme Aktiengesellschaft (INFO AG), are already enabling the QSC Group to offer ICT services today that range from desk to data center.

One particular focus of the deliberations was the acquisition of a majority interest in INFO AG

Tasks of the Supervisory Board • During the past fiscal year, the Supervisory Board regularly provided advice to the Management Board on the management of QSC, monitored the work of the Management Board and performed all duties required by and in accordance with applicable laws and regulations and the Articles of Association and Bylaws. One particular focus of the deliberations was the acquisition of a majority interest in INFO AG, the increase in this interest in conjunction with the voluntary public tender offer, as well as the conclusion of a € 150 million consortial line of credit. The Supervisory Board was directly involved in these and further decisions and measures of fundamental importance, in particular those relating to the Company's profitability, finances and net worth. 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 as well as rolling actual vs. target comparisons in this connection. Inquiries and requests by the Supervisory Board for additional information were always answered promptly and thoroughly by the Management Board.

Questions and wishes were always responded to promptly and comprehensively

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 Chairmen of both boards conducted regular conversations to discuss current issues arising between Supervisory Board meetings. In justified cases, the decisions of the Supervisory Board were also obtained in the form of written votes.

The main focuses of the Supervisory Board's meetings and resolutions in fiscal 2011 were:

1. **The acquisition of INFO AG** • At the regular meeting of the Supervisory Board on March 23, 2011, and in a special conference call on April 27, 2011, the Management and Supervisory Boards thoroughly discussed the reasons for and the objectives of the acquisition of a majority interest of 58.98 percent in INFO AG from MZ Erste Vermögensverwaltungs GmbH. In this connection, the Supervisory Board also considered the target company's key financial indicators and basic technical data, and on April 27, 2011, agreed to the acquisition of shares from MZ Erste Vermögensverwaltungs GmbH under certain, subsequently again modified conditions. Following the conclusion of the purchase and share transfer agreement with MZ Erste Vermögensverwaltungs GmbH on May 2, 2011, at the regular meeting on May 18, 2011, the Management Board informed the Supervisory Board about the response to the acquisition on the part of INFO AG's customers and employees, about preparations for and major terms relating to the intended voluntary public tender offer to the remaining INFO AG shareholders, as well as about the additionally effected purchases of shares subsequent to May 2, 2011. At its two subsequent regular meetings on August 17, 2011, and November 17, 2011, the Supervisory Board deliberated potential measures to integrate the new subsidiary.

2. **The conclusion of a € 150 million consortial line of credit** • At the regular Supervisory Board meetings on March 23, 2011, and on May 18, 2011, the Management and Supervisory Boards thoroughly discussed the reasons for entering into the € 150 million consortial line of credit agreement with Commerzbank AG as the consortium leader, as well as the major content of the agreement. The Supervisory Board consented to entering into the agreement on August 9, 2011, through a resolution in circular form.

3. **The extension of Jürgen Hermann's appointment as well as the new appointment of both Arnold Stender and Thomas Stoek** • In a resolution adopted on August 17, 2011, the Supervisory Board extended Jürgen Hermann's appointment to the Management Board through March 31,

2015, to follow the expiration of his previous appointment, ending March 31, 2012, and correspondingly extended his existing employment contract. In a further resolution on August 17, 2011, the Supervisory Board appointed Arnold Stender, who had previously headed up QSC AG's Wholesale and Products Business Units, and Thomas Stoek, the chief executive officer of INFO AG, as further members of the Management Board for three-year terms of office, effective September 1, 2011, i.e. through August 31, 2014. At the same time, the Supervisory Board authorized the Supervisory Board Chairman to enter into the Management Board agreements with the two new members that had been developed in the Compensation Committee and approved by the full Supervisory Board. Former Management Board member Joachim Trickl had resigned his office effective August 31, 2011. The Supervisory Board would like to thank Joachim Trickl for his service.

4. **The adoption of a new compensation system for members of the Management Board** • Since the previous Management Board compensation system was to expire at the close of the 2011 fiscal year, the Supervisory Board deliberated on the introduction of a new Management Board compensation system, especially at its meeting on November 17, 2011. At this meeting, the Supervisory Board made a fundamental decision to introduce a revolving system and tasked the Compensation Committee to structure it. On the basis of the proposal that was developed there, the full Supervisory Board adopted the new compensation system on January 10, 2012, through a resolution in circular form. The Management and Supervisory Boards again intend to ask the Annual Shareholders Meeting on May 16, 2012, to vote on this new compensation system.

Moreover, in fiscal 2011 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 • In fiscal 2011, the Supervisory Board continued to comprise four shareholder representatives, Supervisory Board Chairman Herbert Brenke, Supervisory Board Vice Chairman John C. Baker, Gerd Eickers and David Ruberg, as well as two employee representatives, Klaus-Theo Ernst and Jörg Mügge.

Four regular and two special meetings in fiscal year 2011

Meetings of the Supervisory Board and its committees • The members of the Supervisory Board conducted four regular meetings and two special meetings (including one conference call) during the year under review. With the exception of one Supervisory Board member who was in attendance at only half of the above-indicated meetings, all members attended all meetings in fiscal year 2011.

The Supervisory Board has established three committees to support it in its work: The Compensation Committee, the Audit Committee and the Nominating Committee.

The Compensation Committee met three times during the year under review. The members of this Committee are its Chairman, Herbert Brenke, as well as John C. Baker and Jörg Mügge. In addition to preparing the decision by the Supervisory Board relating to attainment of the targets by the members of the Management Board in fiscal 2010, the Compensation Committee also deliberated on proposals to the full Supervisory Board relating to the new contracts with Thomas Stoek and Arnold Stender, as well as to the contract extension for Jürgen Hermann. At year-end, finally, the Compensation Committee deliberated on potential models for replacing the compensation model for members of the Management Board that was to expire at year-end 2011. On the basis of the results of these deliberations, the Compensation Committee readied the full Supervisory Board resolution for the new compensation system. In addition, it also created the basis for the Supervisory Board's decision on the target agreements with all Management Board members, which are based upon this new model.

One Compensation Committee issue in 2011 was the new compensation model

The Audit Committee consists of its Chairman, John C. Baker, as well as Herbert Brenke and Gerd Eickers. The Audit Committee monitors the accounting process, deals with the effectiveness of the internal control system and risk management system, as well as with compliance issues, and readies decisions for the full Supervisory Board relating to accounting issues. It additionally oversees the requisite independence of the auditor. The Audit Committee met two times during the past fiscal year. It conducted a preliminary review of the annual financial statements for the 2010 fiscal year, thoroughly reviewed and discussed both these documents as well as the accompanying audit reports in the presence of the auditor, and adopted recommendations for the resolution of the full Supervisory Board relating to the annual financial statements documents and their audit. The Audit Committee stipulated the focuses of the audit and negotiated and agreed upon the audit fees with the independent auditor. The Audit Committee also recommended to the full Supervisory Board that KPMG AG Wirtschaftsprüfungsgesellschaft, domiciled in Berlin and with a branch office in Cologne, again be proposed to the Annual Shareholders Meeting as the independent auditor for QSC AG and the Corporate Group for the 2012 fiscal year. On the basis of this recommendation, at its meeting on March 22, 2012, 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 there were no upcoming elections of shareholder representatives to the Supervisory Board, this Committee did not meet during the year under review. The members of the Nominating Committee are its Chairman, John C. Baker, and Gerd Eickers. The Chairmen of the Compensation and Audit Committees regularly reported to the full Supervisory Board on the work of their committees.

Corporate Governance • The Supervisory Board continuously monitors the evolution of the German Corporate Governance Code and its implementation at QSC. Pursuant to the Code, during the past fiscal year the Supervisory Board also reviewed the efficiency of its own activities. At its meeting on November 17, 2011, the Supervisory Board reviewed and confirmed that QSC 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 Declaration of Corporate Management / Corporate Governance 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.

Change in shareholder structure • Following the close of the 2011 fiscal year, U.S. investment firm Baker Capital informed QSC on March 15, 2012, that it had distributed all of its remaining 25,247,242 QSC shares to the investors of the closed-end fund which was launched in April 1997. According to Baker Capital, these investors mainly involve institutional investors who are geared toward the long term, as well as family offices in the U.S.; Baker Capital had already invested in QSC in 1999 before its IPO, and – with finally 18.4 percent of QSC shares – had been QSC's largest shareholder up until March 2012. As a result of this transaction, the amount of QSC shares in free float has increased to 79.8 percent; the two founders, Dr. Bernd Schlobohm and Gerd Eickers, each hold 10.1 percent.

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, 2011, 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, 2011, which were prepared in accordance with International Financial Reporting Standards (IFRS) and the supplementary regulations under German commercial law that are to be applied pursuant to § 315a of the German Commercial Code, as well as the Management Reports regarding the Company and the Consolidated Group. The audit commission had been awarded by the Supervisory Board in accordance with the resolution adopted by the Annual Shareholders Meeting on May 19, 2011. The major focus areas of the fiscal 2011 audit included the value of assets, the consequences for the balance sheet stemming from the acquisitions of INFO AG and IP Partner, the impact of Cloud service offerings on the balance sheet, as well as that of expansion of the portfolio to include a mobile offering, plus accounting entries required in preparation for the payment of the Company's first dividend.

Financial statements for fiscal 2011 approved

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 2011 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 22, 2012, 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 auditor's reports – including the practicality of utilizing accounting and valuation latitude as well as the potential risks resulting from future developments – 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 auditor reported on the key findings of its audit and, in particular, that no major weaknesses had been identified in the internal control and risk management system relating to the accounting process. It also informed the Supervisory Board about additionally provided services and 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 2011 fiscal year presented in accordance with HGB accounting principles, and no objections to the Consolidated Financial Statements presented in accordance with IFRS or 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 recommendations 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 disposition of unappropriated retained earnings. At the Annual Shareholders Meeting on May 16, 2012, the Management and Supervisory Boards will propose that a dividend be distributed for the first time in the amount of € 0.08 per dividend-entitled share.

In conclusion, on behalf of the entire Supervisory Board I would like to thank all of our employees and the Management Board for their work during the past fiscal year.

Cologne, March 22, 2012
On behalf of the Supervisory Board of QSC AG

Herbert Brenke
Chairman of the Supervisory Board

QSC Share Performance

Share prices plummet by double digits on German stock exchanges • In fiscal 2011, the German capital market suffered from the persistent euro crisis, the heightening government debt problems in southern Europe and the discussion about a fall back into recession. The often contradictory news made for insecurity among many investors and culminated in sharp trading price swings over the course of the year. Within the space of four months, for example, the lead German index fell by one third from its high for the year of some 7,500 points in early May before being able to post a modest recovery by year end. Over the course of the year, the DAX lost 15 percent in value to close at 5,898 points on December 30, 2011. The lead index for technology stocks, the TecDAX, dropped 19 percent to close at 685 points.

The DAX lost 15 percent of its value in 2011, the TecDAX 19 percent

Disappointing year for QSC shareholders • In contrast to the year before, QSC shares were unable to avoid the effects of the weak capital market environment, and their performance lagged significantly behind the TecDAX. Over the course of the year, trading prices slumped by 37 percent to close at € 2.09 on December 30, 2011. After having nearly doubled in the fourth quarter of 2010, QSC share prices consolidated during the first quarter of 2011, with numerous investors engaging in profit-taking. As a result, trading prices fell from their high for the year of € 3.84 at the outset of the year to € 2.66 at the end of March. Trading prices were once again able to compensate for some of these losses in the second quarter of 2011; following the acquisition of the majority interest in INFO AG, in particular, there was a noticeable rise in interest in ICT provider QSC.

SHARE PRICE PERFORMANCE IN 2011 (indexed)

During the summer months, though, the heightening euro crises clouded the view for individual stocks: The DAX lost 25 percent in the third quarter of 2011; the last time it had seen a loss of this magnitude was nine years ago. In this environment, QSC shares fell by around one third, hitting their low for the year of € 1.87 in August. Positive corporate news and the presentation of its 5-year growth strategy enabled QSC to score several points in its favor, although this did not have any sustained noticeable effect on trading prices. In view of the persistent turbulence on the capital market, many investors in this kind of turbulent environment tended to avoid the supposed risk of investing in a relatively small stock whose transformation process into an ICT provider has not yet been fully reflected in its business numbers.

QSC one of the 20 most traded technology stocks • The wait-and-see attitude on the part of many investors manifested itself in relatively low trading volumes in the fourth quarter of 2011; in December, in particular, they were down significantly from previous months' levels. Nevertheless, QSC shares numbered among the 20 most traded technology stocks on German stock exchanges in 2011, thus increasing their importance in the TecDAX. An average of 943,000 QSC shares changed hands each day in 2011, with volumes significantly in excess of 4 million shares on peak trading days. Trading volumes on all German exchanges totaled € 668 million, nearly three times as high as in 2010.

Rising interest on the part of analysts • In spite of the share price decline, the Company's evolution into an ICT provider last year met with keen interest on the part of analysts: Two further financial houses, Berenberg Bank and WestLB, have begun covering the Company, which means that 14 financial institutions are now regularly publishing studies on QSC. At year-end 2011, six analysts viewed QSC shares as a Buy, five recommended them as a Hold, and three as a Sell. These differing assessments reflect investor opinions as to QSC's further development: While the one side is looking at the opportunities stemming from the Company's evolution into an ICT provider and its focus on a growth market, the other side is stressing the risks that still exist for a TC provider in a stagnating and to some extent declining market. The primary task of capital market communication activities during this fiscal year will be to better illustrate the dwindling importance of conventional TC business, while showing the potential that exists for ICT provider QSC.

Six analysts were recommending QSC as a Buy at year-end 2011

FINANCIAL INSTITUTIONS THAT PUBLISH STUDIES ON QSC

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

Two analyst conferences in fiscal 2011 • The Company's evolution into an ICT provider was the key issue of investor relations work in 2011. For the first time, QSC conducted two analyst conferences within a single fiscal year: On February 28, 2011, in Cologne, the Management Board presented the results for the past fiscal year, the outlook for 2011 and operative advances in the transformation process. On October 6, 2011, the Management Board detailed the Company's 2011 – 2016 growth strategy in Hamburg, the headquarters of INFO AG.

Moreover, during the course of fiscal 2011, the Management Board additionally presented the QSC Group and its strategy at a good dozen roadshows in all major European financial hubs, as well as in New York and Boston, and additionally at capital market conferences conducted by such leading financial institutions as Berenberg Bank, Commerzbank, Deutsche Bank and UniCredit. Moreover, the Management Board conducted numerous individual talks with investors within the framework of visits to QSC Headquarters in Cologne, during conference calls, as well as on the periphery of such major capital market events as the German Equity Forum.

Conference calls following the announcement of the Company's quarterly numbers also offered a platform for dialogue. QSC places the respective presentations, as well as recordings made by members of the Management Board, on its IR website, thus enabling a broad circle of both private and institutional investors to obtain first-hand information. Moreover, the presentations are also available on SlideShare, the world's largest platform for these kinds of documents.

MORE INFORMATION:
WWW.SLIDESHARE.NET/QSCAG

The dialogue with private investors as a result of these kinds of publications serves as an important element in the daily work of the Investor Relations Department, which promptly responds to all inquiries by telephone and e-mail. The objective is to inform all market players with equal transparency and comprehensiveness. This is also the objective of an IR newsletter, an RSS feed, as well as send-outs of news over the Twitter social network. Opportunities to sign up for these services can be found within the Investor Relations section of the Company's website at www.qsc.de/en/qsc-ag/investor-relations. This central communication platform contains all relevant information for capital market participants: Financial reports, IR press releases and documents relating to the Annual Shareholders Meeting, as well as analyst assessments and a detailed financial calendar.

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

Dividend of € 0.08 to be declared • One major issue in capital market communication in fiscal 2011 consisted of plans to pay the Company's first-ever dividend. On March 5, 2012, the Management Board submitted a corresponding dividend proposal, which the Supervisory Board approved on March 22, 2012. Both corporate bodies will thus recommend that the Annual Shareholders Meeting resolve to distribute a dividend in the amount of € 0.08 per share. On the basis of the trading price at year-end 2011, this represents a dividend yield of 3.8 percent.

At the same time, the Management Board outlined the key aspects of the dividend strategy for the coming years. The Management Board thus views this initial distribution as the commencement of regular dividend payments, and the proposed dividend of € 0.08 per share for fiscal 2011 as the baseline. In the years to come, the intention is for each dividend distribution to be at least as high as for the previous year, with QSC striving for a steady rise in this metric and thus for the growing participation of its shareholders in the Company's success.

QSC striving for a steady rise in its dividend

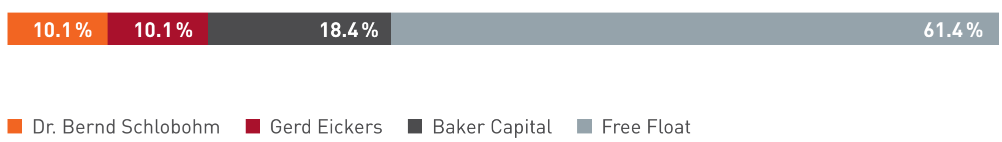
BASIC INFORMATION ON QSC SHARES

Trading symbol	QSC
ISIN	DE0005137004
Bloomberg symbol	QSC GR
Reuters symbol	QSCG.DE
Market segment	Prime Standard
Stock exchanges	Xetra and regional German stock exchanges
Index membership	TecDAX, HDAX, CDAX,
	Midcap Market, Technology All Share,
	Prime All Share, DAX International Mid 100,
	DAXplus Family,
	DAXsector All Telecommunication,
	DAXsector Telecommunication,
	DAXsubsector All Fixed-Line Telecommunication,
	DAXsubsector Fixed-Line Telecommunication
Designated Sponsorship	Close Brothers Seydler Bank AG
Shares outstanding as of December 31, 2011	137,256,877
Share class	No-par-value registered shares of common stock
Xetra closing price on December 30, 2010	€ 3.30
Xetra share price high in 2011	€ 3.84
Xetra share price low in 2011	€ 1.87
Xetra closing price on December 30, 2011	€ 2.09

Founders have thus far never sold a single share • The Register of Shares shows that the number of shareholders declined moderately by 450 to 30,105 in fiscal 2011. As in previous years, the Company's three largest shareholders were U.S.-based investment company Baker Capital, as well as QSC's two co-founders, Gerd Eickers and Dr. Bernd Schlobohm. Each of these founders holds 10.1 percent of QSC's shares, and neither has sold a single share since the Company went public eleven years ago. The largest shareholder is Baker Capital, holding 18.4 percent. In February of the past fiscal year, this investment company had notified QSC that its attributable shareholdings had been reduced by 6 percentage points in conjunction with a distribution to its investors of its closed-end funds, some of which had been in existence for more than ten years. This transaction resulted in an increase in QSC's free-float to 61.4 percent in fiscal 2011. The Register of Shares shows that, at the end of the past fiscal year, institutional investors accounted for 55 percent of the free-float, and private investors for 45 percent; over the course of the 2011 fiscal year, there was a 3 percentage-point shift in this weighting in favor of the institutional investors. Further information relating to the shareholder structure is contained in the section entitled "Subsequent Events" that begins on page 75.

SEE PAGE 75
SUBSEQUENT EVENTS

SHAREHOLDER STRUCTURE AS OF DECEMBER 31, 2011



WHY IS QSC'S PLANNING FOR FISCAL 2012 SO CONSERVATIVE?

2012 IS A YEAR OF TRANSITION. BUT REVENUES ARE STILL RISING.

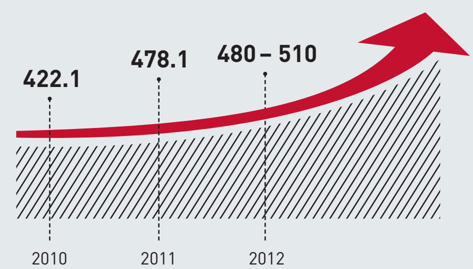
THIS YEAR, THE QSC GROUP IS FIRST LAYING THE GROUNDWORK FOR ATTAINING ITS FULL STRENGTH AND POWER AS AN ICT PROVIDER. NEVERTHELESS, THE COMPANY IS PLANNING ON HAVING HIGHER REVENUES AND ANOTHER DIVIDEND DISTRIBUTION.

As a mid-size player, QSC is guided by sound, dependable planning; some might term this conservative. The QSC Group is facing a tour de force in fiscal 2012: It intends to largely conclude its transformation process into an ICT provider, while simultaneously driving the integration of its two new subsidiaries, INFO AG and IP Partner. The planned merger of these two companies and the acquisition of the remaining INFO shares will simplify Group-wide collaboration. However the insecure economic situation in early 2012 makes it extremely difficult to properly assess what the resulting dynamics will be in the current fiscal year.

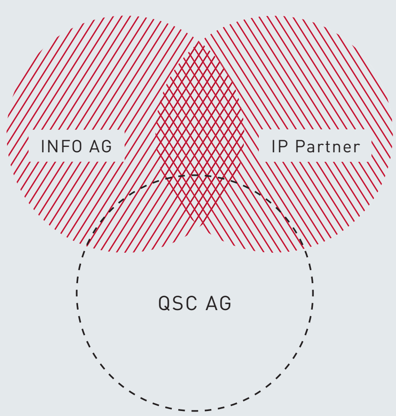
Nor should we lose sight of something else: 2012 will see another sharp decline in revenues in conventional TC lines of business on the order of € 25 million. However given high revenue growth in its ICT business, the QSC Group is nevertheless planning on a revenue rise in fiscal 2012, as well – to between € 480 and € 510 million. At the same time, we anticipate an EBITDA margin of at least 16 percent and a free cash flow of between € 22 and € 32 million; plus we are planning to distribute a dividend of at least € 0.08 per share. All this shows: QSC will continue to enjoy profitability and financial strength in fiscal 2012!

» More information about our forecast for 2012

REVENUE DEVELOPMENT (IN € MILLION)



SAILING A GROWTH COURSE. THE QSC GROUP IS GROWING ITS REVENUES YEAR IN AND YEAR OUT – TO UP TO ONE BILLION EUROS BY 2016.



TOGETHER WE ARE STRONG: QSC IS DRIVING THE INTEGRATION OF ITS TWO NEW SUBSIDIARIES DURING THE CURRENT FISCAL YEAR.

Group Management Report

The Company 18

Business Operations 18
Strategy 20
Key Markets and Competitive Position 22
Organizational Structure 23
Steering 24
Explanatory Report pursuant to § 315 (4) HGB 25
Research and Development 27
Corporate Social Responsibility 30

Human Resources 31

Human Resources Management 31
Initial and Continuing Training and Education 32
Compensation 32
Corporate Culture 33

Corporate Governance 35

Corporate Governance Report and Declaration of Corporate Management 35
Declaration of Compliance 40
Compensation Report 43

Economic Environment 47

General Economic Conditions 47
General Industry Conditions 48
Regulatory Conditions 49
Impact of the General Environment on QSC 51

Profitability, Financial Position and Net Worth 52

Course of Business 52
Events of Major Significance for the Course of Business 54
Profitability 55
Profitability by Segment 58
Financial Position 62
Net Worth 65
Comparison between Actual and Forecast Course of Business 66
General Remarks on Course of Business 2011 66

Report on Risks 67

Risk Strategy 67
Management of Opportunities 67
Management of Risks 67
Supplementary Information pursuant to § 289 (5) HGB 69
Individual Risks 70
General remarks 74

Subsequent Events 75

Report on Opportunities and Outlook 76

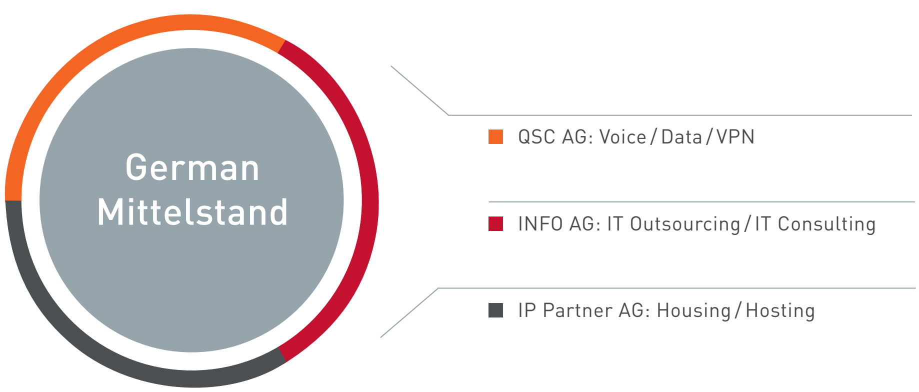
General Remarks on Further Development 76
General Economic Conditions 76
General Industry Conditions 77
General Regulatory Conditions 78
Anticipated Profitability 79
Anticipated Financial Position and Net Worth 80
Opportunities for QSC 81

The Company

BUSINESS OPERATIONS

ICT services for small and mid-size companies (SMEs) • QSC AG ("QSC," the "QSC Group" or the "Company") offers SME businesses comprehensive information and telecommunications services (ICT services). Together with its subsidiaries, full-service IT provider INFO Gesellschaft für Informationssysteme Aktiengesellschaft (INFO AG) and Housing and Hosting specialist IP Partner Aktiengesellschaft (IP Partner), the QSC Group numbers among the leading mid-size providers of ICT services in Germany. The individual lines of business are consolidated in three business units:

THREE COMPANIES, ONE MARKET: THE GERMAN MITTELSTAND



Direct Sales • Direct Sales focuses on more than 8,000 larger and mid-size enterprises in Germany and also includes the business of subsidiaries INFO AG and IP Partner, which were acquired in fiscal 2011. Its portfolio comprises national and international site networking, outsourcing solutions, data center services, such as Housing and Hosting, as well as Cloud services to an increasing extent. IT Consulting is a further important element of this business unit's portfolio; the QSC Group is a consulting partner for SAP and Microsoft solutions.

Direct Sales also includes the business of IP Partner and INFO AG

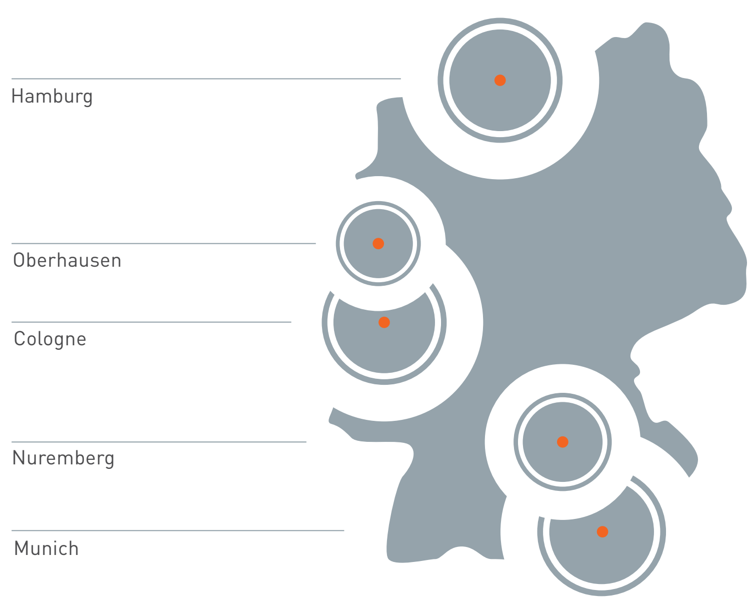
Indirect Sales • Indirect Sales addresses nearly 900,000 smaller and mid-size companies in Germany that usually do not have employees of their own on staff for information and communications technology, obtaining their ICT services from regional partners instead. QSC is therefore focusing on partnering with regional marketing partners and distributors. The Company offers 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.

Resellers • This third 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 their 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 landline business.

QSC offers its ICT services on the basis of its own Next Generation Network

High level of in-house technology competence • QSC offers its ICT services on the basis of its own Next Generation Network (NGN), a cutting-edge platform that assures the convergence of various technologies for voice and data transmission via the IP protocol. Moreover, the Company also possesses a proprietary Open Access platform, which interlinks various broadband technologies. In addition, QSC has traditionally operated a nationwide DSL network, a nationwide voice network, as well as one of the largest Wireless Local Loop (WLL) networks in Germany.
With the acquisition of INFO AG and IP Partner, QSC acquired multiple data centers. The QSC Group provisions Housing, Hosting and Outsourcing solutions on more than 10,000 square meters of floor space at locations in Cologne, Hamburg, Munich, Nuremberg and Oberhausen. All of the data centers are located in Germany and are subject to Germany's strict data protection regulations. This represents a considerable competitive advantage at the onset of the Cloud age, in which more and more organizations are outsourcing their information and communications technology to specialists, which enables their own people to access all data from anywhere on any end-user device. Because many of these organizations shy away from having their ICT, and thus one of the core elements of their business, operated in foreign locations that are subject to unknown legislation.

THE QSC DATA CENTERS



Outstanding basis for the Cloud age • In addition to the infrastructure in the data centers, though, the QSC Group has already put in place all of the major prerequisites that will be needed in order to be active in the marketplace as a provider of Cloud services. The Company already offers such Software-as-a-Service solutions as a virtual telephone system as well as net-based provision of SAP and Microsoft programs. The Open Access platform that was developed by QSC is a Platform-as-a-Service operation.
In the case of all of these solutions, the QSC Group's own ICT infrastructure enables it to assure its customers consistently high quality along the entire value chain ("end-to-end quality"); QSC is one of the few providers to cover the entire spectrum of ICT products, solutions and services, from data center right through to operation of end-user telephone systems.

STRATEGY

Acquisitions accelerate evolution into an ICT provider • Two fundamental changes had prompted QSC to begin a transformation process early on: Firstly, information technology (IT) and telecommunications (TC) are converging into a consistent ICT market; secondly, the ability to process data in the Cloud from anywhere and on any end-user device is playing a rapidly growing role in this market. At the heart of QSC's transformation process was therefore its evolution from a TC network operator into a provider of ICT services and the expansion of its Cloud competence.
During the past fiscal year, QSC accelerated this transformation process through the acquisition of two IT specialists, thus obtaining the necessary skills and equipment for Cloud applications: QSC has held all shares of IP Partner since January 3, 2011. On May 2, 2011, QSC acquired the majority interest in publicly traded INFO AG. Further information relating to these two transactions is contained on page 54 of this Group Management Report.

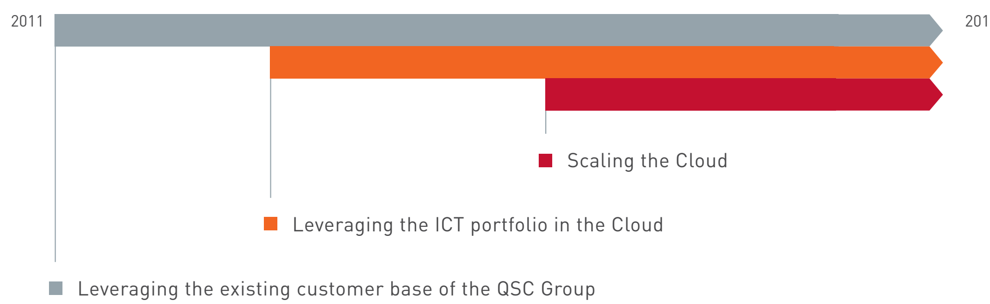
SEE PAGE 54
EVENTS OF MAJOR SIGNIFICANCE

QSC striving to raise revenues to up to € 1 billion by 2016 • The expanded portfolio of an ICT provider is opening up huge growth potential for QSC, as shown by the Company's 5-year strategy, which was debuted on October 6, 2011. This strategy focuses on three growth paths:

- Selling additional products and solutions to QSC's some 30,000 customers today (cross- and upselling)
- Marketing products and services for Cloud applications, under which organizations are increasingly outsourcing their own IT
- Developing scalable Cloud services for new markets, such as the energy industry. Further information relating to QSC projects is contained in the section entitled "Research and Development" that begins on page 27.

SEE PAGES 27ff.
RESEARCH AND DEVELOPMENT

QSC'S THREE-STAGE GROWTH STRATEGY



QSC considers revenues of between 800 million euros and one billion euros to be achievable on the basis of this strategy. The Company will continue to focus on profitable growth: QSC is striving for an EBITDA margin of 25 percent and a free cash flow of between € 120 and € 150 million for 2016. During the past fiscal year, QSC earned an EBITDA margin of 17 percent and a free cash flow of € 41.0 million on revenues of € 478.1 million.

Bundling IT competence • In order to be able to swiftly tap into the revenue potential that is offered by the existing customer base, QSC plans to bundle its IT competence within the Direct Sales Business Unit during the current fiscal year and to consolidate the activities of INFO AG and IP Partner within one single company. By creating a joint sales team, QSC will be able to assure that customers are being consistently addressed, thus putting in place the prerequisites for being able, as planned, for this business unit to grow faster than the market.

In Indirect Sales, too, broadening the organization's IT competence is one of the focal points of the strategy: QSC will be specifically complementing its existing network of TC marketing partners to include regionally operating IT marketing partners and systems houses. Both new and existing marketing partners will be able to access a broader portfolio of products services and solutions in fiscal 2012; QSC plans to introduce initial Cloud applications, including a backup and an e-mail solution.

QSC plans to launch its first Cloud applications in 2012

Planning calls for resellers, too, to be able to include Cloud services from QSC in their portfolios for the first time during the course of 2012. Moreover, QSC intends to win more partners for its Open Access platform, a network, process and services hub for providers and users of so-called Next Generation Access (NGA); fiber optic connections are typically used here.

Customer and employee satisfaction are strategic goals • QSC is positioned in the marketplace as a mid-size company for small and mid-size companies and, thanks to its size, can swiftly, flexibly and competently satisfy the needs of these customers. The Company's high level of service quality contributes substantially to its high level of customer satisfaction; this manifests itself, among other things, in the form of low termination rates and few customer complaints. In addition, QSC also measures customer satisfaction by means of quarterly surveys. In fiscal 2011, the Company was able to raise the level of satisfaction in all dimensions, including performance, support and willingness to choose QSC again. By steadily optimizing its service, QSC is striving to continue to improve its strategic target metric of customer satisfaction in the coming years, thus generating profitable growth.

It takes first-class employees to provide first-class service. For this reason, alone, a high level of employee satisfaction is one of the strategic goals of the QSC Group. The section entitled "Human Resources" that begins on page 31 details the measures that QSC employs in order to assure the ongoing commitment of all its people. This section also contains information on the results of the employee survey that was conducted in fiscal 2011. The good work environment makes it easier for the QSC Group to recruit and retain professionals and executives – a clear competitive advantage in a labor market that is increasingly being characterized by a shortage of skilled professionals and declining numbers of qualified new job-seekers.

SEE PAGES 31ff.
HUMAN RESOURCES

KEY MARKETS AND COMPETITIVE POSITION

Focusing on small and mid-size customers • QSC is an ICT provider serving enterprises of every size – from trade contractors right through to large corporations. However activities clearly focus on addressing small and mid-size customers, as QSC – itself a mid-size company – 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 and is involved in international outsourcing and consulting projects.

QSC has established a good position for itself in the marketplace in all three business units: Direct Sales is going up against Arvato, Atos Origin, Hewlett Packard and T-Systems, in particular, in competing for ICT requests for proposals. In addition, it is also competing against numerous national IT providers, such as Bechtle and Datagroup. The QSC Group is benefiting from its ability to offer one-stop shopping for ICT solutions here, especially among larger mid-size enterprises.

In Indirect Sales, QSC sees itself competing against traditional TC providers like Deutsche Telekom, Vodafone and Telefónica, on the one hand. On the other, as an ICT provider the Company is increasingly also in competition with both 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 – from desktop to network right through to data center.

In the Reseller segment, the Company is competing against the other alternative network operators, in particular, first and foremost Telefónica and Vodafone. Its NGN and Open Access platform provide QSC with a good market positioning in this environment.

ORGANIZATIONAL STRUCTURE

QSC Group possesses extensive ICT competence • With the acquisition of IT providers IP Partner and INFO AG, QSC has accelerated its evolution into an ICT provider during the past fiscal year and increased the number of consolidated companies within the corporate Group. A full overview of the consolidated companies as of December 31, 2011, is contained in Note 38 of the Notes to the Consolidated Financial Statements on pages 131 through 137.

SEE NOTE 38 PAGES 131FF. (NOTES)

Cologne-based QSC AG is the parent corporation of the Group; this is where all major corporate functions are consolidated. It runs the operating business of the three business units, collaborating in Direct Sales with its two subsidiaries IP Partner and INFO AG. In addition to Headquarters in Cologne, QSC AG also maintains sales offices throughout Germany.

Headquartered in Hamburg, INFO AG is one of the leading providers of IT Outsourcing and IT Consulting in Germany. As of December 31, 2011, the Company's investment totaled 91.78 percent of the shares of this publically traded subsidiary, which, in turn, possesses two wholly-owned subsidiaries: INFO Customer Service GmbH and INFO Business Systems GmbH. Since January 3, 2011, QSC has held a 100-percent interest in IP Partner, a holding company for Housing and Hosting for small and mid-size enterprises. This Nuremberg-based holding company possesses three operating subsidiaries: IP Colocation GmbH, IP Exchange GmbH and IPX-Server GmbH.

Two further major equity investments are Ventelo GmbH and Plusnet GmbH & Co. KG. Founded in 2006, network operating company Plusnet operates a nationwide DSL network. The offerings from Ventelo, which was acquired in 2002, for small and mid-size companies include direct landline connections, preselect and call by call, as well as value-added services.

Merger of IP Partner and INFO AG planned

Bundling activities in Direct Sales • During the current fiscal year, QSC will be striving to streamline the corporate structure by merging INFO AG and IP Partner. To do this, QSC AG contributed its shares of INFO AG to IP Partner in the form of a contribution in kind on January 9, 2012. On January 12, 2012, IP Partner informed INFO AG that it intended to commence negotiations with INFO AG relating to a merger agreement, with the other INFO AG shareholders (minority shareholders) being preempted in this connection.

STEERING

Three key steering parameters • The QSC Group utilizes three key steering metrics: Free cash flow, EBITDA margin and revenues. These three parameters assure that well-balanced decisions concerning liquidity, profitability and growth are being made throughout the organization. In 2011, following the two acquisitions, the Company had scrutinized and evolved its former steering system, which employed similar parameters (cash flow per share, EBIT margin and revenue growth). The new parameters also serve as the basis for the 5-year strategy that was presented in October 2011.

THE QSC STEERING SYSTEM

The three business units, Direct Sales, Indirect Sales and Resellers, operate as independent profit centers and are steered on the basis of the target parameters of revenues and EBITDA margin; this combination assures a focus on sustained and profitable growth. The following table offers an overview of the development of these three steering parameters:

	2011	2010
Free cash flow (in € million)	41.0	27.7
EBITDA margin, Direct Sales	19.4 %	28.2 %
EBITDA margin, Indirect Sales	21.6 %	16.8 %
EBITDA margin, Resellers	11.8 %	16.2 %
Revenues (in € million)	478.1	422.1

In addition to these financial parameters, QSC uses further non-financial performance indicators to steer the Company internally: Regular surveys are employed to measure the strategic goal of customer satisfaction; the strategic goal of employee satisfaction is operationalized by means of the parameter of personnel turnover as well as an employee survey. Further information in this regard is contained in the section entitled “Human Resources” that begins on page 31 and in the section entitled “Strategy” that begins on page 20.

SEE PAGES 31ff.
(HUMAN RESOURCES)
AND 20ff. (STRATEGY)

Monthly reports aid in steering • From an organizational standpoint, the following instruments are essentially utilized to steer QSC:

- Monthly reports from the business units as well as the QSC Group
- Bi-weekly meetings of the Management Board
- Monthly reports to the Supervisory Board
- Rolling planning for all operations throughout the Company

SEE PAGES 67ff.
GROUP MANAGEMENT REPORT

As described beginning on page 67 of this Group 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 QSC Group's steering system.

EXPLANATORY REPORT ON THE STATEMENTS PURSUANT TO § 315, PARA. 4, GERMAN COMMERCIAL CODE ("HGB")

Customary rules for a publicly traded corporation • The following overview presents the situation with respect to 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 prevailing conditions on the balance sheet date.

Composition of capital stock • The capital stock of QSC as of December 31, 2011, amounted to € 137,256,877, and was classified into 137,256,877 no-par bearer shares of common stock. According to the Register of Shares, the capital stock was divided among 30,105 shareholders as of December 31, 2011.

Limitations of voting rights or transfers of shares • Each share possesses one vote. The Management Board is not aware of either limitations to voting rights or restrictions on the transfers of shares.

Direct or indirect holdings of more than 10 percent of capital • As of December 31, 2011, QSC's two founders, Dr. Bernd Schlobohm and Gerd Eickers, each held 10.1 percent of the total of 137,256,877 shares, with the U.S.-based Baker Capital equity investment company holding 18.4 percent.

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 25, 2012. 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 three 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 25, 2012, 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 the Annual 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 buyback of QSC shares • The resolution of the Annual Shareholders Meeting on May 20, 2010, 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 19, 2015. The Management Board has thus far not utilized this authorization.

No treasury shares were acquired last year

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 (authorized capital) through the issuance of new no-par bearer shares against contributions in cash or in 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) for rounding purposes resulting from the subscription ratios; (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; (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 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 € 28,214,257, and was classified as follows: Conditional Capital III, amounting to € 440,943; Conditional Capital IV, amounting to € 25,000,000; Conditional Capital VI, amounting to € 1,490,760; as well as Conditional Capital VII, amounting to € 1,282,554.
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; (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 € 150 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.

RESEARCH AND DEVELOPMENT

15 people are dealing primarily with development projects

Development activities rigorously expanded • Its evolution into an ICT provider is enabling the QSC Group to increasingly also win new customers with network-independent, innovative services, and thus further broaden their percentage of the ICT budgets of existing customers. Given this background, in fiscal 2010 the Company began to build a dedicated department for research and development (R&D) to drive innovations together with line departments. At the close of the past fiscal year, a total of 15 people were predominantly working on development projects; most of them were software developers, along with product and market specialists. Their mission is to identify possible market potential early on and to develop the appropriate services in close collaboration with research institutions, industry partners and customers. The focus is on working on offerings for Cloud Computing, the ability to process data in the Cloud from anywhere and on any end-user device. Experts are in agreement that organizations will be increasingly migrating their information and communications technology to the Cloud and utilizing the corresponding services. Back in 2010, QSC began development of a network-independent, Open Source-based service platform: Q-loud affords a simple and fast way to provide Cloud applications. Exploring the opportunities offered by Q-loud enabled the following highly promising individual projects to be identified during the past fiscal year: “O(SC)^{2}ar“, “cospace“,“QSC Analyser“ and “SensorCloud“.

INDIVIDUAL FORWARD-LOOKING PROJECTS

SensorCloud wins innovation prize • SensorCloud is a central, highly scalable platform that offers new opportunities for capturing, storing and using measurement data on a cross-industry basis. It affords direct access to these data as well as their multidimensional utilization. SensorCloud enables processes and value chains to be interlinked in such sectors as industry and logistics, thus significantly heightening their efficiency; in the past, organizations have typically been storing measurement data in isolated systems.

New opportunities for capturing and storing measurement data

SensorCloud is being developed in a consortium under the lead of QSC; the consortium also includes the RWTH Aachen, the Cologne University of Applied Sciences, software publisher symmedia GmbH, as well as Unternehmensgruppe Dillenburger, a mid-size supplier of building equipment and management systems. In March 2011, this consortium won an innovation prize from the German Federal Ministry of Economics and Technology within the framework of a competition entitled “Secure Internet Services – Secure Cloud Computing for SMEs and the Public Sector (Trusted Cloud).” The multi-million euro grant in connection with this prize began in January 2012 and will run for three years.

Award also goes to O(SC)^{2}ar • O(SC)^{2}ar stands for “Open Service Cloud for the Smart Car” and numbers among the five winners in the “ICT for Electromobility II” competition organized by the German Federal Ministry of Economics and Technology; this publicly-sponsored project was also launched in January 2012. In this case, QSC is part of a consortium under the lead of Aachen-based Street Scooter GmbH, an innovation leader in electromobility. Further consortium partners are FIR e.V., a cross-industry research institute of the RWTH Aachen, engineering services provider FEV GmbH, Hans Hess Autoteile GmbH, automotive supplier Dräxlmaier GmbH, as well as regio IT GmbH.

Under the O(SC)²ar project, the existing modular design principle that was developed by Street Scooter for electric vehicles is being applied to the ITC infrastructure, as well as to both electrical and electronics architecture. The objective is to use the smartphone principle to combine applications with public Internet services, thus enabling vehicle users to obtain new functionalities at low cost.

Communication in the Cloud • cospace is the name of an innovative Cloud-based communications solution that QSC developed in fiscal 2011, with the beta version going live in November 2011. This first version focuses on such functionalities as voice mail, fax reception via a free cospace number, as well as the ability to organize conference calls.
These initial functionalities already show the cospace focus: This platform simplifies both cross-organizational as well as location- and device-independent communication by utilizing Cloud services, and thus addresses the staff of organizations who are increasingly working not only out of their regular office, but in multiple locations and from their homes. cospace enables users to better organize themselves in teams, across organizational borders, and to share content they have received with others.

Intelligent solution for network operators • While cospace offers added value for a large number of organizations and their employees, thus intensifying the depth of value creation at small and mid-size enterprises, the QSC Analyser predominantly addresses other network operators. This is a distributed measurement system for determining network quality parameters; it was originally developed for internal use, as no suitable solutions were available in the marketplace. The Analyser enabled QSC to make its own network management more efficient and achieve cost savings. At the same time, there was also a rise in customer satisfaction, as faults could be identified and rectified even faster in the event of an outage. Given this positive experience, in fiscal 2011 the Company decided to evolve the Analyser into a product that could be marketed to other network operators; marketing will commence during the current fiscal year.

Marketing of the QSC Analyser will begin in 2012

Strong emphasis on quality and process innovation • Work on these kinds of innovative services is performed in a dialogue with internal and external experts, and represents only a subset of the Company's entire range of development work. The Company continues to place strong emphasis on quality and process innovations, with which QSC assures the integration of its customers' complex ICT systems and the maintenance of the highest security standards. Given the great importance of these ongoing innovation activities and the inclusion of existing R&D activities in running processes, the QSC Group does not record R&D expenses in a separate line item, but includes them in the three major cost blocks (cost of revenues, sales and marketing expenses, general and administrative expenses).

CORPORATE SOCIAL RESPONSIBILITY

Multiple initiatives underscore social commitment • QSC lives up to its social responsibility in connection with three major 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 35.

SEE PAGES 35ff.
CORPORATE GOVERNANCE

As a mid-size enterprise, QSC intentionally focuses its social commitment on initiatives within the company and its immediate environment; concentration is on such issues as in-company training, even over and above QSC's own needs, as well as on assuring compatibility between family and work for QSC's some 1,300 people. Further information in this regard is contained in the section entitled "Human Resources" that begins on page 31. Moreover, QSC supports multiple initiatives that are aimed at improving the situation of our youth, in particular. QSC has been the primary sponsor of the GOFUS initiative since the year 2002. GOFUS is an association of active and retired professional soccer players who use golf tournament proceeds to promote initiatives that provide assistance to economically disadvantaged children and young people. The spectrum of activities ranges from providing support for daycare facilities to running programs that ease young people's entry into working life.

SEE PAGES 31ff.
HUMAN RESOURCES

Since the acquisition of INFO AG, QSC has additionally been a partner in the "Hamburg Way." This initiative assumes social responsibility for people in the city of Hamburg. Within the framework of the Hamburg Way, the QSC Group is engaged in the KITA21 initiative, which supports daycare staff in designing educational initiatives. In fiscal 2011, the Company set up 30 PC workstations at daycare facilities, offering both training as well as telephone support. QSC is convinced that with these kinds of initiatives, the Company is making a greater contribution to the evolution of society than by achieving even the greatest strides in resource conservation.

This is because ICT services are already making a major contribution to energy conservation and reduced CO_2 emissions today in many ways. Good examples are that telecommunications provides the option of transmitting large volumes of data over the Internet, instead of having to send them by courier, and that it makes possible the option of substituting videoconferencing for business travel. Moreover, broadband Internet connections are a key prerequisite for work-at-home plans, which also reduce CO_2 emissions – instead of commuting from home to work, work is brought home.

ICT services help to conserve energy and to reduce CO_2 emissions

Electricity from regenerative sources of energy • Nevertheless, resource conservation is the guiding principle throughout the Company, especially in connection with its purchasing policies. The Company is constantly optimizing its energy inputs, for example, by steadily replacing outmoded servers and energy-intensive computers. Since 2009, QSC has been procuring the lion's share of its electricity from renewable energies.

The Purchasing Department monitors the overall lifecycles of all resources and ensures that materials are largely reused within the framework of statutory regulations and beyond. This department additionally ensures that the fundamental ideas of sustainable economic growth and energy efficiency are given appropriate consideration when purchasing new hardware or company cars.

Human Resources

HUMAN RESOURCES MANAGEMENT

It takes first-class employees to provide first-class service • The success of the QSC Group is based upon the commitment and will to succeed of all of its people. They assure that customers get the quality and service they expect from a mid-size ICT provider. Employee satisfaction is thus a strategic goal, and the ability to win and keep professionals and executives is an issue that enjoys top priority.

Acquisitions double workforce • As of December 31, 2011, the QSC Group employed a total of 1,334 people, by comparison with 608 at year-end 2010 (measured on the basis of full-time equivalencies). This rise was essentially attributable to the two acquisitions that were made during the past fiscal year: On December 31, 2011, the new subsidiary INFO AG employed a workforce of 656 people, while IP Partner employed 69. QSC AG's workforce totaled 547 people, that of network operating company Plusnet 62. Regionally speaking, most of the employees were working at the two largest locations in Cologne (535) and Hamburg (677); the remaining employees were distributed among sales and business offices in Germany, as well as at the Nuremberg headquarters of IP Partner.

WORKFORCE (as of December 31)

The QSC Group is primarily recruiting Consulting and Outsourcing experts

In line with its evolution into an ICT provider, during fiscal year 2011 the QSC Group focused on recruiting Consulting and Outsourcing experts; INFO AG, alone, recruited 84 additional professionals. At the same time, the Company continued to automate and industrialize processes in areas like network operation, thus enabling it to further increase efficiencies in the provision of TC services.

Human resources marketing activities broadened • In Consulting business, in particular, the QSC Group is facing a growing shortage of professionals; industry association BITKOM estimates that Germany was already short of 38,000 IT experts in 2011. This prompted the QSC Group to intensify its human resources marketing activities in fiscal 2011. Key measures consisted of developing and marketing an employer brand. To this end, the QSC Group is partnering with universities at its largest locations. In Hamburg, for example, it is a primary sponsor of the IT Management and Consulting Master's degree curriculum. And given the rapidly growing importance of social networks, the Company additionally expanded its presence on platforms like XING.

INITIAL AND CONTINUING TRAINING AND EDUCATION

Training ratio stands at 6 percent • Given the increasing shortage of professionals that is expected in all likelihood, the QSC Group is opting to train new blood in house. As of December 31, 2011, 77 young adults were undergoing training at QSC. The training ratio stood at 6 percent. Young people have the choice between two ways of entering the working world: An in-house training course as information technologists in systems integration and applications development and as computer and IT systems business operations specialists, or a work-study program. At year-end 2011, 29 A-level ("Abitur") graduates were taking advantage of this integrated theoretical and practical training with either a technical or business focus.

TRAINING RATIO (as of December 31)

University graduates can get their start in their working lives at QSC as part of a traineeship: On December 31, 2011, eight trainees were being trained in business operations areas and Consulting. Moreover, the QSC Group is also collaborating closely with various continuing education institutions that retrain employees into IT experts.

In the future, QSC will continue to win new talent by fostering trainees, young professionals and students and retaining them through a targeted Human Resources policy. A further expansion of training activities is planned for the current fiscal year, especially in the Consulting and Outsourcing environments.

The QSC Group plans to expand training activities in 2012

Strong emphasis on lifelong learning • In the fast-paced ICT world, knowledge quickly becomes stale. For this reason, alone, the QSC Group offers all employees the opportunity to constantly update their knowledge through continuing training and education, thus enabling them to steadily develop. The focus is on in-house offerings and sharing experiences across departmental borders. Key issues in 2011 included project management, leadership techniques, work organization, as well as improving English language skills. Subsidiary INFO AG has been bundling its in-house seminar program at the INFOAcademy since 2011.

COMPENSATION

Variable compensation for all employees • The QSC Group offers 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, there is also a variable compensation element that rewards the achievement of individual and corporate targets. As leadership responsibility rises, this compensation element is increasingly based upon corporate targets. Moreover, employees also have the customary fringe benefits available to them, such as wealth accumulation matching contributions and support in connection with private old-age retirement insurance. Detailed information relating to the compensation paid to members of the Management Board is contained in the Corporate Governance Report on pages 43ff.

SEE PAGES 43ff.
CORPORATE GOVERNANCE

CORPORATE CULTURE

Respect and decency characterize the QSC corporate culture • All employees embrace a value system that is based upon respect and decency. The following four principles serve as orientation in this regard:

- **We serve the customer •** The sole measure of QSC's performance is how it is valued by its customers.
- **We are a strong team •** QSC embraces collaboration in a spirit of partnership through fair, open and trustworthy dealings with both internal and external counterparts.
- **We live communication •** QSC practices clear, purposeful and targeted communication that is characterized by mutual respect.
- **We create values •** QSC assigns a high level of responsibility to each and every employee, and trusts them to always make their decisions a view to increasing the value of the Company.

Fiscal 2012 to see consistent value system group-wide

In fiscal 2012, QSC will evolve this value system and make it consistent throughout the entire Group. This process is being simplified by the fact that, like QSC, the two new subsidiaries also cultivate a corporate culture and are firmly rooted in the SME environment. QSC is convinced that a corporate culture that is based upon respect and decency strengthens the self-direction and motivation of every employee and plays a key role in staff loyalty.

Survey underscores importance of central values • The tremendous importance of the QSC corporate culture is documented by the results of the first employee survey that was conducted in fiscal 2011. Employees see themselves as a strong team and identify with their company's customer-focused, value-creation strategy. Respondents were also highly satisfied with the SME leadership culture under the lead of co-founder Dr. Bernd Schlobohm. With a participation rate of 70 percent of all employees, the survey also offered valuable insights as to how employee satisfaction can be further improved in the coming years. Major issues are a broadening of the continuing education offerings as well as information options. The Company is currently utilizing the Group-wide Intranet, in particular, as well as regular events at which professionals and executives report on their current activities.

Flexible working hours ease compatibility between family and work • One major element of QSC's value-based corporate culture is an understanding for the personal situation of every employee and taking his or her wishes into consideration within the framework of the opportunities offered by 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. In fact, nine percent of QSC AG's employees work predominantly from their home offices.

An external institute offers assistance in organizing work and family

The QSC Group 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 to employees. At the same time, QSC makes a very special effort to ease parents' re-entry into working life, for example through part-time work and through setting up home workplaces.

In connection with fostering the career opportunities of female employees, however, the fact should be taken into consideration that the ICT industry continues to be a male domain. Only one quarter of the QSC workforce is female; the percentage of female executives currently stands at a good 10 percent. One major reason for this can be seen in connection with the recruitment of new professionals: It is enormously difficult to attract young women to technical professions. Given the shortage of professionals, QSC views this issue as a major challenge to both the Company and society. This is why the Company is participating in the PepperMINT project, which is sponsored by the Career-Women in Motion Association. While working together, one of the objectives in the coming years consists of developing and implementing mentoring programs for women who are looking for careers at technology companies.

Corporate Governance Report and Declaration of Corporate Management

QSC implements vast majority of the German Corporate Governance Code • Ever since its founding, QSC has placed the utmost emphasis on good corporate governance, and thus responsible management and oversight of the Company with the objective of sustained value creation. Consequently, QSC implements nearly all points of the German Corporate Governance Code ("Code") and lives them in the Company's daily work: The Current Declaration of Compliance, dated November 17, 2011, is an element 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 Item 3.10 of the Code, as most recently amended in May 2010. This Report also integrates the Compensation Report called for by Item 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 • As a publicly traded stock corporation organized under German law, QSC AG possesses 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 interests in fiscal 2011.

Management Board expanded • The Supervisory Board appointed two new Management Board members effective September 1, 2011, Arnold Stender and Thomas Stoek; former Chief Operating Officer Joachim Trickl had left the Company effective August 31, 2011. QSC thus now possesses a four-member Management Board; in addition to Stender and Stoek, it also comprises co-founder Dr. Bernd Schlobohm as its Chairman and Jürgen Hermann as Chief Financial Officer.

QSC has had a four-member Management Board since 09/01/2011

These two new members of the Management Board are driving the QSC Group's marketing and operating development into a provider of ICT services. Arnold Stender is responsible for Indirect Sales and business with resellers; Thomas Stoek is in charge of Direct Sales operations. Stoek, who holds a degree in engineering, has assumed this new function in addition to continuing to serve as chief executive officer of INFO AG. Arnold Stender had previously headed up the Products and Wholesale / Resellers Business Units at QSC.

Resolutions adopted by the full four-member Management Board • The Supervisory Board has promulgated Rules of Procedure for the Management Board. Under these Rules, resolutions require a simple majority of the votes cast. 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 four-member Management Board; given QSC's SME structure, the Management

Board refrains from forming committees. A division-of-tasks plan governs the areas of responsibility of the individual members of the Management Board. Each Management Board member manages these areas of responsibility under his own direction within the framework of Management Board resolutions. The following table offers an overview of the division of tasks at the end of the 2011 fiscal year:

	Areas of Responsibility
Dr. Bernd Schlobohm (Chairman)	Strategy, Corporate Communications, Human Resources, Quality and Complaint Management, Information Technology, Voice and Data Services
Jürgen Hermann	Finance, Investor Relations, Legal Affairs, Purchasing
Arnold Stender	Indirect Sales and Resellers Business Units
Thomas Stoek	Direct Sales Business Unit

The Supervisory Board typically appoints all 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 individuals in question and does not give any decision-making relevance to gender in this regard.

Qualifications the key factor in staffing the Supervisory Board • The Supervisory Board follows the same principle in making nominations to the Supervisory Board. It pays strict attention to assuring that this corporate body possesses the requisite knowledge, skills, abilities and experience to properly exercise their duties, and, with the exception of an age limit, does not indicate any further objectives relating to the composition of this corporate body. There are always a sufficient number of independent members on the Supervisory Board; as of December 31, 2011, only one member of the Supervisory Board, QSC co-founder Gerd Eickers, had previously been a member of the Management Board.

The Supervisory Board is comprised of a sufficient number of independent members

Under the terms of the Articles of Association and Bylaws, the 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. The terms of office of all Supervisory Board members will end upon adjournment of the regular Annual Shareholders Meeting for the 2012 fiscal year. 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. In fiscal 2011, there were three committees: the Nominating, Audit and Compensation Committees. 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 on pages 5 through 10.

SEE PAGES 5ff.
REPORT OF THE SUPERVISORY BOARD

	Chairmen and members of the committees of the Supervisory Board
Nominating Committee	John C. Baker (Chairman), Gerd Eickers
Audit Committee	John C. Baker (Chairman), Herbert Brenke, Gerd Eickers
Compensation Committee	Herbert Brenke (Chairman), John C. Baker, Jörg Mügge

Regular dialogue between corporate bodies • The Management Board informs the Supervisory Board promptly and comprehensively as to the development of business, planning, strategic measures, risk position and management, as well as compliance. Resolutions of the Supervisory Board, in particular those relating to transactions for which its approval is mandatory, are intensively prepared and deliberated in the committees and by the full Supervisory Board. The Management Board's Rules of Procedure require the consent of the Supervisory Board prior to concluding any major business transactions, such as stipulation of the annual planning, major capital investments, acquisitions and financial measures.

COMPLIANCE

The value system is based upon collaboration in a spirit of partnership

Minimizing the risk of improper behavior • QSC's value system is based upon collaboration in a spirit of partnership and mutual respect, and the Company expects its people to embrace a high level of self-direction and responsibility. However even in this kind of corporate culture, it is not possible to entirely eliminate the risk of improper behavior on the part of some individuals. QSC has therefore taken numerous measures in order to minimize this risk, seeking to prevent harm from coming to the Company and to society as a whole. Seminars and training sessions serve to sensitize all employees to such central 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. Guidelines governing such critical aspects as travel expenses and purchasing provide the required clarity for correct behavior in everyday operations.

Regardless of the above, compliance remains a major leadership task and requires the ongoing attention of the corporate leadership bodies. The Management Board, the Supervisory Board and its Audit Committee regularly deal with this issue; in doing so, they draw upon the quarterly risk reports and internal controlling, among other things. These discussions produce major impetus for evolving compliance.

DIALOGUE WITH SHAREHOLDERS

Transparency and frank dialogue are what characterize communication • The paramount principle in capital market communication is equal treatment of all shareholders. QSC utilizes its own website to report promptly and comprehensively 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 that provides information early on about major dates. This website is also where QSC provides all relevant documents for the Annual Shareholders Meeting.
The regular Annual Shareholders Meeting (ASM) represents the central event for a dialogue with shareholders. 56.8 percent of the capital stock were in attendance at the 2011 Annual Shareholders meeting, which was conducted in Cologne on May 19 last year, and thus, as usual, within the first five months of the subsequent fiscal year. As in previous years, 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 proxyholder from QSC bound by the shareholder's instructions; the proxyholders were available until the conclusion of the general debate. The shareholders agreed to all items on the agenda with sweeping majorities, including consent to two profit transfer agreements with subsidiaries as well as an amendment to the Articles of Association and Bylaws that reflects QSC's evolution into a provider of ICT services.

The regular ASM is the central event for a dialogue with shareholders

Regular meetings with analysts and investors within the framework of roadshows and individual talks during the course of the year represent a major element of our dialogue with shareholders; conference calls on the day the quarterly results are announced assure that these target audiences receive 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 the chapter entitled "QSC Share Performance" on pages 11 through 15 of this Annual Report.

SEE PAGES 11ff.
QSC SHARE PERFORMANCE

Baker Capital transfers shares to its investors • One element of the Company's transparent and frank communication is prompt information relating to the acquisition or sale of QSC shares by members of the Management and Supervisory Boards, as well as persons close to them, pursuant to § 15a, German Securities Trading Act ("Wertpapierhandelsgesetz"). During the past fiscal year, U.S.-based investment company Baker Capital, which has been invested since 1999 and is headed up by QSC Supervisory Board member John Baker, reduced its shareholdings. In connection with a distribution of its closed-end funds, some of which have been in existence for more than ten years, it transferred some eight million QSC shares to the investors in these funds, thus reducing its attributable share of the capital stock by 6 percentage points. The following overview shows the details of this transaction, as well as further reportable securities transactions:

Trading Day / Stock Market	Name / Status	Type of Transaction	Par-Value in € / Quantity	Volume in €	Remarks
January 10, 2011	Jürgen Hermann	Exercise of	2.05	33,825.00	Within the 2006
Over the counter	Management Board	convertible bonds	16,500		SOP framework
February 1, 2011	Baker Communications	Distribution	-	-	Retired through
Over the counter	Fund II (Cayman), L.P.		4,178,261		transfer
	Legal entity				
February 1, 2011	Baker Coinvestors, L.P.	Distribution	-	-	Retired through
Over the counter	Legal entity		1,276,119		transfer
February 1, 2011	Baker Communications	Distribution	-	-	Retired through
Over the counter	Fund II, L.P.		3,473		transfer
	Legal entity				
February 1, 2011	Baker Communications	Distribution	-	-	Retired through
Over the counter	Fund (Cayman), L.P.		4,181,714		transfer
	Legal entity				
February 1, 2011	Baker Capital	Distribution	-	-	Added through
Over the counter	Partners II (Anguilla), LLC		41,818		acquisition
	Legal entity				
February 1, 2011	Baker Capital	Distribution	-	-	Added through
Over the counter	Partners (Anguilla), LLC		41,816		acquisition
	Legal entity				
June 23, 2011	Jürgen Hermann	Exercise of	2.31	23,100.00	Within the 2006
Over the counter	Management Board	convertible bonds	10,000		SOP framework
June 23, 2011	Jürgen Hermann	Exercise of	2.05	17,425.00	Within the 2006
Over the counter	Management Board	convertible bonds	8,500		SOP framework
June 28, 2011	Baker Capital	Distribution	-	-	Retired through
Over the counter	Partners (Anguilla), LLC		37,634		transfer
	Legal entity				
June 28, 2011	Baker Capital	Distribution	-	-	Retired through
Over the counter	Partners II (Anguilla), LLC		33,455		transfer
	Legal entity				
June 28, 2011	John C. Baker	Distribution	-	-	Added through
Over the counter	Supervisory Board member		22,163		transfer
June 28, 2011	John C. Baker	Distribution	-	-	Added through
Over the counter	Supervisory Board member		19,972		transfer

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") as amended May 26, 2010.

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 its version dated May 26, 2010, with the following exceptions:

- **No sending of the notification of the convening of the 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)** • 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 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.

- **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") mutatis mutandis) (Item 3.8, Paragraphs 2 and 3 of the Code)** • QSC accepts the recommendation of the German Corporate Governance Code insofar as the D&O insurance policy will include a deductible for Supervisory Board members of 10 percent of the respective damages per damage event as of July 1, 2010. However, and contrary to the recommendation, the deductible will be limited to 100 percent of the fixed annual remuneration of the Supervisory Board members. In particular, against the backdrop of the comparatively low remuneration of the Supervisory Board Members, QSC deems inappropriate a deductible which exceeds the annual remuneration.

- **No periodic review of the Management Board members' compensation system including the material elements of the contracts by the Supervisory Board's plenum (Item 4.2.2, Paragraph 1 of the Code)** • The periodic review of the compensation system is carried out by the Compensation Committee of the Supervisory Board. It is QSC's opinion that the Compensation Committee is, because of its competencies, best prepared to deal with the Management Board's remuneration. The company thus continues to adhere to this proven principle.

- **No stipulation of demanding, relevant comparison parameters for stock options and comparable instruments regarding the members of the Management Board (Item 4.2.3, Paragraph 3, Sentence 2 of the Code)** • Due to the fact that the QSC stock option plans are linked to the QSC share price and due to their long term design, QSC believes that, given QSC's current stock option plans, there is no need to stipulate demanding, relevant comparison parameters.

However, the current stock option plan 2006 (SOP 2006) contains exercise barriers and, therefore, strengthens the link between the stock option plan and the development of the QSC share price respectively to its development compared to the development of the TecDAX. The undertaking to provide shares of QSC to single members of the Management Board is based on the condition that the long term targets of the Management Board have been achieved, whereas such long term targets are based on company-orientated parameters. The Supervisory Board is of the opinion that, by providing shares only if the long term targets have been achieved, a lasting development of the company is adequately ensured.

- **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)** • To postulate a cap regarding severance payments would be contrary to the spirit of the Management Board contract, which is usually concluded for a fixed term and does, in principle, not provide for the possibility of an ordinary termination by notice. Moreover, a contractual severance payment cap would be difficult to practically enforce against a Management Board member in the circumstances where it would be relevant. Furthermore, such advance stipulation would be unfeasible to reasonably take into account the particular facts and the surrounding circumstances that later actually give rise to the premature ending of a Management Board member´s contract.

- **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 stipulation of concrete objectives regarding the composition of the Supervisory Board that, whilst considering the specifics of the enterprise, take into account the international activities of the enterprise, potential conflicts, and diversity, as well as an appropriate degree of female representation, in particular. No consideration of such objectives by the Supervisory Board with regards to proposals for election and no publishing of such objectives in the Corporate Governance Report (Item 5.4.1, Paragraphs 2 and 3 of the Code)** • The composition of QSC´s Supervisory Board has to be oriented towards the company´s interest and has to ensure the effective control and advice of the Management Board. Therefore, candidates for elections by the annual general to the Supervisory Board are proposed by the Supervisory Board only in consideration of the professional competence and the experience of the respective candidates. Other criteria such as gender or nationality are not taken into account; nor have they been in the past. The Supervisory Board deems a fixed quota system not to be appropriate. Therefore, the Supervisory Board does not stipulate any concrete objectives regarding the composition of the Supervisory Board; nor does the Management Board and the Supervisory Board report such objectives in the corporate governance report. However, the Supervisory Board has already specified an age limit for its members in the past and intends to keep such age limit.

- **No consideration of the performance of the company or chair and membership positions in committees regarding the compensation of the members of the Supervisory Board (Item 5.4.6, Paragraphs 1 and 2 of the Code)** • QSC does not believe that the Supervisory Board members' motivation and responsibility with regards to their duties will be improved by considering the performance of the company regarding the compensation of the members of the Supervisory Board. The same applied to the consideration of the chair and of membership positions in committees until the acquisitions executed in the financial year 2011. Considering the increased amount of work within the committees caused by the acquisitions, the Management Board and the Supervisory Board are currently scrutinizing a proposal to the General Meeting of 2012 to amend the provisions of the articles of association regarding the remuneration of the Supervisory Board in order to consider the chair and the membership positions in committees in terms of the remuneration in the future.

Cologne, November 17, 2011

For the Management Board
Dr. Bernd Schlobohm

For the Supervisory Board
Herbert Brenke

Compensation Report

First individualized presentation of Management Board compensation • One major element of good corporate governance consists of a transparent portrayal of the total compensation paid to members of the corporate bodies. The fundamental compensation system for members of the Management Board was most recently evolved with a view to the German Appropriateness of Management Board Compensation Act ("VorstAG"), and was adopted by the Annual Shareholders Meeting on May 20, 2010. Pursuant to § 315, Para. 2, No. 4, of the German Commercial Code ("HGB"), QSC reports below on the principles of this compensation system. Pursuant to the resolution of the Annual Shareholders Meeting on May 19, 2011, this will be the first time that an individualized presentation has been made of the compensation paid to members of the Management Board.

A maximum of 50 percent of target compensation is fixed • The Supervisory Board stipulates the total compensation to be paid to members of the Management Board, taking into consideration the tasks and personal achievements of the respective Management Board member, the achievements of the full Management Board, 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.
The compensation paid to members of the Management Board comprises fixed and variable salary elements. The fixed element accounts for a maximum of 50 percent of the target compensation for each member of the Management Board. The fixed salary element is paid in monthly 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.

Variable compensation based upon achievement of single- and multiple-year targets

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 the attainment of agreed annual and multiple-year targets. 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 or hybrid forms. In entering into the annual target agreements, the Supervisory Board takes pains to assure that the variable target compensation as a result of the attainment of multiple-year targets is greater than the compensation for the attainment of single-year targets. The Supervisory Board defines upper and lower 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 and the lower limit stipulating the minimum target. If this metric is not attained, the Management Board member will not receive any variable compensation element for the corresponding target.

The Supervisory Board can commit an appropriate further bonus 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. Moreover, the Supervisory Board can offer members of the Management Board additional bonuses in recognition of extraordinary achievements.

Performance-based compensation for Management Board members in 2011 • The cash compensation to members of the Management Board in fiscal 2011 totaled K€ 1,924, by comparison with K€ 1,703 the year before. It should be noted in this connection that a total of five Management Board members held office in fiscal 2011 (Joachim Trickl, temporarily through August 31, 2011, as well as Thomas Stoek and Arnold Stender, each effective September 1, 2011). The following table shows the cash compensation to the individual members of the Management Board:

in K€	Fixed Salary Elements	Variable Salary Elements	Fringe Benefits	Total
Cash Compensation to Management Board Members				
Dr. Bernd Schlobohm	350	371	19	740
Jürgen Hermann	259	251	16	526
Arnold Stender (w.e.f. 09/01/2011)	77	77	3	157
Thomas Stoek (w.e.f. 09/01/2011)	83	83	5	171
Joachim Trickl (through 08/31/2011)	189	131	10	330
Cash Compensation to Management Board Members	958	913	53	1,924

The variable compensation element is based upon the target agreements entered into in fiscal 2010, with the same annual and multiple-year targets being agreed for all members of the Management Board. The values for variable compensation elements that are indicated in the table include special payments in the amount of K€ 50 each to Dr. Bernd Schlobohm and Jürgen Hermann, which relate to their performance in fiscal 2010. In fiscal 2011, the key annual target for the variable compensation element was free cash flow. The multiple-year target relates to the 2009 – 2011 three-year plan, which had already been used in connection with the target agreements for fiscal 2009. It is geared toward the attainment of a sustainable dividend position stemming from income generated by ordinary business operations in the financial statements for the 2011 fiscal year. Certain intermediate annual targets had to be sustainably achieved in order to reach this multiple-year target, in particular positive earnings from ordinary business operations in 2010 and 2011. The upper variable-element target attainment level was 150 percent in fiscal 2011. Moreover, failure to achieve one or more intermediate targets or the multiple-year target will result in the complete elimination of the variable compensation element relating to the multiple-year target.

In 2011, free cash flow was the key variable compensation target

The above-indicated cash compensation for fiscal 2011 does not include the issuance of convertible bonds on the basis of existing stock option programs in which, as in the past, the Management Board members also participate. In fiscal 2011, 200,000 convertible bonds each were issued to Dr. Bernd Schlobohm and Jürgen Hermann. The value of the individual stock options was determined to be € 1.61 on the basis of the Black Scholes model, and thus results in non-cash compensation in the amount of K€ 322 per eligible Management Board member. This compensation is non-cash in nature, as the conversion right cannot be exercised until the trading price of the shares has developed better on a relative basis between the day of issue (May 20, 2011) and the time of exercise of the conversion right than the comparison index, or the trading price at the time of exercise of the conversion right exceeds € 3.25.
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, 2011	Dec. 31, 2010	Dec. 31, 2011	Dec. 31, 2010
Dr. Bernd Schlobohm	13,818,372	13,818,372	200,000	300,000
Jürgen Hermann	180,000	145,000	200,000	47,000
Arnold Stender (w.e.f. 09/01/2011)	-	-	25,000	25,000
Thomas Stoek (w.e.f. 09/01/2011)	7,360	-	-	-
Joachim Trickl (through 08/31/2011)	5,000	5,000	250,000	250,000

Without special effects, MB compensation would have stood at the 2010 level

The cash compensation in the amount of K€ 1,924 and the non-cash compensation in the form of convertible bonds in the amount of K€ 644 for the 2011 fiscal year resulted in total compensation of K€ 2,568 in 2011, compared to K€ 1,703 the year before. In addition to the temporarily higher number of Management Board members, this rise was also attributable to the potential payment of pending compensation through the issuance of stock options. Without this special effect, the compensation paid to members of the Management Board would have been at the same level as the year before. No loans were granted to Management Board members.

Management Board members voluntarily waive additional share-based compensation • In the target agreements that were entered into in fiscal 2010, the Supervisory Board also utilized the option of promising additional compensation in the form of QSC shares for the attainment of the multiple-year target, whereby transfer of these shares cannot be demanded until the end of a period of two years subsequent to stipulation of target attainment. In concrete terms, this consists of 100,000 shares for Dr. Bernd Schlobohm and 57,500 shares for Jürgen Hermann.
Although the multiple-year targets were achieved without restriction, both members of the Management Board voluntarily waived the additional share-based compensation totaling K€ 260; this amount is therefore not included in the above-indicated total compensation paid to Management Board members for fiscal 2011.

Information relating to retired Management Board members • The compensation paid to Management Board member Joachim Trickl, who sat on the Management Board through August 31, 2011, is included in the table containing the individualized information. Subsequent to leaving the Company effective August 31, 2011, he received a total of K€ 356, K€ 116 of which in the form of 70,000 shares.

Total compensation of nearly € 150,000 paid to six Supervisory Board members • In the 2011 fiscal year, the members of the Supervisory Board received aggregate compensation in the amount of K€ 148. As in previous years, pursuant to the Articles of Association and Bylaws, both the Chairman of the Supervisory Board, Herbert Brenke, as well as his Vice Chairman, John C. Baker, each received K€ 30, the other members, with the exception of David Ruberg, K€ 25 each. Since David Ruberg had not been able to attend at least 75 percent of the meetings during the past fiscal year, his compensation was reduced to K€ 13 under the Articles of Association and Bylaws. 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 maintains liability indemnification insurance coverage, in which the members of the Supervisory Board are included.
This compensation paid to members of the Supervisory Board is neither linked to the success of the Company nor does it provide a separate reward for the chairmanship of, or membership on committees.

The Supervisory Board compensation is intentionally not linked to success

The tables below present individualized information relating to the compensation paid to, and the number of shares and stock options held by, members of the Supervisory Board. In the past, Supervisory Board members, like the Management Board members, had participated in stock option programs, whereby the last conversion rights expired in fiscal 2011.

	Compensation*	Shares		Conversation Rights	
	(in €)	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2011	Dec. 31, 2010
Herbert Brenke	30,000.00	187,820	187,820	-	-
John C. Baker	30,000.00	52,135	10,000	-	-
Gerd Eickers	25,000.00	13,877,484	13,877,484	-	-
David Ruberg	12,500.00	14,563	14,563	-	-
Klaus-Theo Ernst	25,000.00	500	500	-	-
Jörg Mügge	25,000.00	4,000	4,000	-	-

* pursuant to § 10, Para. 5, of the Articles of Association and Bylaws

Economic Environment

GENERAL ECONOMIC CONDITIONS

Economy cools down over course of year • The world economy continued to sail a growth course in 2011, with world gross domestic product (GDP) rising by 3.8 percent according to information from the International Monetary Fund. The growth engine continued to be the threshold and developing countries, which posted growth of more than 6 percent; GDP in the industrialized nations increased by 1.6 percent. While the countries of southern Europe, in particular, suffered from the euro crisis, the German economy developed on a positive note. Calculations by the German Federal Office of Statistics show that German gross domestic product advanced by 3.0 percent in 2011. However the economy had already reached its high water mark during the first half of the year, and then went on to cool down noticeably; the German economy contracted by 0.3 percent in the fourth quarter of 2011.

GDP DEVELOPMENT IN GERMANY

In contrast to previous years, export successes were not solely responsible for German growth. Consumer spending rose by 1.5 percent; the last time it posted similar growth was five years ago. Capital spending on equipment, which also includes investments in modern ICT systems, rose by even 8.3 percent last year.

TC market sees price degradation • In spite of the upswing, the intensive pricing competition in the German TC market was sustained in 2011. While consumer prices in Germany rose by an average of 2.3 percent, prices in the telecommunications services category declined by 2.7 percent. The QSC Group is feeling this pressure on pricing in the Resellers Business Unit, in particular, in connection with both conventional voice services as well as the provision of DSL preliminaries.

CHANGE IN PRICES IN GERMANY (2011)

Generally speaking, all of the ICT markets that are approaching a saturation level are seeing pricing competition. Given this backdrop, analysts at Pierre Audoin Consultants (PAC) and Berlecon Research anticipate that pressure will continue to be sustained on pricing, including IT services,

for example. However market researchers are convinced that the individual market players will be subject to this trend to differing degrees: Providers like the QSC Group, which possess specific industry knowledge and expertise in even niche issues, will be able to obtain higher prices in the marketplace than generalists.
In growth markets like Cloud Computing and data center services, on the other hand, price is only one factor among many in the decision-making process: Such issues as security, quality and service also play a key role in provider selection – and, as an ICT provider that is domiciled in Germany, the QSC Group is able to score points here, especially among SME businesses.

GENERAL INDUSTRY CONDITIONS

Two-track development in the ICT market • The price degradation in the conventional TC market played a major role in the German ICT market's renewed two-track development in 2011: Revenue growth in IT-related business was offset by declining revenues in conventional telecommunications. Overall, according to calculations from industry association BITKOM, ICT revenues in Germany rose by 0.5 percent to € 148.6 billion in 2011. The IT market, in which BITKOM includes hardware, software and IT services revenues, grew significantly faster at 3.1 percent; in 2011, IT revenues totaled € 70.2 billion.

The IT market grew by 3.1 percent to € 70.2 billion in 2011

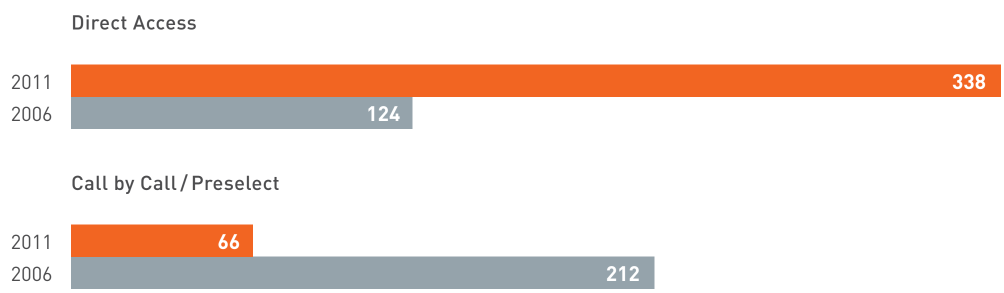
New potential in Cloud Computing • The importance of Cloud Computing within the IT market is growing at a breathtaking pace. According to estimates from BITKOM and the Experton Group market research organization, revenues in Germany were up by 73 percent to € 1.9 billion in 2011, alone. The most important driver consisted of Cloud services. These include the provision of software (software as a service), of platforms (platform as a service) and of infrastructure (infrastructure as a service). QSC is already active in these markets through the provision of data center resources and the Open Access platform.

CLOUD MARKET FOR BUSINESS CUSTOMERS IN GERMANY (value in € billion)

Declining revenues in conventional voice business • In 2011, the positive development of the IT market was offset by some significant revenue shortfalls in the TC market. While the decline was moderate overall, slipping by -0.7 percent to € 65.7 billion, this was attributable solely to the rapidly growing demand for mobile data services. According to BITCOM, on the other hand, conventional fixed-network voice business suffered a revenue decline of -7.5 percent.

An analysis of this market by the VATM, an association of alternative TC providers, reveals that there has again been a rise in the importance of all-in-one connections, for which customers typically pay only a flat rate. During the past fiscal year, their percentage of daily voice call volume rose to 84 percent; five years ago, this metric had stood at only 37 percent. On the other hand, there continues to be a decline in the importance of call-by-call and preselect offerings, in which customers pay for every call minute: Following a 31-percent decline in total voice call minutes per day for these two offerings in 2010, this number again fell by 16 percent to 66 million in 2011.

VOICE CALL MINUTES IN GERMANY (in million minutes per day)



In the case of data services, the VATM estimates that the number of broadband connections rose by another 1.1 million to 27.5 million. However it is alternative types of connections, first and foremost, that are benefiting from this. Cable network operators, alone, won half a million additional customers in 2011. QSC now sees new potential in the market for fiber optic connections. At year-end 2011, 810,000 households in Germany were already connected to a fiber optic network that reached right into the building – four years ago, this number had stood at only 110,000. QSC was the first company to create a nationwide Open Access platform, which makes this new infrastructure in a local region available to providers that operate on a nationwide scale.

QSC sees new potential in the market for fiber optic connections

REGULATORY CONDITIONS

Regulation impacting TC business • As an ICT provider, QSC also 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 assuring fair competition in this market, which was not liberalized until 1998. Up until then, Deutsche Telekom had operated as a monopolist on the German market; in fact, it still possesses a nationwide infrastructure in all households that dates back to those days. 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 monopolist. 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.

Mobile termination fees lowered by up to 53 percent • On March 9, 2011, the German Federal Network Agency issued its final ruling on mobile termination fees. Following the first partial ruling on December 8, 2010, notification of the fees was made within the framework of a consultation and consolidation process pursuant to § 12 of the German Telecommunications Act ("TKG"); they went into force retroactively effective December 1, 2010. The German Federal Network Agency's ruling includes reductions of between 49 percent and 53 percent from the previously applicable fees. QSC handles inbound and outbound mobile calls over its Next Generation Network and bills the third-party costs incurred in this connection to its customers. The lower termination fees reduced this pass-through revenue line item by nearly € 20 million in the past fiscal year.

Regulation lowers QSC's revenues by nearly € 20 million

On April 6, 2011, the German Federal Network Agency issued a regulatory order relating to the markets for unbundled access to the subscriber line. This marked the first time that the full (or technically feasible parts of) unbundled fiber optic networks for Deutsche Telekom's FTTH expansion had been included in the mandate. However because of their low numbers and limited factual knowledge relating to the expansion and corresponding planning, only a retroactive fee approval mandate has provisionally been ordered, while for the time being the prior fee approval mandate remains in place for the subscriber line.

On April 20, 2011, Chamber 3 of the German Federal Network Agency issued a provisional ruling on fees for access to the unbundled subscriber line. Here, too, the consultation and notification procedure was employed, although in 2010 the regulatory authority had still wanted to restrict it to mobile termination. So it was not until July 6, 2011, that a final ruling was issued, although it would be applied retroactively to April 1, 2011. This ruling moderately lowered the monthly charges. This outcome was achieved exclusively through a significant decline in operating costs (including troubleshooting), which was able to more than compensate for the rise in capital costs and depreciation expense (higher capital expense volume and lower usage).

Reduction in the fees for utilization of third-party networks • Moreover, the German Federal Network Agency also had to rule on Deutsche Telekom's routing and termination fees in the regulated submarkets. The provisional ruling was issued on July 6, 2011, the final ruling, following conclusion of the consultation and notification procedure, on October 19, 2011, retroactive to July 1, 2011. The regulatory authority ruled that the fees be reduced by some 20 percent, depending upon the rate level in question; in a preceding ruling, it had still approved an increase for local termination and routing. It substantiated the decline by citing the increasing importance of more cost-effective IP-based voice traffic. As in the case of the mobile termination fees, these fees, too, were approved only through November 30, 2012, in order to be able to issue a new ruling that would comply with the European Commission's recommendation on termination fees sufficiently in advance of the end of the transition period.

In the case of QSC, these termination fees for the utilization of third-party networks represent a pass-through line item that has no impact on profitability; QSC bills these third-party costs to its customers. Moreover, the Company also receives fees from third parties for the utilization of its own infrastructure. Overall, the German Federal Network Agency's ruling resulted in a negative revenue effect of nearly six million euros in the second half of 2011.

Leased line prices decline in potentially competitive regions • In the question of leased line products requiring regulation, the German Federal Network Agency has thus far only issued a provisional ruling on November 23, 2011, which is also subject to the consultation and notification procedure. Some of the approved fees have already offset the strong reduction in provisioning fees contained in the last fee approval. Moreover, there has been a strengthening of the trend that regulated leased line prices tend to decline in potentially competitive regions and remain unchanged in regions that are served solely by Deutsche Telekom.

IMPACT OF THE GENERAL ENVIRONMENT ON QSC

QSC is benefiting from rising demand in the IT market

Focus on ICT lines of business paying off • In 2011, two rulings by the German Federal Network Agency resulted in considerable revenue shortfalls totaling nearly € 26 million, but did not weaken the profitability of the QSC Group. In addition, the stiff pricing and shake-out competition that the TC market saw in 2011 impacted the development of business for the QSC Group in connection with Indirect Sales and Resellers, in particular. On the other hand, the Company participated in the growing demand for IT-related solutions, first and foremost in connection with both Direct Sales as well as the positive development of the economy, and was thus able to sustain its profitable growth overall.

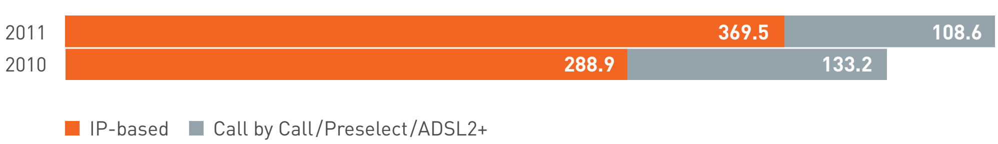
Given the two-track development of the ICT market, QSC's rigorous evolution early on into an ICT provider again proved to be the correct, value-creating strategy. New potential is now being offered by the market for Cloud Computing, which is growing with an especially strong dynamic.

Profitability, Financial Position and Net Worth

COURSE OF BUSINESS

Strong revenue growth in ICT lines of business • In fiscal 2011, the QSC Group increased its revenues to € 478.1 million, compared to € 422.1 million the year before, thus successfully continuing its evolution from a TC network operator into a provider of ICT products, solutions and services. Revenues with the conventional products of a TC network operator, such as call by call and ADSL2+, declined by € 24.6 million to € 108.6 million in 2011; revenues with IP-based products and services rose by € 80.6 million to € 369.5 million. This means that during the past fiscal year QSC generated 77 percent of its total revenues in ICT lines of business; in 2010, this metric had stood at 68 percent. During the course of the year, the QSC Group increased the share of IP-based revenues from 73 percent in the first quarter of 2011 to 80 percent in the fourth quarter.

REVENUE MIX (in € million)



Successes in ICT business are illustrated by the growth in the Direct Sales Business Unit, in particular. Revenues with Housing, Hosting and Outsourcing solutions, Consulting services and site networking doubled to € 151.4 million in 2011.
Two effects must be given special consideration in connection with the development of the QSC Group's revenues in fiscal 2011. On the one hand, for the first time this Annual Report includes the results of the two IT providers IP Partner and INFO AG. In fiscal 2011, these two subsidiaries contributed a total of € 89.0 million to the revenues of the QSC Group. On the other hand, two decisions by the German Federal Network Agency reduced revenues by nearly € 26 million; further details are contained under "Regulatory Conditions" on pages 49ff.

SEE PAGES 49ff.
REGULATORY CONDITIONS

ICT business benefiting from collaboration with new subsidiaries • The acquisition and initial integration of INFO AG and IP Partner numbered among the key events during the past fiscal year; further details on these two transactions can be found on page 54 under "Events of Major Significance for the Course of Business." The integration of IP Partner had already made very good progress at year-end 2011.
Beginning in the summer of 2011, QSC additionally took initial measures to intensify collaboration with INFO AG, which is listed in the Open Market. In Sales, Marketing, Accounting and further corporate operations, working groups had been endeavoring, while strictly observing the independence of this subsidiary, to review the potential that can be tapped into jointly. There were already initial successes during the second half of the year. Within the space of only a few months, the Group was able to win numerous orders having a total value in the seven-digit Euro range.

SEE PAGE 54
EVENTS OF MAJOR SIGNIFICANCE

INFO AG is winning new customers in the marine shipping and energy sectors

New subsidiaries demonstrate their performance • INFO AG and IP Partner succeeded in expanding their new business in fiscal 2011. In June 2011, for example, INFO AG won Dussmann Gruppe, one of the world's largest service providers, as a new customer. The five-year contract includes extensive ICT services, including operation of SAP and Microsoft infrastructures, as well as the existing archiving system. In addition, the Company was also able to win new customers in the energy and gas industries, as well as in the marine shipping industry, among others.
In April 2011, DATEV eG put a new 1,000-square-meter data center into operation in Nuremberg that had been implemented by IP Partner. The two companies have entered into a ten-year service agreement to operate and maintain this data center.

Site networking an integral component of ICT solutions • As in previous years, in fiscal 2011 QSC again succeeded in winning further prominent customers for national and international site networking. In November 2011, for example, Commerzbank contracted with QSC, together with Colt, to modernize and operate its domestic site network; this project has a volume in the double-digit million range and a term of five years. In September 2011, KIS Information Services GmbH (KIS) had contracted with the Company to couple two data centers by means of redundantly designed fiber optic routes. KIS is an IT service provider that predominantly serves steel and metal distributor Klöckner & Co.

Expanding the product portfolio • With these two acquisitions, QSC significantly broadened its portfolio toward information technology in 2011. To round out the ICT portfolio, the Company additionally launched a mobile offering under its own name during the fourth quarter of 2011. This mobile offering addresses QSC's business customers and marketing partners, and is based upon a partnership agreement with the Düsseldorf-based E-Plus group.
One focus of the Company's own innovation activities in fiscal 2011 was the evolution of the network-based IPfonie centraflex telephone system and its enrichment with additional functionalities. At the outset of the year, QSC was already able to win a further distribution partner, Herweck AG, which supports over 10,000 specialty retailers throughout Germany, alone.

New customers for Open Access platform • One major innovation in the Resellers Business Unit is the Open Access platform, which streamlines utilization of fiber optic connections and raises their efficiency. Since September 2011, QSC has been involved as the network and services integrator in a unique pilot project for the Open Access model in Berlin; its partners are energy utility Vattenfall, residential property player degewo as well as the Ericsson telecommunications group. Over 4,000 homes in southeast Berlin will be outfitted with fiber optic connections by 2012.
In November 2011, the Company additionally succeeded in winning a further partner for this platform: wilhelm.tel GmbH. This north German company supplies over 200,000 households in Hamburg and the state of Schleswig-Holstein with fiber optic connections that run directly to

the end customers. wilhelm.tel is specifically collaborating with partners in order to utilize this new network generation as the basis for control and data exchange purposes in operating power grids while simultaneously transmitting telephone, Internet and TV content over broadband Next Generation (Access) Networks (NGN/NGA). In the future, QSC will therefore also be offering resellers connections with bandwidths of up to 100 Mbit/s within the wilhelm.tel infrastructure.

EVENTS OF MAJOR SIGNIFICANCE FOR THE COURSE OF BUSINESS

Two acquisitions accelerate the transformation process • During the past fiscal year, QSC won two further proven IT specialists, Housing and Hosting specialist IP Partner, and INFO AG, thus accelerating its evolution into an ICT provider. Effective January 3, 2011, QSC acquired a 100-percent interest in Nuremberg-based IP Partner. At that point in time, this company was operating two data centers in Munich and Nuremberg with more than 10,000 servers for more than 1,000 business customers. The purchase price consisted of three components: In early January 2011, QSC paid € 15 million in cash to the former shareholders, while agreeing to pay a further amount of up to € 10 million upon the attainment of previously defined milestones. After QSC had already paid € 2.5 million after a 1,000-square meter data center for DATEV opened in April 2011, the final installment of the purchase price in the amount of € 7.5 million was paid on July 27, 2011.

QSC acquires 100-percent interest in Housing and Hosting specialist IP Partner

QSC acquires publicly traded INFO AG • On May 2, 2011, QSC acquired a majority interest in Hamburg-based, publicly traded INFO Gesellschaft für Informationssysteme AG (INFO AG). This specialist for IT Outsourcing and IT Consulting possesses its own data centers in Hamburg and Oberhausen, and is an SAP Systems House as well as a Microsoft Gold Certified Partner. On May 2, 2011, QSC concluded a purchase agreement to acquire 58.98 percent of the 4,000,000 total of issued shares of INFO AG at a price of € 14.35 per share. Between May 5 and May 18, QSC acquired a further 446,000 INFO shares on the stock exchange. On June 9, 2011, the Company issued a public tender offer for the outstanding INFO shares at a price of € 14.35 per share. 619,483 INFO shares had accepted this tender offer by the end of the acceptance term. QSC purchased a further 16,086 INFO shares over the counter at a price of € 14.35 per share, as well. Overall, the Company's equity interest totaled 3,440,654 shares, or 91.78 percent of the voting rights, at year-end 2011; a further 251,403 INFO shares had already been held by INFO AG prior to announcement of the tender offer. QSC thus spent a total of € 49.4 million in fiscal 2011 to acquire INFO AG.
Aside from this, there were no singular events, either within the Company or within the marketplace, in fiscal 2011 that would have had a significant influence on the course of business.

PROFITABILITY

New cost structure in the QSC Group • The QSC Group increased its revenues by 13 percent to € 478.1 million in fiscal 2011. Cost of revenues rose to € 360.5 million in 2011, compared to € 315.2 million the year before. It should be noted in this connection that the vast majority of the costs of INFO AG for its Outsourcing and personnel-intensive Consulting business is presented under this line item.

REVENUES (in € million)

QSC reduced network infrastructure costs by € 7.2 million in 2011

Consequently, there was a change in the composition of this largest cost line item in the QSC Group. The costs for building, operating and maintaining the network, itself, declined to € 47.2 million, in contrast to € 54.4 million the year before – a success attributable to sustained strict cost discipline and ongoing optimization of resources. Network depreciation expense, which in contrast to quarterly reports and pursuant to IFRS, QSC includes in the individual expense line items, declined from € 41.7 million to € 38.1 million. Personnel expenses, on the other hand, rose from € 12.4 million the year before to € 34.4 million due to the consolidation of INFO AG.
The lion's share of the cost of revenues continued to be attributable to cost of materials, which totaled € 240.7 million in the 2011 fiscal year, compared to € 206.7 million one year earlier. Revenue-based costs are incurred, in particular, for the use of third-party lines for voice and data services, for example.

Gross margin stable at 25 percent • In spite of the differing cost structures of the new subsidiaries, the QSC Group succeeded in increasing gross profit by € 10.7 million to € 117.6 million in fiscal 2011. Gross margin continued to stand at 25 percent. Leaving out of consideration depreciation expense, which QSC presents separately in its Quarterly Reports, gross margin reached 33 percent during the past fiscal year.

GROSS PROFIT (in € million)

Sales and marketing expenses account for lower share of revenues • Although the 2011 Consolidated Financial Statements include the results of INFO AG and IP Partner for the first time, at € 56.7 million sales and marketing expenses remained virtually unchanged from the previous year's level of € 56.0 million. Their share of total revenues declined by 1 percentage point to 12 percent. In addition to depreciation expense, sales and marketing expenses essentially record three blocks of costs: Personnel expenses, commission payments and advertising expenses. As a result of the QSC Group's stronger focus on direct sales channels, personnel expenses rose by 22 percent in fiscal 2011, while commission payments were down 14 percent from the year before.

SALES AND MARKETING EXPENSES (in € million)

Due to the costs of the two acquisitions and the fact that the QSC Group now possesses two administrations for publicly traded corporations, general and administrative expenses rose to € 35.1 million in fiscal 2011, compared to € 29.6 million the year before. However as in fiscal 2010, this line item accounted for only 7 percent of total revenues.

GENERAL AND ADMINISTRATIVE EXPENSES (in € million)

Other operating income rose from € 0.7 million the year before to € 1.8 million in fiscal 2011. This line item essentially records the sales proceeds, net of liquid assets, for EPAG Domainservices, which QSC sold to Canada-based Tucows Inc. for € 1.5 million (US$ 2.0 million) in August 2011. EPAG Domainservices had specialized in the registration and administration of domain names and had come to QSC in fiscal 2005 through the acquisition of Bonn-based celox Telekommunikationsdienste. Other operating expenses rose moderately from € 1.2 million the year before to € 1.4 million.

QSC sold EPAG Domainservices for € 1.5 million in 2011

Rising profitability in operating business • In its Quarterly Reports, QSC conforms to the customary international practice of presenting depreciation, amortization and non-cash share-based payments as separate line items in its Statement of Income. However in these Consolidated Financial Statements, 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, thus affording a swift overview of the development of the Company's operating business:

In € million	2011	2010
Revenues	**478.1**	**422.1**
Cost of revenues *	(322.3)	(273.6)
Gross profit	**155.7**	**148.5**
Sales and marketing expenses*	(44.5)	(43.5)
General and administrative expenses*	(31.8)	(26.5)
Other operating income	1.8	0.7
Other operating expenses	(1.4)	(1.2)
EBITDA	79.9	78.1
Depreciation / amortization		
(incl. non-cash share-based payments)	(53.7)	(57.2)
Operating profit (EBIT)	26.2	20.9

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

EBITDA rises to € 79.9 million • The EBITDA of the QSC Group improved modestly to € 79.9 million in fiscal 2011, by comparison with € 78.1 million in 2010. EBITDA is defined as earnings before interest, taxes, amortization of deferred non-cash, share-based compensation, as well as depreciation and amortization of property, plant and equipment, and intangible assets. At 17 percent, the EBITDA margin was down 2 percentage points from the previous year's level of 19 percent. This decline was attributable to the new cost structure in the QSC Group with its greater weighting of the cost of revenues as well as temporarily higher administrative costs.

The EBITDA margin amounted to 17% in fiscal year 2011

EBITDA (in € million)

Depreciation expense declined to € 53.7 million in fiscal 2011, compared to € 57.2 million the year before. In this connection, additional depreciation expense in the amount of € 2.5 million was incurred during the fourth quarter of 2011 due to the scheduled purchase price allocation for the acquisitions of INFO AG and IP Partner.

Operating profit advances by 25 percent • Operating profit (EBIT) better reflects the profitability of an ICT provider than its EBITDA, as it compensates for the differing cost structures in the individual lines of business. In fiscal 2011, the QSC Group grew its EBIT by 25 percent to € 26.2 million, compared to € 20.9 million the year before; as in the previous year, the EBIT margin amounted to 5 percent.

QSC earned an EBIT margin of 5 percent in 2011

EBIT (in € million)

QSC's financial loss of € -2.8 million in 2011 was down moderately from the previous year's level of € -2.0 million. Earnings before income taxes nevertheless rose from € 18.8 million the year before to € 23.4 million.

Consolidated net income rises to € 28.0 million • The sustained growth in profitability of the QSC Group has two tax consequences: Firstly, income tax expenses rose by € 1.9 million to € 3.9 million in fiscal 2011. And secondly, in accordance with IFRS rules, the Company applied deferred tax assets against loss carryforwards; this positive effect totaled € 8.0 million in 2011, by comparison with € 8.5 million the year before. Consolidated net income after taxes increased to € 28.0 million during the past fiscal year, by comparison with € 24.2 million the year before. Undiluted earnings per share improved from € 0.18 in 2010 to € 0.20.

NET PROFIT (in € million)

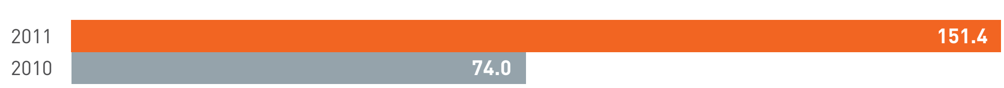
PROFITABILITY BY SEGMENT

New segmentation • In connection with the expansion of the Management Board effective September 1, 2011, and the reallocation of responsibilities, QSC had realigned portions of its organizational structure and more stringently ordered individual customer groups on the basis of individual business units. This realignment has consequences for internal reporting, and thus also for customer-based segmentation.

This new segmentation is being utilized for the first time in the 2011 Consolidated Financial Statements. It continues to consist of three segments: "Direct Sales", "Indirect Sales" and "Resellers". The "Direct Sales" segment corresponds to the former "Managed Services" segment. It focuses on more than 8,000 larger and mid-size enterprises and also includes the business of subsidiaries INFO AG and IP Partner. The "Indirect Sales" segment addresses regional partners that offer nearly 900,000 smaller and mid-size companies a broad portfolio of ICT products, solutions and services. These include Internet Service Providers as well as national and international carriers that offer their business customers voice and data services. In the past, QSC had recorded business with these partners under the "Wholesale/Resellers" segment. And the major portion of this segment, in turn, has gone to the new "Resellers" segment. It addresses Internet Service Providers and telecommunications carriers that do not have an infrastructure of their own and primarily address residential customers. This segment therefore also includes conventional voice business, and here residential call-by-call and preselect services, first and foremost.

Revenues double in Direct Sales • QSC records the lion's share of the revenues of INFO AG and IP Partner in the Direct Sales segment. Due to this, above all, segment revenues rose to € 151.4 million in fiscal 2011, compared to € 74.0 million one year earlier. In this segment, the QSC Group is benefiting from demand on the part of business customers for intelligent site networking, for outsourcing business processes to data centers, as well as from the greater need for consulting in connection with the implementation of new software.

REVENUES, DIRECT SALES (in € million)



Cost of revenues in Direct Sales rose to € 90.1 million, compared to € 32.4 million in fiscal 2010. It should be noted in this connection that the two new subsidiaries record a major share of their costs in this line item; moreover, personnel-intensive Consulting business, in particular, works with different operating margins than QSC AG's traditional IP-VPN business, for example. Given the strong growth dynamic in this line of business, coupled with the fact that Consulting often serves as a door-opener for the sale of further ICT services, the QSC Group additionally invested in the growth of this business unit in fiscal 2011, hiring additional IT professionals.

Consulting often serves as a door-opener for selling further ICT services

Segment EBITDA advances by 41 percent • As a result of the considerably greater importance of Direct Sales for the QSC Group by comparison with the former Managed Services segment, this business unit has to bear a greater share of both sales and marketing as well as general and administrative expenses. Nevertheless, segment EBITDA rose by 41 percent to € 29.4 million during the past fiscal year and made the greatest contribution to the Group's EBITDA. The EBITDA margin reached 19 percent, by comparison with 28 percent in fiscal 2010.

EBITDA, DIRECT SALES (in € million)

Depreciation expense, too, showed the growing weight of the Direct Sales Business Unit within the QSC Group: In fiscal 2011, depreciation expense rose to € 18.3 million, by comparison with € 10.4 million the year before; in addition to proportional depreciation expense for QSC's network-based infrastructure, this line item also records depreciation expense for the data centers of the new subsidiaries. As a result, operating profit, i.e. segment EBIT, rose only modestly from € 10.6 million the year before to € 11.1 million. However at 7 percent, the segment EBIT margin was higher than the EBIT margin of 5 percent for the entire QSC Group, which underscores the profitability of this high-growth business unit.

Growing demand for voice and data products in Indirect Sales • In fiscal 2011, Indirect Sales grew its revenues by 9 percent to € 121.2 million. This rise essentially stemmed from growing demand on the part of marketing partners for broadband DSL lines for business customers, the corresponding preliminaries, as well as IP-based voice services, with wholesale voice business, in particular, posting further improvement here. This rise is all the more noteworthy since, in addition to Resellers, this segment was affected the most by reductions in the termination and routing fees by the regulatory authority during the course of fiscal 2011.

REVENUES, INDIRECT SALES (in € million)

EBITDA margin rises to 22 percent in Indirect Sales • Cost of revenues, on the other hand, increased by only 5 percent to € 70.0 million. Especially in connection with IP-based voice services, the QSC Group is benefiting from the high efficiency of its Next Generation Network and from the fact that processes are largely automated. Since there was only a moderate rise in the other cost line items, as well, this business unit was able to achieve a segment EBITDA of € 26.2 million in fiscal 2011, increasing this metric by 41 percent within the space of a single year. The EBITDA margin rose to 22 percent, by comparison with 17 percent in 2010.

QSC is benefiting from the high efficiency of its Next Generation Network

EBITDA, INDIRECT SALES (in € million)

The EBIT margin in Indirect Sales doubled to 12 percent in 2011

Since depreciation expense of € 11.7 million remained virtually unchanged by comparison with € 11.6 million in fiscal 2010, Indirect Sales was, in fact, able to more than double its operating profit to € 14.5 million in 2011, by comparison with € 7.1 million the year before; the EBIT margin also doubled to 12 percent.

Declining revenues with resellers • At € 205.4 million, revenues in the Resellers Business Unit in fiscal 2011 were down from the previous year's level of € 237.2 million. Year on year, there was a scheduled decline in revenues in two low-margin conventional TC lines of business that were characterized by stiff pricing competition: Call-by-call and ADSL2+ business. Call-by-call revenues declined by € 5.6 million to € 31.2 million in fiscal 2011, while ADSL2+ revenues were down to € 77.4 million, by comparison with € 96.5 million one year earlier. Rising revenues in Managed Outsourcing were unable to compensate for these planned declines, especially since the considerably lower termination and routing fees also reduced revenues in this business unit.

REVENUES, RESELLERS (in € million)

Business with resellers characterized by strong cost discipline • In the Resellers Business Unit, QSC again observed strict cost discipline in fiscal 2011, and continued to drive process automation. As a result, it was possible to reduce all major cost line items. The Resellers segment thus achieved an EBITDA of € 24.3 million, compared to € 38.5 million the year before. Intensive price competition, especially in call-by-call and ADSL2+ business, depressed the EBITDA margin by 4 percentage points to 12 percent.

EBITDA, RESELLERS (in € million)

Since there was also a significant decline in depreciation expense in the Resellers segment in 2011, this business unit was able to continue to post an operating profit, in the amount of € 0.6 million, by comparison with € 3.2 million in fiscal 2010. The fact that this business unit had to incur an EBIT decline of only € 2.6 million on a revenue decline of € 31.8 million underscores the high level of cost discipline that prevails in this segment.

FINANCIAL POSITION

Financial management focusing on three objectives • The entire QSC Group pursues three major objectives in connection with its financing and investments of capital:

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

The Company invests its surplus liquidity exclusively in money market accounts and low-risk bond issues, and thus pursues a conservative investment policy; consequently, as in previous years, the Company did not have to make any write-downs on investments of capital. Generally speaking, QSC does not make use of derivative financial instruments. This also helps to minimize financial risk, as does the fact that QSC operates virtually exclusively in the euro zone and is thus not subject to any foreign-currency exchange rate risks. No guarantees existed outside the balance sheet.

Free cash flow improves to € 41.0 million • During the past fiscal year, QSC again improved its financial strength. The key metric for this purpose is free cash flow, which reflects the change in net liquidity/debt prior to acquisitions. The following table shows all parameters as of December 31, 2011 and 2010:

In € million	Dec. 31, 2011	Dec. 31, 2010
Net liquidity/debt		
Cash and cash equivalents	23.8	46.2
Available-for sale assets	0.3	0.3
Liquidity	**24.1**	**46.5**
Liabilities under financing arrangements	(13.6)	(7.5)
Liabilities due to banks	(43.6)	(10.0)
Other short-term liabilities	-	(0.6)
Interest-bearing liabilities	**(57.2)**	**(18.1)**
Net liquidity/debt	(33.1)	28.4

Accordingly, liquidity was reduced by € 22.4 million during the past fiscal year. Interest-bearing liabilities rose by € 39.1 million, which produced a € 61.5 million rise in net indebtedness. However the effects stemming from the two major acquisitions in fiscal 2011, as well as the sale of a smaller subsidiary, should be given special consideration in connection with the calculation of free cash flow:

- The purchase of IP Partner resulted in a liquidity outflow in the amount of € 25.0 million during the course of 2011.
- QSC paid a total of € 49.4 million in 2011 to acquire the majority interest in INFO AG.
- Initial consolidation of the debt of these two new subsidiaries resulted in a € 29.6 million rise in indebtedness.
- QSC received € 1.5 million net of liquid assets from the sale of EPAG Domainservices.

Overall, the acquisition-related changes totaled € 102.5 million. These payments are left out of consideration in connection with free cash flow, which is used to reflect the financial strength of operating business. The result was a positive free cash flow in the amount of € 41.0 million.

FREE CASH FLOW (in € million)

Operating cash flow rises to € 76.8 million • The financial strength of the operating business of the entire QSC Group is underscored by the rise in cash flow from operating activities to € 76.8 million, compared to € 56.6 million the year before. The most recent acquisitions, on the other hand, meant that cash used in investing activities more than tripled from € -25.1 million the year before to € -85.3 million in fiscal 2011. Of this total, € 57.6 million, alone, net of acquired liquid assets was attributable to the payments for the acquisitions of subsidiaries.

OPERATING CASH FLOW (in € million)

In fiscal 2011, net cash used in investing activities totaled € -13.9 million, by comparison with € -26.2 million the year before. QSC redeemed a further € 8.8 million in liabilities under financing arrangements. At the same time, the Company increased its liabilities due to banks by taking out a loan in the amount of € 10.8 million. Plus a third factor: Following the acquisition of the majority interest in INFO AG on May 2, 2011, QSC acquired further shares of its new subsidiary, presenting these purchases – being equity transactions in nature – under cash used in investing activities in the amount of € 15.5 million.

Modest rise in capital expenditures • As a result of the consolidation of IP Partner and INFO AG, capital expenditures (capex) rose to € 35.6 million in fiscal 2011, in contrast to € 29.2 million the year before. IP Partner had significantly expanded the capacities of its data centers in 2011, thus establishing the prerequisites for being able to participate in what is expected to be rising demand for Housing and Hosting solutions.
However the share of revenues used for capital expenditures continued to remain low at 7 percent and shows just how far the QSC Group has since evolved from a TC network operator (with the corresponding capital expenses for infrastructure) into an ICT provider.

CAPITAL EXPENDITURES (in € million)

Acquisitions and one transfer increase long-term debt • The initial consolidation of IP Partner and INFO AG altered the QSC Group's outside financing position as of December 31, 2011. Long-term liabilities rose to € 54.7 million, compared to € 7.2 million as of December 31, 2010. In this connection, in contrast to fiscal 2010, the QSC Group recorded long-term liabilities due to banks in the amount of € 15.4 million. In addition to the assumption of the long-term liabilities of its new subsidiaries, this also stemmed from the partial utilization of a new five-year line of credit totaling € 150 million that QSC had concluded in September 2011 with a banking consortium under the lead of Commerzbank.

QSC has concluded a new € 150 million line of credit

Moreover, the Assets side of the Consolidated Balance Sheet for the year ended December 31, 2011, for the first time contains long-term accrued income in the amount of € 20.9 million. QSC essentially uses accrued income items to record the payments received in fiscal 2010 from former Plusnet co-shareholder TELE2 for premature termination of the contract, which had originally been scheduled to run through year-end 2013, recording under "Long-term liabilities" that portion of these payments that were not charged to income during the current fiscal year. Consequently, short-term accrued income was reduced from € 69.8 million as of year-end 2010 to

€ 24.8 million as of December 31, 2011 – thus making a key contribution toward lowering short-term liabilities to € 129.3 million, compared to € 140.9 million as of December 31, 2010. Trade payables increased to € 46.6 million in fiscal 2011, compared to € 38.0 million as of December 31, 2010. During this same period, short-term liabilities due to banks rose from € 10.0 million to € 28.2 million.

NET WORTH

High percentage of long-term assets • The balance sheet total rose to € 391.3 million as of December 31, 2010, compared to € 332.2 million at year-end 2010. As a result of the initial consolidation of IP Partner and INFO AG, the share of long-term assets rose from 57 percent the year before to 74 percent; on the other hand, the share of short-term assets declined from 43 percent at year-end 2010 to 26 percent.
On the Shareholders' Equity and Liabilities side, 53 percent of these assets are financed through shareholders equity and 47 percent through outside capital; the year before, the equity ratio was 2 percentage points higher. This modestly higher percentage of outside capital stems essentially from the initial consolidation of the debt and liabilities of the Company's two new subsidiaries.

INFO AG and IP Partner strengthen assets • As a result of the inclusion of the two new subsidiaries, the value of property, plant and equipment rose to € 116.7 million in fiscal 2011, in contrast to € 108.1 million as of December 31, 2010. For the first time, the QSC balance sheet also records land and buildings valued at € 28.3 million; these comprise the self-used INFO corporate headquarters in Hamburg, which also houses a data center. As a result of the two acquisitions, goodwill rose from € 49.3 million to € 76.3 million, on the one hand. On the other hand, other intangible assets rose to € 56.3 million, compared to € 23.0 million as of December 31, 2010. Further details relating to the valuation of goodwill can be found in Note 17 to the Consolidated Financial Statements on pages 117–118. of this Annual Report.

SEE PAGES 117–118
NOTES

Current assets down sharply • The significant € 102.1-million rise in long-term assets to € 291.4 million as of December 31, 2011, was offset by a sharp € 43.1-million decline in current assets to € 99.8 million during the same period. In addition to the decline in liquidity explained on page 63 of this Group Management Report, this was essentially attributable to the reduction in the receivable from the former co-owners of network operating company Plusnet, TELE2, in the amount of € 28.4 million during the first quarter of 2011. Short- and long-term accounts receivable rose to € 69.3 million as of December 31, 2011, compared to € 61.3 million the year before. Further information on the value of accounts receivable can be found on pages 122f. in Note 19 to the Consolidated Financial Statements.

SEE PAGE 63
GROUP MANAGEMENT REPORT

SEE PAGES 122–123
NOTES

Equity ratio stands at 53 percent • Shareholders' equity increased to € 207.3 million as of December 31, 2011, by comparison with € 184.0 million the year before. Following the acquisition of INFO AG, for the first time it includes a line item entitled "shareholders' equity attributable to non-controlling shareholders" in the amount of € 2.4 million. In addition, the increase in shareholders' equity stems from the reduction of the existing accumulated deficit, as the QSC Group earned consolidated net income in fiscal 2011. The QSC balance sheet therefore presents an equity ratio of 53 percent as of December 31, 2011.

EQUITY RATIO (as of December 31)

COMPARISON BETWEEN ACTUAL AND FORECAST COURSE OF BUSINESS

Successful continuation of transformation process • In fiscal 2011, the strategy of the QSC Group focused on sustaining its transformation process into a provider of ICT products, solutions and services. The acquisition of the two IT specialists INFO AG and IP Partner, in particular, enabled the Company to broaden its portfolio and significantly expand the share of total revenues accounted for by ICT business.

Within the context of this strategy, QSC was striving to strengthen its profitability and financial position in fiscal 2011, planning at the outset of the year called for free cash flow to rise to between € 35 and € 45 million. Given the good development of its operating business, QSC raised this target to between € 40 and € 45 million in connection with presentation of its 9-Month Report. With a free cash flow of € 41.0 million, the QSC Group was able to achieve both this goal as well as the announced strengthening of its profitability: Operating profit improved by 25 percent to € 26.2 million in fiscal 2011.

In fiscal 2011, QSC was again able to reach its guidance in full

These successes serve as the foundation for enabling QSC, as planned at the outset of the year, to distribute its first dividend for the 2011 fiscal year. The Management and Supervisory Boards will therefore propose that the Annual Shareholders Meeting in May 2012 resolve the payment of a dividend in the amount of € 0.08 per share.

GENERAL REMARKS REGARDING THE COURSE OF BUSINESS IN 2011

QSC sets the stage for sustained profitable growth • In fiscal 2011, QSC accelerated its transformation process from a TC network operator into a provider of ICT products, solutions and services, and at the same time was able to significantly strengthen its financial position and profitability. Doubling revenues in Direct Sales and the growing percentage of IP-based revenues demonstrate just how fast the QSC Group is evolving into an ICT provider, and thus putting in place the prerequisites for sustained profitable growth in the coming years, as well.

Report on Risks

RISK STRATEGY

Management of opportunities and risks serves as decision-making basis • The QSC Group views doubling revenues, significantly increasing EBITDA margin and quadrupling free cash flow by fiscal 2016 to be feasible. Forward-looking management of opportunities and risks is necessary in order to be able to realize this ambitious growth vision in constantly changing markets. It should be noted in this connection that, pursuant to legal requirements, publicly traded subsidiary INFO AG, which is listed in the Open Market, maintains its own system of risk management. Its basics are the same as the risk management system for the QSC Group. To the extent that major individual risks also represent major risks for the entire QSC Group, they are included in the following comments.

Balance between avoiding risks and utilizing opportunities

Risk management serves as the basis for decision-making at all companies in the QSC Group. The purpose of the risk strategy is to achieve an optimum balance between avoiding and/or minimizing existing and potential risks and swiftly utilizing opportunities. Systematically dealing with potential opportunities and risks while fostering a culture of risk-based thinking and behavior represent a key element in securing and shaping the future of the entire QSC Group.

MANAGEMENT OF OPPORTUNITIES

Decentralized responsibility for opportunities and risks • The management of opportunities and the management of risks are closely linked. Opportunities can arise from internal and external developments. The responsibility for identifying and swiftly taking advantage of them rests with the coordinators in the business units and subsidiaries, which are closely involved in operating business. They primarily utilize market and competition analyses, internal studies and market research results in order to identify opportunities early on. They regularly report on opportunities that arise and the measures needed to utilize them. The Forecast Report on pages 81–82 contains an overview of the opportunities that will be of particular relevance for the QSC Group during the coming two fiscal years.

SEE PAGES 81–82 FORECAST REPORT

MANAGEMENT OF RISKS

Focus on avoiding, reducing and securing against risks • The risk management system at the QSC Group comprises intercoordinated rules, measures and procedures for dealing with risks that arise from internal and external events, acts or omissions that could pose a potential threat to QSC's success or even its very survival. The risk management system 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 risk management system focuses on:

- Avoiding risks through prevention
- Employing suitable measures to reduce existing risks
- Securing against existing risks through the formation of accruals / provisions and by taking out insurance coverage
- Creating an awareness for existing residual risks

The risk management system (RMS) is an integral element of the decision-making process at the QSC Group. It assures that risk assessments are taken into consideration in connection with all decisions and that measures to reduce any risk or risks are initiated early on. Regular reporting helps sharpen 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, which reports to the Chief Executive Officer, is responsible for both the annual risk inventory as well as for the quarterly risk reports and is in constant contact with all areas throughout the organization. Finance is responsible for monitoring risks on the basis of operating and financial performance indicators.
Ongoing monitoring and assessment of risks that arise is handled decentrally by risk coordinators. With this decentralized organizational structure, QSC ensures that it will be able to identify potential risks in its operating business as early as possible. The risk coordinators regularly review their areas of responsibility to determine whether previously unidentified risks have arisen and whether there has been a change in existing risks. They regularly report to the Management Board on the risks and challenges in their areas.

Risks are monitored and assessed decentrally

Existing risks consolidated into quarterly risk reports • 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 decentrally assessed risks, and uses this information to produce a quarterly risk report for the Management Board. 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 and opportunities during the course of the year. In addition, the entire early-detection system for risks is reviewed within the framework of the audit of the Company's Annual Financial Statements.
Pages 147ff. of 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 147ff.
NOTES

SUPPLEMENTARY INFORMATION PURSUANT TO § 289, Para. 5, German Commercial Code ("HGB")

Accounting process an integral element of the RMS • 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. Both the Supervisory Board's Audit Committee as well as the full Supervisory Board deal with the issue of accounting-related risk management on the basis of the auditor's observations.

Major characteristics of the accounting-related RMS • 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 it is handled in close collaboration with the subsidiaries; this applies, in particular, with respect to publicly traded INFO AG, which had been listed in the Regulated Market up until November 2011, and after that has been listed in the Open Market. Those at the subsidiaries who are responsible for the individual processes are clearly named.
- Among other things, QSC uses the following to ensure strict compliance with both statutory requirements as well as International Financial Reporting Standards (IFRS):
  - Employment of qualified professionals
  - Specific and ongoing continuing education for these professionals
  - Strict observance of the four-eyes principle through the organizational separation of execution, accounting and approval functions
  - Clear separation of roles in creating and posting documents, as well as in Controlling
- QSC uses a suite of standard software from SAP at both the parent corporation as well as at all subsidiaries; plans call for assuring that consistent versions are in use throughout the Group during the course of fiscal 2012. 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 companies. After being drawn up, the individual financial statements are transferred to a consistent consolidation system that ensures elimination of intercompany transactions. At the same time, an extensive plausibility check is performed on the data that have been entered. All work required for completion of the consolidation is then performed within this system, which 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 risks

- 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 Corporate Group, such as consolidation of capital, debt, expense and earnings.

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

Detailed on the following pages are those industry, regulatory, strategic, performance, financial and other risks that the QSC Group today views as being of major significance with respect to its business operations.

INDUSTRY RISKS

Residential DSL market becoming saturated • The German DSL market is nearing saturation point, which is leading to heightened price competition. Moreover, alternative broadband offerings, including cable TV and fiber optic connections, are meeting with growing interest, especially on the part of residential customers. The QSC Group is therefore no longer pushing its ADSL2+ business with resellers.

At the same time, the growing importance of alternative technologies is opening up new opportunities for the QSC Group. Cable TV network operators, for example, must by necessity collaborate with TC providers in connection with voice telephony; major cable TV network operators number among QSC's customers in wholesale voice business.

Open Access platform opens up new opportunities in fiber optic connections

In addition, QSC was the first player to create a nationwide Open Access platform for providers and users of fiber optic connections, so-called FTTX connections. FTTX is an over-arching term that denotes running fiber either to end users (Fiber to the Home, FTTH), to their cellar (Fiber to the Basement, FTTB) or to the nearest cable branch (Fiber to the Curb, FTTC). Given the resulting potential, the QSC Group views the risk arising from its existing DSL business, which is relatively low-margin compared to other ICT lines of business, as being moderate, as any potential negative effect stemming from this would primarily impact revenues and only to a lesser degree profitability.

Replacement of legacy voice telephony • Fiscal 2011 saw a continuation of stiff price competition within the legacy voice telephony market. QSC was forced to incur corresponding losses in conventional voice telephony with call-by-call and preselect rates. However, by expanding its IP-capable Next Generation Network early on, QSC was ready for this change and is bringing in rising revenues with VoIP telephony and other IP-based services. The Company therefore does not anticipate that this risk will have any major impact on its business operations.

REGULATORY RISKS

An end to regulation • Even as an ICT provider, the QSC Group continues to be active on the regulated German TC market. There is a trend here on the part of the political community and the German Federal Network Agency to end regulation of various markets and to restrict itself in the future to monitoring these markets so as to intervene retroactively under general fair competition legislation, if necessary. There is a risk that the coming years will see a further decline in the number of regulated markets, which would mean that the pricing latitude of Deutsche Telekom (DTAG) could rise in markets that have already been removed from regulation.
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 authority. QSC is keenly monitoring this risk, as its ramifications for the Company could be considerable should regulation fail.

Competitive behavior of Deutsche Telekom • The QSC Group is significantly less dependent upon former monopolist DTAG's resale prices for voice and data services than most of the other ICT providers. Nevertheless, an aggressive pricing policy on the part of DTAG vis-à-vis both the required preliminaries and the end-user market, in particular, could have a negative impact on the margin situation in the areas of the German TC market that lie outside those areas governed by cartel law and regulations or in markets that are no longer being regulated.

Viable regulation at national and EU level is necessary

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 through its ongoing participation in the discussion and by commenting on various proceedings. Taking these factors into consideration and assuming viable regulation in conformity with the rules of fair competition, QSC views these risks as being moderate.

CORPORATE STRATEGY RISKS

Integration of acquisitions • Even after the acquisition of IP Partner and INFO AG, the QSC Group does not preclude the possibility of also broadening its own spectrum of products, solutions and services through targeted acquisitions in the future, especially smaller ICT specialists. The risk involved in the most recent acquisitions as well as in further potential acquisitions is that an acquired company might not live up to the expectations that have been placed in it. In the past, however, the Company has demonstrated its ability to successfully manage these kinds of integration processes. The Company therefore views this risk as being manageable in the event of a further potential acquisition.

PERFORMANCE RISKS

Revenues as a subscriber network operator • In recent years, QSC has built a nationwide infrastructure, with which it generates a considerable portion of its revenues from voice and data services. The emergence of new technologies or heightened competitive pressure from other network operators could severely restrict this QSC business. Thanks to its NGN, though, the Company is already able today to offer favorable prices that are geared toward this market, without endangering its margin position. From today's vantage point, QSC therefore views this risk as being moderate.

Loss of licenses for telephone numbers • QSC operates numerous telephone numbers in its voice business. There is a risk that the Company's licenses for these numbers could be revoked as a result of breaches of statutory or regulatory provisions and / or failure to comply with regulations, in which case the Company would have to pay significant amounts of money for their deactivation. QSC therefore utilizes numerous measures to ensure that it is in compliance with all regulations. Given this security system in voice business, which has thus far functioned very well, the Company views this risk as being controllable.

Dependence upon individual customers • QSC generates high revenues with relatively few partners in both its Reseller business as well as in Direct Sales. This entails the risks associated with being dependent upon one or only very few major companies. QSC constantly monitors this risk. However, since network operator QSC and the respective customer are mutually dependent upon one another and QSC is highly involved in its customer's value chain, the Company views this risk as being manageable.

Potential penalties • Within the framework of larger projects, QSC enters into contracts that ensure certain service levels, some of them involving potential penalties. This results in the risk of high recourse entitlements and expenses stemming from interruptions. This risk is minimized through intensive service level management and consistent monitoring of the entire value chain, including the networks. Ongoing certification, such as INFO AG's under review standard ISO 9001:2008 (Quality Management) and ISO / IEC 27001:2005 (IT Security) document the security and reliability of the IT systems and infrastructure employed. Since in the past, the QSC Group has been able to satisfy nearly all service level agreements, it therefore views this risk as being moderate.

Ongoing certification of IT systems and infrastructure employed

Outage of the QSC infrastructure • The risk of a network outage or a data center going down is constantly monitored. In addition to a loss of image, indemnification claims or high penalties, in particular, following extended, widespread outages could result in corresponding expenses. Consequently, maintaining and continuously improving security and reliability throughout the

ICT infrastructure is given the utmost priority within the framework of business operations. For this purpose, QSC employs redundancies within its infrastructure, which include both independent (emergency) power as well as mirrored server capacities at backup data centers. Air conditioning equipment prevents potential heat-induced hardware defects, while strictly defined access authorizations to all colocation rooms prevent misuse or sabotage. Because of these and a number of further measures, the Company sees itself as being well equipped to continue smooth operations.

Criminal intrusions into systems • Unauthorized intrusions into QSC's ICT infrastructure could result in considerable damage. The same also applies with respect to insufficient data protection and uncontrolled access to QSC data centers. In the event of an outage of the operating IT systems, it would not be possible to handle orders or resolve system interruptions; the resulting monetary damages and loss of reputation could be significant.
To mitigate these kinds of risks, QSC has appointed special security coordinators in its IT operations, whose leader reports directly to the Chief Executive Officer; a similar system is in place at INFO AG. This Head of Security bears the primary responsibility for a sophisticated security system, which includes the latest firewalls and a multi-tier virus protection system, virtually eliminating the above-described risks. In addition, the applicable IT security policy provides all employees with concrete guidance on avoiding IT security risks. As a result of all of these measures and according to reasonable standards, QSC views these IT security risks as being manageable.

The Company has a sophisticated IT security concept in place

Loss of data • Operating errors, hardware defects or the destruction of a data center through attack or natural disaster can result in a loss of business-critical data. Growing volumes of data accumulated as a result of the Company's fast-paced growth could additionally push the capacities of the Company's data storage and backup systems to their limits. In any event, a loss of operating data would make it impossible for the Company to operate.
QSC addresses these risks through extensive data backup measures. The Company archives, within legally permissible limits, its complete backups for multiple years and stores the monthly backups in separate physical locations. Central data inventories are automatically backed up on a daily basis; in addition, the Company maintains a backup data center. Thanks to these extensive measures, as well as the Company's disaster recovery plan, QSC views the risk of data loss as being under control.

FINANCIAL RISKS

Financing the QSC Group • An extended recession, aggressive price competition in major markets or potential acquisitions could necessitate additional funding; QSC therefore very precisely monitors financing and liquidity risks. As of December 31, 2011, the QSC Group possessed liquid assets totaling € 24.1 million and an only partially used line of credit in the amount of € 150 million, and thus views itself as being well financed. The line of credit runs through September 2016; in addition, the Company is earning a sustained positive free cash flow. Given this background, QSC views the risk of a financing bottleneck as being minor and the financing risk overall as being under control.

No foreign exchange risks • QSC focuses on small- and mid-size business customers in the German market. It is therefore able to invoice all major business transactions in euros and is not subject to any significant foreign exchange risk.

OTHER RISKS

Availability of personnel • QSC's success is based upon the achievements of its qualified people. One risk in this area is that achievers could leave the Company at short notice, and another is that it might not be possible to recruit new talent from the market according to the planned terms and conditions. This applies, in particular, with respect to high-growth Outsourcing and Consulting business in Direct Sales. QSC combats this risk through extensive staff retention measures. In-house training and education, university partnerships and a number of networking activities ensure that QSC possesses a sufficient number of young new staff. Although the Company therefore views this risk as being under control, it will again intensify its human resources recruiting activities during the current fiscal year.

In-house training and further activities are securing new blood

GENERAL REMARKS

No major identifiable risks • Given the potential scope of damage and the likelihood that these and further potential risks could occur, there are no risks that could lead to a sustained material impairment of net worth, financial position or profitability. 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.

Subsequent Events

EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

Agreement reached on merger contract • During the current fiscal year, the QSC Group is endeavoring to streamline its structure under corporate law. In connection with this, IP Partner has been renamed INFO Gesellschaft für Informationssysteme Holding AG (INFO Holding), and the legal domicile of this corporation has been relocated to Hamburg. On March 13, 2012, the management board of INFO AG announced that it had reached agreement with INFO Holding on a draft contract, under which INFO AG was to be merged with INFO Holding; the contract was signed on March 20, 2012. This contract contains the statement that exclusion of the remaining shareholders of INFO AG pursuant to § 62, Para. 5, Sentence 1, of the German Corporate Reorganization Act in conjunction with §§ 327a ff. of the German Stock Corporation Act, is to be effected in conjunction with the merger. A corresponding transfer resolution will be submitted for adoption upon the coming into being of the legal prerequisites for the Annual Shareholders Meeting of INFO AG, which is expected to be conducted on May 24, 2012.

Merger to be formally concluded by October 2012

Internally, the merger is deemed to have gone into effect at the end of December 31, 2011, and is scheduled to be formally concluded by October 2012. The entire IT-related portfolio of the QSC Group – from IT Consulting to Housing and Hosting right through to IT Outsourcing – will then be bundled at INFO Holding. INFO Holding is thus a central element of the Direct Sales Business Unit.

Shareholder structure reorganized • On March 15, 2012, U.S.-based investment company Baker Capital, which had been an investor even before the Company went public, notified QSC that it had distributed the 25,247,242 QSC shares still in its possession to the investors of its fund which has been running for far more than ten years. These investors predominantly consist of U.S.-based institutional investors with a long-term view, as well as Family Offices. This increased the free-float to 79.8 percent.

Aside from this, the QSC Group is not aware of any reportable events of particular importance subsequent to the close of the fiscal year.

Report on Opportunities and Outlook

GENERAL REMARKS ON FURTHER DEVELOPMENT

Conclusion of the transformation process • In fiscal 2012, the QSC Group will largely conclude its transformation process from a TC provider into a provider of ICT products, solutions and services, and will be driving the integration of its two new subsidiaries, INFO AG and IP Partner. The merger of these two subsidiaries that was announced in January 2012, and the resulting acquisition of the remaining shares of INFO AG, will facilitate Group-wide collaboration and serve as a key prerequisite for sustained profitable growth in 2013 and beyond. In early 2012, the uncertain economic situation makes it extremely difficult to properly assess the resulting dynamic, as many organizations might postpone larger ICT projects to a later date in the event of a recession. Regardless of the economy, though, in 2012 QSC expects to see a further decline in conventional TC lines of business, such as call by call and ADSL2+, on the order of some € 25 million. In addition, a further revenue shortfall of nearly € 6 million is anticipated as a result of the stipulation of lower routing and termination fees by the German Federal Network Agency. On the other hand, the Company plans to grow faster than the market in such ICT lines of business as Outsourcing and Consulting.

Overall, the QSC Group is planning on revenues of between € 480 and € 510 million in fiscal 2012. Given that this will be the first full-year consolidation of its two subsidiaries, the Company is striving for an EBITDA margin of at least 16 percent. In addition, the Company expects to see a free cash flow of between € 22 and € 32 million. This guidance takes into account planned capital investments in growth, especially in Direct Sales, and for the first time does not include any payments from TELE2, the former co-owner of network operating company Plusnet.

QSC is planning on revenues of € 480 to € 510 million in 2012

The QSC Group views fiscal 2012 as a year of preparation for achieving its full strength and power. Growing successes with ICT services, and increasingly with Cloud services, as well, coupled with the decreasing importance of conventional TC business, is likely to mean that the Company will achieve stronger revenue growth beginning in 2013, while steadily improving its profitability and financial strength.

GENERAL ECONOMIC CONDITIONS

Weak economic outlook • Even during the course of 2011, there were signs that the upswing in Germany was drawing to a close, with growth rates weakening significantly toward year-end. In its 2012 Annual Economic Report, the German Federal Government expects gross domestic product to rise by only 0.7 percent. This means that the German economy is still likely to develop on a better note than many other euro countries, which are either already in or nearing recession.

In early 2012, it is not possible to preclude the possibility that the German economy, too, might contract during two successive quarters, which is the definition of a recession. This high level of uncertainty about the further course of the economy is making planning difficult at the outset of 2012 and is the reason for the corridors that QSC is indicating for key steering parameters.

GDP DEVELOPMENT IN GERMANY

The fact that price competition could heighten in many ICT lines of business in the event of sustained recession serves as a further challenge to planning. QSC assumes that prices will again decline, in particular for conventional TC services, and that generally speaking only those ICT providers that can shine with service and quality will be able to avoid the pressure on pricing – this is why precisely these issues enjoy top priority throughout the entire Group.

GENERAL INDUSTRY CONDITIONS

ICT market continues to see two-track development in 2012

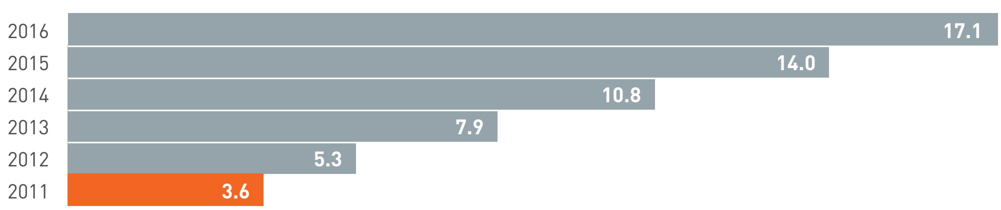
Moderate growth in the ICT market, in spite of the weak economy • According to a forecast by industry association BITKOM, the two-track development of the ICT market will continue in 2012: While business with hardware, software and IT services is thus expected to rise by 3.1 percent to € 72.4 billion, TC revenues will grow by a scant 0.6 percent to € 66.1 billion. Moreover, this rise is attributable solely to the rapidly growing demand for mobile data services. BITKOM expects to see revenues for fixed network-based voice business decline by 7.0 percent. Overall, this forecast calls for German ICT revenues to increase by 1.6 percent to € 151.0 billion in 2012.

ICT MARKET IN GERMANY (value in € billion)

Rapidly growing importance of Cloud services • With its evolution into an ICT provider, the QSC Group has set the stage for participating in the growth of the IT market, while simultaneously reducing its dependence on conventional voice business. New growth is expected to be sparked in 2012 and beyond by the strongly rising demand for Cloud services, in particular. BITKOM assumes that in 2012 this market will reach a volume of € 5.3 billion in Germany, and will rise to € 17.1 billion by 2016. Enterprise customers are expected to account for nearly two thirds of revenues in 2016. The QSC Group is already active in this market and plans to announce further offerings during the course of fiscal 2012.

Enterprises will account for nearly two-thirds of all Cloud market revenues

CLOUD COMPUTING MARKET IN GERMANY (value in € billion)



GENERAL REGULATORY CONDITIONS

New telecommunications law goes into force • The QSC Group continues to be subject to regulation by the German Federal Network Agency in its TC business. One major basis for this regulation consists of the German Telecommunications Act; an amended version of this law, which, among other things, will also implement the European package of regulations from the year 2009, will go into force during the course of fiscal 2012.

This new law will bring with it numerous changes for QSC. Generally speaking, the involvement of GEREK (a body of European electronic communications regulators) will significantly intensify market analysis and regulatory ordinance proceedings in terms of content and duration. GEREK, which is made up of members from the 27 national regulatory authorities, must be involved in connection with consolidation proceedings and is intended first and foremost to contribute to the harmonization of intra-European regulatory practices.

Further innovations relate to customer protection, wait times, billing and provider changes. The information obligations of TC providers have been heightened, and the opportunities for customers to obtain information broadened. Moreover, it is not possible to preclude that the fees for utilization of the "last mile," the subscriber connection line, might again increase, as the calculation method will be changed. The Company will provide timely information should the new German Telecommunications Act negatively impact the course of business of the QSC Group. QSC currently sees itself as being well prepared for the new requirements.

Further reduction in routing and termination fees • Moreover, it should also be noted that the German Federal Network Agency has stipulated a sharp reduction in routing and termination fees in both fixed and mobile networks that will run only through November 30, 2012. Industry observers assume that the regulatory authority will again prevail with a further significant decrease in these fees in a consultation and notification procedure during the course of fiscal 2012. A decision of this nature would involve further revenue shortfalls for QSC; the current fee reduction lowered revenues by € 26 million in fiscal 2011; it should be noted in this connection that the QSC Group views these kinds of fees as pass-through line items that do not have any impact on profitability.

ANTICIPATED PROFITABILITY

Revenues of € 480 to € 510 million planned • The QSC Group will largely conclude its transformation process in fiscal 2012. In this connection, there will again be significant revenue declines in traditional TC lines of business, especially in call by call and ADSL2+ business. Both are part of the Resellers Business Unit, where the QSC Group therefore expects to see declining revenues for fiscal 2012. While revenues in Indirect Sales are likely to remain stable, the Company expects Direct Sales to post growth that will outpace the market.

REVENUES (in € million)

* planned

QSC is investing in Direct Sales growth in 2012

The differing development of the business units is changing the cost structure of the QSC Group. The high-growth Direct Sales Business Unit is relatively personnel-intensive and incurs correspondingly higher cost of revenues. In addition, QSC will be investing in growth in this business unit in 2012, which will also include the recruitment of additional professionals. Nevertheless, the QSC Group is planning on an EBITDA margin of at least 16 percent for fiscal 2012, and thus an EBITDA margin that represents the level of the second half of fiscal 2011. One major factor in the Company's sustained profitability consists of strict cost discipline throughout, which means that, among other things, that the share of total revenues accounted for by sales and marketing expenses as well as general and administrative expenses is likely to decrease further.

QSC plans dividend of at least € 0.08 per share for 2012 and 2013, as well • The strong profitability of the QSC Group is strengthening the Management Board in its plans to distribute a dividend of at least € 0.08 per share for fiscal years 2012 and 2013, as well.

Further integration of IP Partner and INFO AG • While integration of Housing and Hosting specialist IP Partner is already well under way in early 2012, QSC and INFO AG are still collaborating under strict observance of the independence of this publicly traded subsidiary. However, initial joint selling successes are already showing the possibilities resulting from this.
During the current fiscal year, QSC plans to streamline the corporate structure in multiple steps. On January 9, 2012, QSC AG contributed its shares of INFO AG to IP Partner via in increase of capital in kind. IP Partner then announced its desire to enter into a merger agreement with INFO AG and to squeeze out this company's remaining free shareholders. The objective of the QSC Group is to utilize these measures to bundle its IT competence and be able to further expand its market position even faster in such lines of business as Outsourcing, Hosting and Consulting. QSC assumes that the desired measures will be able to be concluded during the course of fiscal 2012.

ANTICIPATED FINANCIAL POSITION AND NET WORTH

Moderate capex ratio • The QSC Group expects to see high levels of cash coming from operating activities in the coming two years. During these coming two years, in contrast to fiscal 2011, this cash inflow is not expected to be influenced by positive special effects; in 2011, former Plusnet co-shareholder TELE2 had made all payments that would otherwise not have been due and payable until year-end 2013. The cash burn for investment activities continues to be moderate, as QSC does not plan to make any major capital investments in its infrastructure, with the exception of replacement and modernization investments, as well as expansion of the data centers. The capex ratio in fiscal 2012 and the following years is likely to range between 6 and 10 percent, and to average 8 percent.
Given moderate capital expenditures (capex) and stable operating profitability, the QSC Group anticipates a free cash flow of between € 22 and € 32 million in fiscal 2012. As in previous years, this metric includes all current financial incomes and outflows, and does not take into consideration non-recurring payments, such as those arising from the first payment of a dividend or from acquisitions.

QSC anticipates a free cash flow of € 22 to € 32 million in 2012

This sustained positive free cash flow is playing a key role in improving the balance sheet ratios. During the current fiscal year, the QSC Group will reduce some of its net indebtedness, which is (by industry comparison) extremely moderate anyway, and strengthen its liquidity. In all likelihood, registration of the planned merger of INFO AG and IP Partner in the second half of fiscal 2012 will lead to a non-recurring cash burn in connection with the acquisition of the outstanding INFO shares.

OPPORTUNITIES FOR QSC

Cloud services opening up growth potential • With its two acquisitions, the QSC Group developed into an ICT provider in fiscal 2011. Given this, the current fiscal year will see the following opportunities, in particular:

- **Increasing the budgets of existing customers** • Up until now, many customers have been using only portions of the QSC Group's ICT offerings. The Company will therefore be targeting its expanded portfolio of ICT products, solutions and services at small and mid-size customers and sales partners in order to tap into additional revenue potential from its existing customers. Marketing activities aimed at mid-size and larger organizations in the high-revenue lines of business of Outsourcing and Consulting, in particular, will offer considerable opportunities.

- **Winning further small and mid-size customers** • The QSC Group possesses a comprehensive portfolio of ICT products, solutions and services, as well as a unique positioning in the German ICT market as an SME for SMEs. As in fiscal 2011, the Company will be using these competitive advantages to win further small and mid-size enterprises as customers.

- **Bundling ICT resources in Direct Sales** • During the current fiscal year, the QSC Group will be bundling the existing competencies of INFO AG, IP Partner and QSC AG in the Direct Sales Business Unit. The ability to address customers jointly and in a coordinated fashion is expected to lead to rising revenues with new and existing customers.

- **Marketing Cloud services** • Organizations of every size are increasingly coming to grips with the opportunities that are offered by outsourcing ICT services to the Cloud. During the current fiscal year, QSC will begin marketing further Cloud-based products and services, thus underscoring its pioneering role in this growth market.

- **Expanding partner marketing** • During the current fiscal year, the QSC Group will be winning additional partners for Indirect Sales, thus tapping into new channels for its expanded portfolio of ICT products, solutions and services. The focus will be on collaboration with regional IT service providers and IT systems houses that are likely to be interested in Cloud services and such data center services as Housing and Hosting, in particular.

- **Distributed data centers the foundation for further growth** • In March 2012, the QSC Group concluded the expansion of the data center in the Munich location, and thus now possesses a capacity of 15,000 square meters of floor space in Germany. During the course of fiscal 2012, the Company will be marketing these capacities to new and existing customers. At the same time, this higher capacity is also serving as the basis for broadening the Company's position in the growth market of Cloud Computing through new and existing services.

- **Winning partners for the Open Access platform** • The QSC Group anticipates that in fiscal 2012 further regional network operators and nationwide marketers will be using its nationwide network, process and services hub for Next Generation Access (NGA) connections. The Company is thus likely to continue to participate especially in building fiber optic infrastructures in many municipalities, positioning itself early on in the market for NGA Internet connections.

- **Building strategic alliances** • Within the framework of consortia, QSC is involved in the development of Cloud services for the automotive and energy industries, among others. Strategic alliances will be playing a major role in connection with the introduction of these services; only with strong strategic partners is it possible to access such markets as energy management and electromobility. The Company will therefore be intensifying talks with national and international businesses during the current fiscal year, thus creating a foundation for successfully marketing its own development projects.

Cologne, March 22, 2012

QSC AG
The Management Board

Dr. Bernd Schlobohm
Chief Executive Officer

Jürgen Hermann

Arnold Stender

Thomas Stoek

WHY DID EBITDA IMPROVE BY ONLY 2 PERCENT IN 2011?

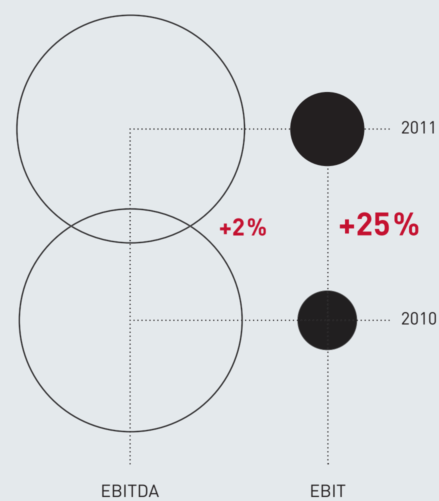
OUR COST STRUCTURE IS CHANGING. YET OUR PROFITABILITY REMAINS STRONG.

IN FISCAL 2011, EBITDA DID, IN FACT, RISE BY ONLY TWO PERCENT: YET OPERATING PROFIT, EBIT, ROSE BY A STRONG 25 PERCENT DURING THE SAME PERIOD.

The renewed rise in EBITDA from € 78.1 million in fiscal 2010 to € 79.9 million is a success. Because with INFO AG, QSC acquired a company that has a different cost structure. The QSC Group records the lion's share of INFO's costs for its Outsourcing and for its especially personnel-intensive Consulting business under cost of revenues. This means that it has a direct impact on EBITDA. Plus two further factors: With INFO AG, QSC acquired a stock corporation that is traded over the counter, and the Company now maintains two administrations for publicly traded corporations. Moreover, both this acquisition as well as the acquisition of 100 percent of Hosting and Housing specialist IP Partner made for a temporary rise in administrative expenses.
In spite of all these factors, EBITDA rose in fiscal 2011. However the advances that have been made in growing the Company's profitability are even easier to see in connection with operating profit, EBIT. It improved by 25 percent to € 26.2 million in fiscal 2011. And a further significant rise in both metrics is planned through fiscal 2016.

» More information about our profitability

QSC AGAIN GREW ITS PROFITABILITY IN 2011



DESPITE THE ACQUISITION OF TWO IT PROVIDERS, THE QSC GROUP INCREASED ALL METRICS: EBITDA, EBIT, EBIT, AND CONSOLIDATED NET PROFIT.

€ 0.08

PER SHARE: RISING PROFITABILITY SERVES AS THE FOUNDATION FOR THE COMPANY-FIRST DISTRIBUTION OF AN ATTRACTIVE DIVIDEND FOR THE 2011 FISCAL YEAR.

Financial Report

Consolidated Financial Statements 86

Consolidated Statement of Income 86
Consolidated Statement of Cash Flows 87
Consolidated Balance Sheet 88
Consolidated Statement of Shareholders' Equity 90
Consolidated Statement of Comprehensive Income 92

Auditor's Report 93

Notes 94

Corporate Information 94
General Principles 94
Income Statement Disclosures 111
Balance Sheet Disclosures 116
Cash Flow Disclosures 130
Other Disclosures 131

Statement of Responsibility 153

CONSOLIDATED STATEMENT OF INCOME

Euro amounts in thousands (K€)

	Notes No.	2011	2010
Net revenues	7	**478,079**	**422,106**
Cost of revenues	8	(360,472)	(315,206)
Gross profit		**117,607**	**106,900**
Sales and marketing expenses	9	(56,680)	(55,982)
General and administrative expenses	10	(35,122)	(29,556)
Other operating income	11	1,839	684
Other operating expenses	11	(1,417)	(1,168)
Operating profit		**26,227**	**20,878**
Financial income	12	506	261
Financial expenses	12	(3,334)	(2,294)
Net profit before income taxes		**23,399**	**18,845**
Income taxes	42	4,583	5,323
Net profit		27,982	24,168
thereof attributable to non-controlling interests		371	-
thereof attributable to owners of QSC AG		27,611	24,168
Earnings per share (basic) in €	13	**0.20**	**0.18**
Earnings per share (diluted) in €	13	**0.20**	**0.17**

CONSOLIDATED STATEMENT OF CASH FLOWS

Euro amounts in thousands (K€)

	Notes No.	2011	2010
Cash flow from operating activities	35		
Net profit before income taxes		23,399	18,845
Depreciation and amortization of fixed assets	15, 18	53,262	49,825
Non-cash income and expenses		(157)	(188)
Gains from disposal of fixed assets		993	844
Changes in provisions	30, 32	(1,376)	559
Changes in receivables from former shareholders		28,358	-
Changes in trade receivables	19	(413)	(7,689)
Changes in trade payables	31	(140)	(3,857)
Changes in other financial assets and liabilities		(27,172)	(1,744)
Cash flow from operating activities	35	**76,754**	**56,595**
Cash flow from investing activities	36		
Purchase from acquisition of subsidiary less liquid assets acquired		(57,629)	-
Proceeds on loss of control of subsidiary less liquid assets		1,429	-
Purchase of intangible assets		(13,336)	(18,632)
Purchase of property, plant and equipment		(15,803)	(6,502)
Cash flow from investing activities	36	**(85,339)**	**(25,134)**
Cash flow from financing activities	37		
Redemption of convertible bonds		(5)	(4)
Repayment of liabilities to other shareholders		-	(1,690)
Purchase of additional interest in subsidiary following acquisition		(15,514)	-
Proceeds from issuance of common stock	25	240	274
Repayment of other short- and long-term liabilities		(576)	(2,198)
Proceeds (Repayment) of loans granted	29	10,795	(5,000)
Repayment of liabilities under financing arrangements	29	(8,833)	(17,562)
Cash flow from financing activities	37	**(13,893)**	**(26,180)**
Change in cash and short-term deposits		**(22,478)**	**5,281**
Change in cash and short-term deposits as of January 1	24	46,233	40,952
Cash and short-term deposits as of December 31		23,755	46,233
Interest paid		1,843	1,356
Interest received		307	237
Income tax paid		750	536

CONSOLIDATED BALANCE SHEET

Euro amounts in thousands (K€)

	Notes No.	Dec. 31, 2011	Dec. 31, 2010[1]
ASSETS			
Long-term assets			
Property, plant and equipment	15	116,740	108,087
Land and buildings	15	28,313	-
Goodwill	16	76,265	49,279
Other intangible assets	18	56,289	22,959
Trade receivables	19	3,622	-
Prepayments	20	1,718	-
Other long-term financial assets	22	518	498
Deferred tax assets	42	7,961	8,484
Long-term assets		**291,426**	**189,307**
Short-term assets			
Trade receivables	19	65,705	61,284
Receivables from former shareholders		-	28,358
Prepayments	20	4,526	2,883
Inventories	21	1,563	1,045
Other short-term financial assets	22	3,944	2,774
Available-for-sale financial assets	23	341	332
Cash and short-term deposits	24	23,755	46,233
Short-term assets		**99,834**	**142,909**
TOTAL ASSETS		391,260	332,216

	Notes No.	Dec. 31, 2011	Dec. 31, 2010[1]
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Equity attributable to owners of QSC AG			
Capital stock	25	137,257	137,128
Capital surplus	26	140,095	139,593
Other capital reserves	28	(362)	(47)
Accumulated deficit		(72,069)	(92,626)
Equity attributable to owners of QSC AG		**204,921**	**184,048**
Equity attributable to non-controlling interests		2,378	-
Shareholders' equity		**207,299**	**184,048**
Liabilities			
Long-term liabilities			
Long-term liabilities under financing arrangements	29	6,879	2,044
Liabilities due to banks	29	15,404	-
Convertible bonds	40	15	20
Accrued pensions	30	5,339	1,067
Other provisions	32	1,036	-
Deferred income	33	20,914	-
Deferred tax liabilities	42	5,065	4,108
Long-term liabilities		**54,652**	**7,239**
Short-term liabilities			
Trade payables	31	46,617	38,043
Short-term liabilities under financing arrangements	29	6,698	5,493
Liabilities due to banks	29	28,181	10,000
Other provisions	32	2,879	2,085
Accrued taxes	32	5,764	2,215
Deferred income	33	24,781	69,842
Other short-term liabilities	34	14,389	13,251
Short-term liabilities		**129,309**	**140,929**
Liabilities		**183,961**	**148,168**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		391,260	332,216

[1] See Note 3 for amendments to shareholders' equity

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Euro amounts in thousands (K€)

		Attributable to equity holders of QSC AG				
	Notes No.	Capital stock	Capital surplus	Other capital reserves	Accumulated deficit	Total
Balance as of January 1, 2011		**137,128**	**139,593**	**(47)**	**(92,626)**	**184,048**
Net profit for the period					27,611	27,611
Other comprehensive income for the period, net of tax	28			(315)		(315)
Total comprehensive income				**(315)**	**27,611**	**27,296**
Acquisition with non-controlling interests	38					
Acquisition of non-controlling interests following initial consolidation	38				(7,054)	(7,054)
Conversion of convertible bonds	40	129	111			240
Non-cash share-based payments	40		391			391
Balance as of December 31, 2011		137,257	140,095	(362)	(72,069)	204,921
Balance as of January 1, 2010		**136,998**	**563,687**	**(1,129)**	**(539,844)**	**159,712**
Adjustment to "Other capital reserves" effective January 1, 2010 [1]				1,244	(1,244)	-
Adjusted balance as of January 1, 2010		**136,998**	**563,687**	**115**	**(541,088)**	**159,712**
Net profit for the period					24,168	24,168
Total comprehensive income	28			(162)		(162)
Net profit and total comprehensive income				**(162)**	**24,168**	**24,006**
Conversion of convertible bonds	40	130	145			275
Non-cash share-based payments	40		55			55
Transfer of capital reserves			(424,294)		424,294	-
Balance as of December 31, 2010		137,128	139,593	(47)	(92,626)	184,048

[1] See Note 3 for amendments to shareholders' equity

Equity attributable to non-controlling interests	Total Share-holders' equity	
-	**184,048**	**Balance as of January 1, 2011**
371	27,982	Net profit for the period
(54)	(369)	Other comprehensive income for the period, net of tax
317	**27,613**	**Total comprehensive income**
10,521	10,521	Acquisition with non-controlling interests
		Acquisition of non-controlling interests
(8,460)	(15,514)	following initial consolidation
	240	Conversion of convertible bonds
	391	Non-cash share-based payments
2,378	**207,299**	**Balance as of December 31, 2011**
-	**159,712**	**Balance as of January 1, 2010**
		Adjustment to "Other capital reserves"
		effective January 1, 2010 [1]
-	**159,712**	**Adjusted balance as of January 1, 2010**
	24,168	Net profit for the period
	(162)	Total comprehensive income
-	**24,006**	**Net profit and total comprehensive income**
	275	Conversion of convertible bonds
	55	Non-cash share-based payments
	-	Transfer of capital reserves
-	184,048	Balance as of December 31, 2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Euro amounts in thousands (K€)

	2011	2010
Other comprehensive income		
Actuarial losses on defined benefit pension plans	(551)	(237)
Changes in unrealized fair values		
of available-for-sale financial assets	3	2
Tax effect, total	179	73
Other comprehensive income	**(369)**	**(162)**
Net profit for the period	27,982	24,168
Total comprehensive income for the period	27,613	24,006
thereof attributable to non controlling interests	317	-
thereof attributable to owners of QSC AG	27,296	24,006

Auditor's report

We have audited the consolidated financial statements prepared by QSC AG, Cologne, comprising the consolidated balance sheets, the consolidated statements of income, the consolidated statements of periods to the whole result, consolidated statements shareholder's equity, consolidated statements of cash flows and the notes to the consolidated financial statements, together with the group management report for the financial year from 1 January to 31 December 2011. The preparation of the consolidated financial statements and the group management report in accordance with IFRS as applicable in the EU and in compliance with the supplementary requirements as set out in § 315a, para. 1 HGB is the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated 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 principles of proper accounting 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 the 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 the IFRS as applicable in the EU and the supplementary requirements as set out in § 315a, para. 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, March 22, 2012

KPMG AG
Wirtschaftsprüfungsgesellschaft

Kraus	Gall
Wirtschaftsprüfer	Wirtschaftsprüfer

Notes to the Consolidated Financial Statements for Fiscal Year 2011

CORPORATE INFORMATION

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

GENERAL PRINCIPLES

1 Basis of preparation

According to the article 4 of the regulation (EG) number 1606/2002 of the European Parliament and the council dated July 19, 2002, the Company is required to prepare the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS), and according to the rules of § 315a (1) of the German Commercial Code ("HGB") is thus exempt from preparing the consolidated financial statements in accordance with the German Commercial Code. QSC prepares the consolidated financial statements on a historical cost basis, except for available-for-sale financial assets, which have been measured at fair value. QSC prepares the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), which became mandatory as of December 31, 2011, and which are required to be applied in the EU. The Company also prepares the consolidated financial statements in accordance with the supplementary rules of § 315a (1) "HGB". The Company took into consideration all IFRS and International Accounting Standards (IAS) as well as their interpretation by the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC) that became mandatory for the 2011 fiscal year.

The financial year of QSC and its subsidiaries (the Group) corresponds to the calendar year. The consolidated financial statements are presented in euros, and all amounts, except when otherwise indicated, are rounded to the nearest thousand (K€).
No events or transactions which would have a material effect on the Group's profitability, financial position and net worth as well cash flows for the period then ended occurred prior to March 22, 2012 (which is the date of the consolidated financial statements' approval by the Management Board for handover to the Supervisory Board).

2 Basis of consolidation

The consolidated financial statements comprise the financial statements of QSC AG and its subsidiaries as of December 31 each year. QSC prepares the subsidiaries' financial statements for the same reporting year as the parent company, using consistent accounting policies. All intra-group balances, transactions, income and expenses, and profits and losses resulting from intra-group transactions that are recognized in assets, are eliminated by the Company in full. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The subsidiaries and associated companies that are included in the consolidated financial statements are listed in Note 38.

3 Changes to accounting and valuation methods

The changes made in 2008 to the financial statements for the previous fiscal year involved an adjustment incorrectly made to financial assets available for sale in the amount of K€ 970 under 'Other capital reserves' instead of under the Group's accumulated deficit. Additionally, the change in pension provisions due to actuarial losses factoring in the resulting deferred taxes in the 2009 fiscal year representing K€ 274 of the total amount was incorrectly recorded through profit and loss instead of other equity. An adjustment to consolidated shareholders' equity in the total amount of K€ 1,244 was made on January 1, 2010, in accordance with IAS 8.

in K€	01/01/2010	01/01/2010 adjusted 2011
Capital stock	136,998	136,998
Capital surplus	563,687	563,687
Other capital reserves	(1,129)	115
Accumulated deficit	(539,844)	(541,088)
Consolidated Shareholders' Equity	**159,712**	**159,712**

in K€	31/12/2010	31/12/2010 adjusted 2011
Capital stock	137,128	137,128
Capital surplus	139,593	139,593
Other capital reserves	(1,291)	(47)
Accumulated deficit	(91,382)	(92,626)
Consolidated Shareholders' Equity	**184,048**	**184,048**

This adjusting entry did not impact either the Consolidated Statement of Income or the Consolidated Statement of Cash Flows for the 2010 and 2011 fiscal years.

4 Significant judgments and estimates

The application of accounting policies requires the use of judgments as well as of forward-looking assumptions and estimates. Actual results may differ from those assumptions and estimates, with the result 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 Group assesses whether there are any indicators of an impairment in all 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 indicators exist. Impairment is determined for goodwill 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 cash-generating unit. The CGUs correspond to the reportable segments. QSC regards as CGUs its business segments. Where the recoverable amount of the CGU is less than their carrying amount, an impairment loss is recognized. The carrying amount as of December 31, 2011, was K€ 76,265 (2010: K€ 49,279). Further details are given in Note 16.

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 loss carry forwards 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 future tax planning strategies. As of December 31, 2011, the carrying value of recognized corporation tax losses was € 429 million (2010: € 443 million), and the carrying value of recognized municipal trade tax losses was € 426 million (2010: € 439 million). As of December 31, 2011, deferred tax assets amounting to K€ 7,961 (2010: K€ 8,484) are recorded. Further details are contained in Note 42.

Pension and other post-employment benefits • The cost of defined benefit pension plans and other post-employment medical benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, 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. Management has exercised the option stipulated in IAS 19 that actuarial gains and losses are recognized directly in other income in other reserves. As of December 31, 2011, provisions for pensions and similar commitments amounted to K€ 5,339 (2010: K€ 1,067). Further details are given in Note 30.

Share-based payments • 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 computation is done using assumptions relating to the risk-free interest rate relevant for the duration of the option, the expected dividend to be paid and the share's expected market price volatility. Due to the long-term nature of these remuneration agreements, the estimates used are subject to significant uncertainties.

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, 2011, allowances totaling K€ 4,075 (2010: K€ 3,913) were recognized on trade receivables.

Provisions • A provision is recognized when the 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. Such estimates are subject to significant uncertainties. As of December 31, 2011, provisions totaling K€ 9,679 (2010: K€ 4,300) were recognized in the balance sheet.

Leases • QSC determines whether an agreement represents or involves a lease on the basis of the economic content of the agreement at the time of its conclusion. 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, 2011, lease liabilities totaled K€ 13,577 (2010: K€ 7,537).

Construction contracts • Accounts receivable under construction contracts were accounted for under the percentage of completion (PoC) method pursuant to IAS 11 in the case of a customer-specific construction order. In this connection, proportional income recognition follows the stage of completion, which is based upon estimates. As of December 31, 2011, accounts receivable under construction contracts totaled K€ 1,042 (2010: K€ 0).

5 Summary of significant accounting policies

Expense and revenue recognition • QSC recognizes revenue to the extent that it is probable that the economic benefits will flow to the Group, and when revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duty. 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 services that have not been provided completely or throughout the entire reporting period, respectively, at balance sheet date on a time-apportioned basis with regard to the stage of completion.
- Revenue from the sale of goods is recognized when the risks and rewards of ownership for the goods supplied have been transferred to the buyer and can be measured reliably.
- QSC defers revenue from the installation of customer lines on a time-apportioned basis over an average contractual term of 24 months.
- QSC recognizes revenue as interest accrues (using the effective interest method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).
- Multi-component contracts consist of a service portion and a hardware lease. The two components each have their own values and a present value that can be reliably determined. Applying the requirements of IFRIC 4 to hardware leasing means that the Group's IT Outsourcing unit functions as lessor in certain multi-component contracts. These concern identifiable assets usable exclusively by the customer.

Revenue for services performed under the service contract is distributed pro rata over the contract term, while revenue for leased hardware is recognized in full in the year that the contract is concluded. Revenue from contracts classified as finance leases is recognized at the contract start date, and the interest portion is calculated 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 calculated on a monthly basis over the contract term.
Total contract income is attributed to the respective components applying the relative fair value method.

- Operating expenses are recognized and charged against income at the time services are utilized or the time of their accrual. Revenue, expenses, and assets are recorded after deduction of sales tax. Net sales tax amounts reclaimable by/payable to the tax authority are shown under receivables/liabilities.

Foreign currency translation • QSC presents the consolidated financial statements in euros. Transactions in currencies other than the Euro are originally recorded at the exchange rate at the day the transaction is made between the Euro and the respective foreign currency. The differences between the exchange rate at the day the transaction was closed and the exchange rate at balance sheet date, or at the day the transaction is finally closed, if sooner, are included in the income statement. The functional currency for all Group companies is the euro.

Property, plant and equipment • QSC states property, plant and equipment at cost of acquisition or construction less accumulated depreciation and accumulated impairment in value. Replacement part costs for property, plant, and equipment are added to the carrying value 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 company recognizes them through profit and loss. The estimated useful lives of the assets is used as a basis in the application of straight-line depreciation.
Property, plant, and equipment are depreciated in straight-line fashion over the estimated useful lives shown in the table below.

	Useful life in years
Assets	
Buildings	20 to 50
Network and technical equipment	2 to 25
Building improvements	5 to 20
Network components	2 to 10
Operational and office equipment	3 to 13

Borrowing costs • Borrowing costs are recognized as an expense when incurred.

Business combinations and goodwill • QSC accounts business combinations using the acquisition accounting method. It involves recognizing identifiable assets and liabilities, as well as contingent liabilities of the acquired business at fair value. Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Following initial recognition, QSC measures goodwill at cost, less any accumulated impairment losses. QSC tests goodwill and other indefinite life intangibles for impairment annually, and at other times when there are indicators 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 correspond to the fair value as of the date of acquisition. Internally generated intangible assets are capitalized if capitalization conditions according to IAS 38 are met. Expenses that are not intended to be recognized are recorded under profit or loss in the period in which they are incurred. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and additionally assessed for impairment whenever there is an indication that the intangible asset may be impaired. Such a review of the amortization period and the amortization method for such an intangible asset with a finite useful life is done at least at each financial year end.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment at least annually.

QSC's intangible assets include primarily software, licenses and similar rights as well as non-recurring provisioning costs for activating customer connections. The Company amortizes licenses over a period of five to ten years and software over a period of four years. Non-recurring provisioning costs for activating customer connections are amortized over an average contractual period of 24 months.

Investments and financial assets • QSC classifies financial assets 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 after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end. A transfer is done if permitted and necessary.

Upon initial recognition, QSC designates financial assets at fair value. QSC recognizes directly in equity all regular way purchases and sales of financial assets on the trade date, which is the date that the Group committed itself to purchasing 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 active market. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in income when the receivables are derecognized or impaired, as well as through the amortization process.
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. After initial recognition, QSC measures these at fair value, unrealized gains and losses being directly recorded as other income under other reserves. When the investment is disposed of, the cumulative gain or loss previously recorded in equity is recognized in the income statement.
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 represents an objective indication that impairment testing is called for in accordance with IAS 39.58. Impairments are only recorded when there are objective indications, in accordance with IAS 39.59, that receivables may be uncollectible or impaired.
Other assets representing reinsurance claims on life insurance policies not classifiable as plan assets within the meaning of IAS 19 are recognized based on the insurance company's actuarial reserve per business plan. Additionally, other assets are reported at nominal value. They are recorded under 'long-term and short-term receivables' based on due date.

Inventories • Inventories are valued at average amortized cost. As at balance sheet date, goods are stated at the lower of cost and net realizable value.

Cash and short-term deposits • Cash and short-term deposits in the balance sheet and statements of cash flow comprise cash at banks and at hand and short-term deposits with an original maturity of three months or less.

Provisions • Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

Pensions • QSC operates two defined benefit pension plans. The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognized directly in equity in other reserves. The assumptions that were made by the Company to evaluate the actuarial obligations are specified in Note 30.

Stock option programs • QSC's employees, but also suppliers and consultants, may also 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 40. 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 recognizes no 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. Any previously deferred expense is recognized immediately as an expense in the income statement.

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 lease – lessee** • Pursuant to IAS 17, items attributable to the Group as their economic owner are recognized as assets and depreciated over their typical useful life, or over the lease term if shorter. The liability arising from the lease is recognized accordingly and amortized over the lease term by the principal portion of lease installment payments. Contracts classifiable as finance leases are primarily agreements for computing hardware and data center technology. Leased assets are carried at the lower of market value or the present value of lease payments, for the term of the basic, non-terminable lease period.
  In the case of rent-to-own and financing arrangements, the payments are divided into their constituent elements of financing expense and redemption in accordance with the effective interest rate method, which means that the residual book value of the leasing obligation is discounted at a constant interest rate. Financing expenses are recorded immediately as a charge against income.

- **Operating lease – lessee** • QSC classifies lease arrangements which do not transfer substantially all the risks and rewards incidental to ownership from the Group 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.
  QSC's financing arrangement essentially consist of rent-to-own contracts with terms of between two to three years.

- **Group as lessor** • Pursuant to the regulations of IFRIC 4, the Group is lessor in certain multi-component contracts. In such cases, amounts owed by the lessee under finance leases are recorded as discounted receivables in the amount of the net investment value from Group leases and reported under 'trade receivables'. For multi-component contracts, the overall contract with the customer is divided up into a service contract for services renderable and a trade transaction for the leased hardware. Service revenue is recorded pro rata over the contract term, while trade transaction revenue is recognized in full in the year in which the contract is concluded.

Construction contracts • Future accounts receivable under construction contracts were accounted for under the percentage of completion (PoC) method pursuant to IAS 11 in the case of a customer-specific construction order. In this connection, proportional income recognition was effected in accordance with the stage of completion if it was possible to reliably determine the stage of completion, the total costs and the total income from the respective orders in the sense of IAS 11. The stage of completion of the individual orders is determined on the basis of the cost to cost method (IAS 11.30a). Given the above prerequisites, the total order income is recognized proportionally in accordance with the state of completion. Order costs include both costs directly attributable to the order as well as manufacturing overheads. If it is likely that the total order costs will exceed the total order proceeds, the anticipated losses are immediately expensed.

Deferred income and prepaid expenses • QSC defers one-time income from installation of customer lines, applying an average contract term of 24 months.
In January 2011, Communication Services TELE2 GmbH („TELE2") paid a total of € 66.2 million euros for early termination of its contract with QSC originally expiring at the end of 2013. This amount was recorded under deferred income and prepaid expenses, and is being amortized through profit and loss over the period November 1, 2010 through December 31, 2013. As of December 31, 2011, the carrying amount for the prepaid expense arising from early termination was K€ 41,827. It is shown as a liability under short-term/long-term deferred income and prepaid expenses.

Financial liabilities • QSC measures all interest-bearing loans on initial recognition at fair value, less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently 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.

Taxes • QSC recognizes current income tax assets and liabilities for the current and 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 enacted or substantively enacted by the corresponding assessment period. Actual income tax relating to items recognized directly in equity is recognized in equity.

Deferred taxes are provided 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 income 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, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except

- where the deferred income 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, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available for which the temporary differences can be utilized.

The carrying amount of deferred income 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. Unrecognized deferred income 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 income 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 at the balance sheet date.
Deferred taxes in connection with items recorded directly in equity as other income are likewise recorded directly in equity as other income, not through profit and loss.
Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred tax assets and deferred income tax liabilities relate to the same taxable entity and the same taxation authority.

Revenues, 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 Company recognizes the sales tax 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 financial assets" or "Other short-term liabilities", respectively.

6 Changes in accounting policies

QSC AG has observed the following amendments in accounting principle pronouncements whose application was mandatory for the first time in fiscal 2011. None of the amendments described below had any major impact on the Consolidated Financial Statements of QSC AG.

Improvements to IFRS in 2010 • Within the context of the annual improvement project, eleven amendments were made to six standards and one interpretation was made. The purpose of the adjustment of formulations in individual IFRS is to clarify the existing rules. In addition, there are amendments that impact balance sheet accounting, recognition or valuation. The affected standards are IAS 1, IAS 27 (in conjunction with IAS 21, 28 and 31), IAS 34, IFRS 1, IFRS 3, IFRS 7 and Interpretation IFRIC 13.

IAS 24 – Related Party Disclosures (Revised 2009) • The amended version of IAS 24 introduces an optional waiver relating to the presentation of transactions with certain closely related entities. This option affects all transactions with public-sector entities that control, jointly run or could significantly influence the reporting entity, as well as transactions with entities that are controlled, jointly run or could be significantly influenced by the same public-sector entity. As a result of the amendment, detailed information must only be provided on individual major transactions. Only quantitative or qualitative indication of their impact need be provided for transactions that, while not individually significant, are significant in their aggregate.
Moreover, the amendment to IAS 24 changed the definition of a closely related entity or person in the sense that symmetry has now been achieved: Two entities which, in the view of one entity, are related must now also be related in the view of the other entity.

Amendments to IAS 32 – Classification of Rights Issues • The amendment to IAS 32 governs the accounting treatment for rights issues, options or option warrants that are issued pro rata to all existing shareholders of the same class of non-derivative equity instruments and that entitle the holder to acquire or receive a fixed number of equity instruments in return for liquid assets in any currency. Pursuant to IAS 32.11(b)(ii) and/or IAS 32.16 (b)(ii), under the above-indicated circumstances no distinction is now required as to whether or not the right is exercised in a currency other than the functional currency. Prior to the amendment, it was necessary to record and value rights issues in a currency that was not the functional currency as a financial liability, while they are now presented as shareholders' equity.

Amendments to IFRIC 14 – Prepayments of a Minimum Funding Requirement • This pronouncement modifies IFRIC 14: IAS 19 – Limitation of a benefit-based asset, mandatory minimum allocations and their interactions. IFRIC 14 contains rules of accounting for benefit-based pension plans in the event that the available plan assets exceed the pension obligation. This amendment is relevant in those cases in which an entity is subject to mandatory minimum allocations and makes premium payments in order to satisfy these mandatory minimum allocations. In these cases, the amendment now allows an economic benefit from advance payments to mandatory minimum allocations to be taken into consideration in the balance sheet.

IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments • IFRIC 19 explains how to account for full or partial redemption of a financial liability through the issuance of shares or other equity capital instruments. The interpretation clarifies that equity capital instruments that are issued to a creditor for the redemption of a financial obligation are an element of the "fee paid" in the sense of IAS 39.41. The corresponding equity capital instruments must always be valued at their fair value. Should this not be able to be a reliably determined, the equity capital instruments must be valued at the fair value of the redeemed obligation. The difference between the book value of the financial obligation to be closed out and the initial valuation of the equity capital instrument must be recorded as income or loss.

Recently published accounting pronouncements – Not yet implemented • The above-indicated new or amended standards and interpretations, whose major content is described below, will not become mandatory until subsequent fiscal years.

Standard	Endorsement on December 31, 2011
Amendments to IFRS 7 – Mandatory Disclosures Relating to the Transfer of Financial Assets	Yes
Amendments to IAS 1 – Presentation of Items of Other Comprehensive Income	No
IAS 19 (Rev. 2011) – Employee Benefits	No
Amendments to IAS 27 – Separate Financial Statements	No
Amendments to IAS 28 – Investments in Associates and Joint Ventures	No
Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities	No
Amendments to IFRS 7 – Information Contained in Notes – Offsetting Financial Assets and Financial Liabilities	No
IFRS 9 – Financial Instruments	No
IFRS 10 – Consolidated Financial Statements	No
IFRS 11 – Joint Arrangements	No
IFRS 12 – Disclosure of Interests in Other Entities	No
IFRS 13 – Fair Value Measurement	No

The QSC Group does not plan on early application. The impact on QSC's Consolidated Financial Statements is currently being reviewed.

Amendments to IFRS 7 – Mandatory Disclosures Relating to the Transfer of Financial Assets • The amendments to IFRS 7 relate to broader disclosure obligations in connection with the transfer of financial assets. The purpose is to lend greater understanding to the relationships between financial assets that have not yet been fully written down and the corresponding financial liabilities. A further aim is to enable both the nature as well as the risks, in particular, of a continuing involvement to be better assessed in connection with financial assets that have been written down. These amendments also mandate additional disclosures if an unreasonably large number of transfers with continuing involvement occur at around the end of a reporting period, for example.
Initial application of this amendment will be mandatory for fiscal years beginning on or after July 1, 2011.

Amendments to IAS 1 – Presentation of Items of Other Comprehensive Income • This amendment changes the presentation of other comprehensive income items in the overall statements of income. In the future, those other comprehensive income items that will subsequently be reclassified in the statements of income ("recycling") will be presented separately from those other comprehensive income line items that will never be reclassified. If the items are presented gross, i.e. without being offset against effects from deferred taxes, the deferred taxes can now no longer be presented as a single total, but must be allocated to the two groups of line items.
Initial application of this amendment – subject to its pending inclusion under EU law – will be mandatory in fiscal years beginning on or after July 1, 2012.

IAS 19 – Employee Benefits (Revised 2011) • In addition to more extensive mandatory disclosures relating to employee benefits, the revised standard results in the following changes, in particular: An option presently exists as to how unexpected fluctuations in pension obligations, so-called actuarial gains or losses, can be presented in the financial statements. They can be recorded either in (a) the statement of income, (b) other comprehensive income (OCI) or (c) can be deferred in accordance with the so-called corridor approach. The revised version of IAS 19 eliminates this choice with the aim of providing a more transparent and comparable presentation, which means that in the future it will only be permissible to recognize such fluctuations immediately as other comprehensive income.
Moreover, anticipated plan asset earnings are currently being measured on the basis of Management's subjective expectations relating to the development of the value of the portfolio of assets. With the application of IAS 19 (Revised 2011), only a typifying plan asset interest rate in the amount of the current discount rate for pension obligations will be permissible.
Initial application of this amendment – subject to its pending inclusion under EU law – will be mandatory in fiscal years beginning on or after January 1, 2013.
Since the QSC Group is currently already applying the option of recognizing actuarial results under other comprehensive income, the initial application of the amended rules will not have any impact on the Consolidated Financial Statements.

Amendments to IAS 27 – Separate Financial Statements • Within the context of the adoption of IFRS 10, Consolidated Financial Statements, the rules relating to the control principle and requirements for presenting consolidated financial statements were removed from IAS 27 and conclusively treated in IFRS 10 (see comments on IFRS 10). The net result is that, in the future, IAS 27 will contain only rules for accounting for subsidiaries, jointly controlled entities and associates in individual IFRS financial statements.
Initial application of this amendment – subject to its pending inclusion under EU law – will be mandatory in fiscal years beginning on or after January 1, 2013.

Amendments to IAS 28 – Investments in Associates and Joint Ventures • Within the context of the adoption of IFRS 11, Joint Arrangements, amendments were also made to IAS 28. As in the past, IAS 28 governs the application of the equity method. However the range of applicability has been significantly broadened through the adoption of IFRS 11, as in the future not only investments in associates will be able to be measured under the equity method, but also investments in joint ventures (see IFRS 11). This eliminates the application of proportional consolidation for joint ventures.
Initial application of this amendment – subject to its pending inclusion under EU law – will be mandatory in fiscal years beginning on or after January 1, 2013.

Amendments to IAS 32 and IFRS 7 – Offsetting Financial Assets and Financial Liabilities • This amendment to IAS 32 clarifies which prerequisites must exist for offsetting financial instruments. The amendment explains the importance of the present legal entitlement to offset and clarifies which gross offsetting measures can be viewed as being net offsets in the sense of this standard. Together with these clarifications, the rules relating to disclosure obligations in IFRS 7 were also broadened.
Initial application of IAS 32 – subject to its pending inclusion under EU law – will be mandatory in fiscal years beginning on or after January 1, 2014.
Initial application of IFRS 7 – subject to its pending inclusion under EU law – will be mandatory in fiscal years beginning on or after January 1, 2013.

IFRS 9 – Financial Instruments • The accounting and measurement procedures for financial instruments under IFRS 9 will replace IAS 39. In the future, financial assets will be classified and measured in only two categories: Those measured at amortized cost and those measured at fair value. The category of financial assets that are carried at amortized cost consists of those financial assets that provide only for interest and redemption payments at predefined points in time and that are additionally held within the context of a business model whose objective is to hold assets. All other financial assets are considered to number among the fair value category. As in the past, under certain circumstances it is possible to designate financial assets of the first class as belonging to the fair value category ("Fair Value Option").

All changes in the value of fair value category assets must be recorded as gains or losses. In the case of certain equity capital instruments, however, it is possible to utilize the option of recording changes in value under other comprehensive income; however dividend entitlements arising from these assets must be recorded as gains or losses.
The rules relating to financial liabilities have fundamentally been adopted from IAS 39. The most important difference relates to the way changes in the value of financial liabilities measured at their fair value are recorded. In the future, these liabilities will have to be divided: That portion attributable to the entity's own credit risk must be recorded under other comprehensive income, the remaining portion of the change in value as a gain or loss.
Initial application of IFRS 9 – subject to its pending inclusion under EU law – will be mandatory in fiscal years beginning on or after January 1, 2015.

IFRS 10 – Consolidated Financial Statements • This standard provides a new and comprehensive definition of the term "control." If one entity controls another entity, the parent company must consolidate the subsidiary. Under the new concept, control is deemed to exist if the potential parent company possesses decision-making power over the potential subsidiary as a result of voting or other rights, participates in positive or negative backflows from the subsidiary and can influence these backflows through its decision-making power.
This new standard could impact the number of consolidated companies, including special-purpose entities.
Initial application of this new standard – subject to its pending inclusion under EU law – will be mandatory in fiscal years beginning on or after January 1, 2013. Should the qualification of an investment as a subsidiary be determined differently by IAS 27/SIC-12 and IFRS 10, IFRS 10 will be applied retroactively. Prior application is only permissible simultaneously with IFRS 11 and IFRS 12, as well as with IAS 27 and IAS 28, which were amended in 2011.

IFRS 11 – Joint Arrangements • IFRS 11 provides new rules that govern the accounting for joint arrangements. Under the new concept, a distinction must be made as to whether the case in question is a joint operation or a joint venture. A joint operation is deemed to exist if the jointly controlling parties possess rights to assets and obligations or liabilities. The individual rights and obligations are accounted for proportionally in the Consolidated Financial Statements. In the case of a joint venture, on the other hand, the jointly controlling parties possess rights to the net asset surplus. This right is presented through the application of the equity method in the consolidated financial statements, thus eliminating the option of proportional inclusion in the consolidated financial statements.
Initial application of this new standard – subject to its pending inclusion under EU law – will be mandatory in fiscal years beginning on or after January 1, 2013. There are specific transitional rules for the transition from proportional consolidation to the equity method, for example. Prior application is only permissible simultaneously with IFRS 10 and IFRS 12, as well as with IAS 27 and IAS 28, which were amended in 2011.

IFRS 12 – Disclosure of Interests in Other Entities • This standard governs disclosure obligations with respect to interests in other entities. The required disclosures are considerably more extensive than those required in the past under IAS 27, IAS 28 and IAS 31.
Initial application of this new standard – subject to its pending inclusion under EU law – will be mandatory in fiscal years beginning on or after January 1, 2013.

IFRS 13 – Fair Value Measurement • This standard consistently governs fair value measurement in IFRS financial statements. In the future, all fair value measurements required under other standards will follow the consistent rules in IFRS 13; there will only continue to be separate rules for IAS 17 and IFRS 2.
Fair value under IFRS 13 is defined as the exit price, i.e. the price that would be achieved through the sale of an asset or the price that would have to be paid in order to transfer a debt. A 3-stage hierarchical system of the type already known from the fair value measurement of financial assets will be introduced, classified on the basis of the dependence upon observable market prices. The new fair value measurement method could lead to values that differ from those measured under previous rules.
Initial application of this new standard – subject to its pending inclusion under EU law – will be mandatory in fiscal years beginning on or after January 1, 2013.

INCOME STATEMENT DISCLOSURES

7 Net revenues

Revenues are generated with wholesale partners and resellers, as well as with direct customers. The resellers offer QSC's products and services to consumers under their own name and for their own account; in doing so, they serve as the interface to the consumer, thus also assuming the risk of bad debts. The distribution of the Company's revenues by segment is presented in Note 39. QSC defers non-recurring revenue from the installation of customer lines on a time-apportioned basis over an average contractual term of 24 months.
Revenues from production orders totaled K€ 3,239 for the year under review (2010: K€ 0), losses on production orders K€ 364 (2010: K€ 0). Hardware leasing revenues from multi-component contracts totaled K€ 3,503 in 2011 (2010: K€ 0).
Due to the pricing structure and billing methods used, a further breakdown into products and services is not possible.

8 Cost of revenues

Cost of revenues include the cost of material, the cost of building, operating and maintaining the network, personnel expenses for employees whose jobs relate to technology, non-cash share-based payments under stock option programs, as well as depreciation and amortization on the hardware and software employed in connection with technology operations. This account 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 contract term of 24 months. No research expenses were incurred in the 2011 fiscal year; development expenses of K€ 1,100 were capitalized as intangible assets.

in K€	2011	2010
Cost of materials	240,729	206,720
Building, operation and maintenance of the network	47,165	54,420
Depreciation and amortization	38,130	41,657
Personnel expenses	34,445	12,444
Non-cash share-based payments	3	(35)
Cost of revenues	360,472	315,206

9 Sales and marketing expenses

Sales and marketing expenses include, in particular, advertising expenses and advertising expense allowances, regular commission payments to dealers and distributors, allowances for bad debts, personnel expenses and the non-cash share-based payment in connection with SOPs, as well as depreciation and amortization on the hardware and software employed in connection with sales and marketing operations. Analogously to the installation costs, the non-recurring commission payments to dealers and distributors for each new customer line are capitalized and amortized over the average contract term of 24 months.

in K€	2011	2010
Personnel expenses	20,194	16,453
Commissions	17,212	20,079
Other sales and marketing expenses	4,316	4,713
Allowance of bad debts and fair dealing payments	662	430
Advertising expenses	2,112	1,830
Depreciation and amortization	12,076	12,462
Non-cash share-based payments	108	15
Sales and marketing expenses	**56,680**	**55,982**

10 General and administrative expenses

In addition to the personnel expenses and the non-cash share-based payments 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 item also includes costs for the administration buildings, legal and consulting costs, corporate communications costs, including investor relations, as well as depreciation and amortization on the hardware and software employed in connection with administrative operations.

in K€	2011	2010
Other general and administrative expenses	14,088	11,234
Personnel expenses	17,698	15,227
Depreciation and amortization	3,056	3,020
Non-cash share-based payments	280	75
General and administrative expenses	**35,122**	**29,556**

11 Other operating income and expenses

in K€	2011	2010
Miscellaneous operating income	151	655
Reversals of unutilized provisions and write-off of liabilities	195	29
Proceeds from loss of control of subsidiary	1,493	-
Other operating income	**1,839**	**684**

in K€	2011	2010
Miscellaneous operating expenses	424	1,168
Losses from disposal of property, plant and equipment	993	-
Other operating expenses	**1,417**	**1,168**

12 Financial result

in K€	2011	2010
Interest income	506	261
Financial income	**506**	**261**

in K€	2011	2010
Interest expense	3,334	1,892
TELE2's minority interest in Plusnet GmbH & Co. KG	-	402
Financial expenses	**3,334**	**2,294**

Interest expense includes expenses under financing arrangements in the amount of K€ 761 (2010: K€ 1,068). Borrowing costs, which would have had to be attributed to qualifying assets, were not incurred.

13 Earnings per share

For the purposes 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 approximately as mean from the respective number of common stock to quarterly closing dates.

For the purposes 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, 2011, the number of potential shares of common stock with a dilutive effect was 1,495,004. Of these, a further 5,853 convertible bonds from the existing conditional capital are still convertible.

During the period between the balance date and the date on which the consolidated financial statements were authorized for issue, 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, 2011.

	2011	2010
Net profit attributable to owners of QSC AG in K€	27,611	24,168
Weighted average number of common shares	137,206,743	137,024,016
Earnings per share (basic) in €	**0.20**	**0.18**

	2011	2010
Net profit attributable to owners of QSC AG in K€	27,611	24,168
Weighted average number of common shares	138,701,747	138,985,957
Earnings per share (diluted) in €	**0.20**	**0.17**

14 Personnel expenses and employees

in K€	2011	2010
Wages and salaries	62,309	38,236
Employer's social security contributions (pension fund)	5,113	3,013
Employer's social security contributions (other)	4,282	2,600
Net pension costs	634	275
Non-cash share-based payments	391	55
Personnel expenses	72,729	44,179

Wages and salaries include expenses for the termination of employment contracts in the amount of K€ 548 (2010: K€ 660).
During fiscal 2011, the Company employed on average 1,305 employees (2010: 658). The following table presents the distribution according to the employees' primary function:

	2011	2010
Sales and marketing	137	100
Engineering, Outsourcing, Consulting	896	355
General and administration	243	181
Board and staff positions	29	22
Number of employees by function (on average)	1,305	658

BALANCE SHEET DISCLOSURES

15 Property, plant and equipment

in K€	Land and buildings	Network and technical equipment	Operational and office equipment	Total
Gross value as of January 1, 2010	**-**	**303,773**	**34,761**	**338,534**
Additions	-	11,345	514	11,859
Disposals	-	(3,040)	-	(3,040)
Transfers	-	(6,289)	6,289	-
Gross value as of December 31, 2010	**-**	**305,789**	**41,564**	**347,353**
Additions	1,830	15,630	5,471	22,931
Disposals	-	(4,685)	(257)	(4,942)
Transfers	-	2	-	2
Change in consolidated companies	27,047	15,353	3,837	46,237
Gross value as of December 31, 2011	**28,877**	**332,089**	**50,615**	**411,581**
Accumulated depreciation and amortization as of January 1, 2010	**-**	**178,755**	**33,592**	**212,347**
Additions	-	27,308	1,690	28,998
Disposals	-	(2,079)	-	(2,079)
Transfers	-	(3,996)	3,996	-
Accumulated depreciation and amortization as of December 31, 2010	**-**	**199,988**	**39,278**	**239,266**
Additions	564	29,175	1,697	31,436
Disposals	-	(3,876)	(250)	(4,126)
Change in consolidated companies	-	-	(48)	(48)
Accumulated depreciation and amortization as of December 31, 2011	**564**	**225,287**	**40,677**	**266,528**
Carrying amount as of December 31, 2010	**-**	**105,801**	**2,286**	**108,087**
Carrying amount as of December 31, 2011	28,313	106,802	9,938	145,053

As of December 31, 2011, the carrying amount of plant and equipment, as well as operational and office equipment held under financing arrangements and rent-to-own contracts totaled K€ 22,017 (2010: K€ 15,657).

Additions during the year amounted to K€ 22,931 (2010: K€ 11,859). As of December 31, 2011, the line item 'Network and equipment' included assets under construction amounting to K€ 2,111 (2010: K€ 94).
QSC presents depreciation and amortization in the income statement under 'Cost of revenues', 'Sales and marketing expenses' and 'General and administrative expenses', respectively. No impairments were recorded in 2011.

16 Goodwill

Goodwill on December 31, 2011, totaled K€ 76,265 (2010: K€ 49,279). The increase was attributable to additions stemming from the acquisitions of IP Partner and INFO AG. Further details in this regard are explained in Note 38.

17 Impairment of goodwill

Goodwill acquired in conjunction with business combinations was allocated to the following cash-generating units (CGUs), which were also reportable segments, for the purpose of impairment testing:

in K€	2011	2010
Direct Sales		
(2010: Managed Services)	32,706	5,720
Indirect Sales		
(2010: Products)	22,415	15,543
Resellers		
(2010: Wholesale/Resellers)	21,144	28,016
Carrying amount of goodwill	**76,265**	**49,279**

Due to the segmentation implemented in 2011, goodwill attributed to the CGUs Indirect Sales (2010: Products) and Resellers (2010: Wholesale/Resellers) in the amount of K€ 6,872 was reallocated. Goodwill in the amount of K€ 26,986 from initial consolidation of INFO AG and IP Partner was attributed to the CGU Direct Sales.

QSC initially determines the recoverable amount of the CGUs on the basis of a value in use, which, in turn, is measured using three-year cash flow forecasts. The latter constitutes the corporate plan which is devised by the Management Board. It is based on the assumption of steady, linear growth in the CGU Direct Sales. According to the planning, growth in the CGU Indirect Sales is steadily increasing, backed by product development and the number of sales partners. In the Resellers CGU, a decline is expected for the beginning of the planning phase. With regard to new lines of business, however, management expects to see growth in this CGU over the medium term The reconciliation from the detailed corporate planning period to the long-term growth rate was prepared on the basis of projected industry growth rates and the overall development of the economy. For all CGUs, a long-term growth rate of 1.0 percent was assumed.

The capitalization interest rate utilized for discounting the expected future cash flows is 10.75 percent for all CGUs. In the past fiscal year, a capitalization interest rate of 8.25 percent was utilized. This discount rate reflects management's assessment of company-specific risks and includes a base rate (risk-free and appropriate for an alternative investment according to the interest rate structure curve at December 31, 2011) and a risk-uplift factor (reflecting the risk structure of the Group and of the telecommunications industry in general).

No impairment testing was performed.

The calculation of the CGUs' value in use, in particular, requires management to make estimates about gross profit, discount rate, and the development of prices and market share, which are subject to uncertainties. QSC believes that the basic assumptions applied for determining value in use for the CGUs, in particular regarding the capitalization interest rate, appropriately reflect the risk situation. A 2.0 percent risk premium was applied in view of increased risk connected with the repositioning of the firm. Another 2.0 percent increase of the capitalization interest rate applied at prudent discretion does not raise the CGUs' carrying values above realizable value.

18 Other intangible assets

in K€	Licences	Software	Customer acquisition	Other	Total
Cost at January 1, 2010	1,164	16,819	89,745	13,984	121,712
Additions	113	1,533	15,552	125	17,323
Cost at December 31, 2010	1,277	18,352	105,297	14,109	139,035
Additions	110	3,154	9,304	100	12,668
Disposals	-	(264)	-	-	(264)
Transfers	-	(2)	-	-	(2)
Change in consolidated companies	-	2,887	-	39,704	42,591
Cost at December 31, 2011	1,387	24,127	114,601	53,913	194,028
Accumulated amortization and allowance at January 1, 2010	706	12,496	65,093	9,759	88,054
Additions	175	2,324	24,225	1,298	28,022
Accumulated amortization and allowance at December 31, 2010	881	14,820	89,318	11,057	116,076
Additions	102	3,087	14,889	3,748	21,826
Disposals	-	(152)	-	-	(152)
Change in consolidated companies	-	(11)	-	-	(11)
Accumulated amortization and allowance at December 31, 2011	983	17,744	104,207	14,805	137,739
Carrying amount at December 31, 2010	396	3,532	15,979	3,052	22,959
Carrying amount at December 31, 2011	404	6,383	10,394	39,108	56,289

Additions to the “Software” line item under “Intangible assets” include internally generated intangible assets (capitalized development cost) in the amount of K€ 1,110 (2010: K€ 69).
Additions to other intangible assets resulting from changes in consolidated companies related primarily to fair-value adjustments recognized in conjunction with the first-time consolidation of IP Partner AG and INFO AG.

in K€	2011
Customer base, DATEV	5,153
Customer base, other	11,236
Advantage electricity contracts	458
Software accounting	10
Software data center manager	87
IP Exchange brand	379
Carrying amount, IP Partner AG	**17,323**

in K€	2011
Customer base, Tchibo	8,750
Customer base, other	11,084
Advantage electricity contracts	500
INFO AG brand	2,047
Carrying amount, INFO AG	**22,381**

The useful lives of separately identified intangible assets recognized in conjunction with the first-time consolidation of IP Partner AG and INFO AG are as follows:

	Depreciation Range in Years
Asset	
Brands	5
Customer base, DATEV and Tchibo	10 to 20
Customer base, other	20
Electricity contracts	1.5 to 3
Software	3 to 4

QSC presents depreciation and amortization in the income statement under 'Cost of revenues', 'Sales and marketing expenses' and 'General and administrative expenses', respectively

19 Trade receivables

in K€	2011	2010
Long-term trade receivables	3,622	-
Short-term trade receivables	65,705	61,284
Trade receivables	69,327	61,284

As of balance sheet date, the Group had sold trade receivables in the amount of K€ 10,500 (2010: K€ 0).
Trade receivables are not interest-bearing and generally have an original maturity of between 30 and 90 days. As of December 31, 2011, trade receivables amounting to K€ 4,075 (2010: K€ 3,913) were impaired. Allowances developed as follows:

in K€	2011	2010
Allowance at January 1	**3,913**	**7,561**
Change in consolidated companies	7	-
Charge for the year	729	742
Amounts written off	(507)	(4,078)
Unused amounts reversed	(67)	(312)
Allowance at December 31	4,075	3,913

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 2011 amounted to K€ 3,239 (2010: K€ 0). Write-downs totaling K€ 138 (2010: K€ 0) were recognized in the year under report on long-term construction contracts.
Long-term PoC receivables totaling K€ 1,042 (2010: K€ 0) are reported as trade receivables and have maturities of between 31 and 90 days. The income statement impact of PoC accounting is explained in Note 7.

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

in K€	2011	2010
Impaired	4,849	4,656
Neither past due nor impaired	57,773	57,510
Past due but not impaired		
< 90 days	10,658	3,031
91 – 120 days	92	-
> 120 days	30	-
Trade receivables not impaired	73,402	65,197

20 Prepayments

Long-term prepayments totaled K€ 1,718 (2010: K€ 0) on December 31, 2011, and essentially contain prepayments under service and maintenance agreements. Short-term prepayments totaled K€ 4,526 (2010: K€ 2,883) and essentially record prepayments for leased lines and technology premises, as well as insurance.

21 Inventories

Inventories totaled K€ 1,563 on December 31, 2011 (2010: K€ 1,045), and record technical devices for end customers that are on stock. End customer devices are recorded in current assets at the time of acquisition and transferred as fixed assets upon being shipped to the end customer.

22 Other short-term financial assets

Other short-term financial assets total K€ 3,944 (2010: K€ 2,774) and relate primarily to tax receivables.

23 Available-for-sale financial assets

Available-for-sale financial assets, which amount to K€ 341 (2010: K€ 332), consist of shares in a money market fund.

24 Cash and short-term deposits

Cash and short-term deposits amounted to K€ 23,755 (2010: K€ 46,233) and relate to positive balances with banks. Cash funds at December 31, 2011, included cash with limited availability totaling K€ 739 which serves as collateral for guarantees.

25 Issued capital

	2011	2010
Issued capital		
Capital stock in K€	137,257	137,128
No-par common stock	137,256,877	137,127,532

Each share of stock entitles the registered owner to cast one vote at the Annual Shareholders Meeting and enjoy full dividend entitlement. The voting right is not subject to any restrictions. The capital stock rose by K€ 129 in fiscal 2011, exclusively 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.

26 Capital surplus

As of December 31, 2011, capital surplus amounts to K€ 140,095 (2010: K€ 139,593). This amount includes deferred share-based compensation which relates to the Company's stock option program. Capital surplus may only be utilized according to the rules of the Stock Corporation Act ("AktG").

27 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 bearer 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 • Conditional capital of K€ 28,214 at December 31, 2011, relates 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 of K€ 25,000 at December 31, 2011, 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 until 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 AG or by a group entity – as defined by § 18 "AktG" and in which QSC AG 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 own (treasury) shares of the Company or the shares of an another stock exchange-listed 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.

28 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 the 2011 and 2010 fiscal years are shown in the consolidated statements of changes in shareholders' equity and in the consolidated statements of recognized income and expenses.
Other reserves at December 31, 2011, comprise unrealized fair value changes on available-for-sale assets amounting to K€ 3 (2010: K€ 2) and actuarial losses on pension plans amounting to K€ 372 (2010: K€ 164). These amounts are stated net of deferred taxes.

29 Interest-bearing liabilities

in K€	Effective interest rate in 2011	Due date	2011	2010
Short-term liabilities				
under financing arrangements	6.00	2012	6,698	5,493
due to banks	3.32	2012	28,181	10,000
Other short-term liabilities	-	2011	-	576
Short-term liabilities			**34,879**	**16,069**
Long-term liabilities				
from convertible bonds	3.50	2013 – 2019	15	20
under financing arrangements	5.36	2013 – 2017	15,404	-
Other long-term liabilities	6.06	2013 – 2016	6,879	2,044
Long-term liabilities			**22,298**	**2,064**
Interest-bearing liabilities			57,177	18,133

Short-term liabilities under financing agreements consist of fixed payment obligations through year-end 2012.
Short-term liabilities due to banks in fiscal 2011 essentially consisted of liabilities stemming from the consortium loan agreement that was entered into in September 2011. This revolving line of credit totals K€ 150,000 and will run through September 16, 2016. The loan amount(s) utilized will generally be used to finance operating resources, and the ability to draw upon the line is subject to prerequisites, in particular the attainment of certain key financial indicators. The interest rate currently amounts to 1.50 percent over EURIBOR, with the points subject to change as a function of the Company's financial position and profitability. They are presented under short-term liabilities, as utilization is currently for three-month periods, respectively, although an extension is possible at any time.
Loans payable at the level of INFO AG 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, INFO AG 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 2011.
Loans payable at the level of a subsidiary of IP Partner are secured by a mortgage lien of K€ 2,300 on that entity's site. In addition, all entitlements to receive rent and lease income under a general subcontract agreement between the subsidiary and a customer have also been assigned as collateral.
Long-term liabilities due to banks relate primarily to financing for the computer centers in Nuremberg and Hamburg.
As of December 31, 2011, there were 1,495,004 convertible bonds issued in conjunction with stock option programs. See also Note 40 in this regard. The convertible bonds have a nominal value of € 0.01 each.
Long-term liabilities due to banks comprise annuity loans that are utilized to finance buildings and data centers. Long-term liabilities under financing arrangements consist of fixed payment obligations for the period 2013 through 2019.

30 Accrued pensions

QSC operates defined benefit pension plans, which are partially secured through reinsurance that is classified as plan asset in accordance with IAS 19.
The pension provision covers benefit entitlements of one current member of the QSC Management Board and two former members of the Info AG Management Board as well as benefit entitlements granted to some of the staff of INFO AG and Ventelo GmbH 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.

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.
QSC has opted to recognize all actuarial gains and losses directly in equity. In fiscal 2011, the accumulated amount of all actuarial gains and losses as presented in the consolidated statement of directly recognized income and expenses was K€ 1,158 (2010: K€ 62).

in K€	2011	2010
Present value of defined benefit obligation at January 1	**1,189**	**849**
Entitlement from change in consolidated companies	3,743	-
Service costs	140	58
Interest costs	181	45
Actuarial gains and losses	545	246
Benefits paid	(83)	(9)
Present value of defined benefit obligation at December 31	**5,715**	**1,189**
Fair value of plan assets at January 1	**(122)**	**(108)**
Expected return on plan assets	(4)	(4)
Actuarial gains and losses	6	6
Employer's contributions for plan assets	(256)	(16)
Fair value of plan assets at December 31	**(376)**	**(122)**
Accrued pensions at December 31	**5,339**	**1,067**
Discount rate	4.45 % – 4.52 %	4.56 %
Expected return on plan assets	3.50 %	3.50 %
Rate of compensation increase	0.00 % – 3.00 %	3.00 %
Rate of pension indexation	3.00 %	3.00 %

Total actuarial losses after taxes amount to K€ 372. In the past fiscal year, a loss of K€ 162 was recorded.

The composition of the pension costs under defined benefit plans is as follows:

in K€	2011	2010
Service costs	140	58
Interest costs	181	45
Expected return on plan assets	(4)	(4)
Net pension costs	**317**	**99**

Actual losses on the fund assets amounted to K€ 20 (2010: K€ 73). The expense for unwinding interest is reported as part of the net financial result.
Defined benefit obligations and fund assets (partially externalized) measured for IAS 19 purposes were as follows at the end of 2011 and four preceding reporting periods:

in K€	2011	2010	2009	2008	2007
Present value of defined benefit obligation	(1,281)	(1,189)	(849)	(773)	(843)
Fair value of plan assets	376	122	108	95	83
Deficit	**(905)**	**(1,067)**	**(741)**	**(678)**	**(760)**

In 2011, QSC did not make any adjustments based on past experience with regard to the present value of defined benefit obligations and plan assets.

31 Trade payables

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

32 Provisions

Other provisions primarily record liabilities to third parties attributable to trade receivables, litigation risks, as well as human resources provisions. Measurement of these items was based upon past experience. Tax provisions consisted of municipal trade tax of K€ 2,925 for fiscal 2010 and 2011, corporation tax of K€ 2,701 for fiscal 2011 and 2010, as well as other prior-year provisions of K€ 138.

in K€	2011
Long-term provisions on January 1	-
Stemming from the change in consolidated companies	1,066
Arising during the year	255
Utilized	(285)
Unused amounts reversed	-
Long-term provisions on December 31	**1,036**

Long-term provisions relate to obligations for pre-retirement part-time working arrangements amounting to K€ 830 (2010: K€ 0) and for leasehold improvement reversals amounting to K€ 206 (2010: K€ 0).

in K€	2011
Other provisions on January 1	**707**
Stemming from the change in consolidated companies	1,604
Arising during the year	120
Utilized	(625)
Unused amounts reversed	(468)
Other provisions on December 31	**1,338**
Provisions for trade accounts receivable on January 1	**175**
Stemming from the change in consolidated companies	-
Arising during the year	-
Utilized	(93)
Unused amounts reversed	-
Provisions for trade accounts receivable on December 31	**82**
Litigation risks on January 1	**1,203**
Stemming from the change in consolidated companies	-
Arising during the year	256
Utilized	-
Unused amounts reversed	-
Litigation risks on December 31	**1,459**
Other short-term provisions on December 31	**2,879**

in K€	2011
Tax provisions on January 1	2,214
Stemming from the change in consolidated companies	460
Arising during the year	3,502
Utilized	(308)
Unused amounts reversed	(104)
Tax provisions on December 31	5,764
Total provisions on December 31	9,679

33 Deferred income

Revenues from non-recurring installation charges are capitalized and amortized over the estimated average customer subscription life of 24 months. Advance payments from customers are also deferred until such time as the corresponding performance has been provided.
During the past fiscal year, the Company also recognized deferred income relating to the payment by TELE2 in the amount of K€ 41,827 for early termination of the contract covering collaboration with DSL network operating company Plusnet, which was originally to run at least through December 31, 2013; this amount will be amortized over the remaining term of the contract.

34 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

35 Cash flow from operating activities

Cash flow from operating activities amounted to K€ 76,754 in fiscal 2011, up K€ 20,159 from the previous year's level of K€ 56,595. Earnings before taxes, adjusted to reflect depreciation expense, accounted for K€ 7,990 of this rise. Early termination in January 2011 of the contract between QSC and TELE2, which was originally to run through year-end 2013, resulted in a K€ 28,358 change in accounts receivable from former shareholders. The change in other assets and liabilities contains a corresponding negative line item in the amount of K€ -20,914 stemming from the return of deferred income. The net positive effect stemming from the premature redemption thus amounted to K€ 7,444 by comparison with the year before.

36 Cash flow from investing activities

In fiscal 2011, cash flow from investing activities totaled K€ -85,339 (2010: K€ -25,134). K€ 6,786 of the total investments made in fiscal 2011 (K€ -35,599) were financed through lease financing arrangements and were thus not presented here. Purchase from acquisition of subsidiary less assets acquired in the amount of K€ -57,629 relate, on the one hand, to the acquisition of shares in INFO AG (K€ -33,617), as well as in IP Partner (K€ -24,012). Proceeds on loss of control of subsidiary less liquid assets in the amount of K€ 1,429 were attributable to the sale of EPAG Domainservices GmbH.

37 Cash flow from financing activities

In fiscal 2011, cash flow from financing activities amounted to K€ -13,893 (2010: K€ -26,180). The decrease was primarily attributable to the lower redemption of liabilities under financing arrangements as well as the assumption of liabilities under the consortium loan agreement, offset partly by disbursements made to purchase further shares in INFO AG following acquisition of control in this entity. Interest accrued in the amount of K€ 1,843 and interest received in the amount of K€ 307 are allocated to cash flow from financing activities.

OTHER DISCLOSURES

38 Subsidiaries

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

in K€	Share in % at Dec. 31, 2011	Shareholders' equity at Dec. 31, 2011	Net profit (loss) 2011
Subsidiaries (disclosures according to German GAAP)			
Plusnet GmbH & Co. KG ("Plusnet"), Cologne	100	28,226	295
Ventelo GmbH ("Ventelo"), Cologne	100	169,738	284*
Q-DSL home GmbH ("DSL home"), Cologne	100	1,293	(189)*
010090 GmbH ("010090"), Cologne	100	156	(28)*
Broadnet Services GmbH			
("Broadnet Services"), Cologne	100	25	32*
BroadNet Deutschland GmbH			
("BroadNet Deutschland"), Cologne	100	2,918	20*
01098 Telecom GmbH ("01098"), Cologne	100	25	26*
01012 Telecom GmbH ("01012"), Cologne	100	27	27*
010052 Telecom GmbH ("010052"), Cologne	100	25	25*
tengo GmbH ("tengo"), Cologne	100	23	(8)*
tengo 01052 GmbH ("tengo 01052"), Cologne	100	25	1*
F&Q Netzbetriebs GmbH & Co. KG ("F&Q"), Cologne	100	26	0
F&Q Netzbetriebs Verwaltungs GmbH			
("F&Q Vewaltung"), Cologne	100	25	0
T&Q Netzbetriebs GmbH & Co. KG ("T&Q"), Cologne	100	25	0
T&Q Verwaltungs GmbH ("T&Q Verwaltung"), Cologne	100	22	(3)
IP Partner AG ("IP Partner"), Nuremberg	100	2,496	649
IP Exchange GmbH ("IP Exchange"), Nuremberg	100	500	1,012*
IPX-Server GmbH ("IPX-Server"), Nuremberg	100	174	(35)
IP Colocation GmbH ("IP Colocation"), Nuremberg	100	1,455	1,389
INFO Gesellschaft für Informationssysteme			
Aktiengesellschaft ("INFO AG"), Hamburg	91.78	29,326	(783)
INFO Business Systems GmbH			
("INFO BS"), Hamburg **	100	394	484*
INFO Customer Service GmbH			
("INFO CS"), Hamburg **	100	25	310*

* Result for the year prior to profit and loss transfer
** The shares are held by INFO AG

The following subsidiaries have exercised their option for exemption pursuant to § 264 (3) of the German Commercial Code ("HGB"): DSL home, 010090, BroadNet Deutschland, Broadnet Services, 01098, 01012, 010052, tengo, tengo 01052, F&Q, F&Q Verwaltung, T&Q, T&Q Verwaltung, IPX-Server, IP Colocation, INFO BS, and INFO CS.

Plusnet • On July 10, 2006, QSC and TELE2 founded Plusnet. Following the acquisition of TELE2's 32.5-percent minority stake on December 22, 2010, QSC now owns 100 percent of the shares. Plusnet's purpose is to continue to operate the Germany-wide DSL network.

Ventelo • On December 13, 2002, QSC acquired 100 percent of Ventelo, a nationwide voice telephony carrier providing enterprise customers with voice telephony services. Ventelo's market position in voice communications for enterprise customers ideally complemented QSC's broadband data communications service to the same customer segment. The acquisition of Ventelo enabled QSC to also offer integrated telecommunications solutions for all enterprise customer segments. Total acquisition costs for Ventelo were K€ 11,454, including direct acquisition costs of K€ 90.

DSL home • On March 31, 2006, QSC acquired 100 percent of the shares of DSL home. The purchase price paid for the formerly non-operative Kristall 40. GmbH totaled K€ 27. In accordance with § 123 (3) no. 1 of the German Company Transformation Law ("UmwG"), all retail customer contracts relating to DSL residential customer business were transferred to DSL home by way of spin-off. At the Annual General Meeting held on May 23, 2006, the shareholders gave their approval to the spin-off with retrospective effect from January 1, 2006. The Spin-Off and Transfer Agreement was signed on August 9, 2006.

010090 • On April 12, 2006, QSC acquired 100 percent of the shares of 010090. The purchase price paid for the formerly non-operative Kristall 39. GmbH totaled K€ 27. The company 010090 markets voice telephony products for residential customers, in particular call-by-call products.

Broadnet Services • Broadnet Services is a former 100-percent-subsidiary of Broadnet, and has been a direct investment of QSC since the date of the Broadnet merger. Broadnet Service markets voice telephony products for residential and business customers.

BroadNet Deutschland • BroadNet Deutschland is a former 100-percent-subsidiary of Broadnet, and has been a direct investment of QSC since the date of the Broadnet merger. BroadNet Deutschland markets voice telephony products for residential customers, especially call-by-call products.

01098 • On July 2, 2008, QSC acquired 100 percent of the shares of 01098. Total acquisition costs for formerly non-operative Kolibri 113 GmbH amount to K€ 25. 01098 markets voice telephony products for residential customers, especially call-by-call products.

01012 • On July 17, 2008, QSC acquired 100 percent of 01012. Total acquisition costs for 01012 amounted to K€ 28. 01012 markets voice telephony products for residential customers, especially call-by-call products.

010052 • 010052 emerged on October 30, 2009, from a name change of Q-DSL privat GmbH. The latter was formed on December 17, 2008, and is a wholly-owned QSC company. 010052 markets voice telephony products for residential customers, especially call-by-call products.

tengo • On January 15, 2010, QSC formed tengo GmbH with share capital of K€ 25. tengo markets voice products for residential customers, in particular call-by-call offerings.

tengo 01052 • Newly established tengo 01052 with share capital of K€ 25 has been fully consolidated in the Consolidated Financial Statements since March 11, 2011. tengo 01052 markets voice products for residential customers, in particular call-by-call offerings.

F&Q • Under a purchase agreement dated September 6, 2010, QSC acquired 100 percent of F&Q Netzbetriebs GmbH & Co. KG having a limited partner's share of K€ 1 as well as a general partner, F&Q Netzbetriebs Verwaltungs GmbH. The general partner's share capital amounts to K€ 25 and comprises one share having a par value of K€ 25, which is held by F&Q Netzbetriebs GmbH & Co. KG, itself. F&Q provides voice and Internet services for customers of Freenet Cityline GmbH. A network partnership had been in place here between QSC and Freenet. The purchase price totaled K€ 26. What were acquired were essentially liquid assets.

T&Q • Under a purchase agreement dated December 29, 2010, QSC acquired 100 percent of T&Q Netzbetriebs GmbH & Co. KG having a limited partner's share of K€ 25 as well as a general partner, T&Q Verwaltungs GmbH. The general partner's share capital amounts to K€ 25 and comprises one share having a par value of K€ 25, which is held by T&Q Netzbetriebs GmbH & Co. KG, itself. T&Q serves to provide voice services for TELE2. A network partnership had been in place here between QSC and TELE2. The purchase price totaled K€ 50. What were acquired were essentially liquid assets.

IP Partner • On December 21, 2010, QSC published an ad-hoc release relating to the acquisition of all shares of IP Partner. The date of the share transfer (acquisition date) was January 3, 2011. IP Partner operates two data centers in Munich and Nuremberg with more than 10,000 servers for more than 1,000 business customers. With this acquisition, QSC is accelerating its transformation process from a TC provider into a provider of integrated ICT products, solutions and services, and in the future will be able to offer its predominantly small and mid-size customers a far broader range of products, solutions and services. The purchase price totaled K€ 24,684 and consists of three components, which partially depended on IP Partner Group's business performance. As of January 3, 2011, QSC paid K€ 15,000 in cash to the former shareholders. The second installment of the purchase price in the amount of K€ 2,500 was paid to the former shareholders on May 5, 2011. The third and final installment (nominal value: K€ 7,500), whose amount, as was set out in the contract, depended on specific business targets being met by the IP Partner Group,

was determined at acquisition date to be the discounted amount of K€ 7,184, taking into consideration the previously agreed payment date (end of March 2012). Actual payment of the third and final installment at nominal value was already made on July 27, 2011, due to other conditions set out in the purchasing contract. The difference between the actual amount paid out and the estimated fair value as of January 3, 2011, amounting to K€ 316 was recognized as an expense arising during the year. Also incurred in connection with this acquisition were incidental acquisition costs in the amount of K€ 81, which are presented under other operating expenses in the Statements of Income. In fiscal 2011, the consolidated revenues of IP Partner, which also includes IP Exchange, IPX-Server and IP, totaled K€ 18,691. This subsidiary contributed K€ 2,001 to the total earnings of the QSC Group.
Determination of the costs of acquisition, as well as the attributable present values of the acquired assets and liabilities, produced goodwill of € 10,998. This essentially reflects the anticipated synergies stemming from the joint activities of IP Partner and QSC in the Direct Sales Business Unit.

in K€	assessed at purchase
Assets	
Immaterial assets	17,337
Fixed assets	5,575
Trade receivables	264
Other assets	1,170
Cash at hand	1,021
Assets	**25,367**
Liabilities	
Accruals	(883)
Liabilities due to banks	(3,559)
Trade payables	(591)
Other liabilities	(1,191)
Deferred tax liabilities	(5,452)
Liabilities	**(11,676)**
Net asset fair value	**13,686**
Acquisition costs	24,684
Net asset fair value	(13,686)
Activated goodwill	10,998

INFO AG • On May 2, 2011, QSC concluded a purchase agreement with MZ Erste Vermögensverwaltungsgesellschaft mbH, of Hamburg, a major shareholder of INFO AG, for the purchase of 58.98 percent of the 4,000,000 total issued shares of INFO AG for a price of € 14.35 per share. MZ Erste Vermögensverwaltungsgesellschaft mbH has therefore sold all of the shares it had previously held in INFO AG. INFO AG also held 251,403 of its own shares (treasury shares). Transaction costs of K€ 1,060 arising in conjunction with the transaction have been recognized as an expense for the period and are included in other operating expenses in the Statements of Income.

INFO AG is an independent provider of IT Outsourcing and IT Consulting services in Germany. Its portfolio includes the planning, implementation and operation of premium IT solutions for small and mid-size enterprises, both national and international. INFO AG has three data centers of its own in Hamburg and Oberhausen offering 6,000 square meters of total floor space. Moreover, INFO AG is an SAP Systems House and a Microsoft Gold Certified Partner. With the acquisition of INFO AG, QSC is extending and enhancing its existing portfolio to include IT competence and is significantly accelerating its transformation from a telecommunications provider into a provider of ICT products, solutions and services. With a workforce of just under 1,300 employees, the new corporate Group will be able to offer a comprehensive range of ICT products, solutions and services to small and mid-size business customers – ranging from complete voice/data communications to Housing, Hosting and IT Outsourcing right through to IT Consulting, thus strengthening QSC's position as an independent ICT provider for small and mid-size business customers. INFO AG contributed K€ 70,270 in revenues and earnings of K€ 1,893 to the QSC Group during the period from May 2 through December 31, 2011. Had the acquisition taken place effective January 1, 2011, Management estimates that INFO AG's consolidated revenue for the first full fiscal year would have been K€ 101,594, along with K€ 991 in profitability.

Determination of the costs of acquisition, as well as the attributable present values of the acquired assets and liabilities, produced goodwill of € 15,993. This essentially reflects the anticipated synergies stemming from the joint activities of INFO AG and QSC in the Direct Sales Business Unit.

in K€	assessed at purchase
Assets	
Immaterial assets	25,275
Fixed assets	40,787
Trade receivables	7,844
Intercompany receivables	1,562
Other assets	4,324
Deferred tax assets	2,824
Cash at hand	235
Assets	**82,851**
Liabilities	
Accruals	(5,672)
Liabilities due to banks	(19,245)
Trade payables	(8,871)
Other liabilities	(13,259)
Deferred tax liabilities	(7,423)
Liabilities	**(54,471)**
Net asset fair value	**28,380**
thereof pro rata QSC AG 62.93 %	17,860
Acquisition costs	33,853
Net asset fair value	(17,860)
Activated goodwill	**15,993**

	Number of shares	Share in % (pro rata 4,000,000)	Share in % (pro rata 3,748,597)	in K€
Shareholder				
MZ Erste Vermögensverwaltungs-				
gesellschaft mbH (2nd May 2011)	2,359,085	58.98	62.93	33,852,870
Purchase of Joh. Berenberg, Gossler & Co. KG				
(from 5th to 18th of May 2011)	446,000	11.15	11.90	6,393,850
Acquisition offer	619,483	15.49	16.52	8,889,581
Purchase of Joh. Berenberg, Gossler & Co. KG				
(14th of November 2011)	16,086	0.40	0.43	230,673
Own shares	251,403	6.29	-	-
Total	3,692,057	92.30	91.78	49,366,974

In accordance with the requirements of § 35 of the German Securities Acquisition and Takeover Act ("WpÜG"), QSC published a public Takeover Offer on June 9, 2011, offering to acquire all of the shares of INFO AG not already in its possession at a purchase price of € 14.35 per share. The term for acceptance of the Takeover Offer ended on July 7, 2011, and the further acceptance term ended on July 26, 2011. On the basis of the Takeover Offer, QSC was able to acquire 619,483 shares in INFO AG for a total purchase consideration of K€ 8,890. Prior to the publication of the Takeover Offer, QSC had already acquired 446,000 shares outside the stock exchange for a purchase consideration of K€ 6,394. Subsequent to the expiry of the Takeover Offer, QSC was able to acquire a further 16,086 shares in November 2011 for a purchase consideration of K€ 231.
Due to the fact that QSC had already gained control over INFO AG with effect from May 2, 2011, all of the purchases of INFO AG shares after that date have been accounted for as equity transactions in accordance with the requirements of IAS 27.30. The total purchase consideration for all shares acquired after May 2, 2011, amounting to K€ 15,514 was offset against the acquired minority interests of K€ 8,460 (measured at fair value). Group accumulated deficit) was accordingly reduced by K€ 7,054.

EPAG Domainservices GmbH • On August 1, 2011, QSC sold 100 percent of its shares in EPAG Domainservices GmbH to Toronto, Canada-based Tucows Inc. Sales proceeds amounted to K€ 1,493 and are presented in the income statement under "other operating income."

39 Segment reporting

In accordance with IFRS 8, QSC identifies reportable segments on the same basis as is used internally by Management for evaluating performance and making decisions. Since there has been a change in internal reporting following the acquisitions of IP Partner and INFO AG, the segments have also changed, with the previous year's numbers being correspondingly adjusted.

The Direct Sales Business Unit focuses on more than 8,000 larger and mid-size enterprises in Germany and also includes the business of subsidiaries INFO AG and IP Partner, which were acquired in fiscal 2011. Its portfolio comprises national and international site networking, outsourcing solutions, data center services, such as Housing and Hosting, as well as Cloud services to an increasing extent. IT Consulting is a further important element of this business unit's portfolio; the QSC Group 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 staff of their own for information and communications technology, obtaining their ICT services from regional partners instead. QSC is therefore focusing on collaborating with regional service providers, marketing partners and distributors. The Company offers 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
For the year ended Dec 31, 2011					
Net revenues	**151,440**	**121,205**	**205,434**	**-**	**478,079**
Cost of revenues	(90,077)	(69,985)	(162,277)		(322,339)
Gross profit	**61,363**	**51,220**	**43,157**	**-**	**155,740**
Sales and marketing expensess	(16,137)	(16,035)	(12,324)		(44,496)
General and administrative expenses	(16,128)	(8,826)	(6,832)		(31,786)
Depreciation and amortization	(18,175)	(11,573)	(23,513)		(53,261)
Non-cash share-based payments	(160)	(95)	(137)		(392)
Other operating income	334	(194)	282		422
Operating profit	11,097	14,497	633	-	26,227
Assets	183,535	98,755	101,009	7,961	391,260
Liabilities	63,968	28,021	86,906	5,065	183,961
Capital expenditures	19,167	7,606	8,826	-	35,599

in K€	Direct Sales	Indirect Sales	Resellers	Reconciliation	Consolidated
For the year ended Dec 31, 2010					
Net revenues	**74,044**	**110,890**	**237,172**	**-**	**422,106**
Cost of revenues	(32,395)	(66,938)	(174,251)		(273,584)
Gross profit	**41,649**	**43,952**	**62,921**	**-**	**148,522**
Sales and marketing expensess	(11,093)	(15,883)	(16,529)		(43,505)
General and administrative expenses	(9,314)	(9,162)	(7,985)		(26,461)
Depreciation and amortization	(10,349)	(11,532)	(35,258)		(57,139)
Non-cash share-based payments	(18)	(19)	(18)		(55)
Other operating income	(293)	(297)	106		(484)
Operating profit	10,582	7,059	3,237	-	20,878
Assets	69,573	92,038	162,121	8,484	332,216
Liabilities	14,973	25,305	103,782	4,108	148,168
Capital expenditures	6,153	7,540	15,489	-	29,182

Deferred tax assets and liabilities are shown as reconciling items.

No material revenues were generated from business with companies in foreign countries in fiscal 2010 or 2011, nor were intersegment revenues generated. Long-term financial assets are exclusively of a domestic nature. In fiscal 2011, there was one customer in the Resellers Business Unit whose share of total revenues exceeded 10 percent, namely 13.6 percent.

40 Stock option programs

QSC has established a total of six stock option programs since 1999, 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 five or eight years and are subject to a vesting period of up to three 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 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 the grant date with the aid of the Black-Scholes option-pricing model, with the following assumptions being employed. In 2010 and 2011, no convertible bonds were issued under the 2004 SOP.

	2011	2010
2006 SOP		
Expected average term of the 2006 SOP	8 years	8 years
Dividend yield	0.00 %	0.00 %
Average risk-free interest rate	1.53 %	2.73 %
Expected volatility (3 years)	49.35 %	57.52 %
Average fair value of options in €	1.64	0.97
Fair value of convertible bonds granted for the year in €	946,733	82,694

The convertible bonds outstanding under all programs as of December 31, 2010 and 2011, are presented below:

	Number of convertible bonds	Weighted average exercise price in €
Outstanding at December 31, 2009	**2,406,263**	**3.33**
Granted in 2010	85,000	1.55
Forfeited in 2010	(399,927)	3.63
Exercised in 2010	(129,395)	2.11
Outstanding at December 31, 2010	**1,961,941**	**3.27**
Granted in 2011	578,229	2.92
Forfeited in 2011	(915,821)	4.03
Exercised in 2011	(129,345)	1.86
Outstanding at December 31, 2011	1,495,004	2.79

The exercise prices of the remaining 1,495,004 convertible bonds range from € 1.00 to € 5.68, and the remaining term for exercise varies from "immediately exercisable" to May 19, 2019. 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 2019 at the latest.
As of balance sheet date, 745,755 of the remaining convertible bonds were exercisable, with the remaining convertible bonds being subject to the agreed retention period. During the year being reported, expense incurred with non-cash share-based payments amounted to K€ 392.

41 Related party transactions

In 2011, QSC participated in transactions with companies affiliated with members of the Management and Supervisory Boards. According to IAS 24 related parties are individuals or companies with the possibility to influence or even control the other party. All contracts with these companies require the approval of the Supervisory Board and are closed on the basis of normal market conditions.

in K€	Net revenues	Expenses	Cash received	Cash paid
For the year ended December 31, 2011				
IN-telegence GmbH & Co. KG	635	35	685	46
Teleport Köln GmbH	22	7	23	9
QS Communication Verwaltungs				
Service GmbH	-	221	-	263
Dr. Bernd Schlobohm	-	133	-	-
For the year ended December 31, 2010				
IN-telegence GmbH & Co. KG	711	50	929	57
Teleport Köln GmbH	15	5	16	8
QS Communication Verwaltungs				
Service GmbH	-	178	-	233
Dr. Bernd Schlobohm	-	98	-	-

in K€	Trade receivables	Trade payables
At December 31, 2011		
IN-telegence GmbH & Co. KG	141	-
Teleport Köln GmbH	6	-
QS Communication Verwaltungs Service GmbH	-	-
At December 31, 2010		
IN-telegence GmbH & Co. KG	70	(4)
Teleport Köln GmbH	3	-
QS Communication Verwaltungs Service GmbH	-	-

IN-telegence GmbH & Co. KG is a provider of value-added telecommunications services in the telecommunications industry. Teleport Köln GmbH provides support to QSC in the installation process of end-customer connections. QS Communication Verwaltungs Service GmbH provides consultancy on the product management of voice products. Expenses incurred for the Company's Chief Executive Officer, Dr. Bernd Schlobohm, relate to the transfer to pension provisions. The granting of a pension commitment, as presented in the Consolidated Financial Statements, amounts to K€ 792 (2010: K€ 954), after having been offset against fund assets of K€ 376 (2010: K€ 122).

42 Deferred taxes

Deferred taxes were calculated at rate of 32.45 percent (2010: 31.58 percent), whereby the increase was due to the rise in the individual multiplier ("Gewerbesteuerhebesatz") for the Cologne municipal area. Deferred taxes and liabilities for the corresponding periods are:
The temporary differences in connection with interests in subsidiaries for which no deferred tax liabilities are recorded amounted to K€ 30,701 in fiscal year 2011 (2010: K€ 22.917).
The following table reflects 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€	Asset	Liability	Asset	Liability	Consolidated Statements of Income	
	2011		2010		2011	2010
Deferred taxes						
Intangible assets	-	16,461	-	6,007	(2,223)	(3,057)
Property, plant and equipment	1,450	12,066	-	8,405	3,173	2,079
Financial assets	-	11	-	10	1	1
Trade receivables	-	-	-	39	(39)	-
Trade receivables related parties	-	279	36	301	14	180
Prepayments	133	-	13	36	5	(36)
Other recivables	1,062	663	1,849	-	1,182	2,231
Deferred revenues	-	-	-	-	-	-
Accrued pensions and provisions	572	365	22	1,109	(840)	931
Other liabilities	979	21	-	-	(897)	-
Total deferred taxes referred to temporary differences	**4,196**	**29,866**	**1,920**	**15,907**	**376**	**2,329**
Total deferred taxes referred to losses carryforward	**28,566**	**-**	**18,363**	**-**	**8,847**	**9,683**
Total deferred taxes referred to temporary differences before netting out	**32,762**	**29,866**	**20,283**	**15,907**		
Netting out	(24,801)	(24,801)	(11,799)	(11,799)		
Total deferred taxes	7,961	5,065	8,484	4,108		

The reconciled tax income comprises a current income tax expense of K€ 3,887 (of which K€ 162 relates to prior years) and deferred tax income of K€ 8,471. A tax expense of K€ 179 relating to the recognition of actuarial gains and losses was recognized directed to equity in 2011.

As of December 31, 2011, QSC's corporation tax and trade tax losses available for carry forward amounted to € 429 million (2010: € 443 million) and € 426 million (2010: € 439 million), respectively. These tax losses can be carried forward without restriction for future offset against the taxable profits of entities in which the tax losses arose. In 2010, deferred taxes were applied to loss carry forwards in the amount of € 28.6 million, as it is anticipated that after its positive results in fiscal 2010 and 2011, QSC AG will also have taxable income in fiscal 2012 through 2014. There were no deferred tax assets recorded in the balance sheet for still unutilized corporation tax losses available for carry forward in the amount of € 341 million, and for still unutilized trade tax losses in the amount of € 338 million.

in K€	2011	2010
Reconciliation		
Net profit	**23,399**	**18,845**
Tax rate	32.45 %	31.58 %
Expected tax expense	7,593	5,951
Tax effect of		
adjustments made to allowances on deferred taxes		
relating to carry forward of losses	(12,949)	(9,683)
non-deductible expenses	758	1,170
non taxable income	(418)	-
neglected capitalization of deferred taxes relating		
to carry forward of losses	(50)	(2,687)
permanent differences	360	(94)
income unrelated to accounting period	162	(100)
change in taxation rate	88	-
Miscellaneous	(127)	120
Reconciled tax expense	(4,583)	(5,323)

43 Litigation

In a judicial review proceeding ("Spruchverfahren") at the regional court in Hamburg, 30 former minority shareholders of Broadnet AG have filed an application for an additional contribution in cash in addition to the shares of QSC AG, which they received in exchange for their Broadnet AG shares. All minority interest shareholders of Broadnet AG had received 12 QSC shares in exchange for 11 Broadnet shares in connection with the merger. This corresponds to an exchange ratio of 1 Broadnet share for 1.0908 QSC shares. Should the regional court in Hamburg effectively rule an additional contribution in cash, it would have to be granted to all former minority shareholders of Broadnet AG who held shares of Broadnet AG at the time the merger came into effect. As a consequence, a possible ruling for an additional payment per share would have to be made for 999,359 former Broadnet shares. A first hearing was held on November 26, 2008, at the regional court in Hamburg. On the basis of a proposal made by the court, QSC made a proposal for a scheme of arrangement to the applicant under which QSC (without changing its interpretation of the law with respect to matters of law) obliges itself to make an additional payment in cash in the amount of 73 cents per Broadnet share and to bear certain expenses incurred on the part of the applicant. The settlement negotiations have failed since the settlement offer was not accepted by all applicants. A new appointment for an oral hearing has not yet been made. A provision was formed for this.

44 Contingencies and other financial obligations

Obligations from operating leases • The QSC Group is party to various operating lease arrangements as lessee, mostly for disk storage devices, buildings, 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. At December 31, 2011, future minimum lease payments under non-cancellable operating leases were as follows;

in K€	2011	2010
up to 1 year	2,235	637
1–5 years	3,527	601
Operating lease obligations	5,762	1,238

In fiscal year 2011, QSC recognized expenses incurred in connection with operating lease arrangements in the amount of K€ 2,584 (2010: K€ 886), which are presented under “Cost of revenues”. As of balance sheet date, liabilities from operating lease arrangements amount to K€ 0 (2010: 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 purchase option and run for an average period of three to five years. The QSC will receive the following future minimum lease payments under non-cancellable arrangements similar to operating leases:

in K€	2012	2013 – 2016	from 2017	Total
Minimum leasing payment rates	14,365	16,107	-	30,472

For the purposes 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 reporting date. Revenues in 2011 include lease payments totaling K€ 8,006 (2010: K€ 0).

Rights under finance lease arrangements – QSC Group as lessor • Under the rules contained in IFRIC 4, the QSC Group also is deemed to be the lessor in certain 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€	2012	2013 – 2016	from 2017	Total
Leasing Payments	3,555	3,430	1	6,986
Discounted	337	420	-	757
Present Value	3,218	3,010	1	6,229

Lease payments received in 2011 totaled K€ 2,209 (2010: K€ 0).

Obligations under financing and rent-to-own arrangements • QSC has entered into financing arrangements and rent-to-own contracts 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€	2011	2010
Financing and hire purchase arrangements		
up to 1 year	7,080	6,335
1–5 years	6,686	2,096
over 5 years	687	-
Total payment obligations	**14,453**	**8,431**
less interest component	(876)	(318)
Present value of payment obligations	13,577	8,113

Other financial obligations • Other financial obligations in the coming fiscal years arising from long-term contracts for fiber optic lines, technical premises, and office premises, in particular, amounted to K€ 85,421 (2010: K€ 52,803). Purchase commitments to future investments amounted to K€ 1,547 (2010: K€ 5,932) in the past fiscal year.

Guarantees • There were no guarantee obligations as of December 31, 2011.

45 Objectives and methods used in financial risk management

The Group's 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 Group's operating activities. Financial assets which arise directly from the Group's operating activities are, in particular, trade receivables, cash and short-term deposits, and available-for-sale financial assets. In 2011 and 2010, no trading in derivatives was concluded. The Group's major risks arising 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 summarizes the strategies and procedures for managing each of the aforementioned risks.

Interest rate risk • QSC is exposed to the risk of changing market interest rates. This risk results primarily from the 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, 2010, the share of variable rate debts in total rate debts amounted to 48 percent. The following table reflects the sensitivity of the 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	Effect on profit before taxes in K€
2011	+ 100	(11)
2011	(100)	11
2010	+ 100	362
2010	(100)	(362)

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 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 Group's possible risk of bad debts. The maximum risk of bad debts is limited to the carrying value of the trade payable as disclosed in Note 19. In the past fiscal year, there were no significant concentrations of credit risk within the Group. As far as trade receivables not yet written down are concerned, QSC expects them to be collectible.

With regard to the Group's other financial assets, QSC is also subject to a credit risk arising from default on the part of the counterparty. The maximum credit risk arising from such a default corresponds to the carrying value of these instruments. QSC is therefore pursuing a highly conservative investment policy, and in the past fiscal year only invested in securities with first-class credit rating.

Liquidity risk • The Group monitors its risk to a shortage of funds by using a monthly recurring liquidity planning tool, which takes into account the remaining term of available financial assets as well as the expected future cash flows from operating activities. The Group strives to achieve 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 summarizes the Group's maturity profile of short- and long-term liabilities as of December 31, based on contractual undiscounted payments.

in K€	Carrying amount	Due end of 2012	Due end of 2013	Due end of 2014	Due end after 2014	Total
Liabilities under financing arrangements	13,577	7,080	3,154	1,837	2,383	14,454
Trade payables	46,617	46,356	261	-	-	46,617
Liabilities due to banks	43,585	28,292	3,104	2,923	9,509	43,828
Other liabilities under financing arrangements	14,389	14,389	-	-	-	14,389
At December 31, 2011	**118,168**	**96,117**	**6,519**	**4,760**	**11,892**	**119,288**

in K€	Carrying amount	Due end of 2012	Due end of 2013	Due end of 2014	Due end after 2014	Total
Liabilities under financing arrangements	7,537	5,752	1,891	205	-	7,848
Trade payables	38,043	38,043	-	-	-	38,043
Liabilities due to banks	10,000	10,050	-	-	-	10,050
Other liabilities under financing arrangements	583	583	-	-	-	583
Other short- and long-term liabilities	12,675	12,675	-	-	-	12,675
At December 31, 2010	**68,838**	**67,103**	**1,891**	**205**	**-**	**69,199**

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. The Group monitors capital 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€	2011	2010
Capital management		
Liabilities under financing arrangements	(13,577)	(7,537)
Short- and long-term liabilities	-	(576)
Liabilities due to banks	(43,585)	(10,000)
Fixed rate debts	**(57,162)**	**(18,113)**
plus cash and short-term deposits	23,755	46,233
plus available-for-sale financial assets	341	332
Net liquidity/(debt)	(33,066)	28,452
Equity	207,299	184,048
Balance sheet total	391,260	332,216
Equity ratio	53 %	55 %

At balance sheet date, all performance indicators stipulated by the syndicate loan's had been met. The latter includes financial ratios with regard to equity, earnings before interest, taxes and amortization, as well as liabilities under financing arrangements.

46 Financial instruments

The following table presents carrying values 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 according to IAS 39	Carrying value		Fair value	
		2011	2010	2011	2010
Financial instruments					
Cash and Short-term Deposits	ACAC	23,755	46,233	23,755	46,233
Available-for-sale Financial Assets	AFS	341	332	341	332
Long Term Multicomponent Receivables	ACAC	3,157	-	3,911	-
Long Term Trade Receivables	ACAC	465	-	465	-
Short Term Trade Receivables	ACAC	64,663	61,284	64,663	61,284
Short Term Production Receivables	ACAC	1,042	-	1,042	-
Receivables from Former Shareholders	ACAC	-	28,358	-	28,358
Trade Payables	FLAC	46,617	38,043	46,617	38,043
Bank Debts	FLAC	43,585	10,000	43,828	10,000
Liabilities under Financing Arrangements	FLAC	13,577	7,537	14,454	7,848
Other Short- and Long-Term Liabilities	FLAC	14,389	13,251	14,389	13,258
Aggregated according to classification					
in line with IAS 39:					
Assets Carried at Amortised Cost	ACAC	93,082	135,875	93,836	135,875
Available-for-sale Financial Assets	AFS	341	332	341	332
Financial Liabilities Measured at Amortised Cost	FLAC	118,168	68,831	119,288	69,149

Cash and short-term deposits, available-for-sale financial assets as well as trade receivables predominantly have short remaining terms. Their carrying value thus approximately 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 financial assets held for trading was determined on the basis of market prices. The fair value of trade receivables from multi-component contracts is determined by discounting the expected long-term payments with the going interest rate for corporate bonds with a term of three years.

in K€	From interests, dividends	Subsequent to initial recognition		Net gain/(loss)	
		Allowance	At fair value	2011	2010
Assets carried at Amortised Cost (ACAC)	506	(662)	-	(156)	(483)
Available-for-sale financial assets (AFS)	-	-	3	-	-
Financial Liabilities measured at Amortised Cost (FLAC)	(3,334)	-	-	(3,334)	(1,892)
Net gain/(loss) according to classification	(2,828)	(662)	3	(3,490)	(2,375)

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

47 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 in the version dated June 18, 2009, and, since its enforcement, in the version dated May 26, 2010, 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.

48 Auditors' fees

In conjunction with services provided by the auditors of the consolidated financial statements, QSC recorded an expense of K€ 278 (2010: K€ 203) for audit services, K€ 136 (2010: K€ 67) for other services and K€ 6 (2010: K€ 0) for other advisory services.

49 Compensation of the Management Board

One major element of good corporate governance consists of a transparent portrayal of the total compensation paid to members of the corporate bodies. The fundamental compensation system for members of the Management Board was most recently evolved with a view to the German Appropriateness of Management Board Compensation Act ("VorstAG"), and was adopted by the Annual Shareholders Meeting on May 20, 2010. QSC continues to see these explanatory comments on Management Board compensation as the decisive source of information to enable an assessment of the compensation system's appropriateness. Pursuant to the resolution of the Annual Shareholders Meeting on May 19, 2011, this will be the first time that an individualized presentation has been made of the compensation paid to members of the Management Board.

50 Risks

A detailed analysis and discussion of risks can be found in the Report on Risks, which is contained in the Management Report.

51 Proposed profit appropriation

The Management Board will propose to the Annual General Meeting that a dividend of € 0.08 per share be paid to shareholders.

52 Subsequent events

During the current fiscal year, the QSC Group is endeavoring to streamline its structure under corporate law. In connection with this, IP Partner has been renamed INFO Gesellschaft für Informationssysteme Holding AG (INFO Holding), and the legal domicile of this corporation has been relocated to Hamburg. On March 13, 2012, the management board of INFO AG announced that it had reached agreement with INFO Holding on a draft contract, under which INFO AG was to be merged with INFO Holding; the contract was signed on March 20, 2012. This contract contains the statement that exclusion of the remaining shareholders of INFO AG pursuant to § 62, Para. 5, Sentence 1, of the German Corporate Reorganization Act in conjunction with §§ 327a ff. of the German Stock Corporation Act, is to be effected in conjunction with the merger. A corresponding transfer resolution will be submitted for adoption upon the coming into being of the legal prerequisites for the Annual Shareholders Meeting of INFO AG, which is expected to be conducted on May 24, 2012.
Internally, the merger is deemed to have gone into effect at the end of December 31, 2011, and is scheduled to be formally concluded by October 2012. The entire IT-related portfolio of the QSC Group – from IT Consulting to Housing and Hosting right through to IT Outsourcing – will then be bundled at INFO Holding. INFO Holding is thus a central element of the Direct Sales Business Unit.
On March 15, 2012, U.S.-based investment company Baker Capital, which had been an investor even before the Company went public, notified QSC that it had distributed the 25,247,242 QSC shares still in its possession to the investors of its fund which has been running for far more than ten years. These investors predominantly consist of U.S.-based institutional investors with a long-term view, and Family Offices. This increased the free float to 79.8 percent.
Aside from this, the QSC Group is not aware of any reportable events of particular importance subsequent to the close of the fiscal year.

Cologne, March 22, 2012

QSC AG
The Board of Management

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

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 22, 2012

QSC AG
The Board of Management

Dr. Bernd Schlobohm
Chief Executive Officer

Jürgen Hermann

Arnold Stender

Thomas Stoek

Glossary

ADSL • The Asymmetric Digital Subscriber Line. Transfer of digital data over a twisted copper pair telephone line with an "asymmetric" transfer capacity of up to 8 Mbit/s for downloads and up to 800 Kbit/s for uploads.

ADSL2+ • An evolution of ADSL technology that primarily improves the transfer rates and ranges of an ADSL connection. Optimally, ADSL2+ affords transfer speeds of up to 25 Mbit/s downstream and up to 3.5 Mbit/s upstream.

Backbone • An interconnected high-speed network to which networks with lower speeds / capacities are linked. At QSC, the backbone resembles a ring through Germany. Berlin, Düsseldorf, Frankfurt, Hamburg and Munich are interconnected in ring form by a 10-gigabit Ethernet line, thus forming the QSC backbone.

Bitstream Access • A ramp-up product for broadband services that provides a network operator with broadband transfer capacity (e.g. on a DSL platform) between the end customer and a defined point of interconnection (POI) in the network of a further provider, thereby enabling him to acquire the bitstream and offer it on the basis of his own end-customer rate plans.

Broadband • A data transmission capacity of at least 1 Mbit/s.

Call-by-Call • Phone calls or Internet access via call-by-call enable a customer to dial the network prefix of his or her telephone provider of choice prior to each telephone call or Internet access.

Cloud Computing • The provision of IT infrastructures (e.g. data storage, computing capacity) and programs over networks, typically powerful Internet links. The customer pays only for services actually used, instead of having to invest in hardware and software.

CO • Central Office. The Central Office is where the subscriber lines, or local loops, from the individual households are connected. The equipment that enables the provider to offer the various data transmission technologies (e.g. ADSL, ADSL2+, SDSL, SHDSL) is installed at the central office.

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

Hosting • The provision of IT capacities, such as servers, storage, databases and further products, in a service provider's data center.

Housing • In the case of Housing, in contrast to Hosting, enterprises use only a service provider's building infrastructure for the data center and install their own hardware in racks or cages that have been provided.

ICT • Information and Communication Technology. Industry which offers enterprises and residential customers information technology (hardware, software and IT services) and telecommunication technology (voice and data services, devices, infrastructure). The ubiquitous use of the Internet protocol leads to a convergence of information and telecommunication technology.

IP • Internet Protocol. The Internet is based upon the IP data transfer standard. The IP enables a data packet to be routed via multiple different computer platforms until it reaches its destination.

IP-Centrex • Centrex (CENTRal office EXchange) describes the outsourcing of a telephone system to a telecommunications provider. This is a concept that was introduced in fixed networks in the United States in the late 1950s. The Internet Protocol is now affording Centrex a renaissance in the form of "IP-Centrex." The end-user devices are linked directly to the data connection and communicate via the provider's server, which assumes the functionality of the system.

ISP • Internet Service Provider. An ISP enables customer data communication by providing Internet access and related services, e.g. the management of e-mail.

Last Mile • The "Last mile" is the name given to the path of the line from the central office to the end-customer's telephone connection. The Last Mile is owned by Deutsche Telekom and is leased by alternative providers like QSC at a price that is stipulated by the German Federal Network Agency.

Leased Line • A permanent connection line that is always on.

Managed Services • QSC defines Managed Services as a wall-to-wall service (LAN, WAN, telco management) that includes all customer-specific interfaces: from connection of individual enterprise locations within a Virtual Private Network (VPN) for voice and data transmission to internal cabling and equipping of the local area network right through to the installation of telephone systems, including the end-user devices.

Mbit/s/Kbit/s • Megabits per second / kilobits per second. Measure unit for data transmission speed.

NGA • Next Generation Access. Next Generation Access means Internet connections that cater to the growing demand for broadband. In particular, they include direct connections to the type of fiber optic networks that are being implemented by a growing number of municipalities.

NGN • Next Generation Network. An NGN consolidates the wide range of transmission methods and network structures into a convergent network architecture. This integrates telecommunications, data and TV networks within an IP-based network, for example.

Open Access • In telecommunications, Open Access refers to distinction between those who operate a network infrastructure and those who use it. Under Open Access, network operators open their infrastructures for use by third parties. With Germany's first nationwide Open Access platform in 2010, QSC established a network, process and services hub for providers and users in the forward-looking Next Generation Access market.

Outsourcing • Outsourcing means contracting out corporate tasks and structures to third parties. The duration and scope are defined in the respective contracts. Although this concept had initially been applied to IT infrastructure and IT-intensive processes, it is now being used across all industries.

POI • The Point of Interconnection refers to the transfer point from one provider's voice network to another's. QSC possesses the maximum number of 474 POIs in Germany.

Port • A port is the connection between the last mile from the end-customer to the provider's DSLAM at the central office. A DSLAM comprises multiple linecards, i.e. plug-in cards containing 32 to 64 physical ports. A connector is attached to each of these ports, which consists of two metallic pins, thus linking the final mile from the end-customer with the provider's network.

Preselect • Preselection is automatic dialing of a prefix for a communication operator to handle calls. Every network operator has its own carrier selection code. In the case of preselection, this code is preselected in the subscriber's exchange and is automatically utilized.

Protocol • A protocol contains standards for controlled data transfer. Protocols, for example, stipulate the data structure, the structure of the data packets as well as their encoding. There are various protocols, such as http or IP, depending upon the application in question.

Router • A device with network connections and configurable software that interconnects multiple networks and organizes the path the messages take between networks. First and foremost, routers are employed in order to link local area networks (LANs) with wide area networks (WANs).

SHDSL • Symmetric High Bit Rate Digital Subscriber Line. Actually "G.SHDSL." A symmetrical, DSL-based data transmission technology over copper twisted pairs. QSC utilizes SHDSL technology in connection with most of its business customer products, and additionally offers both high downlink and uplink bandwidths. Even higher bandwidths can be achieved by coupling multiple copper twisted pairs. Three twisted pairs offering a total of up to 6.0 Mbit/s are currently possible at QSC.

SHDSL.bis • An extension of the SHDSL standard affords data transfer rates of up to 5.7 megabits per second. Moreover, the expanded standard defines bundling up to 4 twisted copper pairs.

TAL • The German acronym for a subscriber line or local loop. The line between a central office and the subscriber's physical connection to the respective network.

TKG • The German acronym for the German Telecommunications Act. The TKG serves as the basis for liberalization of the telecommunications sector.

Unbundled access • The customer's connection is physically connected directly to the alternative carrier's network. In order to assure competition in the local service area, as well, the German regulatory authority wants alternative telco providers to have a right to unbundled access to Deutsche Telekom's subscriber line.

Voice over IP • Voice over Internet Protocol. The technique of using the Internet Protocol to transfer voice over packet-switched data networks.

VPN • Virtual Private Network. In a VPN, several enterprise sites are connected through a public network to form a secure network that cannot be accessed by outsiders. Only authorized persons or sites are able to communicate with one another, access data or exchange data over this network.

WLAN • Wireless Local Area Network. A wireless network confined to a particular geographical area.

WLL • Wireless Local Loop. Technology allowing to wirelessly linking subscriber lines to the network.

Index

A

Amortization 57

B

Balance sheet 62ff., 88–89, 116ff.

C

Capital expenditures 64, 80
Cloud computing 20–21, 48, 78
Compensation 32, 43ff.
Consolidated net income 58
Corporate Governance 35ff.

D

Debt 64–65
Depreciation 57
Development projects 27ff.
Direct Sales 18, 59–60
Dividend 13–14, 80

E

EBIT 58
EBITDA 56–57

F

Forecast report 76ff.
Free cash flow 62–63, 80

H

Human Resources 31ff.

I

ICT market 48, 77
Indirect Sales 18, 60–61
INFO AG 23, 54, 135ff.
IP Partner 23, 54, 133–134

L

Liquidity 62ff.

M

Management Board 2–3, 35–36
Merger 23, 75

N

Next Generation Network 19

O

Opportunities 81–82

R

Regulation 49ff., 71, 78–79
Resellers 19, 61–62

S

Segment reporting 58ff., 138ff.
Shareholders 15, 38, 75
Shareholders' Equity 26–27, 66, 123–124
Shares 11ff.
Statement of Cash Flows 63–64, 87, 130
Statement of Income 55ff., 86, 111ff.
Strategy 20ff.
Supervisory Board 4ff.

T

Training 32
Transformation process 52ff., 76

Calendar

Annual Shareholders Meeting
May 16, 2012

Quarterly Reports
May 7, 2012
August 6, 2012
November 5, 2012

Contact

QSC AG
Investor Relations
Mathias-Brüggen-Straße 55
50829 Cologne
Phone +49-221-6698-724
Fax +49-221-6698-009
E-mail invest@qsc.de
Internet www.qsc.de

Certification

FSC
www.fsc.org
MIX
Papier aus verantwortungsvollen Quellen
FSC® C006024

ClimatePartner
klimaneutral gedruckt
Die CO2-Emissionen dieses Produkts wurden durch CO2-Emissionszertifikate ausgeglichen.
Zertifikatsnummer: 53124-1203-1006
www.climatepartner.com

Overall Responsibility
QSC AG, Cologne

Art Direction
sitzgruppe, Düsseldorf

Photography
Nils Hendrik Müller, Braunschweig

Printing
das druckhaus, Korschenbroich

Further information at www.qsc.de