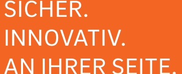
Annual Report 2015

DIGITISING THE GERMAN SME SECTOR.



KEY DATA

All amounts in € million	2015	2014	2013	2012	2011
Revenues	402.4	431.4	455.7	481.5	478.1
EBITDA	42.2	35.0	77.8	77.9	79.9
Depreciation/amortisation [1]	53.3	69.0	51.3	53.4	53.7
EBIT	(11.2)	(34.0)	26.5	24.6	26.2
Net income (loss)	(15.4)	(33.9)	23.6	19.0	28.0
Earnings per share [2] (in €)	(0.12)	(0.27)	0.19	0.14	0.20
Shareholders' equity [3]	124.2	145.6	193.2	180.2	207.3
Long-term liabilities [3]	171.0	180.2	103.3	96.0	79.6
Short-term liabilities [3]	63.3	79.7	95.5	110.9	104.4
Balance sheet total [3]	358.5	405.5	392.0	387.1	391.3
Equity ratio (in %)	34.6	35.9	49.3	46.6	53.0
Free cash flow	7.1	(24.9)	25.6	23.6	41.0
Liquidity [3]	74.0	88.1	59.0	35.2	24.1
Capital expenditure (capex)	26.7	30.0	39.6	37.9	35.6
Capex ratio [4] (in %)	6.6	7.0	8.7	7.9	7.4
Dividend per share (in €)	0.03 [5]	0.10	0.10	0.09	0.08
Xetra closing price [3] (in €)	1.51	1.74	4.30	2.11	2.09
Number of shares [3]	124,162,487	124,142,487	124,057,487	137,307,152	137,256,877
Market capitalisation [3]	187.5	216.0	533.4	289.7	286.7
Number of employees [3]	1,454	1,697	1,689	1,485	1,334

Consolidated Financial Statements 2011 to 2015 in accordance with IFRS

[1] Including non-cash share-based compensation

[2] Basic

[3] As of 31 December

[4] Ratio of capital expenditure to revenues

[5] Proposed to the Annual Shareholders' Meeting

QSC AG IS DIGITISING THE GERMAN SME SECTOR.

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With decades of experience and expertise in the areas of Cloud, Consulting, Outsourcing and Telecommunications, QSC accompanies its customers securely into the digital age. The Company's TÜV and ISO-certified data centres in Germany and its nationwide All-IP network form the basis for maximum end-to-end quality and security. QSC's customers benefit from one-stop innovative products and services that are marketed both directly and via partners.

In 2015, we accepted the challenge. We implemented the previously advised cost-cutting programme and increased our profitability, we aligned our sales activities even more closely to the SME sector and we industrialised our IT operations and radically standardised our service portfolio. Each of these three topics is associated with one of our three new Management Board members. Stefan A. Baustert, our Chief Financial Officer, is responsible for the cost-cutting measures. The pleasing results achieved with this programme were one of the main reasons why we raised our forecast as the year progressed. Udo Faulhaber, the member of our Management Board responsible for sales and consulting, has, within just a few months, clearly aligned his activities to the SME sector and honed the profile of the Direct Sales business. My third new colleague, Felix Höger, joined the Management Board on 1 January 2016 and is responsible for technology and operations. He will be building on last year's work on developing the Pure Enterprise Cloud and pressing ahead with industrialising IT.

The Pure Enterprise Cloud is the key topic at QSC. It is our response to SME players' current and future ICT and cloud computing needs. Our customers expect agile, flexible IT procurement models helping them progress step by step to the digital age. The full range of services offered by the Pure Enterprise Cloud means companies can procure all ICT standard applications and individually customised business applications, and they can do this faster, closer to their needs, via any end appliance and from any location. Modular turnkey service component provision helps companies gradually develop and expand their cloud activities. Not only that, our customers themselves specify where our solutions should be deployed, which applications they want to operate themselves and which they prefer to procure from a public cloud. Securing this individual interaction of various technologies is part of the service we offer. That is particularly important for SME companies, who often have limited capacity to manage heterogeneous IT landscapes themselves.

Pure Enterprise Cloud: opening the door to digital transformation

The Pure Enterprise Cloud portfolio makes it easier for our SME customers to get started with their digital transformation. Having said that, the resultant industrialisation also has implications for our own internal processes and operations. The standardised service catalogue considerably simplifies and speeds up sales processes from bid compilation through to contract signing. What's more, automated provision of the new portfolio and operations based on the new architecture also enhance quality and improve our margins. All of this impacts positively on our revenues and earnings. All in all, the introduction of the Pure Enterprise Cloud represents a new market approach, one based on a punchier, highly efficient business model that is set to gradually supersede the traditional outsourcing business.

The launch of the Pure Enterprise Cloud underlines our claim to be the digitiser of the German SME sector. As previously advised, we positioned ourselves along these lines in 2015 and revamped our external image. Three key concepts sum it up – "secure", "innovative" and "by your side". They document the wealth of experience and great innovative strength that help us accompany our customers securely into the digital age. Not only that, they underscore our competitive advantages. After all, trust, security and equal business partnerships are crucial to German business

“THE PURE ENTERPRISE CLOUD IS THE KEY TOPIC AT QSC. IT IS OUR RESPONSE TO SME PLAYERS‘ CURRENT AND FUTURE ICT AND CLOUD COMPUTING NEEDS.”

JÜRGEN HERMANN, CHIEF EXECUTIVE OFFICER

"THE CLOUD IS THE CRUCIAL SOURCE OF MOMENTUM."

customers. Institutional investors, on the other hand, are waiting to see when the strategy takes full effect and when our positioning as digitiser to the SME sector produces tangible business results. This approach has its roots in the 2014 financial year, in which we failed to meet the expectations placed upon us. Against this backdrop, our share performance in 2015 was not at all satisfactory. QSC shares lost further ground and, as a consequence, were obliged to leave the TecDAX index in March 2016. This disappointing development gives me all the more reason to extend my thanks to you, our shareholders. Your loyalty is a motivation for the entire QSC team and for me personally as well.

I have absolutely no doubt that QSC is correctly positioned and that this will take us where we wish to be. The cloud is the crucial source of momentum. The Pure Enterprise Cloud is the answer to what is one of the most pressing challenges facing SME companies in Germany – digitisation. Step by step, this megatrend is impacting on the core processes at all companies and is fundamentally reshaping existing business models. New competitors are crowding out established providers and upping the pressure. Given ever higher customer expectations, the SME sector has to reinvent itself and make sure it keeps up with technological advances. The Pure Enterprise Cloud offers customers a gradual transition to the digital age and enables them to integrate technological innovations, save costs and accelerate processes.

QSC's portfolio covers five key digital age technologies

That said, the Pure Enterprise Cloud is by no means the only area in which QSC is strongly positioned. Our portfolio covers no fewer than five technologies decisive to the digital age. Alongside Cloud, these are Big Data, Security, All-IP and the Internet of Things. Big Data is a topic we have actively addressed for years now. Since 2014, QSC has operated its own competence centre for SAP-HANA – the leading software for evaluating large quantities of data. This expertise is reflected in growing revenues, especially in the Consulting business. When it comes to Security, QSC has traditionally been one of the leading players in the German market. Our high-security

data centres are certified, audited by the German Technical Inspection Agency (TÜV) and are located in Germany. That means data storage is based on strict German requirements. Not only that, QSC fully upgraded its IP technology many years ago. In this key technology as well, we are thus optimally prepared for the digital age and the migration now beginning from analogue and ISDN technology. QSC also acted early to address the Internet of Things. In SOLUCON, our experts have developed a unique platform for digitising products and solutions. Customers already use this platform to control heating systems with an app, optimise logistics and network industrial machines.

As you can see, we have a whole package of forward-looking technologies with associated products and solutions. Our future success will be driven by these – and by the loyalty shown by our current total of more than 30,000 business customers. We would like to thank all of them for the trust they have placed in us. I also owe my thanks to our employees, who have supported the transformation in recent months. We successfully complied with all of the changes announced and targets set for 2015, and we will be doing the same this year as well. Based on a cautious forecast, we expect to generate EBITDA of € 34 million to € 38 million and positive free cash flow with revenues of € 380 million to € 390 million. We will be consistently upholding our cost-cutting programme while at the same time making all preparations necessary for us to return to growth in 2017.

Return to growth in 2017

Cologne, 29 March 2016

Jürgen Hermann
Chief Executive Officer

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THE MANAGEMENT BOARD

Jürgen Hermann (* 1964), Chief Executive Officer

Jürgen Hermann has managed the Company since May 2013, having previously headed up the finance department for four years as CFO. In his capacity as CEO, he is now focusing in particular on strategy, innovation and communication and is masterminding the Company's further development into the digitiser for the German SME segment. A graduate in economics from the Universität der Bundeswehr in Hamburg, Jürgen Hermann subsequently served as an officer in the German army's telecommunications corps. He then moved to an executive position in the strategy department at Thyssen Telecom AG. In 1997, he joined the consultancy QS Communication Service GmbH. As head of finance, he played a key role in organising the IPO in April 2000 and in building QSC AG in the years since.

Stefan A. Baustert (* 1956), Chief Financial Officer

Stefan A. Baustert, a Management Board member since early 2015, is responsible for finance, human resources, procurement, internal IT and investor relations. In this capacity, he has enabled QSC to implement the far-reaching cost-cutting programme more rapidly than originally expected and thus increase its earnings and financial strength once again in 2015. A graduate in business administration, Stefan A. Baustert has extensive management experience. He worked at the publicly listed company Singulus Technologies AG for seven years, initially as CFO and subsequently as CEO. At the turn of the century, he worked for five years as Commercial Director at E-Plus Mobilfunk GmbH. He began his career in 1986 at the Thyssen Group, where he was latterly CFO at Thyssen Telecom AG.

Udo Faulhaber (* 1961), Chief Sales and Consulting Officer

Udo Faulhaber, a Management Board member since 1 August 2015, is responsible for QSC's sales, marketing and consulting. In his first months in this function, he has already enhanced the effectiveness of sales activities, thus honed their profile among SME players in particular and increased QSC's visibility in digital channels. Together with Felix Höger, Udo Faulhaber previously built up Pironet NDH into a leading provider of cloud services in Germany. He joined that company as Managing Director in 2008 and was appointed to the Management Board in 2012. Until 2007, he was CEO of arxes AG, an IT service provider he previously founded. Udo Faulhaber founded his first company during his studies of production technology, before subsequently gaining extensive experience in leading positions at Nixdorf, Bayer and Postbank.

Felix Höger (* 1973), Chief Technology and Operations Officer

Felix Höger has completed QSC's Management Board since 1 January 2016. He is responsible for Technology and Operations and is now pressing ahead with the development and expansion of the Pure Enterprise Cloud and the associated industrialisation of IT infrastructure. Until the end of 2014, he was CEO at Pironet NDH AG. He already founded the service provider NDH during his training in 1995. In 2000, he merged this company with the software manufacturer Pironet to form today's Pironet NDH AG. As a pioneer and trailblazer for cloud computing among German SMEs, Felix Höger then successfully turned his company from a network service and outsourcing provider into a successful and profitable cloud service provider.

THE SUPERVISORY BOARD

The six-member Supervisory Board comprises four shareholder and two employee representatives. In the regular election held at the Annual Shareholders' Meeting on 29 May 2013, shareholders elected four representatives for a term in office of five years each. The employees had already elected their two representatives in advance.

Dr. Bernd Schlobohm, Chairman
Dr. Schlobohm, who holds a doctorate in engineering, founded QSC in 1997, had the company publicly listed in April 2000 and then managed it as CEO until May 2013. Together with QSC's co-founder, Gerd Eickers, he is the largest shareholder. At the end of 2015, these two shareholders held a combined stake of 25 percent in QSC.

Dr. Frank Zurlino, Deputy Chairman
Dr. Zurlino, holder of a doctorate in business engineering, was elected to the Supervisory Board in May 2013. Formerly head of strategy consulting and development at IBM Deutschland, he is now Managing Partner at the international management consultancy Horn & Company.

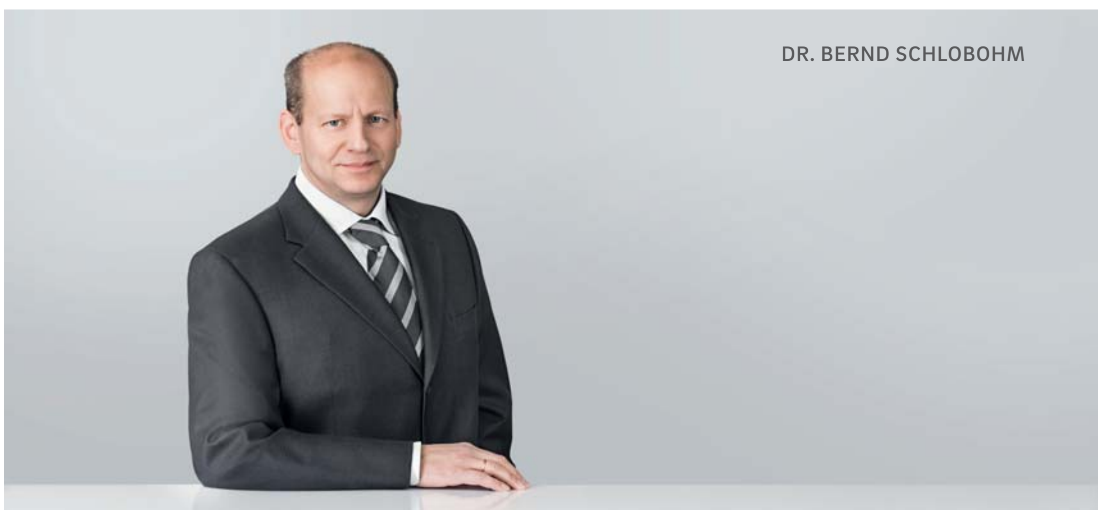
Gerd Eickers
QSC's second founder, Gerd Eickers, moved to the Supervisory Board in June 2004 after three years on the Management Board. In subsequent years, this graduate in economics played a major role in shaping the political framework for the TC market, particularly in his capacity as President of the Association of Telecommunications and Value-Added Service Providers (VATM).

Ina Schlie
Head of the global tax department at SAP SE, Ina Schlie was appointed to the Supervisory Board in September 2012 and then confirmed with a large majority at the Annual Shareholders' Meeting in May 2013. As a finance and tax expert, she also chairs the Audit Committee.

Anne-Dore Ahlers
QSC's workforce elected Anne-Dore Ahlers, the Hamburg-based Chair of its Works Council, as one of the two employee representatives on the Supervisory Board in April 2013.

Cora Hödl
QSC's workforce elected Cora Hödl, now head of the TC/Voice Services department, as its second representative on the Supervisory Board. A qualified communications electrician, Cora Hödl has worked at QSC since 2002 and is based in Cologne.

REPORT OF THE SUPERVISORY BOARD


DR. BERND SCHLOBOHM

Dear Shareholders,

The following Supervisory Board Report informs you about the activities of the Supervisory Board in the 2015 financial year.

Activities of the Supervisory Board. In 2015 as well, the Supervisory Board performed all of the duties incumbent on it by law and the Articles of Association, with a key focus on the appointment of new Management Board members. The Supervisory Board continually monitored and regularly advised the Managing Board in its management of QSC AG. It was directly involved in all decisions and measures of material significance, particularly those impacting on the Company's financial position, financial performance and cash flows. After careful consideration, the Supervisory Board voted on all measures for which its consent is required by law, the Articles of Association and the Rules of Procedure of the Management Board.
The members of the Management Board attended the meetings of the Supervisory Board unless stipulated otherwise by the Supervisory Board Chairman. At these joint meetings, the Supervisory and Management Boards discussed key aspects of the Company's business policies and strategy, as well as its performance and planning. Moreover, the Chairs of the two boards were in regular contact to discuss topics arising between Supervisory Board meetings.
The Management Board informed the Supervisory Board with regular, timely and detailed reports, both written and oral, about the Company's business performance, drawing in particular on monthly and quarterly financial statements and rolling budget/actual comparisons. The Management Board reports also included information about variances in the actual performance from targets previously reported and variances in the business performance from the planning. The reports also contained all relevant information concerning the Company's strategic development and planning, risk situation, risk management and compliance. All enquiries and requests for additional information by the Supervisory Board were promptly and thoroughly answered by the Management Board.

Topics addressed by the Supervisory Board. The main focuses of Supervisory Board meetings and resolutions in 2015 were:

1. **Management Board.** By resolution dated 13 February 2015, the Supervisory Board appointed Udo Faulhaber as a member of the Management Board with responsibility for sales and consulting for a three-year term as of 1 August 2015. At the same meeting, the Supervisory Board appointed Felix Höger as a member of the Management Board, also for a three-year term taking effect in this case as of 1 January 2016. Mr. Höger is responsible for technology and operations. At the same time, the Supervisory Board authorised its Chairman to conclude with Messrs. Faulhaber and Höger the Management Board employment contracts compiled by the Human Resources Committee and approved by the Supervisory Board. At its meeting on 19 March 2015 the Supervisory Board approved the request submitted by Henning Reinecke, an existing Management Board member, to stand down from his Management Board position as of 30 April 2015 and passed resolution on the premature rescission of his Management Board employment contract as of 31 May 2015. The Supervisory Board thanks Mr. Reinecke for his work.

2. **Adoption of a new Management Board compensation system.** Given the appointment of new Management Board members and within its review of the existing compensation system, at its meeting on 19 March 2015 the Supervisory Board adjusted the Management Board compensation system in respect of variable compensation as of 1 January 2015. The Annual Shareholders' Meeting approved this new compensation system by resolution dated 27 May 2015. The basic features of the new compensation system are presented in the Compensation Report.

3. **Cost-cutting and business focusing programme.** The Supervisory Board was kept continually informed by the Management Board during 2015 on the progress made with implementing the cost-cutting programme. This had been presented to it in detail for the first time at the unscheduled meeting held on 30 January 2015. The far-reaching restructuring of IT operations and associated preparations for the market launch of the Pure Enterprise Cloud were regularly a topic at the board.

Furthermore, in 2015 the Supervisory Board dealt with the internal control mechanisms at QSC AG, and here in particular with the risk management system and with corporate governance and compliance consistent with statutory requirements. The Supervisory Board reviewed these areas on the basis of submissions and Management Board reports and discussed them with the Management Board. The Supervisory Board is of the opinion that the internal control and early warning risk identification systems operate reliably.

Composition of the Supervisory Board. The Supervisory Board witnessed no changes in its composition in 2015 and continued to comprise four shareholder representatives, namely Dr. Bernd Schlobohm (Supervisory Board Chairman), Dr.-Ing. Frank Zurlino (Deputy Chair), Ina Schlie and Gerd Eickers, and two employee representatives, namely Anne-Dore Ahlers und Cora Hödl.

Supervisory Board meetings and committees. In addition to four regular meetings, the Supervisory Board also held three unscheduled meetings in the 2015 financial year, of which one in person and two by conference call. Apart from Cora Hödl, who submitted her apologies and could not participate in one of these conference calls, all Supervisory Board members attended all meetings. Where necessary, the Supervisory Board also adopted resolutions on individual topics by circulating and approving the respective documents. Committee members attended all meetings of their respective committees in 2015.

The Supervisory Board has formed four committees to assist it in its work. These are the Human Resources Committee, the Audit Committee, the Nomination Committee and the Strategy Committee. The Chairs of the respective committees regularly report to the full Supervisory Board on the work of their committees.

The Human Resources Committee met four times in the year under report. The members of this committee are: Dr. Bernd Schlobohm (Chair), Gerd Eickers and Cora Hödl. The Human Resources Committee dealt in particular with the selection of suitable candidates for the Management Board positions with responsibility for sales and consulting and for technology and operations respectively and with negotiating the corresponding employment contracts. It prepared the Supervisory Board decisions on the new Management Board compensation system and on the variable compensation target agreements to be concluded with the Management Board for the 2015 financial year and for the multiyear period from 2015 to 2017. The committee also prepared the Supervisory Board resolution concerning Management Board members' target achievement in the 2014 financial year and the resultant variable Management Board compensation.

The Audit Committee comprises Ina Schlie as its Chair and independent financial expert as defined in § 100 (5), § 107 (4) of the German Stock Corporation Act (AktG), as well as Dr. Bernd Schlobohm and Dr.-Ing. Frank Zurlino. The Audit Committee monitors the financial reporting process, the effectiveness of the internal control system and the compliance management, risk management and internal audit systems, and also deals with the audit of the financial statements. In these areas, it prepares any decisions required by the full Supervisory Board. The Audit Committee monitors the necessary independence and quality of the external auditor and deals with any additional services performed by such. The committee issues the audit assignment to the auditor and determines the audit focuses, as well as negotiating and concluding the auditor's fee agreement.

The Audit Committee met five times in the past financial year. It reviewed the documents relating to the annual and consolidated financial statements, including the dependent company report, for the 2014 financial year, held in-depth discussions about these documents and the accompanying audit reports in the presence of the auditor and adopted recommendations for the full Supervisory Board resolution concerning the annual and consolidated financial statements and their audit. The Audit Committee discussed the interim financial reports due for publication with the Management Board. It determined the audit focuses for the 2015 financial year and negotiated and concluded the auditor's fee agreement. The Audit Committee recommended to the Supervisory Board that KPMG AG Wirtschaftsprüfungsgesellschaft, headquartered in Berlin and with a branch office in Cologne, should once again be proposed to the Annual Shareholders' Meeting as auditor and group auditor for the 2016 financial year. Based on this recommendation, at its meeting on 17 March 2016 the Supervisory Board adopted a corresponding proposal to the Annual Shareholders' Meeting.
The task of the Nomination Committee is to submit suitable candidates to the fill Supervisory Board for its nomination of candidates at any forthcoming election of shareholder representatives to the Supervisory Board at the Annual Shareholders' Meeting. The members of the Nomination Committee are Gerd Eickers (Chairman) and Dr.-Ing. Frank Zurlino. As no elections of shareholder representatives to the Supervisory Board were due, the Nomination Committee did not meet in the year under report.
The members of the Strategy Committee are Bernd Schlobohm (Chair) and Dr.-Ing. Frank Zurlino. The Strategy Committee has a purely advisory function and addresses the strategic, and thus long-term, development of QSC AG, and thus in particular the development of ideas for forward-looking products and services. This committee met three times in 2015.

Corporate governance. The Supervisory Board continuously monitors the further development in the German Corporate Governance Code and its implementation at QSC AG. Consistent with the Code, in the past financial year the Supervisory Board reviewed the efficiency of its own activities. No deficits were identified. Alongside the amendments to the German Corporate Governance Code dated 5 May 2015, the Supervisory Board also addressed the German Equal Participation of Women and Men in Private-Sector and Public-Sector Management Positions Act, which came into force on 1 May 2015. The Supervisory Board set targets for the share of women in the Supervisory and Management Boards on 20 August 2015, and thus within the respective deadline. These are set out in detail in the "Corporate Governance Report and Corporate Governance Declaration" section of this Annual Report. Following in-depth discussion, the Supervisory Board decided not to stipulate any regulations concerning a regular limit on the length of Supervisory Board membership.
At its meeting on 19 November 2015, the Supervisory Board acting together with the Management Board submitted its annual updated Declaration of Conformity pursuant to § 161 of the German Stock Corporation Act (AktG). This is permanently available to the public on the Company's website.
The Management Board reports in detail on corporate governance, also on behalf of the Supervisory Board, in the Corporate Governance Report within the Group Management Report.

Each member of the Supervisory Board discloses any conflicts of interest that may arise, taking due account of the recommendations made in the German Corporate Governance Code. No potential conflicts of interest arose in the year under report.

Audit of financial statements. KPMG AG Wirtschaftsprüfungsgesellschaft, headquartered in Berlin and with a branch office in Cologne, audited both the annual financial statements of QSC AG as of 31 December 2015 prepared by the Management Board in accordance with the requirements of the German Commercial Code (HGB) and the consolidated financial statements as of 31 December 2015 prepared in accordance with International Financial Reporting Standards (IFRS) as requiring application in the European Union and the supplementary provisions of German commercial law applicable pursuant to § 315a of the German Commercial Code (HGB), as well as the accompanying management and group management reports. The audit assignment had been awarded by the Audit Committee in accordance with the resolution adopted by the Annual Shareholders' Meeting on 27 May 2015.
Key focuses of the 2015 audit included the audit of the goodwill impairment test, deferred taxes (particularly completeness and measurement), the measurement of financial assets in the separate financial statements, the accounting presentation of multiple element arrangements, the measurement of unfinished services, the completeness and accuracy of the disclosures in the notes and management reports accompanying the consolidated and annual financial statements, segment reporting (particularly completeness and accuracy of disclosures and allocation of goodwill to segments), compliance with covenants for credit agreements, the audit of select sub-processes and Management Board travel expenses. The auditor granted unqualified audit opinions to the Company's annual financial statements (HGB) and consolidated financial statements (IFRS) for the 2015 financial year, including the respective management reports.

Furthermore, the Management Board compiled a report on relationships with affiliated companies for the 2015 financial year (dependent company report). The auditor audited this report, reported in writing on its findings and granted the following unqualified opinion:

"Based on our audit and assessment performed in accordance with professional standards, we confirm that
1. The factual information in the report is correct
2. The Company's compensation with respect to the transactions listed in the report was not incommensurately high."

The aforementioned documents, including the audit reports submitted by the auditor, were provided to all Supervisory Board members in good time ahead of their review. At its meeting on 17 March 2016, the Supervisory Board discussed all of the aforementioned documents and the auditor's reports with the Management Board and the auditor, taking due account of the findings of the preliminary review conducted by the Audit Committee, and also reviewed and discussed the Management Board's proposal concerning the appropriation of profit. The auditor reported to the meeting on the key findings of its audit and in particular that no material weak-

nesses had been identified in the internal control and risk management system in respect of the financial reporting process that would have implications for the annual and consolidated financial statements. The auditor also informed the Supervisory Board of services it provided in addition to the audit of the financial statements and that there were no circumstances indicating that its impartiality was impaired.
Having conducted its own review, the Supervisory Board did not raise any objections to the annual financial statements (HGB) of QSC AG for the 2015 financial year, the consolidated financial statements (IFRS), the management report of QSC AG or the group management report and concurs with the findings of the audit conducted by the auditor. Consistent with the recommendation made by the Audit Committee, the Supervisory Board therefore approved the consolidated financial statements (IFRS) and the annual financial statements (HGB). The annual financial statements are therefore adopted. With due consideration of the interests of shareholders and of QSC AG, the Supervisory Board endorses the appropriation of profit proposed by the Management Board. The Management and Supervisory Boards will propose the distribution of a dividend of € 0.03 per share with corresponding entitlement for approval by the Annual Shareholders' Meeting on 25 May 2016.
The respective reports from the Management Board and the auditor were available to individual Supervisory Board members in good time ahead of their review. These reports were also discussed in detail at meetings of the Audit Committee and the full Supervisory Board. The representatives of the auditor participating in these meetings reported on the key findings of their audit.
Following its own review, the Supervisory Board approved the Management Board's report on relationships with affiliated companies and also concurred with the findings of the audit of the report by the auditor. Based on its own review, the Supervisory Board established that no objections were to be raised against the declaration by the Management Board at the end of the report on relationships with affiliated companies.
In conclusion, the Supervisory Board would like to thank all shareholders for their ongoing trust. It also owes its thanks to all employees and the Management Board for their work in the past financial year and for their unrelenting commitment during the restructuring currently underway at QSC AG.

Cologne, 17 March 2016
On behalf of the Supervisory Board of QSC AG

Dr. Bernd Schlobohm
Supervisory Board Chairman

QSC SHARE PERFORMANCE

10%

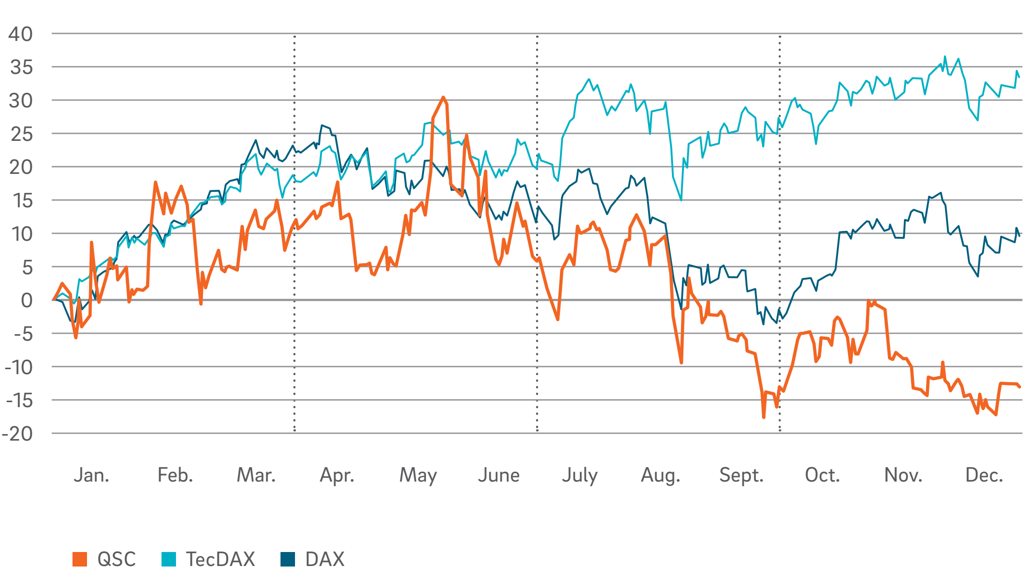
increase in DAX in 2015

Record highs and marked setbacks on German stock markets. Following a good start to the year, stock markets subsequently showed great volatility, as was already the case in 2014. Among others, the factors feeding this volatility were the discussions surrounding the timing of the first increase in US interest rates, as well as the implications of the liquidity glut in the euro area and of the collapse in the oil price. Not only that, emerging economies such as Brazil and China also witnessed marked slowdowns in their rates of development. At the beginning of the year, sentiment had still been more optimistic, with the DAX crossing the 11,000 and 12,000 point marks for the first time in its history in the first quarter of 2015. By the end of the year, the index closed at 10,743 points, equivalent to a 10 percent increase on the previous year. The TecDAX, which was less affected by the turbulence in the global economy, performed better over the same period, rising 34 percent to 1,831 points on 30 December 2015. All stock market segments saw a tendency for investors to focus on stocks assumed to be safe. Companies in transformation or passing through periods of weakness faced discounts, in some cases substantial, in their share prices.

QSC shares stabilise at € 1.50. In 2015, stocks of companies in transformation also included QSC. Responding to a disappointing performance in the 2014 financial year, the Company had introduced a comprehensive cost-cutting programme and initiated far-reaching staff cuts. In a favourable market climate, the share price then rose significantly at the beginning of the year, reaching its annual high at € 2.30 on 26 May 2015 in the run-up to the Annual Shareholders' Meeting. Given ever greater insecurity on the capital markets in the second half of the year, however, the share price suffered setbacks and hit its annual low at € 1.40 on 24 September 2015. In the following weeks, the share price stabilised at a level of € 1.50. It closed at € 1.51 on 30 December 2015, 13 percent down on the previous year's figure. The share price performance in 2015 did not yet reflect the success of the Company's more focused strategy or of its cost-cutting programme. Institutional investors in particular were waiting to see whether and to what extent these measures, which they deemed correct, would impact on the Company's earnings and financial strength. Their expectations in this respect were still too high in some cases, particularly at the beginning of the year. QSC responded with its usual transparency and pointed out that the more sharply honed cloud strategy in particular would take time to be implemented.

QSC no longer listed in TecDAX. QSC's shares fell further in value in the highly volatile capital market climate seen in the first months of 2016. By the end of February 2016, the shares were thus no longer among the 35 largest technology stocks in Germany. Alongside trading volumes, free float market capitalisation is the decisive criterion determining inclusion in the 30-stock TecDAX index. The relevant working group at Deutsche Börse therefore decided on 4 March 2016 to replace QSC in the TecDAX. QSC assumes that as its success in implementing its strategy and especially in marketing its Pure Enterprise Cloud becomes more visible in the course of 2016, this will also provide greater leeway in terms of its share valuation. Assuming a suitable increase in its share price, the Company could then in the medium term return to the TecDAX.

QSC share performance
(indexed)



Lively trading underlines ongoing interest in QSC. The past financial year brought an increase in trading volumes, and that despite the caution shown by institutional investors. According to German Stock Exchange statistics, an average of 1,050,000 QSC shares were traded in Xetra and floor trading each day – 15 percent more than in the previous year. Based on the lower share price, total trading volumes on German stock exchanges came to € 489.2 million, as against € 636.4 million in 2014.

Higher share of retail investors. Of almost 124.2 million QSC shares, 75 percent were in free float ownership at the end of 2015. A total of 25 percent of the shares were owned by QSC's two founders, Gerd Eickers and Dr. Bernd Schlobohm, who have yet to sell a single share since the Company's IPO in 2000. According to the share register, the share of retail investors rose 7 percentage points to 67 percent in 2015, while 33 percent of the Company's shares at the end of 2015 were held by institutional investors.

QSC's founders have yet to sell a single share since 2000

Shareholder structure as of 31 December 2015

Based on the voting rights notifications received, the Dutch-based fund provider Kempen Capital Management continued to hold more than 5 percent of the shares. By contrast, the British company J O Hambro Capital Management informed QSC on 2 December 2015 that in the context of a securities lending transaction its holding had fallen below the 3 percent and 5 percent reporting thresholds. Credit Suisse Fund Management fell short of the 3 percent threshold in February 2015 already.

Nine analysts regularly monitoring QSC. The "wait-and-see" approach adopted by numerous institutional investors is due in part to the opinion currently prevalent among analysts that QSC's shares are worth holding. At the end of the year, six neutral recommendations were accompanied by two sell recommendations and one buy recommendation. The number of institutions regularly reporting on QSC declined compared with the previous year, with Berenberg Bank and J.P. Morgan Cazenove discontinuing their coverage in the course of the year.

Financial institutions that publish studies on QSC

Bankhaus Lampe	Hauck & Aufhäuser	Metzler Equities
Commerzbank	Independent Research	Oddo Seydler Bank
Deutsche Bank	Landesbank Baden-Württemberg	Warburg Research

QSC is a dividend-paying stock. The discussion among analysts and investors as to whether QSC should continue paying a dividend of 10 cents per share in a period in which the Company was undergoing transformation intensified in the course of 2015. At the beginning of the year, the Management Board deliberately decided to distribute a dividend in this amount, and that notwithstanding the disappointing 2014 financial year. As 2015 progressed, the analysts already began to adjust their dividend expectations for the 2015 financial year in line with the Company's operating performance. At the beginning of 2016, the consensus was at 3 cents per share.

QSC has followed these discussions very closely and factored the opinion of the capital market, and thus also of its owners, into its own considerations concerning the distribution for the 2015 financial year. The Management and Supervisory Boards will now be proposing a dividend of 3 cents per share for approval by the Annual Shareholders' Meeting in May 2016. If this proposal is approved, the Company would thus be distributing just over 50 percent of the free cash flow generated in 2015 to its owners. QSC will also mainly be referring to its free cash flow when determining dividend policy in the years ahead as well.

dividend proposal for 2015

Open dialogue with all interested parties. QSC was permanently in contact with analysts and investors in 2015 as well. The Management Board presented the Company at capital market conferences organised by leading financial institutions such as Bankhaus Lampe, Berenberg Bank, Commerzbank, Deutsche Bank and J.P. Morgan Cazenove, as well as at roadshows at leading European financial centres. These activities were supplemented by numerous one-to-one meetings at the Company's locations in Cologne and Hamburg, and by conference calls with a number of existing and potential investors. One major instrument for capital market communication traditionally involves the conference calls held on the day on which quarterly results are published and upon the release of any ad hoc announcements. QSC makes presentations and recordings of the comments made by members of the Management Board available without delay on its IR website. Moreover, the presentations are also available on SlideShare, the world's largest platform for documentation of this kind. Alongside SlideShare, Twitter is a further social medium used by QSC in its Investor activities to spread the latest news. Within QSC's website, the IR section – which was redesigned during 2015 – serves as the central platform for all relevant information. As well as financial reports and IR press releases, investors and other interested parties can also find here a financial calendar, analyst assessments and detailed documents relating to the Annual Shareholders' Meeting.

WWW.SLIDESHARE.NET/QSCAG
WWW.TWITTER.COM/QSCIREN
WWW.QSC.DE/EN/INVESTOR-RELATIONS

Basic information on QSC shares

Securities control number	513 700
ISIN	DE0005137004
Trading symbol	QSC
Bloomberg symbol	QSC GR
Reuters symbol	QSCG.DE
Market segment	Prime Standard
Stock exchanges	Xetra and regional German stock exchanges
Designated sponsorship	Oddo Seydler Bank AG
Shares outstanding as of 31 December 2015	124,162,487
Share class	No-par-value registered shares of common stock
Xetra closing price on 30 December 2014	€ 1.74
Xetra share price high in 2015	€ 2.30
Xetra share price low in 2015	€ 1.40
Xetra closing price on 30 December 2015	€ 1.51

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GROUP FUNDAMENTALS

Business Activities

QSC is digitising the German SME sector. With decades of experience and expertise in its Cloud, Consulting, Outsourcing and Telecommunications businesses, QSC AG ("QSC" or "the Company") accompanies business customers securely into the digital age by offering a comprehensive range of services from a single source. Products and services are marketed both directly and via partners. QSC offers all of its products and services with maximum end-to-end quality and security. The basis for this is provided by the Company's proprietary TÜV and ISO-certified data centres in Germany and its nationwide All-IP network. QSC divides its operating business into four segments.

QSC's spectrum of products, services and solutions

Cloud – step-by-step into the digital world. QSC systematically expanded its newest segment in the past financial year. Companies can now procure all of their IT by drawing on QSC's cloud-based solutions. These involve both standard applications and individually tailored business applications. Not only that, QSC also focuses on solutions that smartly connect machines and appliances.

The basis for these services is the Pure Enterprise Cloud developed in the course of 2015. The portfolio comprises desktop, telephony, client and mobility management, SAP applications and further sector-specific applications and solutions. Their provision as turnkey service components based on a modular principle enables customers to gradually build or expand their cloud-based

activities. At the same time, customers can determine which applications they operate themselves, which applications they procure from a public cloud and which applications they wish to operate in a secure cloud. This also includes resources and solutions offered by other cloud providers, an area in which QSC acts as an integrator. The Pure Enterprise Cloud thus assists customers in enhancing their IT in line with the requirements of the digital age. This will also result in a gradual migration of revenues from the Company's Outsourcing segment to its Cloud segment.
Under its Q-loud brand, QSC pools all activities relating to the networking of machines and appliances in the "Internet of Things" (IoT). SOLUCON, an internally developed IoT platform, enables customers to implement secure control and maintenance functionalities for machines and energy systems. Further information about this can be found under "Strategy" on pages 28 to 30.

SEE PAGES 28FF.
STRATEGY

Consulting with key focus on SAP and Microsoft. QSC has longstanding experience in advising companies on optimising their business processes, with two key focuses on SAP and Microsoft. The comprehensive range of SAP services on offer includes planning and implementing system architecture and application consulting, development and integration. QSC is well prepared for the technological advance at SAP from the R/3 ERP product family to S/4HANA. The Company has operated its own HANA Competence Centre since 2014 already.

Well prepared for technological leap to SAP S4/HANA

With its Microsoft-based professional services, QSC accompanies its customers through the entire IT lifecycle and offers services that range from needs analysis via consulting, design and implementation through to operations and ongoing optimisation.

Outsourcing relies on proprietary data centres in Germany. The services offered in QSC's Outsourcing business range from the provision of data centre services through to the assumption of entire IT operations. QSC has a modular approach that covers all of companies' IT operations – from scalable computer and storage services via the operation of standard applications and databases through to the management of stationary and mobile workplaces. The ability to offer cloud-based operations for companies' entire IT structures will lead to a visible migration of revenues from the Outsourcing segment to the Cloud segment.

Telecommunications – voice and data services from a single source. QSC customers have traditionally benefited from a broad spectrum of voice and data communication services. For their internet connections, they can choose from asymmetric ADSL2+ lines, symmetric SDSL lines and premium internet access via wireless local loop (WLL) networks. Ever more customers are also using their internet connections for voice telephony. QSC has offered All-IP telephony connections (Voice over IP) and corresponding telephone systems since 2006 already. Furthermore, the range of services also includes further forms of voice telephony, including open call-by-call and preselect offerings and value added services.

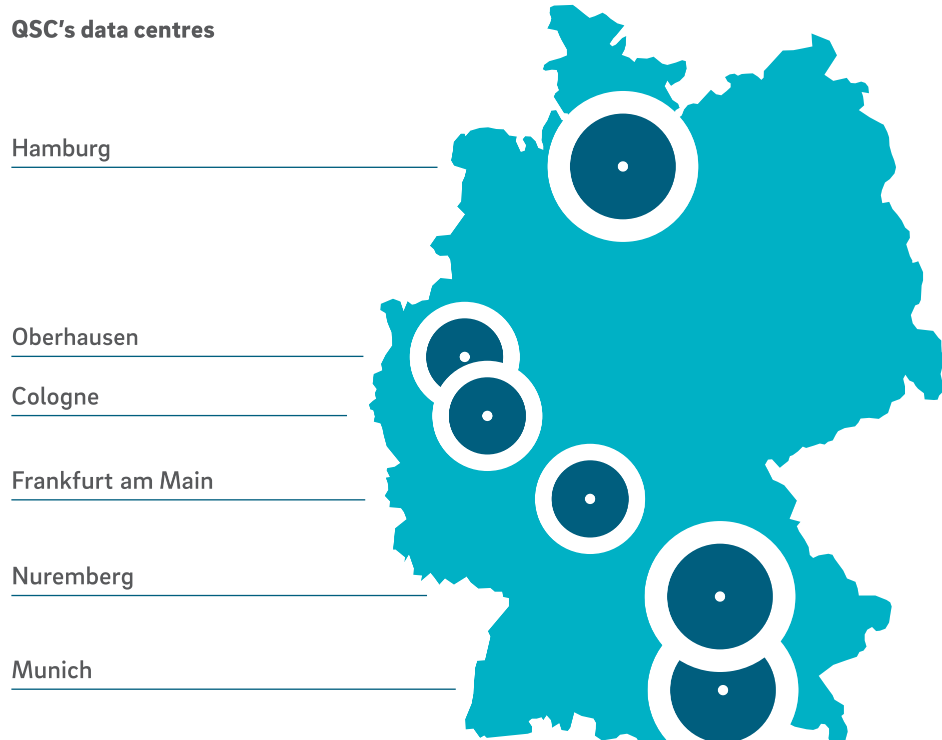
Precise customer targeting. QSC works with a variety of distribution channels to optimally address the needs of individual customer groups. In Direct Sales, a key account team chiefly targets medium-sized business customers with 200 to around 5,000 workplaces. QSC believes that online channels are gaining in importance in this area, particularly when it comes to lead generation. Indirect Sales focuses on business customers with 50 to 200 workplaces. Here, QSC has worked together for many years now with more than 350 sales partners, more than 150 internet service providers (ISP) and national and international carriers. These cooperations are supplemented with select technology partners. Furthermore, QSC has for many years also supplied strongly placed market providers that primarily address private customers. The products deployed here are marketed by these partners under their own names.

Data centres and an All-IP network in Germany. QSC has its own ICT infrastructure across the whole of Germany and can thus guarantee its customers consistently high quality along the entire value chain. The centrepiece of this infrastructure consists of data centres certified by both TÜV and ISO. At the end of 2015, QSC operated data centres at six locations across Germany (Cologne, Frankfurt am Main, Hamburg, Munich, Nuremberg, Oberhausen) with total floor space of around 20,000 square metres. The Company is thus subject at all of its locations to German data protection requirements, which are very strict by international standards.

20,000 m²

of data centre surface

QSC's data centres



The data centres are linked with a cutting-edge infrastructure. This is based on the next-generation network (NGN), which safeguards the convergence of various voice and data transmission technologies with the IP protocol. This involves a software-based solution that, irrespective of ownership of the physical infrastructure, allows QSC to offer its customers nationwide end-to-end quality and to manage and supervise its network services as appropriate.
Moreover, QSC has traditionally operated a nationwide DSL network, one of Germany's largest wireless local loop (WLL) access networks and a nationwide All-IP voice network. Unlike many competitors, QSC fully upgraded its voice-data network to IP technology in 2006 already and has therefore been able to offer nationwide IP telephony and related services for nearly 10 years.

Market and Competitive Position

Focus on German SME sector. Since its foundation, QSC has primarily operated in the German market with a focus on medium-sized companies. QSC – itself a medium-sized player – enjoys particular credibility here and has successfully built up a strong position over many years. For Consulting and Outsourcing projects, the Company also operates outside Germany in individual cases. Foreign sales partners are also increasingly showing interest in the Company's internally developed cloud products.

Comprehensive range of services as key competitive advantage. QSC is one of only few companies in Germany to cover the entire range of modern ICT solutions and can thus clearly differentiate itself from competitors in this respect. With its Pure Enterprise Cloud, the Company has now pooled its competencies in the fields of Cloud, Consulting, Outsourcing and Telecommunications and – with its comprehensive approach – is making it easier for SME customers to manage their transition into the digital age. With the planned integration of third-party providers, QSC is also supporting customers in retaining their autonomy vis-à-vis individual large manufacturers. In its Outsourcing business, QSC's all-round range of services and cloud competence have enabled it to set itself apart over many years now from the subsidiaries of globally operating ICT companies and major systems houses. In Consulting, QSC is in competition with IT consultancies and IT system houses and benefits in this environment as well from its broad-based expertise. In its Telecommunications business, the Company's end-to-end All-IP network and the extremely efficient service provision it can offer on this basis have proven to be a major competitive advantage over other TC providers. The Company's strong starting position in its fourth segment, Cloud, is underlined by its selection as "Cloud Leader" in no fewer than three categories by the Experton Group, a key opinion-maker in Germany, in June 2015.

QSC: a Cloud Leader in three categories

Strategy

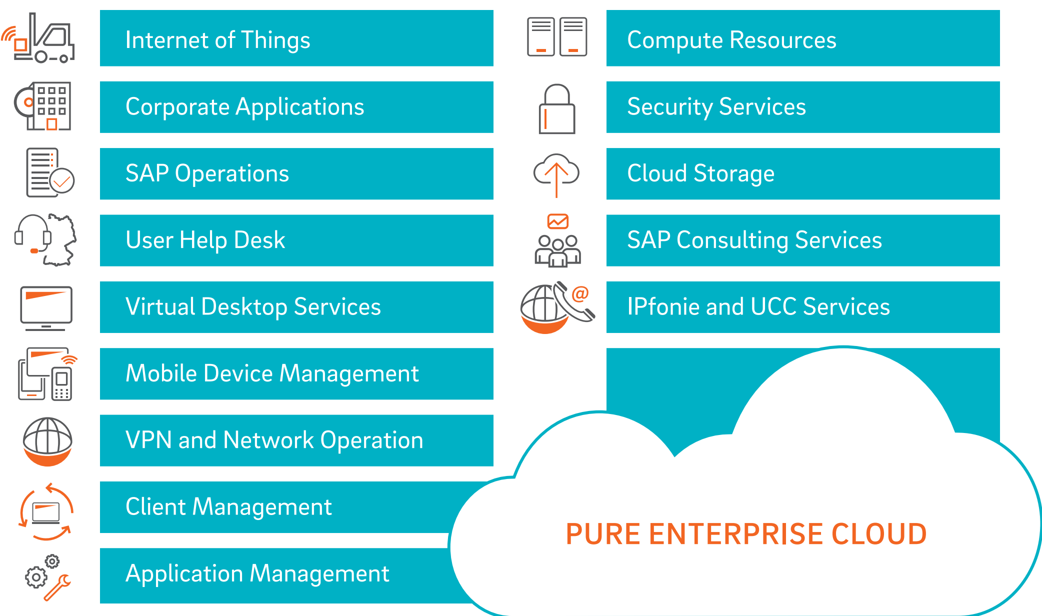
QSC is the digitiser for the German SME segment. As announced at the beginning of the year, in 2015 QSC consistently aligned its strategy towards the needs of medium-sized companies. As the digitisation of the overall economy progresses, these companies find themselves confronted with enormous challenges. Ever more frequently, IT-based, digital business models are supplementing and replacing conventional business models. Examples here range from streaming services for films and music via online marketplaces for industrial goods through to remote machine maintenance. To seize the opportunities offered by the digital age and securely manage the forthcoming transformation, companies need experienced service providers at their side. Given enormous technical advances and the crucial role played by modern technologies in determining companies' long-term success, home-grown IT solutions are increasingly reaching their limits. This process of turning away from proprietary IT solutions is occurring in parallel with the advance of the cloud, which is the IT architecture for the digital age. With its centralised approach, it satisfies requirements in terms of agility, security and customer orientation. Customers wish to be able to interact with a company at all times, from all locations and from all conceivable end appliances. Only large companies have the capacity to operate this kind of cloud solution on an in-house basis. German SME players will therefore place their trust in the performance capacity, technical competence and security offered by external providers.

The cloud is the IT architecture for the digital age

This is precisely where QSC comes in. The Company is one of only few one-stop providers in the German market and can offer a full range of services in its four segments of Cloud, Consulting, Outsourcing and Telecommunications. With its Pure Enterprise Cloud, the Company can now offer a service portfolio that combines all competencies and thus makes it far easier for customers to manage their transition into the new digital age.

The Pure Enterprise Cloud – maximum freedom of choice and security for the future. The services available in the Pure Enterprise Cloud enables SME companies to enjoy the benefits of cutting-edge cloud solutions while nevertheless retaining absolute freedom in their IT. As a link between various cloud worlds, the Pure Enterprise Cloud facilitates both the effective use of traditional IT applications and the integration and interaction of new cloud services of various origins.
The Pure Enterprise Cloud is based on a modular system of proven cloud technologies, software solutions, service components and high-performance network and infrastructure services. Customers can thus compile their own bespoke range of cloud services. These include all options relating to online IT use, starting from scalable computer and storage solutions and ranging up to fully fitted virtual office and IT workplaces and the operation of specialist industry and company software. Services are invoiced using the pay-per-use model and thus in line with the actual number of users and level of utilisation.

The Pure Enterprise Cloud's portfolio of services



All segments are helping digitise the SME sector. The Pure Enterprise Cloud, which comprises all ICT services companies need for their digitisation, is based in the Cloud segment. Alongside companies, QSC is also focusing here on accompanying people and things securely into the digital age. In the solutions it offers for the "Internet of Things", QSC is building on SOLUCON, its in-house, state-of-the-art and fail-safe platform. When it comes to cloud-based workplaces, QSC can look back on a long tradition in areas such as IP telephony or web and video conferencing. These services are supplemented by FTAPI's innovative solution for the encrypted transmission of e-mails, including secure document management.

SOLUCON: offering solutions for the Internet of Things

Consulting plays a decisive role in digitising SME companies. Key focuses at this segment include integrating cloud-based applications and transforming complete IT systems. Consulting acted early to prepare for SAP's technological advance to the S/4HANA Business Suite. This software facilitates the speed and performance that are absolutely crucial in the digital age when it comes to processing large volumes of data.

The business model in the Outsourcing segment is changing as digitisation progresses. Customised designs are being replaced by largely standardised modular service structures. The centrepiece here is the Pure Enterprise Cloud. The Outsourcing segment is thus set to gradually reduce in significance, albeit to the benefit of the Cloud business.
QSC is laying the foundation for successful digitisation with the services offered in its fourth segment, Telecommunications. After all, state-of-the-art voice and data communication is a prerequisite for any digital business model. QSC is one of only few companies in Germany that is able to offer maximum end-to-end quality in the field of data transmission. QSC focuses here on corporate customers. It will continue to operate its established business with resellers who primarily serve private customers. Having said this, the Company expects its revenue and earning contributions in this area to continue to reduce as a result of market and regulatory factors.

Strategy aims for sustainable value growth. The cornerstones of QSC's strategy in the coming years will be its Cloud and Consulting business fields and its TC business with corporate customers. Here, the Company expects to generate growing revenue and earning contributions. Revenues in Outsourcing and the TC business with resellers, by contrast, are expected to decline, although QSC will continue to strictly ensure adequate profitability in these areas. The growth in the Cloud business in particular will create a strong basis for sustainable value growth in the years ahead.

Organisational Structure

Nationwide presence in German market. QSC AG has its legal domicile in Cologne. Alongside its headquarters in Cologne, the Company has a second large location in Hamburg. These two sites are supplemented by ten sales offices located in Berlin, Bremen, Dresden, Frankfurt am Main, Hanover, Leipzig, Munich, Nuremberg, Oberhausen and Stuttgart. QSC has two major direct and indirect participating interests:

- Ventelo GmbH offers medium-sized and larger companies services including direct landline connections, preselect and call-by-call, as well as value added services.
- Ventelo owns 100 percent of the shares in the network company Plusnet GmbH & Co. KG. Plusnet operates a nationwide DSL network.

Furthermore, several subsidiaries are promoting the cloud business. Their legal autonomy increases their flexibility and makes it easier for them to pursue innovative paths in developing and marketing cloud-based products and services.

Subsidiaries are promoting the cloud business

- FTAPI GmbH. This Munich-based encryption specialist has been included in QSC's scope of consolidation since February 2014. The centrepiece of the company's business involves an internally developed software solution for secure data transmission and storage (www.ftapi.com).

- fonial GmbH. During 2015, this company prepared the market launch of a virtual, cloud-based, next-generation telephony system (www.fonial.de).
- Q-loud GmbH. Since 2013, this internally founded company has served QSC as an umbrella brand for the IoT activities surrounding the SOLUCON development platform (www.qsc.de/q-loud).

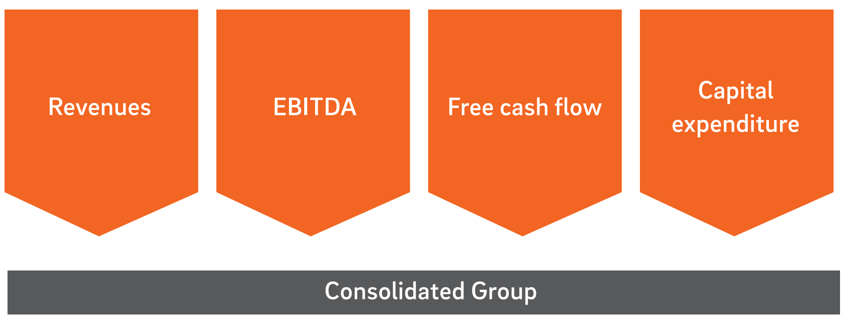
SEE PAGE 134
NOTES

A complete overview of the scope of consolidation as of 31 December 2015 can be found in Note 37 of the Notes to the Consolidated Financial Statements.

Management

Management by key financial performance indicators. The Company is managed via its four segments, namely Cloud, Consulting, Outsourcing and Telecommunications. These are based on a system of profit, cost and service centres. The following key financial performance indicators are referred to on group level: revenues, EBITDA, free cash flow and capital expenditure. No reference is made to non-financial performance indicators for Company management purposes.

QSC's key financial performance indicators



EBITDA is defined as earnings before interest, taxes, amortisation of deferred non-cash share-based compensation, depreciation/amortisation and impairment losses on customer-related inventories and depreciation/amortisation of property, plant and equipment and intangible assets. The EBITDA margin presents EBITDA as a percentage of revenues. The free cash flow portrays the change in net liquidity/debt from operating activities. QSC accounts for its capital expenditure on a timing rather than flow-of-funds basis. This item includes customer-related, research-driven and other investments, as well as investment in infrastructure.

Monthly reports as core management instrument. The monthly reports contain all relevant key figures and budget/actual comparisons. They serve as a key basis for discussion at the fortnightly meetings of the Management Board, as well as for the monthly reports to the Supervisory Board. Moreover, the latest budget/actual comparisons are used as a basis for regularly updating the rolling planning. This serves as an early warning system for potential variances, thus enabling corrective measures to be taken at an early stage. One integral component of reporting is the risk management system, which is described in this Group Management Report from page 75 onwards. This ensures that any changes in opportunities and risks are directly factored into the management system.

SEE PAGES 75FF.
RISK MANAGEMENT SYSTEM

Research and Development

Greater focusing of development activities. Consistent with the Company's strategy, development activities were also focused more precisely in the past financial year. Development activities centred on the SOLUCON platform and products and services relating to virtual workplaces. The corresponding budget amounted to € 7.5 million, as against € 8.9 million in the previous year. Of this total, € 0.2 million was capitalised (previous year: € 2.7 million) and € 7.3 million recognised as cost of revenues (previous year: € 6.2 million). Amortisation of capitalised development expenses came to € 6.8 million in 2015, compared with € 1.0 million in the previous year. As of 31 December 2015, a total of 68 employees predominantly worked on development projects. In the previous year, this number had stood at 62. Over and above development work in the narrower sense, numerous other QSC employees were also involved in preparing and implementing innovations in the past financial year. One key focus here was on the development of the Pure Enterprise Cloud (see "Strategy" on pages 28 to 30).

SEE PAGES 28FF.
STRATEGY

Research and development
(in € million)

Q-loud expands IoT expertise. Like in the previous year already, Q-loud pressed ahead with development and application projects on the basis of the SOLUCON platform. This internally developed IoT platform offers all of the functions required to integrate appliances into the Internet of Things.

Hardware manufacturer Huawei drawing on SOLUCON platform

The relevant software components can be rapidly and securely provided and operated on a modular basis. Among those convinced by this innovative concept in 2015 was Huawei, one of the world's leading ICT providers. This hardware producer intends to draw in future on SOLUCON services, such as encryption, secure data transfer, big data analyses and transaction-based invoicing.
Q-loud launched a further project with Novoferm tormatic in the past financial year. This internationally aligned German specialist in gate automation solutions will in future be including a communications module developed by QSC on a serial basis in its operator systems. The preliminary work on this project formed a component of development expenses. Other than this, the experts at Q-loud primarily dealt with solutions for energy-related services providers and industrial companies.

Social Responsibility

Sustainability plays a decisive role. QSC believes that long-term entrepreneurial success is inseparably linked with sustainability. In the interests of customers, investors, employees and the Company itself, very great value is therefore attached to achieving economic and ecological sustainability, as well as to the Company's social commitment. Further information about the Company's social commitment can be found in "Employees" from page 50 onwards. Activities here focus on vocational training and ensuring that all QSC employees can combine their family and professional obligations.

SEE PAGES 50FF.
EMPLOYEES

Sustainability intrinsically linked with energy efficiency. In the past financial year, QSC underwent the statutory energy audit required under the German Energy-Related Service Act for the first time. The audit performed by external auditors in accordance with the DIN EN 16247-1 standard enabled the Company's energy deployment and consumption to be systematically recorded and analysed. Based on the audit completed on 5 December 2015, QSC will be able to identify energy flows, derive potential energy efficiency enhancements on this basis and thus further improve its energy balance. Some of the measures intended to reduce energy consumption can be implemented with comparatively simple means, while others will require investments. In the medium and long term, these investments will then make an important contribution towards reducing the Company's energy costs. QSC's data centres, and especially those in Munich and Nuremberg, already work on a highly energy-efficient basis. Based on one certification, the TÜV technical inspection agency awarded these locations "Efficiency Class A" status at the end of 2014.

Sustainable business activity requires well-informed employees. QSC works to raise awareness of sustainability among all its employees. It is important, particularly when communicating with customers, to understand the extent to which ICT services can help reduce energy needs and CO_2 emissions. This also applies for avoided business travel and the use of home workplaces. QSC itself supports its employees with wide-ranging home office policies and promotes the training of its employees as internationally recognised energy managers (Chamber of Industry and Commerce – IHK). This involves extra-occupational practice-driven training in the field of energy-efficient technology.

QSC is also setting a good example when it comes to reducing business travel-related energy consumption. Employees can select from two car-sharing models when booking cars. The travel expense policies explicitly provide for the use of such schemes. Equipping those departments that have contact to customers with Microsoft-Lync solutions, which make it possible to hold video calls quickly and inexpensively, has also helped avoid business travel. Video conference rooms enable large-scale meetings to be held without any travel or associated environmental impact. QSC is also aware of its ecological obligations in terms of its own company car fleet. This already complies with the EU target of 130 grams of CO_2 per kilometre, thus setting itself apart from car fleets at many other companies.

QSC makes sure its company cars have low CO_2 emissions

CORPORATE GOVERNANCE REPORT AND CORPORATE GOVERNANCE DECLARATION

Commitment to transparency and value orientation. Since its foundation, QSC has always accorded great priority to high-quality and transparent corporate governance. The term corporate governance stands for modern corporate management and supervision aimed at long-term value creation. Open, transparent communications with shareholders, as well as with employees, customers and suppliers, naturally form part of corporate governance, as do cooperation on a basis of trust between the Company's boards.
Consistent with this commitment, the Company has implemented the requirements of the German Corporate Governance Code ("the Code") in virtually all points and adheres to these in its day-to-day work. In a small number of cases, QSC nevertheless deliberately deviates from the recommendations made by the Government Commission. In the following section the Management Board reports, also on behalf of the Supervisory Board, on corporate governance pursuant to Point 3.10 of the Code. This report integrates the compensation report called for by Point 4.2.5 of the Code and also includes the corporate governance disclosures required by § 289a of the German Commercial Code (HGB).

Management and Supervision

Management Board manages the Company independently. QSC AG is a publicly listed stock corporation under German law and has a dual management structure. The Management Board is responsible for independently managing the Company. The Supervisory Board appoints, supervises and advises the Management Board. Members of both boards are bound solely by the interests of the Company. There were no conflicts of interest requiring disclosure in the past financial year.

QSC boosts Management Board with two cloud experts. At the end of March 2015, QSC's Supervisory Board decided to reorganise and enlarge the Management Board team. The Supervisory Board appointed Udo Faulhaber and Felix Höger to join Jürgen Hermann (CEO) and Stefan A. Baustert (CFO) on the Management Board. Udo Faulhaber assumed his position as Chief Sales Officer (CSO) as of 1 August 2015. A graduate in engineering, Mr. Faulhaber can draw on a wealth of experience gained in leading positions at Nixdorf, Bayer and Postbank and above all in his role as a successful company founder at NCC GmbH (later: arxes AG). Mr. Faulhaber joined Pironet NDH as a managing director in 2008, was appointed to the Management Board in 2012 and worked together with Felix Höger to turn the company into one of Germany's leading cloud service providers. As CSO at QSC, he has succeeded Henning Reinecke, who left the Company as of 30 April 2015.

New Management Board members already built up their own companies

Felix Höger has been Chief Technology and Operations Officer on the Management Board since 1 January 2016. Mr. Höger already founded the service provider NDH during his training in 1995. In 2000, he merged this company with the software manufacturer Pironet to form today's Pironet NDH. As a pioneer and trailblazer for cloud computing among German SMEs, he turned Pironet NDH from a network service and outsourcing provider into a successful and profitable cloud service provider.

Management Board adopts resolutions by simple majority voting. The Rules of Procedure issued by the Supervisory Board stipulate that Management Board resolutions require a simple majority of the votes cast, with the CEO having the casting vote in the case of split resolutions. All resolutions relating to measures and transactions that are of major significance to the Company or that involve greater risk are adopted by the full Management Board. A business allocation plan governs the areas of responsibility of Management Board members. Each Management Board member manages those areas under his or her own responsibility within the framework of Management Board resolutions.

Setting of targets for the share of women in Management and Supervisory Boards. At its meeting in August 2015, the Supervisory Board resolved that the share of female Supervisory Board members should amount to at least 16.6 percent and that this target should be reached by 30 June 2017. Women already account for 50 percent of the Supervisory Board's members. The Supervisory Board has no influence on the election of employee representatives. The shareholder representative side will therefore assume the task of ensuring compliance with this target when compiling its list of candidates to be proposed for election as shareholder representatives by the Annual Shareholders' Meeting. The Supervisory Board generally appoints Management Board members for three-year terms. As the terms in office of the Management Board members, all of whom are men, only expire after 30 June 2017, at its meeting in August 2015 the Supervisory Board set the target share of women on the Management Board as of 30 June 2017 at 0 percent. Consistent with legal requirements, the Management Board also set targets for the share of women in the two management tiers immediately beneath it. In view of the Company's core focus on IT and technology, it decided to aim for a 5 percent share of women in the first management tier and a 10 percent share in the second management tier by 30 June 2017, thus stabilising the current levels. It will continue to promote initiatives aimed at fostering women's interest in so-called MINT subjects (mathematics, information technology, natural sciences and technology) in order to increase the share of female applicants and thus create a basis for achieving a higher share of women in management positions.

50%

share of women on Supervisory Board

Gender parity on Supervisory Board. Pursuant to the Articles of Association, QSC's Supervisory Board comprises six members. Since the Company has more than 500 employees, the German One-Third Participating Act ("Drittelbeteiligungsgesetz") is applicable. This means that two thirds of Supervisory Board members are elected by shareholders and one third by employees. The Supervisory Board comprises three women, of which two are employee representatives, and three men. The term in office of all members expires upon the conclusion of the Annual Shareholders Meeting for the 2017 financial year.

Unless otherwise stipulated by law or its Rules of Procedure, the Supervisory Board and its committees adopt resolutions by a simple majority vote. Four Committees – the Nomination, Human Resources, Audit and Strategy Committees – were in place throughout the past financial year. All committees regularly report to the full Supervisory Board and prepare its resolutions. Detailed information about the activities of the Supervisory Board and its committees can be found in the Supervisory Board Report on pages 11 to 16.

SEE PAGES 11FF.
SUPERVISORY BOARD REPORT

Composition of Supervisory Board consistent with own objectives. In the 2015 financial year as well, the Supervisory Board met all of its self-imposed objectives relating to its composition. Together, its members possess the knowledge, ability and expert experience required for the Board to properly perform its duties. The Supervisory Board includes at least one member who is independent in the sense of § 100 (5) of the German Stock Corporation Act (AktG) and has expert knowledge in the fields of accounting or auditing. As Director of the Group Tax Department at the globally active SAP Group, Ina Schlie fully meets this requirement. Alongside Dr. Frank Zurlino, Managing Partner at the management consultancy Horn & Company, she is an independent member of the Supervisory Board.
The number of former Management Board members on the Supervisory Board is limited to a maximum of two. These presently relate to QSC's two founders and largest individual shareholders, Dr. Bernd Schlobohm and Gerd Eickers. Moreover, the Supervisory Board still does not include any members who exercise directorships or similar positions or advisory functions for important competitors. Upon the latest election, all candidates were aged below 75. Unlike recommended in the Code, the Supervisory Board has deliberately decided not to set a limit on the period of membership in the Supervisory Board. It does not believe that it would be in the Company's best interests to set a limit in advance on the length of time individual members should sit on the board.

Transactions of fundamental importance require Supervisory Board approval. The Management Board informs the Supervisory Board without delay and comprehensively of issues important to the Company with regard to strategy, planning, business development, risk situation, risk management and compliance. The Rules of Procedure for the Management Board require that approval be obtained from the Supervisory Board prior to the conclusion of any major business transactions, such as the fixing of annual planning, major investments, acquisitions and financing measures. These Supervisory Board decisions are prepared in detail and discussed in the committees and by the full Supervisory Board.

Relevant Corporate Governance Practices

Management is based on a system of shared values

QSC publishes compliance principles. QSC views corporate governance as providing a framework for managing and supervising the entire Company. Its internal policies are therefore consistent with the Code. Moreover, the management of the Company is based on a system of shared values. The main contents of this system of values were summarized in the QSC Compliance Guidelines in the past financial year. The Management Board declared these Compliance Guidelines to be binding for all employees. The Company also expects these guidelines to shape its business dealings with all of its business partners.

Integrity plays a key role within this system of values. The Company views integrity as the guiding model and yardstick for proper corporate management and strictly observes compliance with laws and in-house regulations. In this, QSC sets great store by the sense of responsibility and personal integrity of all its employees. QSC expects its employees' day-to-day activities to be impeccable in legal and ethical terms so as to avert any harm to the Company and the general public. The key focus here is on prevention – improper behaviour should be avoided from the outset. Practice-oriented training events help raise employees' awareness of the importance of topics such as legal compliance and professionalism in their dealings with third parties. QSC strictly observes compliance with dual control principles and the segregation of responsibilities. Guidelines on critical points such as insider trading law, information security, data protection, approval and signature authorisations, risk management, procurement and all aspects of customer relationships provide the necessary clarity for correct conduct in everyday operations. Despite these measures, the risk of individuals acting improperly cannot be precluded entirely. Any infringements occurring in spite of all preventive measures are clarified and punished without regard to the individual and his or her position.

QSC views compliance as an important management task. Compliance requires the ongoing attention of the Company's directors and officers. The Management Board, Supervisory Board and Audit Committee therefore regularly address this topic. In doing so, they draw among other sources on quarterly risk reports, in-house controlling and internal audit reports. These discussions produce major impetus for the ongoing enhancement of the compliance management system.

Dialogue with Shareholders

Comprehensive and timely information. QSC communicates transparently and extensively with the capital market. The Company uses its own website to report promptly on all relevant developments. Interested parties will find ad-hoc and press releases there, as well as the Company's quarterly and annual reports, latest presentations and a financial calendar. This website is also where QSC makes available all of the documents relevant to its Annual Shareholders' Meeting.

Website keeps public informed of all relevant developments at QSC

Ongoing dialogue with capital market players. The Annual Shareholders' Meeting is the most important event for the Company's dialogue with its shareholders. A total of 40 percent of the share capital was present at the Annual Shareholders' Meeting for the 2014 financial year held in Cologne on 27 May last year. Shareholders not present were able to have their voting rights exercised either by a proxy holder of their choice or by a voting proxy bound to vote in line with their instructions. The shareholders approved all agenda items with large majorities.

As in previous years, the Chair of the Meeting ensured that the meeting progressed efficiently. The Management and Supervisory Boards once again decided not to broadcast the event on the internet, as the associated costs and legal uncertainties outweigh the potential benefit for absent shareholders.
In the course of the year, QSC upheld its dialogue with shareholders above all by way of meetings held with investors and analysts at road shows and one-to-one talks, some of which at capital market conferences organised by banks. Conference calls held on the days the quarterly results are published also ensure that these target groups are provided with up-to-date 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 about the Company's investor relations activities can be found in "QSC Share Performance" on pages 17 to 20 of this Annual Report.

SEE PAGES 17FF.
QSC SHARE PERFORMANCE

Management Board members acquire QSC shares. One self-evident component of transparent communications involves providing prompt information about purchases and sales of QSC shares by members of the Management and Supervisory Boards and their related parties as defined in § 15a of the German Securities Trading Act (WpHG). In the past financial year, the two Management Board members Jürgen Hermann and Stefan A. Baustert acquired 100,000 and 10,000 shares respectively. Details of these transactions can be found at www.qsc.de/go/dd2015e. Furthermore, it should be noted that QSC's founders, Gerd Eickers and Dr. Bernd Schlobohm, both of whom currently Supervisory Board members, have not yet sold a single share since the Company's IPO in 2000. They have rather increased their shareholdings over the years and together now hold 25 percent of QSC's shares.

FOR FURTHER INFORMATION:
WWW.QSC.DE/GO/DD2015E

Declaration of Conformity

Declaration by the Management and Supervisory Boards of QSC AG pursuant to § 161 of the German Stock Corporation Act (AktG) regarding the Company's compliance with the German Corporate Governance Code (DCGK) in the version dated 24 June 2014, as of its validity from 5 May 2015

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 and adheres to them in its daily work. Since the submittal of its last Declaration of Conformity, the Company has complied and continues to comply with the recommendations of the Government Commission "German Corporate Governance Code" in the version dated 24 June 2014, as of its validity from 5 May 2015, with the following exceptions:

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

- **No cap on individual variable compensation components or on the overall compensation of one Management Board member and consequently no presentation of the maximum achievable compensation in the compensation report (Point 4.2.3, Paragraph 2, Sentence 6 and Point 4.2.5, Paragraph 3 [first bullet point] and Paragraph 4 of the Code).** Only one Management Board member still holds convertible bonds issued within the 2006 Stock Option Plan as one variable component of his Management Board compensation. These were allocated before the recommendation took effect. The current Management Board contract provides for a cap in the event of unforeseen developments; it does not, however, set any maximum limit on gains from exercising conversion rights in connection with the 2006 Stock Option Plan and thus on the overall compensation of the Management Board member. In view of this, QSC will also not state any maximum amounts in the model tables in the compensation report. QSC otherwise fully complies with the recommendations in respect of existing Management Board compensation and will also comply with the recommendations when determining any future Management Board compensation.

- **No cap on severance payments in case of premature termination in individual Management Board contracts (Point 4.2.3, Paragraph 4, of the Code).** Only one Management Board contract does not include any cap on severance payments. The Supervisory Board of QSC – in an earlier composition during whose period in office the relevant employment contract was concluded – was of the opinion that any advance agreement with respect to a severance payment cap would be contrary to the spirit of a Management Board contract, which is usually concluded for the duration of the appointment to office and does not, in principle, provide for the possibility of ordinary termination by notice. The Supervisory Board has since relinquished this opinion, as a result of which apart from the historic contract QSC now fully complies with the recommendation and will continue to do so in future.

- **No aiming for appropriate consideration of women in composition of Management Board (Point 5.1.2, Paragraph 1, Sentence 2 of the Code in the version dated 24 June 2014).** The Supervisory Board did not follow the recommendation made in Point 5.1.2, Paragraph 1, Sentence 2 of the Code in the version dated 24 June 2014 and valid until 12 June 2015 to the extent that this required an appropriate consideration of women to be aimed for. This is because the Supervisory Board did not want to accord any decision priority to the gender of the respective candidates. The Supervisory Board complies in full with the recommendation made by the Code in the version dated 5 May 2015 and will of course meet the statutory requirements now governing the setting of targets for the share of women in the Management Board.

- **No regular limit set for length of Supervisory Board membership (Point 5.4.1, Paragraph 2, Sentence 1 of the Code in the version dated 5 May 2015).** The Supervisory Board of QSC has set specific targets for its composition that are consistent with the recommendations made in Point 5.4.1 with the exception of the requirement to set a regular limit for the length of Supervisory Board membership newly recommended in Point 5.4.1 of the Code in the version dated 5 May 2015 and valid since 12 June 2015. The Supervisory Board believes that it would not be in the Company's best interests to set an advance limit on the length of individual board membership. It is basically desirable that the Supervisory Board should change its composition at certain intervals; on the other hand, the Company should also be able to draw on the expertise of experienced Supervisory Board members.

- **No disclosure of personal and business relations of each individual candidate with company, its executive bodies and with any shareholders holding material interests in company in election proposals to Annual Shareholders' Meeting (Point 5.4.1, Paragraphs 4 to 6 of the Code in the version dated 24 June 2014 and Point 5.4.1, Paragraphs 5 to 7, of the Code in the version dated 5 May 2015).** In QSC's opinion, the recommendation of the German Corporate Governance Code does not specify clearly enough which relationships of a candidate must be disclosed and the extent to which such disclosures are required to be made for proposed elections at the Annual Shareholders' Meeting in order to comply with the recommendation. In the interests of legal certainty with respect to future elections to the Supervisory Board, the Management Board and Supervisory Board have decided to declare a divergence from the recommendation. QSC is of the opinion that the existing disclosure requirements contained in § 124, Paragraph 3, Sentence 4 and § 125, Paragraph 1, Sentence 5 of the German Stock Corporation Act (AktG) are sufficient to meet the informational needs of the shareholders and will, at an appropriate date in the future, investigate and decide – voluntarily and without tying itself to the Code's recommendation – whether to disclose additional information about candidates proposed for election at the Annual Shareholders' Meeting.

Cologne, 19 November 2015

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

Compensation Report

New compensation system from the 2015 financial year. One major element of good corporate governance involves transparently presenting the total compensation paid to members of corporate bodies. The compensation system for members of the Management Board has been developed further in recent years to account for modified legal requirements, e.g. the German Appropriateness of Management Board Compensation Act (VorstAG). Given the appointment of new Management Board members and within its review of the existing compensation system, the Supervisory Board adjusted the provisions governing variable compensation within the system as of 1 January 2015. The Annual Shareholders' Meeting approved the amended compensation system on 27 May 2015.
Pursuant to § 315 (2) No. 4 of the German Commercial Code (HGB), QSC reports below on the basic principles of this compensation system, with individualised presentation of Management Board compensation.

Compensation system remains performance-based. The Supervisory Board determines the total compensation payable to individual members of the Management Board. The criteria referred to when assessing the appropriateness of compensation on the one hand include the tasks of the individual Management Board member, his or her personal performance, and the Company's economic situation and its sustainable development. On the other hand, they take account of the appropriateness of compensation by reference to peer group companies and compensation structures otherwise applicable within the Company itself and at comparable companies. Furthermore, the compensation is structured to be competitive in the market for highly qualified executives.

Management Board compensation comprises fixed and variable components. The compensation system for the Management Board of QSC AG consists of fixed and variable compensation components, pension benefits and other fringe benefits.

50 % maximum of annual Management Board target compensation is fixed

The annual non-performance-related fixed compensation makes up a maximum of 50 percent of total annual target compensation (comprising fixed and variable compensation based on 100 percent target achievement). It accounts for the performance of the respective member of the Management Board and the function and responsibilities assigned to him or her. Fixed compensation is paid by bank transfer and in 12 equal monthly instalments at the end of each calendar month. Management Board members do not receive any separate compensation for assuming further group-internal positions.
Furthermore, Management Board members receive variable compensation (bonus), the amount of which is based on achievement of annual targets (short-term incentive) and multi-year targets (long-term incentive), with both sets of targets being agreed in a separate target agreement. These targets may be based on Company-related key figures and/or on individual considerations. For Company-related key figures, they may also include more ambitious minimum targets than those communicated in external outlooks.
The assessment period for multiyear targets covers three financial years. Multiyear targets are agreed at the beginning of the assessment period and must be met by the end of such period.

When defining target achievement, the Supervisory Board may also agree further interim targets to be met over the individual financial years in the assessment period and/or further conditions. Variable compensation is payable in cash and accounts for at least 50 percent of the total annual target compensation (based on 100 percent target achievement). Target achievement is basically determined following the adoption of the consolidated financial statements relevant to the targets defined in the target agreement. Any resultant bonus is paid out at the end of the month in which the Annual Shareholders' Meeting is held following the expiry of the financial year, to the extent that it relates to annual targets, and at the end of the month in which the Annual Shareholders' Meeting is held following the expiry of the assessment period, to the extent that multiyear targets are involved.
Furthermore, the Company also grants pension benefits to its Management Board members. These involve defined contribution commitments for benefits provided by insurance companies and pension funds and/or commitments to pay a fixed amount to enable the member to secure his or her own suitable provision for retirement and for surviving dependants.
The other fringe benefits granted to Management Board members mainly relate to the provision of a company car, payment of a car allowance and insurance provision customary to the market.

Management Board members must achieve minimum targets. The Supervisory Board agrees lower and upper limits for the achievement of each individual annual and multiyear target. Failure to meet lower limits or to meet any condition governing an annual target and/or a multiyear target results in the complete loss of the variable compensation attributable to the respective target. In the case of the multiyear target, the variable compensation attributable to the respective target may be lost for the entire assessment period. Non-achievement of an interim target results in the partial or complete loss of the compensation dependent on achievement of such target. The upper limit serves to cap variable compensation in the event of exceptional developments at a maximum of 1.5 times the target compensation attributable to variable compensation and attainable upon 100 percent target achievement.

Within compensation long-term components are highly weighted

In concluding target agreements, the Supervisory Board ensures that the share of variable target compensation due to the achievement of the multiyear targets basically reaches the share attributable to the achievement of the annual targets. The share of variable compensation due to annual targets may nevertheless be weighted more significantly to the extent that the compensation structure remains focused on the Company's sustainable development and on providing a long-term performance incentive by including other elements (such as additional bonuses by way of shares and stock options).
To recognise the achievement of multiyear targets and promote the Company's sustainable development, the Supervisory Board may commit to paying the Management Board members an appropriate additional bonus in the form of shares or stock options in QSC and, if so, agree suitable waiting, holding and exercise terms. This may further increase the share of total variable compensation attributable to variable compensation of a long-term incentive nature, as well as the share of total target compensation attributable to variable compensation. Finally, to acknowledge exceptional performance the Supervisory Board may – at its own discretion – grant Management Board members a suitable additional bonus in cash or in the form of shares or stock options in the Company. Holding and exercise periods may thus be agreed in this regard as well.

Management Board compensation for 2015. Total Management Board compensation for the 2015 financial year came to € 1,182k, as against € 1,337k in the previous year.
The year-on-year change in total compensation was due on the one hand to bonus claims for the 2015 financial year, which totalled € 276k for the partial achievement of the 2015 annual target. No bonus was paid in the previous year, as the minimum limits agreed with the Supervisory Board for the 2014 annual target and the multiyear target were not met in either case. On the other hand, compensation was lowered by the reduction in the number of active Management Board members during the financial year. For long periods of the 2015 financial year, only two Management Board members were active, while up to four Management Board members had been in office in the 2014 calendar year. Furthermore, the share-based compensation granted in the 2015 financial year only amounted to € 92k, as against € 453k in 2014.
Individualised Management Board compensation is presented in the table on pages 46 and 47.

SEE PAGES 46F.
COMPENSATION OVERVIEW

In the target agreements entered into for the 2015 financial year, a congruent annual target and two separate, equally weighted multiyear targets were agreed for all Management Board members in office apart from for Henning Reinecke. A separate target agreement was agreed with Mr. Reinecke given the rescindment in his employment contract.
The 2015 annual target, which was linked to consolidated EBITDA for the 2015 financial year, was not fully reached. As a result, active Management Board members are only entitled to prorated shares of their bonuses. The assessment period for multiyear targets covers the financial years from 2015 to 2017. The multiyear targets are based on consolidated EBITDA in 2017 and on revenues in the new high-growth Cloud segment in the 2017 financial year. There were no indications at the end of 2015 that the targets set for the 2017 financial year will not be met.
No loans were granted to Management Board members.

2015 annual target based on group EBITDA

Benefits in the event of premature termination. CEO Jürgen Hermann and the Management Board members newly appointed in the 2015 financial year, namely Stefan A. Baustert and Udo Faulhaber, have each been promised settlements should their Management Board activities be prematurely terminated due to effective revocation of their appointment by the Company within the first two years covered by their employment contracts. These settlements amount to € 600k in the case of Jürgen Hermann and to € 500k for each of the two other aforementioned Management Board members. In the final year of their employment contracts, this settlement reduces by one twelfth per month in which the employment relationship still pertained in the final year of the contract. There is no entitlement to any settlement payment in the event of the employment relationship being terminated without notice due to compelling reason (§ 626 BGB) or in the event of the employment relationship being terminated due to the respective Management Board member legitimately resigning from his position. Should Management Board activity be terminated by mutual agreement and without compelling reason, the total value of the benefits committed by the Company in any agreement of this nature should not exceed the amounts of € 600k or € 500k respectively.

Disclosures on retired Management Board members. Compensation of former Management Board members totalled € 421k in the 2015 financial year (2014: € 723k).
The Management Board member Henning Reinecke stood down from his position upon the expiry of 30 April 2015. His employment relationship was rescinded by mutual agreement upon the expiry of 31 May 2015. In connection with the termination of his Management Board activity, Mr. Reinecke was granted compensation of € 400k, a provisional allowance of € 17k and other ancillary benefits (retirement pension contribution, car use) worth € 4k.
The actuarial present value of provisions for vested clams to pensions for former Management Board members amounts to € 81k prior to the offsetting of an asset value of € 19k for a reinsurance policy.

Shares and conversion rights held by Management Board members. The following table presents individualised information about the number of shares and conversion rights held by members of the Management Board.

	Shares		Conversion rights	
	31 Dec. 2015	**31 Dec. 2014**	**31 Dec. 2015**	**31 Dec. 2014**
Jürgen Hermann	340,000	240,000	350,000	350,000
Stefan A. Baustert (since 1 January 2015)	40,000	-	100,000	-
Udo Faulhaber (since 1 August 2015)	-	-	-	-
Henning Reinecke (until 30 April 2015)	5,000[1]	5,000	150,000[1]	150,000
Barbara Stolz (until 31 December 2014)	-	10,000[1]	-	182,100[1]
Stefan Freyer (until 31 March 2014)	-	-	-	-

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

Two Management Board members acquired QSC shares in 2015

While they were active Management Board members, Jürgen Hermann and Stefan A. Baustert purchased shares in the Company via the stock exchange in the 2015 calendar year (please also see the corresponding directors' dealings notifications pursuant to § 15a of the German Securities Trading Act [WpHG]).
Furthermore, on 25 August 2015 Stefan A. Baustert subscribed 100,000 convertible bonds in QSC AG. These were allocated to him by the Supervisory Board on 20 August 2015 in the context of the 2015 Stock Option Plan. The conversion price was set at € 1.71 per convertible bond. Conversion into shares in QSC AG is only possible after a four-year waiting period, i.e. at the earliest on 26 August 2019.

Benefits granted

in € 000s

Benefits granted	Jürgen Hermann, Chief Executive Officer, since 30 May 2013				Stefan A. Baustert, Member of the Management Board, since 1 January 2015			
	2014	2015	2015 (min.)	2015 (max.)	2014	2015	2015 (min.)	2015 (max.)
Benefits granted								
Fixed compensation	300	300	300	300	-	250	250	250
Fringe benefits	29	29	29	29	-	36	36	36
Total	**329**	**329**	**329**	**329**	**-**	**286**	**286**	**286**
One-year variable compensation	150	150	0	225	-	125	0	187
Multiyear variable compensation								
Sustainability targets (2012 – 2014) [1]	0	-	-	-	-	-	-	-
Long-Term Incentive (2015 – 2017) [2]	-	150	0	225	-	125	0	187
2012 Stock Option Plan [3]	151	-	-	-	-	-	-	-
2015 Stock Option Plan [4]	-	-	-	-	-	92	0	1,026
Total	**630**	**629**	**329**	**779**	**-**	**628**	**286**	**1,686**
Pension expenses [6]	0	0	0	0	-	0	0	0
Total compensation pursuant to DCGK	**630**	**629**	**329**	**779**	**-**	**628**	**286**	**1,686**
Reconciliation with total compensation pursuant to § 314 (1) No. 6a HGB in conjunction with DRS 17								
Less annual variable target compensation granted	(150)	(150)			-	(125)		
Less Long-Term Incentive (2015 – 2017) [5]	-	(150)			-	(125)		
Plus annual variable actual compensation paid	0	107			-	89		
Less pension expenses	0	-			-	-		
Total compensation	**480**	**436**			**-**	**467**		
Total expenses for share-based compensation recognised in reporting period	13	38			-	10		

Benefits paid

in € 000s

Benefits paid	Jürgen Hermann, Chief Executive Officer, since 30 May 2013		Stefan A. Baustert, Member of the Management Board, since 1 January 2015	
	2014	2015	2014	2015
Benefits paid				
Fixed compensation	300	300	-	250
Fringe benefits	29	29	-	36
Total	**329**	**329**	**-**	**286**
One-year variable compensation	0	107	-	89
Multiyear variable compensation				
Sustainability targets (2012 – 2014) [1]	0	-	-	-
Long-Term Incentive (2015 – 2017) [2]	-	0	-	0
2012 Stock Option Plan [3]	0	-	-	-
2015 Stock Option Plan [4]	-	0	-	0
Sundry	-	-	-	-
Total	**329**	**436**	**-**	**375**
Pension expenses [6]	0	0	-	0
Total compensation pursuant to DCGK	**329**	**436**	**-**	**375**

> Footnote numbers are explained on page 48.

Udo Faulhaber Member of the Management Board since 1 August 2015				**Henning Reinecke** Member of the Management Board until 30 April 2015				**Barbara Stolz** Member of the Management Board until 31 December 2014				**Stefan Freyer** Member of the Management Board until 31 March 2014			
2014	**2015**	**2015 (min.)**	**2015 (max.)**	**2014**	**2015**	**2015 (min.)**	**2015 (max.)**	**2014**	**2015**	**2015 (min.)**	**2015 (max.)**	**2014**	**2015**	**2015 (min.)**	**2015 (max.)**
-	104	104	104	200	67	67	67	200	-	-	-	50	-	-	-
-	13	13	13	49	16	16	16	27	-	-	-	29	-	-	-
-	**117**	**117**	**117**	**249**	**83**	**83**	**83**	**227**	**-**	**-**	**-**	**79**	**-**	**-**	**-**
-	52	0	78	100	42	42	42	100	-	-	-	0	-	-	-
-	-	-	-	0	0	0	0	0	-	-	-	0	-	-	-
-	52	0	78	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	151	-	-	-	151	-	-	-	0	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	**221**	**117**	**273**	**500**	**125**	**125**	**125**	**478**	**-**	**-**	**-**	**79**	**-**	**-**	**-**
-	0	0	0	0	0	0	0	0	-	-	-	2	-	-	-
-	**221**	**117**	**273**	**500**	**125**	**125**	**125**	**478**	**-**	**-**	**-**	**81**	**-**	**-**	**-**
-	(52)			(100)	-			(100)	-			0	-		
-	(52)			-	-			-	-			-	-		
-	37			0	-			0	-			0	-		
-	-			0	-			0	-			(2)	-		
-	**154**			**400**	**125**			**378**	**-**			**79**	**-**		
-	0			13	138			151	-			-	-		

Udo Faulhaber Member of the Management Board since 1 August 2015		**Henning Reinecke** Member of the Management Board until 30 April 2015		**Barbara Stolz** Member of the Management Board until 31 December 2014		**Stefan Freyer** Member of the Management Board until 31 March 2014	
2014	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**
-	104	200	67	200	-	50	-
-	13	49	16	27	-	29	-
-	**117**	**249**	**83**	**227**	**-**	**79**	**-**
-	37	0	42	0	-	0	-
-	-	0	-	0	-	0	-
-	0	-	-	-	-	-	-
-	-	0	-	0	-	0	-
-	0	-	0	-	-	-	-
-	-	-	-	-	-	-	-
-	**154**	**249**	**125**	**227**	**-**	**79**	**-**
-	0	0	0	-	-	2	-
-	**154**	**249**	**125**	**227**	**-**	**81**	**-**

< Explanation of footnote numbers on Page 46:

[1] The variable compensation for sustainability targets (2012 – 2014) is geared towards maintaining, stabilising and increasing the Company's ability to sustainably distribute dividends from its income from ordinary business operations. The multiyear target was agreed in each case for the year under report and the two subsequent financial years. The multiyear target was not met in the 2014 financial year.

[2] The variable compensation for the long-term incentive is agreed on the basis of two separate and equally weighted multiyear targets. The assessment period for the multiyear targets comprises the financial years 2015 to 2017. The multiyear targets are based on consolidated EBITDA in the 2017 financial year and on the revenues generated in the new high-growth Cloud segment in the 2017 financial year. Should the figures fall short of the contractually agreed minimum limits, then the variable compensation attributable to the respective multiyear target is waived for the entire assessment period. Moreover, further interim targets and conditions have been agreed for the multiyear targets. Any failure to meet these also results in the loss of the variable compensation attributable to the multiyear target for the entire assessment period.

[3] The Management Board members Jürgen Hermann, Barbara Stolz and Henning Reinecke each subscribed 150,000 convertible bonds in QSC AG on 25 August 2014. These convertible bonds had been allocated to them by the Supervisory Board within the 2012 Stock Option Plan on 29 August 2013. The fair value of a convertible bond on the subscription date amounts to € 1.004; conversion into shares in QSC AG is only possible after a holding period of 4 years, and at the latest 8 years after the subscription date.

[4] The Management Board member Stefan A. Baustert subscribed 100,000 convertible bonds in QSC AG on 25 August 2015. These convertible bonds were allocated to him by the Supervisory Board within the 2015 Stock Option Plan on 20 August 2015 The fair value of a convertible bond on the subscription date amounts to € 0.92; conversion into shares in QSC AG is only possible after a holding period of 4 years, and at the latest 8 years after the subscription date. The minimum value of the convertible bonds granted amounts to € 0, as it would make no economic sense to exercise the conversion rights if the stock market price falls short of the conversion price of € 1.71 determined upon subscription of the options in the period in which the subscription rights apply or should the exercise hurdles and performance targets laid down in the bond terms not be achieved. The maximum value of share-based compensation in connection with the 2015 Stock Option Plan amounts to € 1,026k. This is reached when the weighted average price of QSC AG shares in Xetra trading on the Frankfurt Stock Exchange on the last twenty trading days preceding the day on which the exercising of the conversion declaration becomes effective pursuant to the bond terms exceeds € 11.97 (seven times the conversion price of € 1.71).

[5] This compensation does not require inclusion in total compensation pursuant to § 314 (1) No. 6a of the German Commercial Code (HGB), as non-share-based compensation is only deemed granted once any conditions precedent have been met.

[6] Service cost pursuant to IAS 19.

Supervisory Board compensation. Consistent with the relevant provision in the Articles of Association of QSC AG, each member of the Supervisory Board receives fixed annual compensation of € 35k payable following the expiry of the financial year. The Chairman and his or her Deputy receive € 70k and € 50k respectively. In addition to compensation for their duties on the Supervisory Board, each Supervisory Board member receives separate compensation of € 5k for their activities in any Supervisory Board committee (except the Nomination Committee). Committee chairmen receive € 10k. Members sitting on several committees nevertheless receive a maximum total of € 25k for their committee activities. Supervisory Board members sitting on the Supervisory Board or a committee for only part of a given financial year receive prorated compensation. As in the previous year, for its activity in the 2015 financial year, the Supervisory Board as a whole received total compensation of € 315k. The table below presents individualised information about the compensation paid to Supervisory Board members, as well as about their respective holdings of shares and conversion rights.

Supervisory Board compensation same as in previous year

	Compensation as per § 15a of the Articles of Association (€ 000s)[1]				Shares		Conversion rights	
	2015		2014		31 Dec. 2015	31 Dec. 2014	31 Dec. 2015	31 Dec. 2014
Dr. Bernd Schlobohm, Chairman	95	(25)	95	(25)	15,518,372	15,518,372	132,000	200,000
Dr. Frank Zurlino, Deputy Chairman	60	(10)	60	(10)	10,000	10,000	-	-
Gerd Eickers	40	(5)	40	(5)	15,577,484	15,577,484	-	-
Ina Schlie	45	(10)	45	(10)	-	-	-	-
Anne-Dore Ahlers[2]	35	-	35	-	-	-	2,700	2,700
Cora Hödl[2]	40	(5)	40	(5)	-	-	4,100	4,100
Total	**315**	**(55)**	**315**	**(55)**				

[1] Numbers in parentheses refer to compensation for committee activity included in total amount.
[2] Employee representative

The former Management Board member Dr. Bernd Schlobohm was granted a direct pension commitment for a retirement, occupational disability and widow's pension in 1997. As of the balance sheet date, the obligation amounted to € 1,626k prior to the offsetting of reinsurance claims of € 1,086k.

Apart from the reimbursement of travel and other out-of-pocket expenses, no member received any further compensation or other advantages for personal services rendered over and above the compensation presented here, neither were any loans granted to Supervisory Board members. QSC AG maintains liability indemnification insurance coverage for members of the Supervisory Board.

EMPLOYEES

Development in Workforce

Consolidation of workforce. QSC presented an extensive cost-cutting programme at the end of February 2015 (see “Business Performance” on page 57). From the outset, one core component of this programme involved downsizing the workforce by around 350 employees by the end of 2016. By the end of December 2015, the total number of employees had already decreased by 243 to 1,454. Employment termination agreements with a further 80 employees have already been concluded and will take effect in the current financial year. QSC began its dialogue with those affected at an early stage and was thus able to find mutually acceptable solutions in most cases. Due to notice periods, this reduction in staff totals only impacts on personnel expenses following a certain delay. At € 115.8 million, personnel expenses nevertheless already declined by € 8.4 million in the past financial year. In the previous year, QSC had recognised provisions of € 7.2 million for this purpose. When analysing these figures, it should be noted that compared with the previous year negative non-recurring items of € 4.0 million were incurred (non-recurring expenses of € 1.8 million and non-recurrence of positive one-off items of € 2.2 million). QSC will be pressing ahead with this reduction in staff totals in the current year and thus generate the leeway required to hire new staff, especially cloud experts and sales employees. All in all, the Company still expects to have a total of around 1,350 employees at the end of 2016.

SEE PAGE 57
BUSINESS PERFORMANCE

Number of employees

As of 31 December 2015, most employees worked at the two main locations in Cologne and Hamburg, with 427 employees working at the Company’s headquarters in Cologne and 714 in Hamburg. The other employees are mostly divided between subsidiaries, sales offices and branches in other German cities. Six percent of the total workforce works from home.

Personnel Strategy

Challenges presented by social and technological changes. Notwithstanding these unavoidable savings measures, QSC regards its employees as its most important source of added value. The Company’s success is driven by their commitment and their will to perform. The increasing pace of social and technological change presents the Personnel Department with the challenge of

continually and flexibly adapting to and helping to shape the dynamic environment in which the Company operates. QSC is therefore drawing on intensive training and development for its specialist and management staff and on numerous measures aimed at promoting cooperation between the Company's locations and departments.

Ongoing commitment to vocational training. Despite the cost-cutting programme, QSC upheld its vocational training activities in the past financial year and, like in previous years, offered jobs to most of the trainees following the successful completion of their training. The Company views this commitment both as a crucial lever to secure the next generation of employees (given demographic change and the shortage of specialist staff) and as a way of meeting its responsibility towards society.

8 %

training ratio

As of 31 December 2015, a total of 115 young adults were in training at QSC. The training ratio thus amounted to 8 percent. QSC offers various ways of entering the working world – vocational training as IT specialists with specialisms in system integration and application development or as commercial, IT and IT system assistants or via work-study programmes in the fields of information systems, applied IT or business administration. Here, the Company collaborates with Nordakademie in Elmshorn, the University of Applied Sciences in Wedel and FOM University of Economics & Management, Cologne. QSC is also the major sponsor of the IT Management and Consulting master's degree course at Hamburg University.

The quality of training on offer has been underlined by the award of the Five-Star Seal to the Hamburg locations in "Hamburg's Best Apprentice Training Company". This competition aims on the one hand to reveal the strengths and weaknesses of training programmes to participant companies and on the other hand to make applicants aware of those companies offering the best training in the Greater Hamburg area.

QSC actively markets the opportunities offered by vocational training and takes part in numerous regional events and initiatives. In Cologne, there was also a "Speed Day", which offered interested young people information about training opportunities. Further opportunities for making contact at an early stage include pupil internships, school partnerships and participation in Germany's nationwide "Girls' and Boys' Day".

QSC is one of around 1,500 companies across Germany that comply with the rules of the "Fair Company Initiative". Among others, these include a commitment not to substitute internships for full-time positions and not to console university graduates applying for regular full-time employment with internships. On the contrary, internships serve to provide professional orientation and are adequately compensated.

As a further means of securing its next generation of employees, QSC also recruits university graduates in a targeted manner. The SAP junior programme was expanded in both qualitative and quantitative terms in 2015. At the end of year, this programme had 22 participants and thus 11 more than one year earlier. At the same time, the programme was extended to include an all-round training and coaching plan.

High priority accorded to further training. The further training and development offered to all employees is geared above all to the Company's strategic development and is a core task of all management staff. Managers hold regular meetings with employees to assess their individual competencies, evaluate their potential and identify their development needs. Suitable measures are then taken and employees' development situations are subsequently reassessed. The QSC Academy offers a broad range of seminars that are competence-based and career-oriented and cover both specialist and personal skills. One key focus in the current financial year will involve expanding training in the field of IT service management in order to further optimise internal processes and interfaces. Specialist training and qualifications are also granted particular priority, thus enabling the Company to adapt to its rapidly changing market climate.
To provide support with personal, professional and health-related issues, QSC works together with the Fürstenberg Institut to offer its employees the opportunity to obtain external employee advisory services, including family services, free of charge. A separate section is also available for managers, thus enabling them to receive one-to-one coaching at any time over and above their normal development activities. To promote its women employees in particular, QSC once again took part in PepperMINT, a cross-mentoring programme in the Rhineland metropolitan region.

Participation in research project. Digitisation, increasing flexibility and demographic change – all these factors present the ICT industry with numerous challenges. They require new concepts to help companies deal with existing know-how or new content, thus enabling them to remain innovative and competitive. QSC is not only promoting digitisation but, by participating in FLIP, a research project dealing with dynamic personnel and competency management, is also proactively facing the challenges ahead. This three-year project is being supported by the Federal Ministry of Education and Research (BMBF). The objective is to develop and test new effective and efficient forms and methods of learning for employees in order to facilitate dynamic competency management.

Corporate Culture

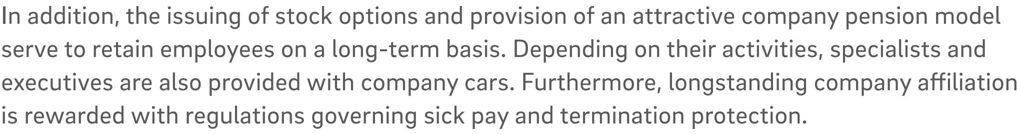
QSC has a longstanding system of values. The key principles of this system of values embody a corporate culture characterised by respect and mutual appreciation and by a focus on performance and results in our daily work. The management development programme launched in 2014 was continued in 2015. Its components include an integrated management development programme across all locations and all hierarchical levels. The objective is to detect and promote talent at an early stage and thus, despite great diversity, to create a uniform understanding of management.

Managers' development programme continued in 2015 financial year

Living a culture of trust. QSC believes that an understanding of the personal situation of each and every employee and consideration of their wishes within the range of possibilities available to a medium-sized employer are natural components of any value-based corporate culture. The consistent availability of flexible working hours helps to make family and working life more compatible. There are no core working hours and, in agreement with their supervisors, employees are free to perform part of their work from home. Time accounts enable salary components to be saved up for sabbaticals of up to three months.

Compensation

Market-based compensation system. QSC pays all of its employees competitive compensation. The Company is not bound by any collective bargaining agreement, but gears its compensation and benefits towards individual and company-specific needs, as well as market standards. Alongside fixed salaries, all employees also receive variable compensation based on the achievement of corporate targets. The share of employees' total salaries attributable to variable compensation rises along with increasing responsibility.



In addition, the issuing of stock options and provision of an attractive company pension model serve to retain employees on a long-term basis. Depending on their activities, specialists and executives are also provided with company cars. Furthermore, longstanding company affiliation is rewarded with regulations governing sick pay and termination protection.

SEE PAGES 42FF.
COMPENSATION REPORT

QSC reports separately on the compensation paid to its Management Board from page 42 onwards.

BUSINESS REPORT

Macroeconomic and Industry Framework

Solid economic growth in 2015. QSC focuses on the German market. Gross domestic product in Germany grew by 1.7 percent in 2015, and thus slightly faster than in the previous year (1.6 percent). Among other factors, this economic growth was driven by the pleasing situation on the labour market in connection with high levels of private consumer spending and the low level of interest rates. The ifo business confidence index, one of Germany's key economic barometers, rose by around 3 percentage points compared with December 2014 to reach 108.7 points as of December 2015. At the end of 2015, however, the strong confidence levels in the German economy deteriorated slightly given turbulence in export markets and the tense geopolitical situation.

German ICT market outperforms overall economy. According to the Bitkom industry association, revenues in the German ICT market grew by 2.9 percent to € 157.6 billion in the past financial year. The IT market grew by 4.2 percent to € 81.1 billion. This was driven both by the hardware (+5.1 percent) and software (+6.2 percent) businesses and by business with IT services (+2.6 percent). TC revenues also rose to € 66.9 billion (+2.6 percent). Here, the decline in charges for telecommunication services was offset by significantly higher spending on end appliances and TC infrastructure.

The German ICT market
(in € billion)

Cloud market grows by 37 percent. Digital transformation is rapidly changing the ICT market. Both IT and TC services are increasingly being provided via the internet and from the so-called cloud. According to estimates compiled by the Experton Group, based on the overall customer market revenues with cloud solutions in Germany rose grew by 37 percent to € 9.1 billion in 2015. A further study, in this case conducted by KPMG on behalf of Bitkom, concluded that almost half of all companies already drew on cloud services in 2015. Security and data protection are still the greatest concerns when it comes to using cloud solutions. The study thus revealed that 83 percent of companies require their cloud providers to operate data centres exclusively in Germany. This is one aspect where QSC stands to benefit, as all of the Company's data centres are located in Germany and thus subject to that country's strict data protection regulations.

+37%
growth in cloud market revenues

The German cloud computing market for business customers
(in € billion)

QSC facilitates transition to digital age

Digital change is transforming society and the economy. Digitisation has triggered a far-reaching transformation in society and the economy. Both consumer behaviour and corporate value creation processes are being determined to an ever greater extent by digital technologies. Digital technologies and new business models are exerting pressure on their traditional counterparts, thus obliging the latter to adapt. QSC offers the cloud services companies need for their digital transformation and also provides an internally developed IoT platform in the form of SOLUCON. Furthermore, with its Pure Enterprise Cloud the Company will assist corporate customers from 2016 onwards in moving their ICT activities forward into the digital age.

Regulatory Framework

Core sections of TC market remain regulated. The German TC market relevant to QSC, particularly in its Telecommunications segment, is in key aspects subject to regulation by the German Federal Network Agency. This regulation aims to ensure fair competition. Until 1998, Deutsche Telekom operated as a monopolist in the German market. Among other factors, it still possesses a nationwide, mostly copper-based infrastructure into all households that dates back to those days. Particularly for subscriber lines (local loops), i.e. the distance between the central office or cable branch and the respective customer connection, alternative providers continue to be dependent on this infrastructure built during Deutsche Telekom's time as a monopoly. The fibre optic networks that have recently been built in several cities and the products and services offered by TV cable network operators have also yet to bring about any fundamental change in this situation. In the past financial year, the German Federal Network Agency issued the following rulings of relevance to QSC's business operations.

Definitive approval of fixed-network interconnection and termination fees. The German Federal Network Agency published a draft decision on 11 July 2014 already with regard to interconnection and termination fees at Telekom Deutschland from 1 December 2014 onwards. This draft decision cut fees by around 20 percent across all tariff levels. In parallel, the previous segregation into peak and non-peak times was lifted for the first time. The definitive approval only came on 7 April 2015 and did not include any changes compared with the draft decision. The termination fees for alternative subscriber network operators became valid at the same time.

Approval of mobile telephony termination fees. On 3 September 2014, the German Federal Network Agency published a draft decision concerning mobile telephony termination fees for the period from 1 December 2014 to 30 November 2016. This draft and the subsequent definitive approval issued on 28 April 2015 only involved very minor reductions compared with the fees previously approved. As was already the case for fixed-network termination fees, the objections raised by the European Commission concerning non-application of the termination recommendation did not lead to any adjustments in this respect.

Final approval of leased line fees. In respect of leased line products that are subject to regulation, new provisional fees taking retrospective effect as of 1 July 2015 were published on 7 July 2015. The European consulting procedure is still outstanding. With a further amended draft, the German Federal Network Agency only initiated this procedure in January 2016.

Standard interconnection contract. The partial decision concerning the future standard interconnection contract announced on 19 December 2014 was followed by the definitive decision by the German Federal Network Agency on 17 December 2015. In addition to the partly positive aspects of the first partial decision, the definitive decision also rejected the migration concept from the conventional telephone network to a next-generation network (NGN), which was disadvantageous for competitors. However, this decision only offers a binding definition for the performance obligations on the part of Deutsche Telekom. Services mutually performed by competitors may be subject to proprietary termination offers, a factor that may involve efficiency losses. The agreement of bilateral interconnection structures will therefore become even more a matter for negotiation.

Review of bit-stream market 3b regulatory order. On 28 October 2015, the German Federal Network Agency imposed the corresponding regulatory order on Telekom Deutschland as the party thereby obliged. Despite criticism from the EU Commission, the regulatory order has upheld a new type of fee regulation for Layer 2 (Ethernet) bit-stream. These fees require approval; the fee standard on which they are based, however, is not the statutory “costs of efficient service provision”, but merely the abuse standards set out in § 28 of the German Telecommunications Act (TKG). This situation allows Telekom Deutschland greater pricing flexibility. The access obligations to Layer 3 (IP BSA) will be waived in around 20 cities in Germany once a corresponding underlying Layer 2 entry product is available there from Deutsche Telekom.

EU Regulation on Telecoms Single Market (TSM). On 11 September 2013, the EU Commission submitted an extensive legislative proposal to the European Council and the European Parliament. This was intended to rapidly offset the deficits assumed to exist in the European rules and regulations. Alongside the topics of extended competencies for the Commission, roaming, network neutrality, additional rights for consumers, European preliminary products (bit-stream, leased

lines) and European provider registration, this legislation was also intended to introduce the first steps towards a more far-reaching cutback on pro-competitive regulatory interventions. From this package, and following in-depth discussions, only fundamental requirements governing network neutrality and roaming were then adopted on 27 October 2015.

Business Performance

million of savings planned

Cost-cutting programme taking effect faster than expected. While revenues largely developed in line with QSC's plans, the Company made substantial progress in terms of its costs in 2015. This was chiefly due to the successful implementation of the cost-cutting programme presented to the public at the end of February 2015. The Company thus aimed to achieve savings in excess of € 10 million in 2015 already. From 2017 onwards, a sustainable reduction in costs by at least € 25 million a year is budgeted. A major contribution is being made in this respect by the downsizing in the workforce by a total of 350 employees over a two-year period. By the end of 2015, the Company had already reached employment termination agreements with 323 employees. Even though notice periods mean that the downsizing will only impact on personnel expenses following a certain delay, this programme nevertheless led to a substantial overall reduction in costs in 2015 already. Of the total savings of € 13.6 million, a major share was attributable to personnel expenses.

Cloud revenues virtually double. Consistent with expectations, growing revenues in the two smaller segments of Cloud and Consulting were opposed in 2015 by reductions in revenues in Outsourcing and Telecommunications. Overall, revenues totalled € 402.4 million, as against € 431.4 million in the previous year. Cloud, the newest business unit, generated substantial growth, with revenues of € 7.3 million as against € 3.9 million in the previous year. Notable contributions to this growth came from the cloud-based telephony system IPfonie centraflex and from Q-loud. The encryption specialist FTAPI worked together Vodafone in 2015 to prepare the market launch of "Secure E-Mail". Vodafone had presented this innovation based on FTAPI technology at the CeBIT fair in March 2015. This product, which enables encrypted e-mails and documents to be sent conveniently and securely, has been marketed by Vodafone since December 2015.

Revenues, Cloud
(in € million)

The main focus at Q-loud in 2015 was on acquiring new partners and new projects. The IoT specialists devised solutions for controlling heating systems and roll-up doors, for example. What's more, in this segment QSC worked in 2015 on preparing the marketing launch of the Pure Enterprise Cloud. The potential harboured by this innovative service portfolio then became apparent in first projects in the fourth quarter.

Consulting on growth course. Revenues grew to € 38.0 million in the past financial year, up from € 35.2 million in the previous year. In its Consulting business, QSC benefited above all from its competence in planning and implementing SAP solutions. A key focus of many projects involved integrating cloud-based software solutions into existing IT architectures and adapting these to the requirements of the digital age. QSC sees this as affirming its conviction that Consulting can play a key role in digitising the German SME sector.

Revenues, Consulting

(in € million)

Rise in new orders in Outsourcing. Revenues in this segment totalled € 138.5 million in 2015, as against € 156.5 million one year earlier. Unlike in previous years, QSC generally focused on higher-margin revenues. Sales activities accorded priority to safeguarding existing orders in 2015. As the year progressed, QSC was able to extend numerous contracts with existing customers, and that in terms of their contractual terms and scopes. As a result, new orders improved to € 223.2 million, compared with € 177.4 million. Having said this, given the tough competition prevalent in this market QSC was obliged to make pricing concessions, in some cases substantial, but nevertheless without waiving an adequate margin.

Revenues, Outsourcing

(in € million)

2015 sees further success with existing and new customers

The opportunities harboured by the existing customer business are underlined by an order placed by QSC's longstanding customer Tchibo in August 2015. This retail group commissioned QSC with the further digitisation of its existing IT landscape and business processes. The Company can also point to success in acquiring new customers. Thanks to its growing energy competence, QSC managed to acquire a further Outsourcing customer in this industry in March 2015, namely the Frankfurt-based energy-related services provider Süwag Energie AG. This contract has a volume of around € 40 million and a term of 72 months. Regular operations are due to begin in June 2016. Within this project, Süwag Energie AG will outsource its entire IT infrastructure to a QSC data centre in Frankfurt and then gradually hand over responsibility for its IT services to QSC.

Stable telecommunications with corporate customers. In Telecommunications, the largest segment, revenues came to € 218.7 million in the past financial year as against € 235.8 million in the previous year's period. Of these revenues, 60 percent were attributable to the highly contested B2B2C business with resellers, which primarily targets private customers, and 40 percent to the stable B2B2B business with corporate customers. Notwithstanding stricter regulation, B2B2B revenues have remained constant at € 88 million for two years now. Overall, the decisions taken by the German Federal Network Agency cost QSC telecommunications revenues of around € 10 million in 2015.

Revenues, Telecommunications
(in € million)

Following many years of discussions, Deutsche Telekom reached agreement with other TC providers in the fourth quarter of 2015 concerning the appropriateness of the level of charges for subscriber lines (local loops), and thus the connection of TC customers in the final mile. On this basis, QSC, its subsidiary Plusnet and Telekom Deutschland also agreed a settlement concerning the charges now newly reduced. These subscriber line charges are generally a transitory item and thus a component both of revenues with resellers in the TC business and of the cost of revenues. For the fourth quarter of 2015, the lowering in subscriber line charges therefore resulted in a one-off reduction in revenues, a reduction in the cost of revenues and consequently a positive impact on gross profit in a low single-digit million euro range.

Actual vs. Forecast Business Performance

QSC raises forecast and reaches all targets. From the very outset, the 2015 financial year was characterised by measures to cut costs and focus the business. As the year progressed, the Company further honed its strategy and began a far-reaching reorganisation of its Outsourcing business. At the end of February 2015, QSC also publicly presented a cost-cutting programme with ambitious targets and immediately set about implementing the programme. At this time, the Company expected full-year revenues of more than € 400 million, EBITDA in excess of € 40 million and positive free cash flow in 2015.
The cost-cutting programme then took effect in subsequent months, and that more rapidly than expected. Mainly for that reason, QSC raised its full-year forecast for 2015 in August 2015. From then on, the Company expected EBITDA of more than € 42 million and free cash flow in excess of € 5 million based on revenues of more than € 400 million. The Company then met this forecast in full. With revenues of € 402.4 million, EBITDA amounted to € 42.2 million in 2015, while free cash flow came to € 7.1 million.

	Targets	Actual 2015 results	
Revenues	> € 400 million	€ 402.4 million	✓
EBITDA	> € 40 million / > € 42 million	€ 42.2 million	✓
Free cash flow	> € 0 million / > € 5 million	€ 7.1 million	✓

Performance Indicators

As planned, revenues exceed € 400 million. QSC generated revenues of € 402.4 million in the past financial year, as against € 431.4 million in the previous year. While revenues increased in the Consulting and Cloud segments, in some areas significantly so, revenues in the Outsourcing and Telecommunications businesses fell short of the previous year's figures. Like in previous years, conventional TC revenues with resellers in particular decreased as a result of market and regulatory factors. Stricter regulation alone reduced TC revenues by around € 10 million in 2015.

Revenues
(in € million)

EBITDA rises to € 42.2 million. The cost-cutting programme introduced at the end of February 2015 took effect more quickly than expected as the year progressed. QSC made considerable progress in scaling down its workforce and significantly reduced its material expenses as well. Not only that, focusing on higher-margin revenues paid off, and that in the Outsourcing business in particular. As a result, notwithstanding the reduction in revenues EBITDA rose to € 42.2 million in 2015, up from € 35.0 million in the previous year (2014 EBITDA prior to provisions for restructuring: € 42.2 million).

EBITDA
(in € million)

Free cash flow improves significantly to € 7.1 million. QSC generated free cash flow of € 7.1 million in the past financial year, as against € -24.9 million in the previous year. The table below shows the amounts of all parameters at the two balance sheet dates on 31 December 2014 and 31 December 2015.

€ million	31 Dec. 2015	31 Dec. 2014
Net debt		
Cash and cash equivalents	74.0	87.8
Available-for-sale financial assets	-	0.3
Liquidity	**74.0**	**88.1**
Liabilities under financing and finance lease arrangements	(4.5)	(8.9)
Liabilities due to banks	(158.0)	(161.1)
Interest-bearing liabilities	**(162.5)**	**(170.0)**
Net debt	**(88.5)**	**(81.9)**

It can be seen that liquidity declined by € 14.1 million to € 74.0 million in 2015. Interest-bearing liabilities declined by € 7.5 million to € -162.5 million. As a result of these factors, net debt grew by € 6.6 million to € -88.5 million in 2015.
QSC has long based its free cash flow reporting on the financial strength of its operating business and therefore corrects the change in net debt to exclude the impact of extraneous measures such as acquisitions and dividends. In connection with an acquisition, a final payment of € 1.3 million was made within arbitration proceedings to former shareholders of Broadnet AG, which was

merged with QSC in October 2007 already. The distribution of the dividend following the Annual Shareholders' Meeting on 27 May 2015 resulted in an outflow of € 12.4 million. Correcting the net debt figure as reported to exclude these two factors results in a free cash flow of € 7.1 million.

Free cash flow
(in € million)

Capital expenditure of € 26.7 million. QSC made capital expenditure (capex) of € 26.7 million in the past financial year, as against € 30.0 million in the previous year. Like in the previous year, the capex ratio amounted to 7 percent of revenues and was thus at the lower end of the target range of between 6 percent and 10 percent. Of capex, 40 percent was customer-related, while 60 percent involved licences, infrastructure and other property, plant and equipment. In the fourth quarter of 2015, QSC invested in preparatory measures for the market launch of the Pure Enterprise Cloud.

Capital expenditure
(in € million)

Earnings Performance

Gross margin up 2 percentage points. Thanks above all to the successful implementation of the cost-cutting programme and the improved quality of revenues, QSC managed to substantially boost its earnings strength in 2015. Despite the reduction in revenues, gross profit rose to € 64.8 million, up from € 61.0 million in the previous year. This was because the cost of revenues decreased over the same period from € 370.4 million to € 337.6 million. The gross margin improved by 2 percentage points to 16 percent.

Gross margin

Within cost of revenues, personnel expenses fell by € 9.5 million to € 78.7 million; this should be viewed in connection with the staff cuts. The costs of building, operating and maintaining QSC's own infrastructure decreased by € 6.6 million to € 42.9 million. Cost of materials remained the single largest line item within cost of revenues. These revenue-dependent costs decreased by € 18.7 million to € 170.7 million.

Reduction in sales and administrative expenses. Sales and marketing expenses came to € 37.1 million in 2015, as against € 39.5 million one year earlier. These mainly entail personnel expenses, commission payments and advertising expenses. Apart from personnel expenses, all of these components decreased in 2015. Personnel expenses showed a slight increase to € 20.2 million, compared with € 19.6 million in 2014. This was due to QSC selectively expanding its team, particularly for the sale of cloud products. At € 37.9 million, general administrative expenses fell only slightly short of the previous year's figure of € 38.3 million. This is because QSC recognized expenses for a transfer company in this line item for the first time in 2015. PEAG Transfer GmbH had a total of 25 employees at the end of the year.

Sales activities stepped up for cloud products

Increased earnings strength in operating business. QSC's earnings strength can be better understood if, by analogy with the quarterly reports, depreciation, amortisation and non-cash compensation components are reported separately in the income statement. Consistent with IAS 1, these figures are therefore a component of the individual cost items in these consolidated financial statements. The following abridged income statement presents depreciation and amortisation as a separate line item.

€ million	2015	2014
Revenues	**402.4**	**431.4**
Cost of revenues*	(292.3)	(327.1)
Gross profit	**110.1**	**104.4**
Sales and marketing expenses*	(34.9)	(37.8)
General and administrative expenses*	(32.2)	(32.3)
Other operating income	0.7	1.1
Other operating expenses	(1.7)	(0.3)
EBITDA	**42.2**	**35.0**
Depreciation/amortisation		
(including non-cash share-based compensation)	(53.3)	(69.0)
Operating earnings (EBIT)	**(11.2)**	**(34.0)**

* Excluding depreciation/amortisation and non-cash share-based compensation

Benefiting above all from its substantially reduced cost base, QSC managed to increase its EBITDA by € 7.2 million to € 42.2 million in the past financial year. Depreciation and amortisation fell sharply in 2015 and came to € 53.3 million, as against € 69.9 million in the previous year. Of this sum, in 2014, € 18.0 million related to goodwill impairment. As previously announced, increased amortisation of around € 4 million was recognised in the fourth quarter of 2015. This non-recurring item related in particular to development projects in previous years.
Operating earnings (EBIT) improved significantly, reaching € -11.2 million as against € -34.0 million a year earlier. The financial result rose slightly to € -5.9 million, up from € -6.2 million in 2014. The largest share of expenses related to interest incurred on the promissory note bond taken up in 2014. Earnings before taxes on income totalled € -17.1 million, compared with € -40.1 million in 2014. Tax income amounted to € 1.8 million in 2015, as against € 6.2 million in the previous year. As a result, consolidated net income totalled € -15.4 million, up from € -33.9 million in 2014.

€ 22.8

million EBIT growth in 2015

Earnings Performance by Segment

QSC with broad-based improvement in margins. QSC introduced a new product-based segmentation structure as of 1 January 2015 and in subsequent months implemented extensive measures aimed at boosting its operating earnings strength. As a result, margins and segment contributions rose in several of the Company's segments.

Fast-growing Cloud business approaches breakeven on gross profit level. The Cloud segment virtually doubled its revenues to € 7.3 million in 2015. The cost of revenues grew by a moderate 9 percent to € 8.2 million. At € -0.9 million, gross profit therefore approached breakeven (after € -3.5 million in the previous year). This disproportionate growth underlines the scalability of the business model in this still new segment.
As planned, QSC substantially increased its sales and marketing expenses. The segment contribution nevertheless improved by 13 percent to € -5.4 million.

Gross margin, Cloud

Consulting maintains its profitable growth course. Accompanied by rising revenues, QSC managed to improve capacity utilisation rates in this personnel-intensive segment in 2015. Gross profit therefore grew from € 0.5 million to € 7.3 million. The gross margin once again amounted to 19 percent. Net of sales and marketing expenses, the segment margin rose by 1 percentage point to 15 percent. The segment contribution came to € 5.6 million, as against € 4.8 million in the 2014 financial year.

Gross margin, Consulting

Outsourcing posts significant improvement in earnings. In 2015, QSC pressed further ahead with industrialising its processes and thus with providing services more efficiently in its Outsourcing business. At the same time, the Company accorded priority to improving the quality of its revenues. This paid off – the gross margin improved from 22 percent in the previous year to 30 percent in 2015, while gross profit amounted to € 41.0 million as against € 34.5 million one year earlier.

Sales and marketing expenses fell over the same period from € 13.7 million in the previous year to € 10.9 million. Despite the marked downturn in revenues, Outsourcing thus managed to improve its segment contribution from € 20.9 million in 2014 to € 30.1 million in 2015. The margin rose from 13 percent in the previous year to 22 percent, higher than in any other segment at QSC in the past year.

Outsourcing posts highest margin of all four segments

Gross margin, Outsourcing

Higher margins in Telecommunications. QSC has long been exposed to tough price competition in its TC business, and above all in its business with resellers. The slight recovery in margins in 2015 is therefore to be viewed all the more positively. The gross margin here rose to 29 percent in 2015, up from 28 percent in the previous year. This was substantially due to the stable performance of the higher-margin business with corporate customers based on QSC's extremely efficient proprietary All-IP network. Expressed in absolute figures, gross profit came to € 62.7 million, as against € 66.5 million in the previous year.

Accounting for sales and marketing expenses, the segment contribution amounted to € 45.0 million compared with € 47.2 million in the previous year's period. As a result, the segment margin rose from 20 percent in 2014 to 21 percent.

Gross margin, Telecommunications

Financial Position

Three core objectives of financial management. QSC's financial management serves to ensure smooth financing of the operating business and upcoming capital expenditure. In this, it pursues three core objectives:

- Ensuring efficient liquidity management
- Maintaining and optimising financing capacity
- Reducing financial risks

QSC invests its surplus liquidity exclusively in money market and low-risk investments. As a result, like in previous years there was once again no need for capital investment write-downs in 2015. QSC deployed derivative financial instruments in the form of interest swaps once again in 2015. These serve to hedge the interest rate risk on floating-rate tranches of the promissory note bond. As virtually all of QSC's operations are in the euro area, the Company is not exposed to any exchange rate risks. Further information about financial risk management can be found in Note 44 of the Notes to the Consolidated Financial Statements.

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NOTES

In its financing, the Company primarily depends on three sources. Firstly, it generates inflows of cash from its operating activities. Secondly, QSC draws on the funds received from a promissory note bond of € 150 million taken up in 2014. Thirdly, the Company had a current credit line of € 120 million as of 31 December 2015. Apart from for guarantee facilities, the Company made no use of this credit line as of 31 December 2015.

High inflow of funds from operating business. Due not least to the significantly lower level of pre-tax loss, the cash flow from operating activities rose from € 4.9 million in the previous year to € 39.6 million in 2015. The cash flow from investing activities came to € -27.4 million, as against € -30.3 million one year earlier. The cash flow from financing activities totalled € -26.1 million, down from € 54.5 million in 2014, in which QSC took up a promissory note bond to bolster its long-term financing resources.

€ 39.6

million operating cash flow in 2015

Net Asset Position

Solid balance sheet structure. QSC accords priority to ensuring matching maturities for the financing of its assets and traditionally has a solid balance sheet structure. As of 31 December 2015, shareholders' equity and long-term liabilities covered 131 percent of the value of long-term assets. The equivalent figure at the end of 2014 was 127 percent.

Long-term assets accounted for 63 percent of total assets at the end of 2015. Due in particular to depreciation and amortisation, their value fell by € 30.9 million to € 224.7 million as of 31 December 2015. Long-term assets chiefly comprise four line items – property, plant and equipment, land and buildings, goodwill and other intangible assets. Due to depreciation, the value of property, plant and equipment decreased to € 62.4 million as of 31 December 2015, as against € 76.2 million one year earlier. For the same reason, the value of other intangible assets also declined, in this case from € 53.7 million as of 31 December 2014 to € 41.4 million. Similarly, depreciation reduced the value recognised for land and buildings by € 0.7 million to € 25.2 million, while goodwill remained unchanged at € 67.1 million.

million of liquid funds

Short-term assets witnessed a reduction in the two largest line items. Due to the development in revenues, the trade receivables of € 48.7 million reported as of 31 December 2015 fell short of the previous year's figure of € 52.1 million. Cash and cash equivalents totalled € 74.0 million, as against € 87.8 million one year earlier.

Shareholders' equity influenced by consolidated net income and dividend. Shareholders' equity totalled € 124.2 million as of 31 December 2015, compared with € 145.6 million at the previous year's balance sheet date. Due to the conversion of stock options, issued capital rose by € 0.1 million to € 124.2 million, while the subscription of the associated shares increased the capital reserve by € 0.6 million to € 142.7 million. The accumulated deficit amounted to € -139.7 million at the end of 2015, as against € -117.5 million as of 31 December 2014. This increase resulted on the one hand from negative consolidated net income of € -15.4 million for 2015 and on the other from the dividend payment of € 12.4 million, which was directly charged to this line item. Not only that, QSC posted the results of a remeasurement of existing liabilities to subsidiaries, amounting to € 5.6 million, directly to equity, leading to a corresponding increase in shareholders' equity.

Promissory note bond safeguards long-term financing. Long-term liabilities decreased to € 171.0 million as of 31 December 2015, down from € 180.2 million at the previous year's balance sheet date. At € 155.8 million, as against € 156.6 million, this line item predominantly comprised liabilities due to banks. In 2014, QSC had taken up a promissory note bond of € 150 million on favourable terms and with a term of 5 and 7 years.

Short-term liabilities also declined, falling from € 79.7 million as of 31 December 2014 to € 63.3 million. QSC succeeded once again in reducing its trade payables. These came to € 30.6 million as of 31 December 2015, as against € 44.8 million at the previous year's balance sheet date.

Overall Summary

Scheduled course of business with increased earnings strength. QSC's operating business performance in 2015 was largely consistent with expectations. The rapid progress made with implementing the cost-cutting programme impacted positively on earnings. The concentration on higher quality of revenues, especially in the Outsourcing business, also noticeably boosted the Company's earnings strength. By preparing the market launch of the Pure Enterprise Cloud, QSC at the same time laid a strong foundation for generating significant revenue growth in its Cloud business from 2016 onwards.

Positive impact of cost-cutting programme

Events After the Reporting Period

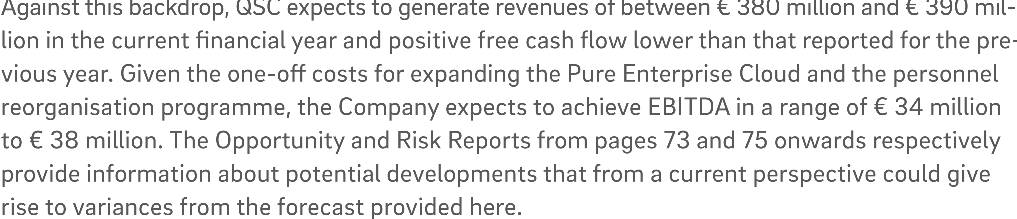
On 11 March 2016, QSC signed a syndicated loan agreement for a total of € 70 million with Commerzbank AG and Bayerische Landesbank as lead arrangers and a further four banks. This agreement replaces the syndicated loan agreement concluded on 16 September 2011. The newly agreed syndicated loan agreement has a five-year term.

OUTLOOK

Overall Summary of Future Developments

Consistent expansion in Cloud business. QSC will be focusing in the current financial year on expanding its Cloud business and marketing its Pure Enterprise Cloud, a process that will be accompanied by a broad-based sales campaign. The Company also expects to generate further growth in revenue and earning contributions in its Consulting business. QSC has budgeted a further reduction in revenues in its TC business with resellers. The same applies for Outsourcing, particularly as customers here will be gradually migrated to the Pure Enterprise Cloud.
The expansion in the Cloud business will require additional specialist staff to be hired in the current financial year. As planned, the Company will nevertheless reduce its overall workforce by 350 employees by the end of 2016 and thus largely complete its organisational restructuring. Overall, non-recurring expenses, most likely in a medium single-digit million euro range, will be incurred for the measures required in the current year.

SEE PAGES 73FF.
OPPORTUNITY AND RISK REPORT



Against this backdrop, QSC expects to generate revenues of between € 380 million and € 390 million in the current financial year and positive free cash flow lower than that reported for the previous year. Given the one-off costs for expanding the Pure Enterprise Cloud and the personnel reorganisation programme, the Company expects to achieve EBITDA in a range of € 34 million to € 38 million. The Opportunity and Risk Reports from pages 73 and 75 onwards respectively provide information about potential developments that from a current perspective could give rise to variances from the forecast provided here.

Future Macroeconomic and Industry Framework

+ 3.0 %

growth in German IT market in 2016

ICT market maintains growth course. In its Annual Economic Report, the German Federal Government forecast GDP growth of 1.7 percent in the current year. According to its assessment, the continuing economic momentum will be driven above all by the domestic economy, and here in particular by high consumer spending and construction investments. The German ICT market stands to benefit from the stable economic climate. The Bitkom industry association expects the market to grow by 1.7 percent to € 160.2 billion in the current year. According to its forecast, revenues in the German IT market are set to rise by 3.0 percent to € 83.5 billion in 2016. Particularly high growth rates are expected in software and IT services, with these being driven by the megatrends of cloud computing and big data. According to the forecast, revenues in the German TC market are expected to remain virtually stable at € 67.0 billion (+0.2 percent).

The German ICT market
(in € billion)

Digitisation as key market driver. Companies are addressing the digitisation of their processes and business models, and that across all sectors of the economy. According to a Bitkom survey, 96 percent of companies now view the transformation currently underway as an opportunity. Having said this, 56 percent of managing directors and management board members see their companies as lagging behind in this respect. By positioning itself as a digitiser to the German SME segment, QSC is establishing itself as a point of contact for medium-sized companies aiming to extend their head start in the digital age or to catch up.
According to a further Bitkom survey, the three most important digital topics are IT security, cloud computing and Industry 4.0. A study by the Experton Group shows that the topic of IT security has now finally arrived at German companies, with the respective management teams now increasingly aware of their responsibility to ensure a suitable standard of security. As a result of this, Experton forecasts that the market for IT security solutions and services in Germany is set to grow to around € 5.7 billion by 2018. This corresponds to an average annual growth rate of 6.8 percent.

Ongoing momentum in cloud business. The cloud is the IT architecture for the digital age. The market for cloud technologies, consulting and services is showing correspondingly dynamic growth. According to Experton, revenues in the German business customer market are set to rise to € 12.2 billion in 2016 and to € 27 billion by 2019. At present, just under 10 percent of German companies' IT spending relates to cloud computing. This share is expected to increase to one third in the years ahead. With its Pure Enterprise cloud, QSC will from 2016 onwards be able to offer a comprehensive portfolio of services that will make its decisively easier for SME companies to migrate their IT to the cloud.

The German cloud computing market for business customers
(in € billion)

Expected Earnings Performance

Significant growth in core business fields. QSC has planned revenues of between € 380 million and € 390 million for the current financial year. Substantial revenue growth in the Cloud and Consulting segments will most likely be countered by a reduction in revenues in the conventional TC business with resellers due to market and regulatory factors. Furthermore, the market launch of the Pure Enterprise Cloud will result in revenues being migrated from the Outsourcing segment to the Cloud segment.

Revenue growth in Cloud business and in Consulting

€ 34-38

million EBITDA expected in 2016

As already outlined above, the expansion in the cloud business will make it necessary to hire additional specialists in the current financial year. On the other hand, QSC will reduce the size of its workforce by 350 employees by the end of 2016 compared with the end of 2014 and thus largely complete its organisational restructuring. Non-recurring expenses, most likely in a medium single-digit million euro range, will be incurred for these measures in 2016. For this reason as well, the Company has forecast EBITDA in a range of € 34 million to € 38 million for 2016.

Expected Earnings Performance by Segment

Substantial growth in Cloud revenues planned. Following its start-up phase, the Cloud segment will increase greatly in significance in the current financial year already. QSC expects revenues in this, its newest segment, to virtually triple to almost € 20 million. Positive momentum will be provided in particular by the market launch of the Pure Enterprise Cloud. A new sales concept will also generate growth opportunities for the IoT platform SOLUCON and for cloud-based telephony systems. Due to increasing standardisation, the planned revenue performance will also lead to substantial earnings growth in this segment.

Consistent growth in Consulting. In its Consulting business, QSC expects revenues and earnings to show developments similar to those seen in 2015. Despite the highly personnel-intensive nature of the business, margins will remain in double-digit territory. In this segment, the Company benefits in particular from its all-round SAP competence and its extensive experience in projects involving HANA technology.

Focusing of Outsourcing business. QSC achieved notable success in safeguarding its existing business in this segment in 2015. These existing customers will also ensure consistent revenue and earning contributions in 2016 and beyond. In its new customer business, by contrast, QSC will be focusing from 2016 onwards on marketing its Pure Enterprise Cloud service portfolio. Revenues generated here are reported in the Cloud segment. QSC will gradually be presenting this service portfolio to its existing customers as well, as a result of which the coming years will witness a migration of revenue and earning contributions to the Cloud segment.

Stable TC business with corporate customers. The Telecommunications segment will continue to be characterised by disparate developments in 2016. QSC expects ongoing stable revenues and an attractive earnings performance in its business with IP-based products for corporate customers. Due to market factors, however, the business with resellers is expected to witness a further reduction in revenues and earning contributions.

Expected Financial and Net Asset Position

High cash flow from operating activities. QSC has budgeted a positive free cash flow for 2016 as well. This will largely be driven by the cash flow from operating activities. This will be countered by capital expenditure relating in particular to the Pure Enterprise Cloud, the optimisation of IT operations and customer projects. Overall, the Company expects to make capital expenditure on a scale of around € 30 million in the current year. Given its cash flow from operating activities and its existing liquidity, QSC is solidly financed for the projects planned for the current financial year.

€ ~30.0

million planned capex

Level of dividend based on free cash flow. The free cash flow will remain a key factor referred to when determining the dividend in the years after 2015 as well. A further factor involves the Company's financial strength, thus enabling it to safeguard its financial independence at all times. In general, QSC will be retaining its strategy of enabling its shareholders to participate in the Company's performance by way of a dividend.

OPPORTUNITY REPORT

Opportunity Management

Dynamic climate providing ever new opportunities to QSC

Digitisation opens up new opportunities. Digitisation is fundamentally transforming all sectors of the economy and QSC is one of only few providers in Germany capable of offering SME companies all the services they need to enhance and prepare their IT for the digital age from a single source. The market climate at the beginning of the digital age is characterised by great momentum. This is repeatedly producing new opportunities for QSC. Responsibility for identifying and acting on such opportunities lies with the business fields. They are familiar with their specific market environments and alert to any resulting potential. In addition, the managers responsible draw on the expertise available in the Sales and Marketing department, as well as on market and competition analyses and internal studies. The managers responsible regularly report to the Management Board on existing opportunities and the measures necessary to seize them. The Supervisory Board Strategy Committee also regularly deals with this issue.
Specific opportunities are factored into the rolling planning, with a review being performed at an early stage to ascertain the risks involved in pursuing and implementing these opportunities. Here, the benefits of dovetailing risk and opportunity management are especially clear. QSC reports below on the future developments and events that could lead to a positive variance from the outlook provided in this Group Management Report. By analogy with risks, the Company classifies these as "large" opportunities with a comparatively high probability of occurrence and a substantially positive contribution to its financial position, financial performance and cash flows.

Individual Opportunities

Acceptance of the Pure Enterprise Cloud. After the market launch at the beginning of the current financial year, QSC will be continually extending the range of services offered by the Pure Enterprise Cloud as the year progresses. At the same time, in its sales activities the Company is pressing ahead with addressing new and existing customers. Past experience shows that a substantial period of time generally passes between initial contacts with customers and revenue generation. To account for this, QSC has only budgeted a moderate volume of new customer revenues with its Pure Enterprise Cloud for the current financial year. Having said this, enormous technological advances and the requirements of digital business models mean that the IT in place at many small and medium-sized enterprises is increasingly reaching its limits. Demand for the services offered by the Pure Enterprise Cloud could therefore exceed the Company's original expectations.

Technological advance to SAP S/4HANA. Advising customers on all aspects of SAP is traditionally one of the key focuses of the Consulting business. The software company is currently introducing a technological advance from its R/3 ERP product family to S/4HANA. QSC is very well positioned for this transformation and has had its own HANA Competence Centre since 2014

already. As this new product family is a key to digitising business models, demand for corresponding advisory services may exceed expectations. As the digitiser for the SME sector, QSC has great credibility and could simultaneously benefit from the interplay of advisory and implementation services based on its Pure Enterprise Cloud.

Acquisition of further white label partners for cloud products. In December 2015, Vodafone began marketing a solution based on FTAPI technology that enables e-mails and documents to be securely sent. In the past financial year, Q-loud also managed to agree its first orders with partners. Depending on the revenue and licence models selected, the acquisition of further sales partners with strong market presences could result in substantial opportunities for QSC in 2016 and beyond.

Advance of All-IP connections. QSC has operated an end-to-end All-IP network in Germany for years now and is thus able to offer business customers uniform voice and data communication based on the Internet Protocol (IP). Deutsche Telekom is now also upgrading its infrastructure and will be phasing out the operation of its conventional voice network in the years ahead. For QSC, this will result in two opportunities. Firstly, awareness of IP technology will increase noticeably among small and medium-sized companies. On the other hand, the switching off of conventional connections will oblige business customers to gain an overview of potential alternatives. QSC has all-round experience and a proven technology here and could therefore benefit to a greater extent in the course of 2016 than already planned.

QSC already has an All-IP network

Replacement of ISDN technology in telephony systems. As a result of the upgrading in telecommunications technology to IP technology, conventional connections will progressively be switched off. It will then no longer be possible to simply continue operating ISDN telephony systems, which are still widely used. The more rigorously our competitors press their customers to convert to IP technology, the greater the opportunities available to QSC. After all, the Company on the one hand already offers a broad range of IP-based telephony systems for corporate customers of all sizes. On the other hand, QSC has extensive expertise in integrating conventional telephony systems into All-IP solutions. This makes it possible for SME customers to continue using their existing systems and thus avoid having to make investments.

Growing shortage of specialists in SME sector. Digitisation presents German SME companies with enormous challenges, and that not only in technology terms. They are also finding it increasingly difficult to press ahead with the necessary transformation with their own internal resources alone or to recruit additional specialists. This produces opportunities for broad-based service providers such as QSC. The Company trains specialists itself and also benefits from a traditionally strong position when it comes to recruiting specialists at its two main locations in Cologne and Hamburg.

RISK REPORT

Risk Management

Earliest possible identification of risks. QSC is permanently exposed to a wide variety of risks. Without consciously addressing risks it would not be possible for the Company to maintain its competitiveness or achieve sustainable business success. Given constantly changing markets, professional risk management has to ensure that all events, actions or neglected actions that could potentially pose a threat to QSC's success, or even to its continued existence, are already identified, analysed, assessed, managed and monitored at the earliest possible stage in their development. Risk management comprises coordinated procedures, measures and the necessary rules for dealing with risks. Uniform risk management serves as the basis for decisions at QSC and all its subsidiaries.

Organisation and Procedures

Risk management is permanently optimised further

QSC has an integrated risk management system. To ensure the effectiveness of its risk management and facilitate the aggregation of risks and transparent reporting, QSC has implemented a Company-wide uniform integrated risk management system (RMS) and further optimised this system in the past financial year. The use of a risk management software that has proven its worth for years now enables the Company to classify risks precisely and, as a result, to clearly focus on material risks.

The RMS is an integral component of decision-making processes at the Company. It ensures that risk assessments are considered in all decisions and that measures to reduce risks are taken at an early stage. Quarterly reports raise awareness of risk issues among all managers with responsibility for risk management. Guidelines, procedures and work instructions are in place to flank the RMS and ensure its implementation in day-to-day operations. The risk analyses, such as those required for management systems under ISO 27001 (Information Security) or under the recently updated ISO 9001 (Quality Management), ensure uniform, efficient reporting.

All Company departments are included in the RMS. Managers reporting directly to the Management Board ("direct reports") continually monitor and assess the risks arising. Within the RMS framework, they are responsible as risk coordinators for making sure that the risks identified are always up-to-date. Heads of department report to Corporate Risk Management at least once a quarter. They also regularly check whether any risks with material implications and previously undetected have arisen in their area of responsibility and whether there is any need to amend the assessment of risks already recognised. This process ensures that potential risks in the operating business can be detected at an early stage.

Corporate Risk Management is responsible for risk reporting to group management. It also serves as an interface to other audit and/or certification processes and ensures that, there too, the risks relevant to the Company are uniformly recorded. The Finance department is responsible for monitoring risks on the basis of key operating and financial performance figures.

Quarterly risk reporting to the Management Board. Corporate Risk Management continuously monitors the introduction of and compliance with measures to avoid and reduce risks. It is acts as a permanent contact partner for all Company departments.

Corporate Risk Management is responsible for consolidating and documenting the risks assessed by the risk coordinators. Based on the risk reports submitted by Company departments, it compiles a compact report (using the "R2C" software) and forwards this to the Management Board on a quarterly basis. The Management Board is informed immediately of any high risks newly detected. The Management Board informs the Supervisory Board with an extensive risk report at least once a year. Furthermore, it also uses the RMS as a means of keeping the Supervisory Board informed of all material risks newly arising.

Risk management guidelines issued by the Management Board govern the approach to handling risks and define risk management processes and organisational structures. These guidelines are reviewed and modified as necessary on a regular basis, and at least once a year. In the context of their audit of the financial statements, the external auditors review each year whether the RMS is suitable for the early detection of any risks to the Company's continued existence. Further information about the RMS in respect of IFRS 7 disclosure obligations for financial instruments can be found in the Notes to the Consolidated Financial Statements from page 147 onwards.

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NOTES

Assessment Methodology

Classification of risks by probability of occurrence and potential implications. The "Risk to Chance (R2C)" risk management software supports the overall risk management process throughout the Company. This tool initially uses a gross view to classify a risk in terms of its probability of occurrence and potential implications. The classification cumulatively results from allocation to the respective categories. For the highest implication category ("threat to continued existence"), severe financial damages have to be exacerbated by an actual or legal circumstance that would endanger QSC's continued existence. The following diagram provides an overview of the methodology used to classify risks.

Classification of risks

Probability of occurrence > / **Damage class v**	Very low	Low	Medium	High	Very high
Immaterial	Low risk	Low risk	Low risk	Medium risk	Medium risk
Low	Low risk	Low risk	Medium risk	Medium risk	Medium risk
Medium	Low risk	Medium risk	Medium risk	Medium risk	High risk
Serious	Medium risk	Medium risk	Medium risk	High risk	High risk
Survival-endangering	Medium risk	Medium risk	High risk	High risk	High risk

Low risk Medium risk High risk

Assessment of probability of occurrence

Very low:	Less than once in 5 years (approx. 0 %)
Low:	Not more than once in 5 years (approx. 25 %)
Medium:	Approx. once a year (approx. 50 %)
High:	More than once a year (approx. 75 %)
Very high:	Once a quarter or more (almost 100 %)

Damage class (estimated damage in the event of occurrence)

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

General risks are analysed to assess whether and how these could specifically harm QSC. If this analysis concludes that relevant damages from such risks really are conceivable, then these risks are included as specific risks. General risks without any specific reference to the Company are otherwise not recorded in the RMS. General risks include developments such as global catastrophes, financial system collapse, war and terrorist attacks.

This risk analysis and classification is followed by measures aimed at dealing with and monitoring risks. These serve to reduce existing risks by way of suitable measures, to hedge risks with provisions and insurance coverage, where this is economically expedient, and to raise awareness of existing residual risks and/or risk acceptance. This way, the gross analysis of risks is refined into a net analysis. The external risk report only includes those risks that still have to be

deemed material for QSC's future business performance even after all risk reduction and avoidance measures have been factored in. In this status, classification as "risk to continued existence" only leads to an overall assessment of "high" if there is at least a "medium" probability of occurrence. Risks to the Company's continued existence that are assessed as having only a very low or low probability of occurrence – and that are not included in any greater detail in the net view – are therefore not classified as "high" for ongoing observation purposes and are thus not viewed overall as direct threats to the Company's continued existence.
As a result of this risk analysis, in its external risk report QSC reports risks that are either individually material or aggregates individually immaterial risks in suitable risk categories (e.g. regulatory risks). The assessments and accompanying comments and requirements are only provided in quantitative terms in cases where it is possible to quantitatively assess the extent of damages. As it is generally not possible to quantify these, however, the relevant risks are usually classified in terms of classes of damage.

Allocation of risks to various damage classes

Supplementary Disclosures pursuant to § 315 (2) NO. 5 HGB

Accounting risks permanently monitored. Risk management in respect of financial reporting forms an integral component of the RMS. The risks involved in accounting and financial reporting are constantly monitored, with the results being factored into Group-wide reporting. In the context of the audit of the annual financial statements, the external auditor also reviews the financial reporting process and the IT systems thereby used. Based on the auditor's findings, both the Supervisory Board Audit Committee and the full Supervisory Board deal with the internal control system in respect of the financial reporting process.

At QSC, the RMS is characterised by the following key features:

- QSC has a clear management and corporate structure. Accounting activities for subsidiaries are performed either by QSC AG itself on the basis of agency agreements or handled in close liaison with the subsidiaries. Individual process responsibility is clearly allocated at all subsidiaries.
- QSC ensures strict compliance with legal requirements and International Financial Reporting Standards (IFRS) by means of a range of measures including employing qualified specialists, providing targeted and ongoing training and development for these specialists, strictly observing the dual control principle by separating execution, billing and approval functions in organisational terms and clearly segregating duties in terms of document creation and posting and in its controlling department.
- QSC works with uniform standard software from SAP throughout the Company.
- The accounting software is comprehensively protected from unauthorised access. It ensures that all major transactions at all companies are consistently, correctly and promptly recorded.

- Once prepared, separate financial statements are transferred to a uniform consolidation system in which intercompany transactions are eliminated. This system then provides the basis for the consolidated financial statements and for major disclosures in the Notes to the Consolidated Financial Statements and the Group Management Report.
- Group-wide monthly reporting ensures the early detection of potential risks during the financial year. This reporting includes all accounting processes relevant to the Group, such as consolidation of capital, debt, income and expenses.

With these measures, QSC creates the necessary transparency for its financial reporting and – to the greatest possible extent and despite the enormous complexity of IFRS – prevents any potential risks arising in this process.

Individual Risks

Focus on actual risk situation taking due account of measures. Risk monitoring focuses not so much on the risks identified by the gross evaluation as on the actual risk situation after taking relevant measures into consideration. Based on this net perspective, the following relevant risks were assessed as "high".

Decline in revenues in conventional voice telephony in the Telecommunications segment. Consistent with expectations, German fixed-network voice call volumes continue to decline. Not only that, the open call-by-call and preselect businesses account for an ever smaller share of this market. Rather than these offerings, Germans are increasingly opting for fixed-network flat-rate plans or using mobile communication instead of the fixed network. Alongside tough price competition, the stricter regulatory framework has also led to a reduction in revenues. Information about the associated risks can be found in the separate "Regulatory risks" section below.

QSC has been reducing its dependency on TC business for years now

By expanding its IT and cloud business, QSC is reducing its dependence on the TC business. Not only that, the Company has combated the risk of revenue losses in this traditional line of business by acting early to build up a fully IP-based NGN. At the same time, QSC has been reviewing whether and to what extent it can maintain its voice offerings on competitive terms following the potential expiry of further regulatory requirements. Irrespective of this, the Company expects the decline in revenues in the conventional TC market to continue in the years ahead as well, and for this to be accompanied by increased pressure on margins. This is especially true of business with resellers, but also of business with sales partners. Having said this, the merging of voice and data networks on an IP basis also still offers considerable potential for optimising and enhancing the flexibility of the existing TC infrastructure.

Lack of success in new business fields. QSC is pursuing a strategy of systematically extending its range of service with internally developed products and accessing new business fields. Developing proprietary, cloud-based products offers opportunities, but also involves risks. Delays may arise in the development process, thus leading to belated market launches. Any lack of market acceptance for the innovations may mean that the revenue and earning contributions are only realised at a later point in time than expected. Delays may also arise when the sales organisation does not have the necessary specialist qualifications.
Not only that, any delays in realising the revenue and earning contributions expected in the high-growth Cloud segment would also reduce the Company's financial scope for strategic investments and increase its vulnerability in future periods of macroeconomic weakness.
QSC counters this risk by cooperating with potential partners and pilot customers at an early stage and before new products are launched onto the market. At the same time, with its Pure Enterprise Cloud the Company has now created a modular service portfolio that integrates new cloud-based products and services, but also facilitates the extremely efficient operation of conventional applications. This should tangibly assist in bringing down market launch barriers.

Operations stability. The ICT industry is undergoing structural transformation. In the Outsourcing business in particular, customers expect ever higher technical and operating quality at ever lower costs and, despite this, expect services to be tailored to their individual needs. These exacting standards have to be met by means of stable operations accompanied by inexpensive production, while at the same time satisfying customers' wishes swiftly and efficiently. Any lack of reliability in terms of operations stability may lead to a loss of revenues and of customers and impede the expansion in the business.
By permanently optimising its operating organisational structure and taking measures to stabilise operations, QSC has created a basis enabling it to fully meet customers' expectations. These measures also include extensive and effective emergency plans, which safeguard the permanent availability of all services or their immediate restoration without any disadvantages for customers following any criminal attack.

Security. Safeguarding IT security and complying with all relevant provisions of data protection law are two crucial success factors in QSC's business activity. Any failure to do so would harm the Company's reputation. Protecting company data and personal data relating to customers and employees with all suitable means available in technological and organisational terms is therefore an absolute focus of the Company's IT security strategy. QSC has observed a tangible increase in the risk of attacks from outside the Company, for example in the form of DDoS, virus or Trojan attacks, and is countering these by working with smart and economically viable defence concepts.

Defence concepts that are smart and economical

Regulatory risks. QSC continues to operate in the regulated German TC market. Here, there is still a tendency in the political arena, and thus indirectly on the part of the German Federal Network Agency and the European Commission, to limit or abolish access regulation in various markets and to restrict themselves from now on to monitoring these markets and, where appropriate, to being able to intervene retrospectively on the basis of general fair competition law. There is a risk that the coming years will see a further reduction in the number of regulated markets. This could increase the pricing latitude of Deutsche Telekom AG (DTAG) in markets already removed from regulation. Furthermore, there is the risk that specific regulated preliminary markets, especially bit-stream and subscriber lines (local loops), will be regionalised in such a way that specific preliminaries are no longer available in more competitive geographical sub-markets (e.g. metropolitan areas). The experience gained to date with the end of regulation in various markets shows that public monitoring of DTAG's competitive behaviour is insufficient to keep this company from exploiting its newly gained room for manoeuvre. QSC nevertheless expects that ongoing public discussions and the investigation of relevant cases will promote conduct consistent with fair competition and that the German Federal Network Agency or the German Cartel Office will otherwise draw on their legal options.

Number of regulated markets could reduce further in future

Moreover, given its proprietary infrastructure QSC is significantly less dependent than most other ICT providers on DTAG's resale prices for voice and data services. Nevertheless, margins in the German TC market could be adversely affected in particular by aggressive pricing policies on the part of DTAG in the preliminaries and end-customer markets outside cartel and regulatory limits or in markets no longer regulated. This was seen to be the case in some areas in 2015 as well.

This being so, QSC relies on well-functioning supervision by the German Federal Network Agency and the European Commission. The Company limits potential risks by closely monitoring the regulatory landscape and by participating on an ongoing basis in the relevant discussions and commenting on various proceedings.

Dependency on business partners. QSC generates its revenues with resellers in its Telecommunications segment with only a small number of large voice and DSL resellers with which the Company has maintained successful business relationships for many years now. Losing one of these business partners would lead to a noticeable reduction in revenues at QSC. However, this would only impact to a lesser extent on the Company's profitability, as these revenues mainly involve lower margins.

Overall Summary

No material risks discernible. Taking due account of the potential scope of damages and probabilities of occurrence of these and further potential risks, no risks that could result in any permanent and significant impairment of the Company's financial position, financial performance or cash flows in the current financial year are currently discernible. In organisational terms, all meaningful and reasonable prerequisites have been put in place to enable the Company to detect potential risks at an early stage and take appropriate action.

Due to these or other risks or to erroneous assumptions, the future earnings of QSC may nevertheless materially deviate from the expectations of the Company and its management. All statements made in the Consolidated Financial Statements that are not historical facts constitute forward-looking statements. They are based on current expectations and forecasts of future events and are regularly reviewed in a risk management context.

TAKEOVER-RELATED DISCLOSURES

Customary regulations for a publicly listed company. The following overview outlines the disclosures mandatory under § 315 (4) of the German Commercial Code (HGB). Overall, these involve regulations that are typical at publicly listed companies. The following disclosures reflect the circumstances at the balance sheet date.

Composition of issued capital. Issued capital amounted to € 124,162,487 as of 31 December 2015 and was divided into 124,162,487 no-par registered ordinary shares. According to the Share Register, these shares were divided among 31,162 shareholders as of 31 December 2015.

Limitations on voting rights or transfer of shares. Each share grants one vote at the Annual Shareholders' Meeting. A voting and pooling agreement is in place between the following shareholders with direct and indirect holdings in QSC: Dr. Bernd Schlobohm, Gerd Eickers and Gerd Eickers Vermögensverwaltungs GmbH & Co. KG. This agreement provides for the uniform exercising of voting rights and restrictions relating to the disposability of the pool-bound shares. The Management Board is otherwise not aware of any further limitations on voting rights or restrictions on the transfer of shares.

Direct or indirect holdings of more than 10 percent of capital. There are the following direct and (pursuant to § 22 of the German Securities Trading Act [WpHG]) indirect holdings in the Company's capital that exceed 10 percent of voting rights:

- Dr. Bernd Schlobohm, Germany: 25.05 percent of voting rights (of which 12.50 percent directly and 12.55 percent indirectly;
- Gerd Eickers, Germany: 25.05 percent of voting rights (indirectly);
- Gerd Eickers Vermögensverwaltungs GmbH & Co. KG, Cologne, Germany: 25.05 percent of voting rights (of which 12.55 percent directly and 12.50 percent indirectly).

Bearers of shares with special rights conferring powers of control. There are no special rights conferring powers of control.

Voting right controls for employee holdings in capital. There are no voting right controls.

Appointment and dismissal of Management Board members. The appointment and dismissal of members of the Management Board is governed by § 84 and § 85 of the German Stock Corporation Act (AktG) and by § 7 of the Articles of Association in their version dated 19 January 2016. Pursuant to § 7 of the Articles of Association, the Management Board comprises one or more individuals. The Supervisory Board determines the number of Management Board members. Even though issued capital exceeds € 3 million, the Supervisory Board may stipulate that the Management Board should consist of only one individual. The appointment of deputy members of the Management Board is permitted.

Amendments to Articles of Association. Pursuant to § 179 of the German Stock Corporation Act (AktG), amendments to the Articles of Association require a resolution adopted by a majority of at least 75 percent of issued capital represented at a Shareholders' Meeting. Pursuant to § 15 of the Articles of Association, the Supervisory Board is authorised to adopt amendments and additions to the Articles of the Association that are of a purely formal nature and in themselves do not involve any changes to actual content.

Acquisition and buyback of treasury stock. By resolution of the Annual Shareholders' Meeting on 29 May 2013, the Management Board is authorised pursuant to § 71 (1) No. 8 of the German Stock Corporation Act (AktG) until 28 May 2018 to acquire QSC shares on a scale of up to 10 percent of issued capital upon the adoption of the said resolution. To date, the Management Board has not acted on this authorisation.

Authorised capital. By resolution of the Annual Shareholders' Meeting on 27 May 2015, the Management Board is authorised, subject to approval by the Supervisory Board, to increase the Company's issued capital by up to a total of € 50,000,000 on one or several occasions up to 26 May 2020 by issuing new no-par registered shares in return for contributions in cash and/or kind (authorised capital). When drawing on authorised capital, the Management Board may, subject to approval by the Supervisory Board, exclude shareholders' subscription rights in four cases: (1) to exclude residual amounts from shareholders' subscription rights; (2) when the new shares are issued in return for contributions in kind, particularly in the context of company acquisitions; (3) if, pursuant to § 186 (3) Sentence 4 of the German Stock Corporation Act (AktG), the new shares are issued in return for cash contributions and if, at the time of final stipulation, the issue price does not fall materially short of the stock market price of the shares already listed; and (4) to the extent necessary to issue subscription rights for new shares to the bearers or creditors of warrant and/or convertible bonds in order to avoid dilution of their respective holdings. This authorised capital is intended to enable QSC to react swiftly and flexibly to opportunities arising on the capital market and where necessary to obtain equity capital on favourable terms. No use was made of authorised capital in the past financial year.

Conditional capital. The Company had conditional capital totalling € 46,500,365 as of the balance sheet date. This was divided into Conditional Capital IV (€ 40,000,000), Conditional Capital VII (€ 750,365), Conditional Capital VIII (€ 5,000,000) and Conditional Capital IX (€ 750,000). Conditional Capitals VII, VIII and IX serve to secure the conversion rights of bearers of convertible bonds that QSC has issued or may issue within the framework of existing stock option plans to Management Board members (Conditional Capital IX), Management Board members, managing directors of affiliated companies, employees of QSC and affiliated companies (Conditional Capitals VII and VIII) and other parties contributing to the Company's success (Conditional Capital VII). Conditional Capital IV may be used by the Management Board to create tradable warrant and/or convertible bonds. The Management Board is authorised by resolution of the Annual Shareholders' Meeting on 27 May 2015 to issue such instruments in order to access an additional, low-interest financing option given favourable capital market conditions. The convertible

bonds may be issued in return for both cash contributions and contributions in kind. The Management Board is authorised, subject to approval by the Supervisory Board, to exclude shareholders' subscription rights to these warrant and/or convertible bonds in four cases: (1) to settle residual amounts resulting from the subscription ratio; (2) when the bonds are issued in return for contributions in kind, particularly in the context of company acquisitions; (3) if, in the case of bonds being issued in return for cash contributions pursuant to § 186 (3) Sentence 4 of the German Stock Corporation Act (AktG), the issue price does not fall materially short of the market value of the bonds; and (4) to the extent necessary to issue subscription rights to the bearers or creditors of warrant and/or convertible bonds previously issued in order to avoid dilution of their respective holdings. To date, the Management Board has not acted on the authorisation to issue tradable warrant and/or convertible bonds.
The exclusion of shareholders' subscription rights pursuant to § 186 (3) Sentence 4 of the German Stock Corporation Act (AktG) may only apply for the use of treasury stock, for the issue of new shares from authorised capital and for the issue of warrant and/or convertible bonds corresponding up to an aggregate total of no more than 10 percent of issued capital during the term of respective authorisation. Apart from this, the exclusion of shareholders' subscription rights, irrespective of the legal grounds, for the use of treasury stock, for the issue of new shares from authorised capital and for the issue of warrant and/or convertible bonds (including those issued within QSC's stock option plans) may not exceed an aggregate total of 20 percent of issued capital during the term of the respective authorisation.
Further details apply in accordance with the underlying resolutions adopted by the Annual Shareholders' Meeting for each of these measures.

Material agreements conditional on a change of control due to a takeover bid. In the 2011 financial year, QSC entered into a syndicated loan agreement with seven financial institutions with an agreed credit facility of € 120 million as of the balance sheet date. This agreement provides the financial institutions with the option of terminating the credit line prematurely should a natural person or legal entity, acting either alone or together with other persons or entities, gain control over QSC. In the 2014 financial year, QSC agreed five promissory note bonds with a financial institution with a total volume of € 150 million. These allow the lender to terminate the agreements prematurely should a natural person or legal entity or a group of persons and entities acting together directly or indirectly acquire more than 50 percent of the shares or voting rights in QSC. The Company has no further material agreements conditional on a change of control due to a takeover bid.

Compensation agreements in the event of a takeover bid. No compensation agreements in the event of a takeover bid have been concluded either with the Management Board or with employees.

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CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Income

Euro amounts in thousands (€ 000s)

	Note	2015	2014
Net revenues	6	**402,436**	**431,444**
Cost of revenues	7	(337,598)	(370,443)
Gross profit		**64,838**	**61,001**
Sales and marketing expenses	8	(37,096)	(39,479)
General and administrative expenses	9	(37,932)	(38,256)
Other operating income	10	682	1,104
Other operating expenses	10	(1,653)	(18,320)
Operating profit (loss)		**(11,161)**	**(33,950)**
Financial income	11	398	358
Financial expenses	11	(6,344)	(6,554)
Net income (loss) before income taxes		**(17,107)**	**(40,146)**
Income taxes	41	1,753	6,231
Net income (loss)		**(15,354)**	**(33,915)**
Earnings per share (basic) in €	12	(0.12)	(0.27)
Earnings per share (diluted) in €	12	(0.12)	(0.27)

Consolidated Statement of Comprehensive Income

Euro amounts in thousands (€ 000s)

	2015	2014
Other comprehensive income		
Line items that are not reclassified in the income statement		
Actuarial gains (losses) from defined benefit pension plans	251	(613)
Tax effect	(81)	198
Line items that are not reclassified in the income statement	**170**	**(415)**
Line items that might subsequently be reclassified		
in the income statement		
Fair value measurement of cash flow hedge	(149)	(2,180)
Tax effect	48	705
Line items that might subsequently be reclassified		
in the income statement	**(101)**	**(1,475)**
Total fair value changes (net of tax) recognised directly		
in equity (attributable to shareholders of QSC AG)	**69**	**(1,890)**
Net income (loss) for the period	(15,354)	(33,915)
Total comprehensive income for the period	**(15,285)**	**(35,805)**

Consolidated Balance Sheet

Euro amounts in thousands (€ 000s)

	Note	31 Dec. 2015	31 Dec. 2014
ASSETS			
Long-term assets			
Property, plant and equipment	14	62,392	76,169
Land and buildings	14	25,152	25,915
Goodwill	15, 16	67,077	67,077
Other intangible assets	17	41,411	53,684
Trade receivables	18	4,583	7,761
Prepayments	19	3,608	2,641
Other long-term assets		292	2,948
Deferred tax assets	41	20,207	19,377
Long-term assets		**224,722**	**255,572**
Short-term assets			
Trade receivables	18	48,704	52,145
Prepayments	19	3,712	6,493
Inventories	20	884	1,278
Other short-term assets	21	6,521	1,855
Available-for-sale financial assets	22	-	343
Cash and cash equivalents	23	73,982	87,803
Short-term assets		**133,803**	**149,917**
TOTAL ASSETS		**358,525**	**405,489**

	Note	31 Dec. 2015	31 Dec. 2014
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Issued capital	24	124,162	124,142
Capital surplus	25	142,702	142,069
Other capital reserves	27	(2,996)	(3,066)
Accumulated deficit		(139,673)	(117,511)
Shareholders' equity		**124,195**	**145,634**
Liabilities			
Long-term liabilities			
Long-term liabilities under financing			
and finance lease arrangements	28	1,722	4,447
Liabilities due to banks	28	155,830	156,550
Convertible bonds	39	27	25
Accrued pensions	29	6,693	7,281
Other provisions	31	1,642	305
Other long-term financial liabilities	33	3,879	9,209
Deferred tax liabilities	41	1,204	2,333
Long-term liabilities		**170,997**	**180,150**
Short-term liabilities			
Trade payables	30	30,596	44,820
Short-term liabilities under financing			
and finance lease arrangements	28	2,761	4,427
Liabilities due to banks	28	2,140	4,518
Other provisions	31	8,368	10,883
Accrued taxes	31	381	1,757
Deferred income	32	4,020	3,900
Other short-term liabilities	34	15,067	9,400
Short-term liabilities		**63,333**	**79,705**
Liabilities		**234,330**	**259,855**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**358,525**	**405,489**

Consolidated Statement of Changes in Equity

Euro amounts in thousands (€ 000s)

	Note	Equity attributable to equity holders of QSC AG				
				Other capital reserves		
		Issued capital	Capital surplus	Fair value of marketable securities	Actuarial gains (losses)	Cash flow hedge reserve
Balance as of 1 January 2015		**124,142**	**142,069**	**(1)**	**(1,590)**	**(1,475)**
Net income (loss) for the period		-	-	1	-	-
Other comprehensive income						
for the period, net of tax	27	-	-	-	170	(101)
Total comprehensive income		**-**	**-**	**-**	**170**	**(101)**
Revaluation of financial liabilities relating						
to business acquisition	37	-	-	-	-	-
Conversion of convertible bonds	39	20	3	-	-	-
Dividends		-	-	-	-	-
Non-cash share-based compensation	39	-	630	-	-	-
Balance as of 31 December 2015		**124,162**	**142,702**	**-**	**(1,420)**	**(1,576)**
Balance as of 1 January 2014		**124,057**	**141,286**	**(1)**	**(1,175)**	**-**
Net income (loss) for the period		-	-	-	-	-
Other comprehensive income						
for the period, net of tax	27	-	-	-	(415)	(1,475)
Total comprehensive income		**-**	**-**	**-**	**(415)**	**(1,475)**
Revaluation of financial liabilities relating						
to business acquisition	37	-	-	-	-	-
Conversion of convertible bonds	39	85	94	-	-	-
Dividends		-	-	-	-	-
Non-cash share-based compensation	39	-	689	-	-	-
Balance as of 31 December 2014		**124,142**	**142,069**	**(1)**	**(1,590)**	**(1,475)**

Accumulated deficit	Total share-holders' equity	
(117,511)	**145,634**	**Balance as of 1 January 2015**
(15,354)	(15,354)	Net income (loss) for the period
		Other comprehensive income
-	69	for the period, net of tax
(15,354)	**(15,285)**	**Total comprehensive income**
		Revaluation of financial liabilities relating
5,608	5,608	to business acquisition
-	23	Conversion of convertible bonds
(12,416)	(12,416)	Dividends
-	630	Non-cash share-based compensation
(139,673)	**124,195**	**Balance as of 31 December 2015**
(70,996)	**193,171**	**Balance as of 1 January 2014**
(33,915)	(33,915)	Net income (loss) for the period
		Other comprehensive income
-	(1,890)	for the period, net of tax
(33,915)	**(35,805)**	**Total comprehensive income**
		Revaluation of financial liabilities relating
(186)	(186)	to business acquisition
-	179	Conversion of convertible bonds
(12,414)	(12,414)	Dividends
-	689	Non-cash share-based compensation
(117,511)	**145,634**	**Balance as of 31 December 2014**

Consolidated Statement of Cash Flows

Euro amounts in thousands (€ 000s)

	Note	2015	2014
Cash flow from operating activities	35		
Net income (loss) before income taxes		(17,107)	(40,146)
Depreciation and amortisation of fixed assets	14, 17	52,688	49,724
Goodwill impairment	15, 16	-	18,005
Non-cash share-based compensation		630	637
Gain (loss) from disposal of fixed assets		(1)	75
Income tax paid		(401)	(4,172)
Income tax received		2,792	498
Interest received		315	248
Changes in provisions	29, 31	(2,972)	6,801
Changes in trade receivables	18	6,619	(2,074)
Changes in trade payables	30	(12,868)	(17,283)
Changes in other assets and liabilities		9,945	(7,439)
Cash flow from operating activities	35	**39,640**	**4,874**
Cash flow from investing activities	36		
Aquisition of a subsidiary less liquid assets aquired		-	(3,616)
Purchase of intangible assets		(9,055)	(15,529)
Purchase of property, plant and equipment		(18,367)	(11,165)
Proceeds from sale of property, plant and equipment		27	-
Cash flow from investing activities	36	**(27,395)**	**(30,310)**
Cash flow from financing activities	36		
Dividends paid		(12,416)	(12,414)
Issuance of convertible bonds		2	6
Proceeds from issuance of common stock		23	179
Proceeds from loans	28	-	150,000
Repayment of loans	28	(3,099)	(74,497)
Interest paid		(5,815)	(2,951)
Changes in advance payments relating to financing activities		(370)	(310)
Repayment of liabilities under financing			
and finance lease arrangements		(4,391)	(5,490)
Cash flow from financing activities	36	**(26,066)**	**54,523**
Change in cash and cash equivalents		**(13,821)**	**29,087**
Cash and cash equivalents as of 1 January		87,803	58,716
Cash and cash equivalents as of 31 December	23	**73,982**	**87,803**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE 2015 FINANCIAL YEAR

Corporate Information

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

Accounting Principles and Policies

1 BASIS OF PREPARATION

Pursuant to Article 4 of Regulation (EC) No. 1606/2002 of the European Parliament and the Council dated 19 July 2002, the Company is required to prepare consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) and in accordance with § 315a (1) of the German Commercial Code (HGB) – is thus exempt from preparing consolidated financial statements in accordance with HGB.
QSC prepares the consolidated financial statements in accordance with the IFRSs issued by the International Accounting Standards Board (IASB), applicable as of 31 December 2015, as required to be applied in the EU. The supplementary requirements of § 315a (1), HGB, are also complied with. The Company took due account of all IFRSs requiring mandatory application in the EU in the 2015 financial year, as well as of the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC).
In its consolidated financial statements, QSC generally makes application of the cost method. Material exceptions relate to financial instruments recognised at fair value. Liabilities for cash-settled, share-based payments are also recognised at fair value. The financial year of QSC and its subsidiaries (hereinafter also referred to as the "consolidated group") corresponds to the calendar year. The consolidated financial statements are presented in euros and all amounts, except when otherwise stated, are rounded to the nearest thousand. The rounding up or down of figures may result in minor discrepancies on a scale of € 1k or 0.1 percent between numbers and percentages in this Annual Report.

No events or transactions which would have a material effect on the consolidated group's net assets, financial position and earnings performance or cash flows occurred after the end of the reporting period and prior to 17 March 2016 (the date on which the consolidated financial statements were presented to the Supervisory Board for approval). Reference is made to the "Events after the reporting period" section of the Group Management Report in respect of the new syndicated loan agreement.
The income statement has been prepared using the cost-of-sales method. In the interests of clarity and informational value, individual line items have been aggregated in the income statement and balance sheet. These line items are reported and commented on separately in the notes.

2 CONSOLIDATION

The consolidated financial statements comprise the financial statements of QSC AG and its subsidiaries as of 31 December of each financial year. The financial statements of subsidiaries included in consolidation have been prepared on the basis of uniform accounting policies pursuant to IFRS 10 (Consolidated Financial Statements). All subsidiaries have the same balance sheet date as the parent company QSC AG.
The financial statements of subsidiaries are drawn up to the same balance sheet date and use the same accounting policies as applied by the parent company. All intra-group transactions and balances are eliminated in full. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated on this basis until the date that such control ceases. Information on the entities included in the consolidated financial statements is provided in Note 37.

3 SIGNIFICANT JUDGMENTS AND ESTIMATES

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

Impairment of non-financial assets. At each reporting date, the consolidated group assesses whether there are any indications of impairment for non-financial assets. Goodwill is tested for impairment at least once a year and at other times when such indications exist. The impairment is determined by calculating the recoverable amount of groups of cash-generating units (CGUs),

which corresponds to the present value of expected future cash flows at these units. The groups of CGUs correspond to the reporting segments. Impairment losses are recognised when the recoverable amount of a group of CGUs falls short of its carrying amount. As in the previous year, goodwill of € 67,077k was recognised as of 31 December 2015. Further details are provided in Notes 15 and 16.

Deferred tax asset. QSC recognises deferred tax assets for all temporary differences, as well as for unused tax losses to the extent that it is probable that taxable income will be available against which the tax loss carryovers can be utilised.
Estimates by management are required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with underlying tax planning strategies. As of 31 December 2015, corporate income tax loss carryovers at QSC AG and all subsidiaries included in the consolidated financial statements totalled € 533 million (2014: € 532 million), while trade tax loss carryovers came to € 523 million (2014: € 524 million). Deferred tax assets of € 20,207k (2014: € 19,377k) and deferred tax liabilities of € 1,204k (2014: € 2,333k) were recognised as of 31 December 2015. Further details are provided in Note 41.

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 behaviour and customer creditworthiness are subject to significant uncertainties. As of 31 December 2015, trade receivables came to € 53,287k (2014: € 59,906k). Further details are provided in Note 18.

Provisions. A provision is recognised when the consolidated group has a legal or constructive obligation as a result of a past event, when it is likely that an outflow of resources embodying economic benefits will be required to settle such an obligation, and when the amount of the obligation can be reliably estimated. Such estimates are subject to material uncertainties in terms of the timing and level of the obligation. As of 31 December 2015, provisions totalling € 10,391k (2014: € 12,945k) were recognised in the balance sheet. Further details are provided in Note 31.

Leases. QSC determines whether an agreement represents a lease or lease arrangement on the basis of the economic content of the agreement at the inception of the lease. Discretion is used in determining whether an agreement grants rights to usage of an asset and the extent to which fulfilment of the contractual agreement depends on usage of one or more specific assets. As of 31 December 2015, lease liabilities totalled € 4,483k (2014: € 8,874k).

Construction contracts. Receivables arising on construction contracts are accounted for using the percentage of completion (PoC) method in accordance with IAS 11 if there is a customer-specific order. Revenue and expenses are recognised by reference to the stage of completion of contract activity, which, in turn, is based upon estimated total cost. As of 31 December 2015, accounts receivable under construction contracts totalled € 975k (2014: € 875k).

Factoring. Within the framework of a factoring agreement with NORD/LB Luxembourg S.A. Covered Bond Bank, QSC regularly sells certain short-term trade receivables with a total volume of up to € 18.5 million to the bank. A discretionary decision has to be made in respect of the scope of existing risk thereby transferred.

4 SIGNIFICANT ACCOUNTING POLICIES

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

- Revenue from services is recognised when the services have been provided. QSC recognises revenue for services that have not been provided completely or throughout the entire reporting period on a time-apportioned basis up to the end of the reporting period by reference to the stage of completion.
- QSC defers non-recurring income from the installation of customer lines on a time-apportioned basis over a contractual period of 24 months. Related expenses are capitalised and deferred accordingly.
- Government grants are recognised as other operating income over the periods in which QSC recognises as expenses the related costs for which the grants are intended to compensate.
- Construction contracts are accounted for under the percentage of completion (PoC) method. Reference is made to the comments contained under "Construction contracts".
- QSC recognises interest income using the effective interest method (i.e. using 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). Interest unwound on finance lease receivables from multiple element arrangements is also presented as interest income.
- Multiple element arrangements consist of a service portion and a hardware lease, for which the fair values of the two components are separable and can be determined reliably. Applying the requirements of IFRIC 4 to hardware leases means that the consolidated group's Outsourcing segment functions as lessor in certain multiple element arrangements. The lease agreements relate to identifiable assets usable exclusively by the customer. Revenue for services

performed under the service contract is distributed pro rata over the contractual period. For the portion of the multiple element arrangement classified as a finance lease, the revenues are recognized upon the inception of the arrangement and the interest portion is recognized over the term of the arrangement. In these cases, amounts owed by customers (lessees) under a finance lease are recorded as discounted receivables. When measuring hardware leases as operating leases, the revenues are recognized on a monthly basis in accordance with the contractual terms. The total contractual performance is apportioned to the respective components using the relative fair value method.

– Operating expenses are recognised when the performance has been utilised or at the time they are incurred.

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

Property, plant and equipment. QSC reports property, plant and equipment in the balance sheet at acquisition or construction cost less accumulated depreciation and impairment losses. Repair and maintenance expenses that do not constitute material replacement investments are directly expensed in the period in which they are incurred. The estimated useful lives of the assets are used as a basis for the application of straight-line depreciation. Property, plant and equipment are depreciated straight-line over the estimated useful lives shown in the table below:

	Useful life in years
Property, plant and equipment	
Buildings	8 to 50
Networks and technical equipment	2 to 27
Leasehold improvements	2 to 25
Plant and operating equipment	2 to 30

Borrowing costs. Borrowing costs are recognised as an expense in the period in which they are incurred. There are no qualifying assets as defined in IAS 23.

Business combinations and goodwill. QSC accounts for business combinations using the acquisition method, in accordance with which all identifiable assets and liabilities, as well as contingent liabilities of the acquired business, are recognised at their fair value. Goodwill arising in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Company's interest in the net fair value of identifiable assets, liabilities and contingent liabilities.
QSC applies the anticipated acquisition method for business combinations, when obligations are entered into with non-controlling shareholders for the subsequent acquisition of those shareholders' remaining shares (contractual call and put options). Under this method, it is assumed that the call or put options have been exercised by QSC at the acquisition date. Based on this assumption that 100 percent of the shares have been acquired, there is no disclosure of non-controlling interests in the consolidated financial statements. Instead, the estimated fair value of the call or put options are taken into account at the date of first-time consolidation as additional acquisition cost and reported as a long-term financial liability in the balance sheet. Subsequent fair value changes as well as the impact of any unwinding of discount during the terms of the call and put options are recognised directly in equity.
Subsequent to initial recognition, QSC measures goodwill at cost, less any accumulated impairment losses. QSC tests goodwill for impairment annually, and at other times when there are indications of a potential impairment in the carrying amount.

Other intangible assets. Intangible assets are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination corresponds to their fair value as of the date of acquisition. Internally generated intangible assets are capitalised if the recognition criteria contained in IAS 38 are met. The costs involved relate primarily to personnel and materials. Costs not required to be recognised as assets are recognised in profit or loss in the period in which they arise. An assessment is made initially as to whether the useful lives of intangible assets are finite or indefinite. Intangible assets with finite lives are amortised over their useful economic life and tested for impairment whenever there is an indication that the intangible asset may be impaired. A review of the amortisation period and the amortisation method for such assets with a finite useful life is performed, at a minimum, at the end of each financial year.
QSC's other intangible assets primarily include software, licences and similar rights as well as non-recurring provisioning costs for activating customer connections. Moreover, brands and customer bases have been recognised as assets in conjunction with initial consolidations.
Licences are amortised over a period of 3 to 10 years and software over a period of 2 to 5 years. Non-recurring provisioning costs for activating customer connections are amortised over an average contractual period of 24 months. Internally generated intangible assets (development costs) are amortised after completion of the development phase over a period of 3 to 5 years. Acquired brands are written down over a period of 3 to 10 years.
The useful lives of the intangible assets identified in conjunction with business combinations with IP Partner AG and INFO AG in financial year 2011 are 10 to 20 years for customer bases and 3 to 4 years for software.

Financial assets. QCS classifies financial assets falling within the scope of IAS 39 as either financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, or available-for-sale financial assets, as appropriate. QSC determines the classification of its financial assets on initial recognition and tests this designation at the end of each reporting period. Items are reclassified where allowed and appropriate.
On initial recognition, QSC measures financial assets at fair value. QSC accounts for all regular way purchases and sales of financial assets on the basis of the trade date, which is the date that the consolidated group committed itself to purchasing or selling the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortised cost, where applicable using the effective interest method and after deduction of impairment losses. Gains and losses are recognised in profit or loss when the receivables are derecognised or impaired, as well as through the amortisation process.
Payment due notices are sent out immediately when receivables become overdue. Uncollected receivables outstanding for more than six months are reviewed for default risk. When receivables are overdue by 90 days, this is deemed to represent objective evidence that impairment testing is called for in accordance with IAS 39.58. Impairments are only made if other objective evidence of impairment in accordance with IAS 39.59 is identified which indicates that receivables are uncollectible or that an impairment loss has been incurred.
Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. Subsequent to initial recognition, QSC measures these at fair value, with unrealised gains and losses recognised in OCI, and therefore directly through equity in other reserves. When the investment is derecognised, the cumulative gain or loss previously recorded in equity is reclassified to profit or loss.
Other assets in the form of reinsurance claims on life insurance policies, which are not classified as plan assets within the meaning of IAS 19, are measured on the basis of the actuarial coverage reserves determined by the relevant insurance company. All other assets are stated at their nominal value and are presented in the balance sheet as “Long-term assets” and “Short-term assets”, based on their due dates.

Construction contracts. Receivables arising on construction contracts are accounted for using the percentage of completion (PoC) method in accordance with IAS 11 if there is a customer-specific order. Profit is recognised by reference to the stage of completion of the contract when total contract costs and contract revenue of the relevant contract can be measured reliably in accordance with the requirements of IAS 11. The stage of completion of a contract is determined using the cost-to-cost method (IAS 11.30a). When the above requirements are met, total contract revenue is recognised by reference to the stage of completion of the contract. Contract

costs comprise costs relating directly to the contract as well as indirectly attributable production overheads. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised immediately as an expense. Advance payments from customers are offset against construction contract trade receivables.

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

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

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

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

Stock option plans. QSC's employees may receive share-based compensation 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 plans resolved or modified after 7 November 2002), respectively, using an appropriate option price model. Further details are provided in Note 39. The expense recognised for granting equity instruments (as well as the corresponding increase in equity) is spread over the vesting period of the options.
QSC does not recognise any expense for compensation entitlements which cannot be exercised. If the terms and conditions of a share-based compensation agreement are modified, QSC recognises as a minimum the level of expense that would have arisen if the terms and conditions had not been modified. If a share-based compensation agreement is cancelled, QSC accounts for the compensation agreement as if it had been exercised on the cancellation date and recognises the previously unrecognised expense immediately.

Leases. QSC determines whether an arrangement is or contains a lease on the basis of the substance of the arrangement at inception date.

- **QSC as lessee.** In accordance with IAS 17, items attributable to QSC as their economic owner are recognised as assets and depreciated over their useful lives, or over the lease term if shorter. The obligation arising from the leasing arrangements is recognised as a liability and reduced over the lease period by the capital portion of the lease payments. Contracts classified as finance leases relate primarily to arrangements for computing hardware and data centre technology. Leased assets are measured at their fair value or, if lower, at the present value of the minimum lease payments during the non-cancellable period of the lease. In the case of finance lease arrangements, the payments are divided into their constituent elements of financing expense and capital repayment using the effective interest rate method, such that the remaining carrying amount of the lease obligation is subject to a constant interest rate. Financing expenses are charged to income. QSC's finance leases predominantly have terms of between 2 and 3 years. QSC classifies lease arrangements which do not transfer substantially all the risks and rewards incidental to ownership from QSC to the lessee as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term.

- **QSC as lessor.** Based on the requirements of IFRIC 4, the consolidated group is the lessor in certain multiple element arrangements. The standard customer contract is then divided into a service contract for services to be rendered and a sale transaction for the leased hardware. For finance leases, the leasing component is recognised as a discounted receivable within "Trade receivables", while the revenues from the sales transaction are recognised in full in the year in which the contract is concluded. Customer payments on the leasing component are divided into repayment and interest portions and recognised accordingly. Service revenues are recognised on a time-apportioned basis over the contractual term. Operating lease income is recognised as income through profit or loss on a straight-line basis over the lease term.

Financial liabilities. QSC measures all interest-bearing loans on initial recognition at fair value, less directly attributable transaction costs. Subsequent to initial recognition, interest-bearing loans and borrowings are measured at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process. The share tender options held by remaining shareholders are also recognised under financial liabilities with application of the anticipated acquisition method.

Derivative financial instruments. Since 2014 QSC has been party to derivative financial instruments in the form of interest rate swaps which are used to hedge the risk of fluctuations in interest payments. Derivative financial instruments are recognised initially at the contract date and measured both then and at the end of subsequent reporting periods at their fair value.

A positive fair value is reported as an asset and a negative fair value as other financial liabilities. The fair value of interest-rate derivatives is determined on the basis of present value models, taking account of relevant market information (interest rate curves).
In the event that derivatives are used to hedge a cash flow risk (so-called “cash flow hedges”), the hedging relationship is documented and the hedging relationship's effectiveness measured at each reporting date. The change in the fair value of the hedging instrument attributable to its effective portion is recognised in the statement of comprehensive income and reported directly in equity. The ineffective portion of the hedging relationship is recognised in profit or loss. Amounts recognised in the cash flow hedge reserve are reclassified to the statement of income in the period, in which the underlying hedged transaction impacts earnings.

Deferred income. QSC defers one-time income from the installation of customer lines on a time-apportioned basis over a contractual period of 24 months.

Taxes. QSC recognises current income tax assets and liabilities for the current and for prior periods at the amount expected to be recovered from or paid to the taxation authorities. To compute the amount, QSC uses the tax rates and tax laws that are expected to apply for the relevant corresponding assessment period. Current income tax relating to items recognised directly in equity is also recognised in equity.
Deferred taxes are recognised 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 recognises deferred income tax liabilities for all taxable temporary differences, except

- where the deferred tax liability arises from the initial recognition of goodwill;
- where the deferred tax liability 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 accounting profit nor taxable profit or loss; and
- where the deferred tax liability arises from 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 recognises deferred tax assets for all deductible temporary differences, unused tax loss carryovers and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, tax losses and tax credits can be utilised except

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the reported result for the period nor taxable profit or loss; and

– in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, if it is probable that the temporary differences will not reverse in the foreseeable future and insufficient taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Previously unrecognised deferred tax assets are also reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered. QSC measures deferred tax assets and liabilities at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted as of the balance sheet date. Future changes in tax rates are required to be taken into account if enacted or substantively enacted by the end of the reporting period.
Deferred taxes in connection with items recorded directly in equity as other income are likewise recorded directly in equity (through OCI) and not in profit or loss.
Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and deferred tax liabilities relate to the same taxable entity and the same taxation authority. Revenue, expenses and assets are recognised net of the amount of sales tax except

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

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

5 CHANGES IN ACCOUNTING POLICIES

Change in estimate. Due to amended assessments, an additional amount of € 2,595k was added to dismantling obligations within provisions.

New Standards in 2015. QSC AG has observed the following amendments in financial reporting pronouncements, application of which was mandatory for the first time in the 2015 financial year. Changes which are materially relevant for QSC AG's consolidated financial statements are presented in the following section.

IFRIC 21 – Levies. IFRIC 21 is an Interpretation of IAS 37. The principal issue covered is when a present obligation arises for levies imposed by governments and when a provision/payable should be recognised. A number of items are excluded from the scope of the Interpretation, in particular fines and other penalties, levies relating to government contracts or outflows of resources that are within the scope of other IFRSs, such as IAS 12. IFRIC 21 requires that a liability be recognised if the so-called "obligating event" – based on the wording of the underlying legislation – has occurred. The specific wording used can therefore be highly relevant for the accounting treatment.
The new interpretation has no material implications for the consolidated financial statements of QSC AG.

Improvements to IFRS 2011 – 2013. This Annual Improvement Project has introduced amendments to four standards. By adjusting the wording of individual IFRSs, the IASB has thus clarified existing requirements. The amendments relate to IFRS 1, IFRS 3, IFRS 13 and IAS 40.
The amendments have no material implications for the consolidated financial statements of QSC AG.

QSC AG does not intend to make premature application of the following new or amended standards and interpretations that only require mandatory application in later financial years. Unless stated otherwise, their implications for the consolidated financial statements of QSC AG are currently under review.
The amendments listed below have already received European Union endorsement.

Amendments to IAS 1 – Note Disclosures. The amendments relate to various reporting matters. They clarify that note disclosures are only necessary when their content is not immaterial. This also explicitly applies when an IFRS stipulates a list of minimum disclosures. Moreover, explanations as to the aggregation and disaggregation of line items in the balance sheet and the statement of comprehensive income have been included.
Furthermore, the amendments clarify how interests in the other comprehensive income of companies measured at equity should be presented in the statement of comprehensive income. Finally, the amendments have deleted a model note structure to enable greater account to be taken of disclosures relevant to the individual company.
The amendments require first-time application in financial years beginning on or after 1 January 2016.

Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation. With these amendments, the IASB has provided further guidelines for determining acceptable methods of depreciation and amortization. Accordingly, revenue-based methods of depreciation and amortisation are not permitted for property, plant and equipment and only in certain exceptional cases for intangible assets (rebuttable presumption of inappropriateness).
The amendments require first-time application in financial years beginning on or after 1 January 2016.

Amendments to IAS 19 – Defined Benefit Plans: Employee Contributions. The amendments have clarified the requirements dealing with the allocation of employee or third-party contributions to service periods in cases where the contributions are linked to service years. Furthermore, simplifications have been introduced for cases where the contributions are independent of the number of service years achieved.
The amendments require first-time application in financial years beginning on or after 1 February 2015.

Improvements to IFRS 2010 – 2012. This Annual Improvement Project has introduced amendments to seven standards. By adjusting the wording of individual IFRSs, the IASB has thus clarified existing requirements. In addition, some amendments have implications for note disclosures. The amendments relate to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38.
The amendments require first-time application in financial years beginning on or after 1 February 2015. The amendments to IFRS 2 and IFRS 3 require application for transactions occurring on or after 1 July 2014.

Improvements to IFRS 2012 – 2014. This Annual Improvement Project has introduced amendments to four standards. By adjusting the wording of individual IFRSs/IASs, the IASB has thus clarified existing requirements. The amendments relate to IFRS 5, IFRS 7, IAS 19 and IAS 34.
The amendments require first-time application in financial years beginning on or after 1 January 2016.

The amendments described below have not yet been endorsed by the European Union:

IFRS 9 – Financial Instruments. The new version of IFRS issued in July 2014 replaces the current requirements contained in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 sets out the requirements for the classification and measurement of financial instruments, including a new model for expected credit losses for the purposes of determining the impairment of financial assets, as well as the new general requirements for hedge accounting. It also replaces the requirements for the recognition and derecognition of financial instruments contained in IAS 39.
IFRS 9 – subject to EU endorsement – is mandatory for the first time for annual periods beginning on or after 1 January 2018.

IFRS 15 – Revenue from Contracts with Customers. IFRS 15 sets out a comprehensive framework for the measurement and timing of recognition of revenue. It replaces the current requirements for revenue recognition, including those contained in IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.
IFRS 15 – subject to EU endorsement – is mandatory for the first time for annual periods beginning on or after 1 January 2018.

The new standard governing revenue recognition may have implications for the net assets and earnings performance of the QSC Group, especially in respect of the possibility of recognising revenues over time and of the recognition and measurement of contract acquisition costs. Pursuant to IFRS 15.35c, the prerequisite for the recognition of revenues over time is that such relate to the creation of customer-specific assets without any alternative use. Here, the QSC Group must at all times have the right to invoice work already performed in the event of termination by the customer. The QSC Group creates customer-specific assets without any alternative use. The review as to whether the QSC Group is legally entitled at all times to invoice the work performed to date has not yet been performed. Alongside general provisions of the German Civil Code (BGB), the individual contractual arrangements constitute the determining factor. Should the review performed for these project orders conclude that the requirements for recognition of the respective revenues over time are not met, then revenues of this nature would only be recognised in later periods. As a result, the respective project-based margin would only be recognised in subsequent periods.
As of the balance sheet date on 31 December 2015, QSC AG has recognised as yet incomplete project orders pursuant to IAS 11 with an order volume of € 2,933k to which this new requirement would apply. QSC AG also acquires orders by way of public tenders. Pursuant to IFRS 15.91, the contract costs incurred in the context of a public tender may partly require classification as assets. Pursuant to IFRS 15.93, the requirement for such classification is that such costs are only incurred for a contract thereby obtained and are not incurred regardless of such. This means that most of the internal costs thereby incurred may not be capitalised as assets. This is not expected to have any material implications.

Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture. The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture. Pursuant to IFRS 10, parent companies are required to recognise the full amount of any gain or loss generated from the sale of a subsidiary in their income statements upon the loss of control. By contrast, the currently applicable IAS 28.28 requires that a gain on sales transactions between an investor and an investment accounted for using the equity method – whether it be an associated company or a joint venture – is recognised only to the extent of the investor's interest in the associated company or joint venture. In future, the entire gain or loss arising from a transaction should only be recognised when the assets sold or contributed constitute a business operation pursuant to IFRS 3. This applies regardless of whether the transaction is structured as a share or asset deal. If the assets do not constitute a business operation, however, only prorated recognition of the gain is permissible.
The IASB has postponed the effective date of the amendments indefinitely.

Amendments to IFRS 10, IFRS 12 and IAS 28 – Investment Entities: Applying the Consolidation Exception. The amendments clarify various issues relating to applying the consolidation exception pursuant to IFRS 10, if the parent meets the definition of an "investment entity". Accordingly, parent entities are also exempt from preparing consolidated financial statements if the higher-level parent entity accounts for its subsidiaries at fair value in accordance with IFRS 10 rather than consolidating them. With regard to the accounting treatment of the subsidiaries of an investment entity, the following distinction is now made: consistent with the "investment entity exception", subsidiaries that are themselves investment entities must be recognised at fair value. By contrast, subsidiaries that are not themselves investment entities, but that perform services supporting the parent company's activities and are thus to be viewed as an extension of the parent company's activities, must be consolidated. Moreover, the amendments clarify that an investor that does not satisfy the definition of an investment entity and that applies the equity method to an associate company or a joint venture may retain the fair value measurement that the investment entity applies to its interests in subsidiaries. Finally, the amendments require any investment entity that measures all of its subsidiaries at fair value to provide the disclosures on investment entities called for by IFRS 12.
Subject to adoption into EU law, these amendments require first-time application in financial years beginning on or after 1 January 2016.

Income Statement Disclosures

6 NET REVENUES

Revenues are generated with resellers as well as with enduser customers. The resellers offer QSC's products and services to consumers under their own name and on their own account; in doing so, they serve as the interface to the consumer, thus also assuming the risk of bad debts. Revenues from construction contracts came to € 2,693k in the financial year under report (2014: € 2,960k). These did not result in any material losses. Revenues from hardware leases in the context of new multiple element arrangements amounted to € 1,849k in 2015 (2014: € 4,925k). A breakdown of revenues can be found in the Segment Report (cf. Note 38).

7 COST OF REVENUES

Cost of revenues include the cost of materials, the cost of building, operating and maintaining the network and the data centres, and non-cash share-based compensation under stock option plans for employees working in technology operations. It also includes depreciation and amortisation on hardware and software utilised in technology operations. Moreover, this item includes personnel expenses from the Outsourcing and Consulting lines of business. Of total research and development expenses of € 7,593k (2014: € 8,010k), an amount of € 333k was capitalised as development expenses in the 2015 financial year (2014: € 1,767k).
A settlement reached with Deutsche Telekom in Q4 2015 concerning the appropriateness of the level of charges for subscriber lines (local loops) led to a one-off reduction in cost of revenues. These local loop charges are generally a transitory item and thus a component both of revenues with resellers in the TC business and of cost of revenues. Alongside this reduction in cost of revenues, the settlement thus also led to a reduction in revenues, resulting in a positive impact on gross profit in a low single-digit million euro range.

€ 000s	2015	2014
Cost of materials	170,652	189,389
Building, operation and maintenance of the infrastructure	42,891	49,455
Depreciation and amortisation	44,985	43,080
Personnel expenses	78,748	88,225
Non-cash share-based compensation	322	294
Cost of revenues	**337,598**	**370,443**

8 SALES AND MARKETING EXPENSES

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

€ 000s	2015	2014
Personnel expenses	20,221	19,586
Commission payments	10,282	11,340
Other sales and marketing expenses	2,735	3,814
Allowance for bad debt and fair dealing payments	(125)	398
Advertising expenses	1,745	2,642
Depreciation and amortisation	2,141	1,635
Non-cash share-based compensation	97	64
Sales and Marketing expenses	**37,096**	**39,479**

9 GENERAL AND ADMINISTRATIVE EXPENSES

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

€ 000s	2015	2014
Other general and administrative expenses	16,001	16,602
Personnel expenses	16,158	15,745
Depreciation and amortisation	5,562	5,578
Non-cash share-based compensation	211	331
General and administrative expenses	**37,932**	**38,256**

10 OTHER OPERATING INCOME AND EXPENSES

€ 000s	2015	2014
Other operating income	556	482
Income from subsidised projects	106	619
Gains from disposal of fixed assets	20	3
Other operating income	**682**	**1,104**

€ 000s	2015	2014
Other operating expenses	1,640	237
Losses from disposal of fixed assets	13	78
Goodwill impairment	-	18,005
Other operating expenses	**1,653**	**18,320**

Other operating income comprises among others income of € 106k (2014: € 619k) from subsidised projects. This involves grants provided by the German Federal Ministry of Economics and Technology and the EU. Other operating expenses mainly relate to expenses of € 1,303k for dismantling decommissioned technical areas and land tax expenses of € 60k. In the 2014 financial year, a goodwill impairment of € 18,005k was recognised for the then Resellers segment. Further details can be found in Notes 15 and 16.

11 FINANCIAL RESULT

€ 000s	2015	2014
Financial income (Interest income)	**398**	**358**

€ 000s	2015	2014
Financial expenses (Interest expense)	**6,344**	**6,554**

Interest expense includes expenses of € 253k (2014: € 358k) relating to financing arrangements. Borrowing costs, which would have had to be attributed to qualifying assets, were not incurred. Net interest expense from pension provisions amounts to € 114k (2014: € 182k).

12 EARNINGS PER SHARE

When calculating diluted earnings per share, account only needs to be taken of convertible stock options resulting from the 2006 and 2012/2015 stock option plans. For these, it has been assumed that the options subscribed as of 31 December 2015 will also be converted if the respective conversion requirements are met.

Pursuant to the bond terms relevant to the 2006, 2012 and 2015 stock option plans, conversion is only possible when one of the following conditions is met: QSC's share price has outperformed the TecDAX comparative index in relative terms in the period between the convertible bond being subscribed and the conversion right being exercised, or the stock market price for QSC shares has risen by at least 20 percent (2012/2015 stock option plans) or 10 percent (2006 stock option plan) between the convertible bond being subscribed and the conversion right being exercised.

QSC shares closed at € 1.51 on 31 December 2015, while the TecDAX was listed at 1,830.74.

To calculate diluted earnings, it is initially assumed that the TecDAX outperformed QSC's share price. The second condition, i.e. whether the share price has increased by 10 percent or 20 percent, is therefore investigated.

For the 2006 stock option plan, account thus has to be taken of all options with conversion prices of € 1.37 (= € 1.51 : 1.1) or lower and which have not yet been converted. No options from the 2006 stock option plan met this condition as of 31 December 2015.

For the 2012 and 2015 stock option plans, account has to be taken of all options with conversion prices of € 1.26 (= € 1.51 : 1.2) or lower. No options from the 2012 and 2015 stock option plans met this condition as of 31 December 2015.

When calculating diluted earnings, account also has to be taken of the share-based payments still to be incurred through to conversion of the exercisable options. For the 2006 stock option plan, all share-based expenses have already been considered. For the 2012 and 2015 stock option plans, an average term of up to 4 years can still be expected. However, as no options require consideration as of the balance sheet date, there are also no additional share-based expenses.

When calculating diluted earnings, it is therefore not necessary to change either the numerator or the denominator.

	Basic earnings per share	Diluted earnings per share
Net income attributable to ordinary equity holders of the parent in € 000s	(15,354)	(15,534)
Weighted average number of issued shares	124,155,820	124,155,820
Earnings per share in €	**(0.12)**	**(0.12)**

13 PERSONNEL EXPENSES AND EMPLOYEES

€ 000s	2015	2014
Wages and salaries	99,422	108,041
Employer social security contributions (pension insurance)	7,540	8,408
Employer social security contributions (other)	7,652	7,000
Pension expenses	513	107
Non-cash share-based compensation	630	689
Personnel expenses	**115,757**	**124,245**

Wages and salaries include expenses for the termination of employment contracts totalling € 1,871k (2014: € 9,287k).
During the 2015 financial year, the consolidated group employed an average of 1,553 employees (2014: 1,692). The following table presents the employees' distribution by main corporate functions:

€ 000s	2015	2014
Sales and marketing	247	269
Technology operations, Consulting	1,152	1,251
Administration	141	155
Management Board and head office departments	13	17
Number of employees by corporate function (average values)	**1,553**	**1,692**

Balance Sheet Disclosures

14 PROPERTY, PLANT AND EQUIPMENT

€ 000s	Land and buildings	Network and technical equipment	Operational and office equipment	Total
Gross value at 1 January 2014	**29,958**	**365,618**	**54,856**	**450,432**
Additions	38	14,719	2,405	17,161
Disposals	-	(12,316)	(1,498)	(13,814)
Reclassifications	(65)	1	65	-
Changes in scope of consolidation	-	-	20	20
Gross value at 31 December 2014	**29,931**	**368,022**	**55,847**	**453,799**
Additions	82	16,158	1,413	17,653
Disposals	-	(3,840)	(254)	(4,094)
Reclassifications	-	(19)	19	-
Gross value at 31 December 2015	**30,012**	**380,322**	**57,024**	**467,358**
Accumulated depreciation and amortisation at 1 January 2014	**3,192**	**283,492**	**43,113**	**329,797**
Additions	841	32,101	2,369	35,312
Disposals	-	(11,905)	(1,498)	(13,403)
Reclassifications	(18)	-	18	-
Changes in scope of consolidation	-	-	9	9
Accumulated depreciation and amortisation at 31 December 2014	**4,015**	**303,689**	**44,011**	**351,715**
Additions	845	28,919	2,239	32,002
Disposals	-	(3,650)	(253)	(3,903)
Accumulated depreciation and amortisation at 31 December 2015	**4,860**	**328,957**	**45,997**	**379,814**
Carrying amounts at 31 December 2014	**25,915**	**64,333**	**11,836**	**102,084**
Carrying amounts at 31 December 2015	**25,152**	**51,365**	**11,027**	**87,544**

As of 31 December 2015, the carrying amount of plant and equipment, as well as of operational and office equipment held under finance lease arrangements totalled € 3,042k (2014: € 6,519k). The carrying amount is made up of € 2,777k for technical equipment and of € 265k for operational and office equipment.
Additions during the 2015 financial year amounted to € 17,653k (2014: € 17,161k). As of 31 December 2015, the "Network and technical equipment" line item included assets under construction amounting to € 3.051k (2014: € 784k), which stem primarily from expanding the data centres.
QSC presents depreciation and amortisation in the income statement under "Cost of revenues", "Sales and marketing expenses" and "General and administrative expenses", respectively.
Impairment losses of € 989k were recognised in the 2015 financial year. These resulted in a carrying amount of € 0k as the assets are no longer in use.
Liens have been granted on real estate as collateral for liabilities under loan agreements (cf. Note 28). Moreover, loans payable are secured by a mortgage lien provided to the lending bank for property, plant and equipment – furnishings and equipment – at a company's property.

15 GOODWILL

Like in the previous year, goodwill amounted to € 67,077k as of 31 December 2015.
In the previous year, an impairment test identified an impairment requirement of € 18,005k for the then cash-generating unit (CGU) Resellers (now Telecommunications). This was recognised under other operating expenses in the consolidated income statement. Further details can be found in Note 16.

16 IMPAIRMENT OF GOODWILL

Consistent with IFRS 8 requirements, the Company's internal organisational structure used by the management for business decisions and performance assessments has been referred to as the basis for delineating segments. As previously announced, QSC converted its segment reporting as of 1 January 2015. Unlike the distinction previously made between Direct Sales, Indirect Sales and Resellers, from the 2015 financial year the Company's segmentation has been aligned to its product structure. This has resulted in the segments of Telecommunications, Outsourcing, Consulting and Cloud. This breakdown by product enables the performance of the high-growth cloud market, which now constitutes its own segment, to be presented transparently. Furthermore, the separate reporting for Consulting and Outsourcing permits the performance and profitability of these two very different business fields to be presented distinctly. The fourth segment comprises QSC's Telecommunications business.
The groups of cash-generating units (CGUs) to which goodwill has been allocated correspond to the operating segments determined for the Group upon the introduction of the new segmentation scheme pursuant to IFRS 8.5. The operating segments represent the lowest level of reporting at the Group for which goodwill is systematically monitored.

Goodwill amounting to € 67,077k was reallocated on the basis of a relative value approach. The benchmark referred to was the value in use at the time of the restructuring. To this end, the budgeted income statement of QSC on which the impairment test performed as of 31 December 2014 was based was initially translated to the new segments. Subsequently, the corresponding values in use were determined by reference to the cash flow forecasts of segment-based units.

€ 000s	**2015**
Telecommunications	20,844
Outsourcing	10,622
Consulting	10,409
Cloud	25,202
Carrying amount of goodwill	**67,077**

QSC determines the recoverable amount of the CGUs as their value in use and refers here to the cash flow forecasts based on the Management Board's planning for the Company for a three-year period. This planning accounts for management expectations with respect to the future development of individual business units and takes into consideration both external market analyses and internal assumptions concerning the market opportunities for innovative applications in the ICT market.

The Telecommunications segment comprises the two areas of corporate customers and private customers. In the private customer business, regulation and the market-related decline in the low-margin Voice and ADSL2+ business has resulted in a further marked reduction in revenues. This contrasts with the stable level of revenues in the corporate customer business. Despite the decline in revenues in this segment in the detailed planning period, substantially lower structural expenses will lead to a particularly marked increase in EBIT and the EBIT margin. The sustainable growth rate (in perpetuity) amounts to 0 percent.

Revenues in the Outsourcing segment will show a particularly marked decline in the detailed planning period. Alongside market-driven price reductions, this will mainly result from customers being migrated to the new cloud platform. The associated loss of margin in absolute terms will be more than offset on the level of relative earnings contributions due to the cost-cutting programme launched in the 2015 financial year, thus also leading to a particularly marked increase in EBIT and the EBIT margin. Consistent with the expected development in revenues, the sustainable growth rate here too will amount to 0 percent.

The positive trend seen in Consulting segment revenues will continue. The high volume of new orders expected for subsequent years, which should be comparable with 2015, will lead to strong revenue growth in the years from 2016 to 2018. This revenue performance and the increasing deployment of internal rather than external staff will result in a significant increase in EBIT and the EBIT margin. The sustainable growth rate has been accounted for at 0.5 percent in the corporate planning.

The especially strong revenue growth in the Cloud segment, comparable with the development in revenues for innovative new product developments, is largely attributable to the new Pure Enterprise Cloud (PEC) platform. Of total revenues, around 60 percent is attributable to revenues expected from migrating existing Outsourcing customers. A further strong growth area involves activities at Q-loud, which offers services within the M2M communication business field. Consistent with the revenue forecast, EBIT and the EBIT margin will also show correspondingly strong growth. As revenue growth is also to be expected beyond 2018, the sustainable growth rate has been stated at 1.0 percent.

To discount the cash flows expected for the respective cash-generating units, the segment-specific weighted average costs of capital (WACC) were determined. Reference was made to data at peer group companies to derive the segment-specific beta factors. In the previous year, the segment-specific risk assessment was based both on the company's beta factor and on segment-specific risk premiums. The segment-specific pre-tax discount rates come to 9.58 percent for Telecommunications, 9.14 percent for Outsourcing, 9.56 percent for Consulting and 16.41 percent for Cloud.

The value in use of the respective CGUS is ahead of the carrying amount of the respective assets. The estimated recoverable amounts of the Telecommunication segment and Outsourcing segment cash-generating units exceed their carrying amounts by € 34,213k and € 40,228k respectively. The values in use of the Consulting and Cloud segments are € 36,580k and € 37,865k higher than their respective carrying amounts. There are therefore no goodwill impairment requirements at any segment.

The calculation of the CGUs' value in use is subject to forecasting uncertainties, particularly in respect of the development in prices and market shares, with these uncertainties requiring consideration when planning revenues and gross profit, as well as the capex ratio and discount rate. Various scenario analyses were performed for the impairment test. An impairment requirement would arise in the Telecommunications and Outsourcing segments if, all other factors being equal, revenues in the final planning year, and thus in perpetuity, were to fall 5.1 percent and 6.6 percent respectively short of the revenues assumed in the planning. The Consulting and Cloud segments would be subject to an impairment requirement if, all other factors being equal, their revenues in the final planning year, and thus in perpetuity, were to fall 9.8 percent and 11.3 percent respectively short of the planned revenues.

17 OTHER INTANGIBLE ASSETS

€ 000s	Licenses	Acquired software	Internally generated software	Customer connections	Customer bases	Brands	Other	Total
Gross value								
at 1 January 2014	**1,870**	**25,571**	**13,439**	**128,112**	**36,223**	**2,426**	**15,464**	**223,105**
Additions	98	2,976	2,238	7,468	-	-	100	12,879
Disposals	-	(33)	-	-	-	-	-	(33)
Changes in scope of consolidation	-	2,410	-	-	-	-	-	2,410
Gross value at 31 December 2014	**1,968**	**30,923**	**15,677**	**135,580**	**36,223**	**2,426**	**15,564**	**238,361**
Additions	91	1,081	343	6,595	-	-	307	8,417
Disposals	-	(6)	-	-	-	-	-	(6)
Gross value at 31 December 2015	**2,059**	**31,999**	**16,019**	**142,175**	**36,223**	**2,426**	**15,871**	**246,772**
Accumulated amortisation and depreciation at 1 January 2014	**1,176**	**18,085**	**6,524**	**121,246**	**6,581**	**2,426**	**14,258**	**170,295**
Additions	107	3,601	1,273	6,832	2,368	-	232	14,413
Disposals	-	(32)	-	-	-	-	-	(32)
Changes in scope of consolidation	-	1	-	-	-	-	-	1
Accumulated amortisation and depreciation at 31 December 2014	**1,283**	**21,655**	**7,797**	**128,077**	**8,949**	**2,426**	**14,490**	**184,677**
Additions	107	2,900	7,659	7,132	2,366	-	524	20,686
Disposals	-	(3)	-	-	-	-	-	(3)
Accumulated amortisation and depreciation at 31 December 2015	**1,390**	**24,552**	**15,456**	**135,209**	**11,315**	**2,426**	**15,013**	**205,361**
Carrying amounts at 31 December 2014	**686**	**9,268**	**7,879**	**7,503**	**27,274**	**-**	**1,074**	**53,684**
Carrying amounts at 31 December 2015	**669**	**7,447**	**564**	**6,966**	**24,908**	**-**	**858**	**41,411**

Impairment losses of € 5,117k were recognised in the 2015 financial year. These resulted in a carrying amount of € 0k as the respective assets are no longer expected to be used. The useful life of capitalised development expenses (internally generated software) amounts to three to five years. The capitalized expenses are subject to straight-line amortisation over this period. In its income statement, QSC recognises depreciation and amortisation under cost of revenues, sales and marketing expenses and general and administrative expenses respectively.

18 TRADE RECEIVABLES

€ 000s	2015	2014
Trade receivables		
Long-term trade receivables	4,583	7,761
Short-term trade receivables	48,704	52,145
Trade receivables	**53,287**	**59,906**

The long-term trade receivables are attributable to the accounting treatment of leasing receivables within the context of multiple element arrangements. The receivables presented are not subject to any major restrictions on ownership or availability. The carrying amounts correspond to the fair values.
Full amortisation contacts without a purchase option having an average rental term of from 36 to 48 months are typically entered into. Following the expiration of the base rental period, the consolidated group has the option of extending the contract or selling the leased items, for which no purchase option was granted, within the framework of exploitation of the residual value. No residual values are guaranteed.
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 of € 102k for these contracts have been deducted (2014: € 2,085k). During the year under review (as in the previous year), no write-downs were recognised with regard to the valuation of long-term construction contracts. Receivables from construction contracts amounting to € 975k (2014: € 875k) have been recognised under trade receivables.
Short-term trade receivables are non-interest-bearing and generally have maturities of 30 to 90 days. Allowances are recognised in the full amount of all receivables that are more than 90 days overdue, with the exception of receivables from the project business. These are considered on an individual case basis, i.e. all receivables more than 180 days overdue are individually tested for impairment.

As of 31 December 2015, trade receivables amounting to € 3,434k were impaired (2014: € 4,353k). The individual allowances schedule developed as follows:

€ 000s	2015	2014
Allowance at 1 January	**4,353**	**5,342**
Charge for the year	187	1,388
Utilised	(998)	(241)
Unused amounts reversed	(108)	(2,136)
Allowance at 31 December	**3,434**	**4,353**

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

€ 000s	2015	2014
Gross total		
Impaired	4,085	5,180
Neither past due nor impaired	45,519	50,028
Past due but not impaired		
< 90 days	7,031	9,079
91 – 120 days	85	38
> 120 days	-	760
Gross total	**56,721**	**65,085**

Within the framework of a factoring agreement with NORD/LB Luxembourg S.A. Covered Bond Bank, QSC regularly sells certain short-term trade receivables with a total volume of up to € 18.5 million to the bank. As of the balance sheet date, trade receivables with a nominal amount of € 13.5 million had been transferred (2014: € 18.5 million).
The nominal amount corresponds to the fair value of the receivables thereby transferred. Apart from retained default risk of € 370k, the receivables thereby transferred have been retired.

19 PREPAYMENTS

The long-term prepayments of € 3,608k (2014: € 2,641k) and short-term prepayments of € 3,712k (2014: € 6,493k) chiefly consist of prepayments for leased lines and technology premises, insurance and maintenance agreements.

20 INVENTORIES

Inventories totalled € 884k as of 31 December 2015 (2014: € 1,278k) and comprised merchandise held in stock amounting to € 860k (2014: € 1,251k) and consumables of € 24k (2014: € 27k).

21 OTHER SHORT-TERM FINANCIAL ASSETS

Other short-term financial assets amount to € 6,521k (2014: € 1,855k) and mainly comprise a refund claim of € 5,072k (2014: € 0k). Furthermore, this line item also includes collateral of € 370k that is subject to restrictions on disposability due to the sale of the respective receivables (2014: € 370k).

22 AVAILABLE-FOR-SALE FINANCIAL ASSETS

The shares in a money market fund allocated to the "available-for-sale financial assets" balance sheet line item in the previous year and whose fair value was based on published market data were sold in full in the 2015 financial year.

23 CASH AND CASH EQUIVALENTS

Cash and cash equivalents amount to € 73,982k (2014: € 87,803k) and consist of cash at banks and on hand.

24 ISSUED CAPITAL

Each share of stock entitles the registered owner to cast one vote at the Annual Shareholders Meeting and enjoys full dividend entitlement. The voting right is not subject to any restrictions. All issued shares have been fully paid-in.

Issued capital at the Company amounted to € 124,142,487 as of 1 January 2015 and comprised 124,142,487 no-par shares. Conversion rights relating to stock option plans were exercised in the financial year under report, with 20,000 convertible bonds being converted into shares as a result. The changes in ordinary shares and issued capital are as follows:

	Ordinary no-par shares	€
Balance at 1 January 2015	**124,142,487**	**124,142,487**
Addition due to issue of ordinary no-par shares	20,000	20,000
Balance at 31 December 2015	**124,162,487**	**124,162,487**

A dividend of € 0.10 per share with dividend entitlement was distributed in the year under report (€ 12,416k).

25 CAPITAL SURPLUS

Capital surplus amounted to € 142,702k as of 31 December 2015 (2014: € 142,069k). This amount also includes the deferred share-based compensation for the stock option plan. The year-on-year change is due on the one hand to non-cash share-based compensation of € 630k and on the other to the exercising of convertible bonds of € 3k.

26 AUTHORISED AND CONDITIONAL CAPITAL

Authorised capital. The Management Board is authorised by resolution of the Annual Shareholders' Meeting on 27 May 2015, subject to approval by the Supervisory Board, to increase the Company's issued capital by up to a total of € 50,000,000.00 on one or several occasions up to 26 May 2020 by issuing new no-par registered shares in return for contributions in cash and/or kind (Authorised Capital). When drawing on authorised capital, the Management Board may, subject to approval by the Supervisory Board, exclude shareholder' subscription rights in four cases: (1) to exclude residual amounts from shareholders' subscription rights; (2) when the new shares are issued in return for contributions in kind, particularly in the context of company acquisitions; (3) if, pursuant to § 186 (3) Sentence 4 of the German Stock Corporation Act (AktG),

the new shares are issued in return for cash contributions and if, at the time of final stipulation, the issue price does not fall materially short of the stock market price of the shares already listed; and (4) to the extent necessary to issue subscription rights for new shares to the bearers or creditors of warrant and/or convertible bonds in order to avoid dilution of their respective holdings.

Conditional capital. The Management Board is authorised by resolution of the Annual Shareholders' Meeting on 27 May 2015, subject to approval by the Supervisory Board, to issue registered and/or bearer warrant and/or convertible bonds with a total nominal amount of up to € 150,000.000.00 with or without restrictions on their respective terms on one or several occasions up to 26 May 2020 and to grant warrant rights (potentially also with an obligation to exercise such) to the bearers and/or creditors of warrant bonds and/or conversion rights (potentially also with an obligation to exercise such) to the bearers and/or creditors of convertible bonds in respect of shares in the Company that account for a combined total of up to € 40,000,000.00 of issued capital. The conditional capital increase of up to € 25,000,000.00 (Conditional Capital IV) resolved by the Annual Shareholders' Meeting on 20 May 2010 has been rescinded; issued capital is rather conditionally increased by up to a total of € 40,000,000.00 by issuing up to 40,000,000 new no-par registered shares (Conditional Capital IV). The conditional capital increase serves to grant and/or impose warrant and/or conversion rights and/or obligations to/on the bearers and/or creditors of warrant and/or convertible bonds issued and/or guaranteed up to 26 May 2020 on the basis of the authorisation resolved by the Annual Shareholders' Meeting on 27 May 2015.
QSC's Annual Shareholders' Meeting on 27 May 2015 approved the 2015 Stock Option Plan (2015 SOP) that provides, subject to approval by the Supervisory Board, for the issue of up to 750,000 convertible bonds with a nominal amount of € 0.01 each. The subscription period ends at the latest on 26 May 2020. The convertible bonds have a term of up to 8 years following subscription. Conversion rights may only be exercised at the earliest after the expiry of 4-year waiting period following subscription and only if at least one of the following two conditions is met: the share price must be at least 20 percent higher than the conversion price or the shares must have outperformed the TecDAX on a relative basis.

27 OTHER RESERVES

Other reserves include actuarial gains and losses on defined benefit pension plans and losses resulting from changes in the fair values of long-term financial liabilities. The development in this item in the 2015 and 2014 financial years is presented in the consolidated statement of changes in equity and under OCI in the consolidated statement of comprehensive income.

Other reserves were structured as follows as of 31 December:

€ 000s	2015	2014
Other reserves		
Change in fair value of available-for-sale assets	-	(1)
Actuarial gains and losses on pension plans	(1,420)	(1,590)
Change in fair value of cash flow hedge	(1,576)	(1,475)
Other reserves	**(2,996)**	**(3,066)**

The values are stated in each case after deferred taxes.

28 INTEREST-BEARING LIABILITIES

€ 000s	Effective interest rate in % in 2015	Due date	2015	2014
Short-term liabilities				
Under financing and finance				
lease arrangements	3.46	2016	2,761	4,427
Due to banks	4.31	2016	2,140	4,518
Short-term liabilities			**4,901**	**8,945**
Long-term liabilities				
From convertible bonds	3.50	From 2019	27	25
Due to banks	2.49	2017 – 2021	155,830	156,550
Fixed rate (€ 67,901k)	2.77			
Floating rate (€ 87,929k)	2.26			
Under financing and finance				
lease arrangements	6.16	2017 – 2019	1,722	4,447
Long-term liabilities			**157,579**	**161,022**
Interest-bearing liabilities			**162,480**	**169,967**

Short-term interest-bearing liabilities. Short-term liabilities under financing and finance lease arrangements and to banks consist of fixed repayment obligations through to the end of 2016.

Long-term interest-bearing liabilities. As of 31 December 2015, 2,679,712 convertible bonds were outstanding in connection with the stock option plans. The convertible bonds have a nominal value of € 0.01 each. Further details can be found in Note 39.
Of long-term liabilities due to banks as of the balance sheet date, an amount of € 150,000k involves liabilities from five tranches of a promissory note loan taken up in May 2014. The terms of the individual tranches have been presented in the table below. Alongside the promissory note loan, QSC has further long-term loans of € 5,830k due to banks.

	Nominal amount € 000s	Term	Interest rate
Variable-interest tranches			
Tranche 1	56,500	5 years	6-month Euribor + 1.4 %
Tranche 2	20,000	5 years	3-month Euribor + 1.2 %
Tranche 3	11,000	7 years	6-month Euribor + 1.8 %
Variable-interest tranches	**87,500**		
Fixed-interest tranches			
Tranche 4	38,500	5 years	2.29 %
Tranche 5	24,000	7 years	3.05 %
Fixed-interest tranches	**62,500**		

To hedge the cash flow risk involved in the variable-interest tranches of the promissory note loan, which amount to € 87,500k, QSC has concluded three interest swaps. Of these, € 76,500k has a term running until 20 May 2019 and € 11,000k have a term running until 20 May 2021. The interest swaps meet IAS39 hedge accounting requirements (cash flow hedges). In respect of their terms and variable interest rates, the interest swaps are congruent with the tranches of the promissory note loan thereby hedged. The underlying effectiveness assessment is performed as of each balance sheet date using the hypothetical derivative method.
The negative fair value of the interest swaps amounted to € 2,414k as of the balance sheet date (2014: € 2,262k) and has been recognised under other long-term financial liabilities (Note 33). The fair value measurement of the interest swaps was performed by the intermediary bank. This is derived either from the mid-market price or, when expressed as a bid and asked price, from the indicative price at which the bank would have terminated and concluded or bought back and sold the financial instrument on the relevant marketplace at the close of business on the respective measurement date.

In the 2015 financial year, an amount of € 149k (2014: € 2,180k) has been recognised under OCI in the consolidated statement of comprehensive income for the change in the value of the interest swap before deferred taxes.

No amounts were recognised for hedge ineffectiveness in the income statement in the period under report. The payments expected for the hedge include interest payments for the hedged item and the hedging relationship. These are incurred on an ongoing basis over the term and recognised under interest expenses.

Including the interest swap hedging, which is to be classified as effective, the variable-rate tranches of the promissory note loan have an effective interest rate corresponding to that of a fixed-interest instrument with an interest rate of 2.26 percent. For the variable-rate tranches, this corresponds to an annual interest payment of € 1,978k through to initial maturity in 2019 and subsequently of € 249k through to maturity in 2021.

Furthermore, QSC had committed credit lines from the syndicated loan agreement concluded in September 2011. The borrowers here are QSC, Ventelo and Plusnet. This revolving credit facility has an amount of € 120,000k and a term running until 16 September 2016. As in the previous year, no loan amounts had been drawn down as of 31 December 2015. The current interest rate amounts to Euribor plus an average of 2.5 percentage points. The margin may change depending on the Company's financial and earnings position.

The loan amounts drawn down are used for general working capital financing. Drawdowns of loan amounts are dependent on QSC complying with specified key financial ratios ("financial covenants") during the term of the credit facility. The financial covenants refer to the development in shareholders' equity and to the Company's debt servicing capacity. The agreed financial covenants were complied with in the 2015 financial year.

Loans payable are secured by a mortgage lien of € 23,000k on land in Hamburg. Additional collateral has also been provided to the lending bank in the form of a storage assignment of assets. Further loans payable at the level of QSC are secured by a mortgage lien of € 2,300k on a plant site. In addition, all entitlements to receive rent and lease income under the general subcontract agreement with a customer have also been assigned as collateral.

Long-term liabilities under financing arrangements comprise an annuity loan, in particular, that is utilised to finance buildings and data centres. Long-term liabilities under financing arrangements consist of fixed payment obligations for the period 2016 through 2019.

29 ACCRUED PENSIONS

QSC operates defined benefit pension plans, which are partially secured through reinsurance and classified as plan assets in accordance with IAS 19.

Pension provisions cover the obligations resulting from pension commitments made to one member of the Supervisory Board during his previous activity as a member of QSC's Management Board and to two former Management Board members at the former INFO AG, as well as obligations resulting from pension commitments made to parts of QSC's and Ventelo's workforces in previous years.

The pension entitlements relate to defined benefits which depend primarily of the period of service with the company and the relevant level of salary. These defined benefit plans expose the consolidated group to various actuarial risks, including longevity and interest rate risks. The pension provision for defined benefit plans is measured using the projected unit credit method in accordance with the requirements of IAS 19 and takes future developments into account. Assumptions are based on the 2005 G biometric tables issued by Prof. Dr. Klaus Heubeck. QSC recognises all actuarial gains and losses directly through OCI. In the 2015 financial year, the cumulative amount of all actuarial gains and losses as presented in the consolidated statement of directly recognised income and expenses was € 2,092k (2014: € 2,343k).

€ 000s	2015	2014
Present value of defined benefit obligation at 1 January	**8,439**	**7,874**
Service costs	6	24
Interest costs	140	223
Actuarial losses (gains)	(288)	561
Due to changes in financial assumptions	(310)	713
Due to experience adjustments	22	(152)
Benefits paid	(252)	(243)
Present value of defined benefit obligation at 31 December	**8,044**	**8,439**
Fair value of plan assets at 1 January	**(1,158)**	**(1,109)**
Interest income	(26)	(40)
Income from plan assets, exclusive of amounts contained		
in net interest expense and income	37	52
Payment from fund assets	-	151
Transfer	-	(5)
Employer contributions to plan assets	(204)	(207)
Fair value of plan assets at 31 December	**(1,351)**	**(1,159)**
Accrued pensions at 31 December	**6,693**	**7,280**
Discount factor based on 15-year term	2.09 %	1.53 – 2.05 %
Rate of compensation increase	2.00 %	2.28 %
Rate of pension indexation	2.00 %	1.78 – 2.00 %

Total actuarial losses after taxes amounted to € 170k (2014: € 415k). Actuarial gains and losses as well as income from plan assets (excluding amounts reported in net interest income/expense) are recognised through OCI.
Expenses and income recognised in the income statement relating to defined benefit plans comprise the following:

€ 000s	2015	2014
Pension costs		
Service costs	6	24
Interest costs	140	223
Expected return on plan assets	(26)	(40)
Pension costs	**120**	**207**

Pension payments amounting to € 258k and funding contributions to plan assets amounting to € 205k are expected in 2016.
If the assumptions used to measure pension obligations at the end of the reporting period (as described above) were changed individually by half a percentage point, pension obligations would increase/decrease as follows:

€ 000s	Change in pension obligations	Pension obligations
Change in interest rate +0.5 %	(595)	7,450
Change in interest rate - 0.5 %	673	8,717

30 TRADE PAYABLES

All trade payables have terms of less than one year.

31 PROVISIONS

€ 000s	2015	2014
Long-term provisions at 1 January	**305**	**370**
Reclassification to short-term provisions	-	(40)
Additions	1,338	20
Utilised	-	(45)
Long-term provisions at 31 December	**1,642**	**305**

The long-term provisions relate primarily to leasehold improvement obligations amounting to € 1,585k (2014: € 250k). The change solely results from an addition due to amendment assessments. The leasehold improvement obligations are typically incurred at the end of the rental period.

€ 000s	2015	2014
Other provisions at 1 January	**1,165**	**1,169**
Reclassification from long-term provisions	-	(40)
Addition from changes in scope of consolidation	-	174
Additions	4,664	867
Utilised	(905)	(1,005)
Unused amounts reversed	(15)	-
Other provisions at 31 December	**4,909**	**1,165**
Restructuring provisions at 1 January	**8,282**	**-**
Additions	981	8,282
Utilised	(5,518)	-
Unused amounts reversed	(316)	-
Restructuring provisions at 31 December	**3,429**	**8,282**
Provisions for risks of legal disputes at 1 January	**1,436**	**1,486**
Addition from changes in scope of consolidation	-	13
Additions	1	57
Utilised	(1,357)	(90)
Unused amounts reversed	(50)	(30)
Provisions for risks of legal disputes at 31 December	**30**	**1,436**
Other short-term provisions at 31 December	**8,368**	**10,883**

Other short-term provisions include customer repayment claims of € 2,836k added in the 2015 financial year (2014: € 0k) and dismantling obligations of € 1,303k added due to amended assessments (2014: € 0).

€ 000s	2015	2014
Tax provisions at 1 January	**1,757**	**3,068**
Additions	326	-
Utilised	(1,628)	(1,074)
Unused amounts reversed	(74)	(237)
Tax provisions at 31 December	**381**	**1,757**

Tax provisions include trade tax provisions amounting to € 326k and corporate income tax provisions amounting to € 55k.

32 DEFERRED INCOME

QSC defers non-recurring income from the installation of customer lines on a periodic and pro rata basis over a contract term of 24 months. Advance payments from customers are also deferred up to the date the service is provided.

33 OTHER LONG-TERM FINANCIAL LIABILITIES

Other long-term financial liabilities amounted to € 3,879k as of 31 December 2015 (2014: € 9,209k). These chiefly relate to the negative fair value of derivative interest hedges (cf. Note 28) at € 2,414k (2014: € 2,262k) and the fair value of € 1,095k (2014: € 5,802k) in connection with the put options granted upon the acquisition of shares in FTAPI Software GmbH (hereinafter "FTAPI"). Upon the acquisition of a majority interest in FTAPI, agreements were reached with the minority shareholders under which QSC is entitled to acquire the remaining shares in FTAPI under a defined price formula during defined exercise periods in the years 2017 to 2019 (purchase option). Conversely, the remaining shareholders are entitled to offer their shares in FTAPI to QSC for purchase under a defined price formula during the same exercise periods (sell option). Consistent with the requirements of IAS 32.23, a financial liability of € 5,616k was stated upon initial recognition to account for QSC's obligation in connection with the sell option held by the remaining shareholders. The fair value of the expected exercise price for the sell option was used as the basis for calculating the financial liability (Level 3 as per IFRS 13.81), with application upon acquisition of a risk and maturity-congruent interest rate of 4.28 percent. The purchase price

for the remaining shares is dependent on FTAPI's economic performance during the option exercise period. In its planning, QSC assumes that the put options will be drawn on in 2019. As of the balance sheet date, the put options have been measured by reference to the contractually agreed variable purchase price.
As of the balance sheet date on 31 December 2015, the purchase options were revalued using an interest rate of 5 percent. The € 4,707k decrease in fair value resulting from this revaluation has been recognised directly in consolidated equity.
A similar arrangement was also agreed with the minority shareholder in fonial GmbH, but the purchase option in this case amounted to € 1 as of 31 December 2015. The fair value reduction of € 900k resulting from remeasurement has been recognised directly in group shareholders' equity.

34 OTHER SHORT-TERM LIABILITIES

All other short-term liabilities have terms of less than one year and mainly relate to obligations in connection with employment contracts, including claims to variable compensation, vacation entitlement and payroll and church tax liabilities.

Cash Flow Statement Disclosures

35 CASH FLOW FROM OPERATING ACTIVITIES

The cash flow from operating activities amounted to € 39,640k in the 2015 financial year and was thus € 34,766k ahead of the previous year's figure of € 4,874k. This increase was chiefly due to earnings before taxes, which rose by € 23,039k.

36 CASH FLOWS FROM INVESTING AND FINANCING ACTIVITIES

The cash flow from investing activities amounted to € -27,395k in the 2015 financial year (2014: € -30,310k). Of this total, € -18,367k related to the acquisition of property, plant and equipment (2014: € -11,165k) and € -9,055k to the acquisition of intangible assets (2014: € -15,529k).
The cash flow from financing activities amounted to € -26,066k in the 2015 financial year (2014: € 54,523k). This development was primarily attributable to the dividend distribution of € -12,416k resolved by the Annual Shareholders' Meeting, interest paid of € -5,815k (2014: € -2,951k), the repayment of liabilities of € -4,391k for financing and finance lease arrangements (2014: € -5,490k) and loan repayments of € -3,099k (2014: € -74,497k).

Other Disclosures

37 SUBSIDIARIES

The consolidated financial statements of QSC include the following equity investments:

€ 000s	Shareholdings in %	Shareholders' equity at 31 Dec. 2015	Result for the year 2015
Subsidiaries			
(disclosures pursuant to the German Commercial Code [HGB])			
Ventelo GmbH ("Ventelo"), Cologne	100.00	169,738	(5,599) [1]
Plusnet GmbH & Co. KG ("Plusnet"), Cologne	100.00	4,507	- [2]
BroadNet Deutschland GmbH			
("BroadNet Deutschland"), Cologne	100.00	3,593	91 [4]
IP Colocation GmbH ("IP Colocation"), Nuremberg	100.00	2,055	186
Q-DSL home GmbH ("DSL home"), Cologne	100.00	1,293	(6) [1]
010090 GmbH ("010090"), Cologne	100.00	156	412 [1]
T&Q Netzbetriebs GmbH & Co. KG ("T&Q"), Cologne	100.00	288	99
T&Q Verwaltungs GmbH ("T&Q Verwaltung"), Cologne	100.00	36	2
01012 Telecom GmbH ("01012"), Cologne	100.00	27	23 [1]
F&Q Netzbetriebs GmbH & Co. KG ("F&Q"), Cologne	100.00	344	(12)
Broadnet Services GmbH ("Broadnet Services"), Cologne	100.00	25	2,926 [1]
01098 Telecom GmbH ("01098"), Cologne	100.00	25	24 [1]
010052 Telecom GmbH ("010052"), Cologne	100.00	25	25 [1]
010088 Telecom GmbH ("010088"), Cologne	100.00	25	18 [1]
01052 Communication GmbH ("01052"), Cologne	100.00	25	24 [1]
Q-loud GmbH ("Q-loud"), Cologne	100.00	25	(71) [1]
tengo GmbH ("tengo"), Cologne	100.00	25	(91) [1]
Broadnet NGN GmbH ("Broadnet NGN"), Cologne	100.00	25	(36) [1]
F&Q Netzbetriebs Verwaltungs GmbH			
("F&Q Verwaltung"), Cologne	100.00	27	-
Plusnet Verwaltungs GmbH			
("Plusnet Verwaltung"), Cologne	100.00	25	1 [3]
fonial GmbH, ("fonial"), Cologne	74.90	(439)	(486) [5]
FTAPI Software GmbH, ("FTAPI"), Munich	50.93	(2,815)	(2,101) [5]

[1] Annual result before profit and loss takeover agreement.
[2] Shares held by Ventelo GmbH.
[3] Shares held by Plusnet GmbH & Co. KG.
[4] Profit transfer agreement not executed due to § 301 AktG.
[5] Share disclosed here relates solely to legal level of shareholding.
Recognition based on anticipated acquisition method.

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

38 SEGMENT REPORTING

In accordance with the provisions of IFRS 8, the basis for identification of the segments consists of the Company's internal organisational structure, which is used by corporate management as the basis for business administration decisions and performance assessments. As previously announced, QSC amended its segment reporting as of 1 January 2015. Since the 2015 financial year, the previous segments of Direct Sales, Indirect Sales and Resellers have been superseded by segmentation based on product structures. This has resulted in the following segments: Telecommunications, Outsourcing, Consulting and Cloud. This breakdown by product facilitates transparent presentation of the company's performance in the high-growth Cloud market, which is now reported as a standalone segment. Furthermore, reporting Consulting and Outsourcing separately enables the performance and profitability of these two very different fields to be presented in greater detail. The fourth segment comprises QSC's Telecommunications business. The new segmentation is based on the Company's internal management structure. The products and services offered in the four segments are presented below.

Telecommunications. This segment comprises all voice and data communication products. The products on offer include asymmetric ADSL2+ lines, symmetric SDSL lines and premium internet access via wireless local loop (WLL) networks.
Many customers also use their internet connections for voice telephony. QSC offers IP telephony connections (Voice over IP) and the appropriate telephone systems. Furthermore, the range of services also includes further forms of voice telephony, including open call-by-call and preselect offerings and value added services.

Outsourcing. QSC offers its customers a full range of outsourcing services and concentrates here on services surrounding its own data centres within Germany. The key focus is on outsourcing infrastructure. Here, QSC assumes all IT operations and ensures a smooth and trouble-free service. The range of services includes operation of servers, appropriate firewall and security services, as well as their integration within secure and fast networking solutions. Moreover, QSC offers a broad portfolio of data centre services, from providing infrastructure in the form of housing and hosting through to building and operating proprietary data centres for customers.

QSC's virtual private networks (VPNs) ensure that data can be securely exchanged among data centres, company outlets and branches, as well as with teleworkers, field staff, partners and suppliers. In addition, the Company also maintains a service desk to support users, as well as an SAP and Microsoft application service. Here, QSC employees maintain customers' systems and work consistently on developing them further. If so desired, QSC can also assume IT operations management and thus responsibility for secure operations independently of infrastructure outsourcing. This may also involve operating the relevant SAP or Microsoft environment, database management systems, collaboration services and/or platforms for mobile devices.

Consulting. QSC has longstanding experience in advising companies on how to optimise their business processes with two key focuses on SAP and Microsoft. As well as applications development and SAP system customisation, the project work performed in the SAP environment also includes optimising key business processes and reporting.
For Microsoft applications and technologies, the focus is on implementing cloud services with the assistance of Microsoft Private Cloud solutions and the use of communication and collaboration solutions. In general, Consulting is set to play a key role in migrating customers' ICT into the cloud age.

Cloud. Customers in this segment are offered both standardised and individual IT applications on a cloud basis. The portfolio includes desktops, telephony, client and mobility management, SAP applications and further sector-specific applications and solutions.
Moreover, QSC also focuses on solutions that smartly network machines and appliances. Under its Q-loud brand, QSC pools all activities relating to networking machines and appliances in the "Internet of Things" (IoT). With SOLUCON, the company's internally developed IoT platform, customers can securely implement control and maintenance functionalities for machines and energy systems.

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

€ 000s	Telecom-munications	Outsourcing	Consulting	Cloud	Consolidated Group
2015 financial year					
Net revenues	**218,670**	**138,455**	**37,983**	**7,328**	**402,436**
Cost of revenues	(155,922)	(97,451)	(30,714)	(8,205)	(292,292)
Gross profit (loss)	**62,748**	**41,004**	**7,269**	**(877)**	**110,144**
Sales and marketing expenses	(17,727)	(10,907)	(1,657)	(4,568)	(34,859)
Segment contribution	**45,021**	**30,097**	**5,612**	**(5,445)**	**75,285**
General and administrative expenses					(32,158)
Depreciation/amortisation (including					
non-cash share-based compensation)					(53,317)
Other operating income					(971)
Operating loss (EBIT)					**(11,161)**
Financial income					398
Financial expenses					(6,344)
Net income (loss) before income tax					**(17,107)**
Income tax					1,753
Net income (loss)					**(15,354)**

€ 000s	Telecom-munications	Outsourcing	Consulting	Cloud	Consolidated Group
2014 financial year					
Net revenues	**235,789**	**156,540**	**35,178**	**3,937**	**431,444**
Cost of revenues	(169,285)	(121,996)	(28,337)	(7,451)	(327,069)
Gross profit (loss)	**66,504**	**34,544**	**6,841**	**(3,514)**	**104,375**
Sales and marketing expenses	(19,334)	(13,661)	(2,064)	(2,721)	(37,780)
Segment contribution	**47,170**	**20,883**	**4,777**	**(6,235)**	**66,595**
General and administrative expenses					(32,348)
Depreciation/amortisation (including					
non-cash share-based compensation)					(68,986)
Other operating income					789
Operating loss (EBIT)					**(33,950)**
Financial income					358
Financial expenses					(6,554)
Net income (loss) before income tax					**(40,146)**
Income tax					6,231
Net income (loss)					**(33,915)**

Revenues include € 7,182k generated with non-German EU customers and € 714k with non-EU customers; all other revenues were generated in Germany.

39 STOCK OPTION PLANS

Since 1999, QSC has incepted a total of eight stock option plans providing for the issue of convertible bonds with a nominal amount of € 0.01 each to employees, Management Board members, advisors and suppliers. Convertible bonds are allocated by the Management Board, which requires the consent of the Supervisory Board for allocations to advisors and suppliers. The Supervisory Board alone decides on allocations to members of the Management Board of QSC AG. Participants in these plans are entitled to subscribe convertible bonds in return for payment of the nominal amount of € 0.01 and to convert each convertible bond into a no-par registered share in return for payment of the exercise price. The exercise price for the convertible bond corresponds to the stock market price of the share on the issue date. The convertible bonds have an eight-year term and are subject to a four-year lockup period following subscription. As of the balance sheet date on 31 December 2015, the 2006 SOP, 2012 SOP and 2015 SOP plans were active. Convertible bonds outstanding within the 2006 SOP plan may only be converted until May 2019 at the latest. The conversion right provided for by the 2006 SOP plan may only be exercised if at least one of the following conditions is met: the stock market price of the share has outperformed the comparative TecDAX index in relative terms between subscription of the convertible bond and exercising of the conversion right or the stock market price of the share has risen by at least 10 percent between subscription of the convertible bond and exercising of the conversion right.
The conversion right provided for by the 2012 SOP plan may only be exercised at the earliest after the expiry of a 4-year waiting period and only if at least one of the following two conditions is met: the share price is at least 20 percent higher than the conversion price or the share has outperformed the TecDAX in relative terms since the subscription date.
The Annual Shareholders' Meeting of QSC AG on 27 May 2015 approved the 2015 Stock Option Plan (2015 SOP), which provides for the Supervisory Board issuing up to 750,000 convertible bonds with a nominal amount of € 0.01 each to members of the Management Board of QSC AG. Management Board members are entitled to subscribe convertible bonds provided that they are in non-terminated, active employment at the Company at the time of subscription. The subscription period expires at the latest on 26 May 2020; the convertible bonds have a maximum term of eight years from subscription. The conversion right provided for by the 2015 SOP plan may only be exercised at the earliest following the expiry of a 4-year waiting period and only if at least one of the following two conditions is met: the share price is at least 20 percent higher than the conversion price or the share has outperformed the TecDAX in relative terms since the subscription date.

The option values for the convertible bonds issued under the 2012 SOP and 2015 SOP plans were determined at the time of being granted using the Black-Scholes option pricing model and using the following assumptions:

	2015	2014
2006 SOP		
Expected average term of the 2006 SOP	-	8 years
Average risk-free interest rate	-	0.27 %
Volatility (1 year)	-	46.62 %
Average fair value of options in €	-	-
Fair value of convertible bonds granted for the year in €	-	-

	2015	2014
2012 SOP		
Expected average term of the 2012 SOP	8 years	8 years
Average risk-free interest rate	0.28 %	0.27 %
Volatility (1 year)	50.06 %	46.62 %
Average fair value of options in €	0.95	1.19
Fair value of convertible bonds granted for the year in €	265,050	960,374

	2015	2014
2015 SOP		
Expected average term of the 2015 SOP	8 years	-
Average risk-free interest rate	0.30 %	-
Volatility (1 year)	51.40 %	-
Average fair value of options in €	0.92	-
Fair value of convertible bonds granted for the year in €	92,041	-

Volatility was determined on the basis of daily closing prices over a historical period of twelve months.

The distribution of the convertible bonds outstanding under all plans as of 31 December 2014 and 31 December 2015 is as follows:

	Number of convertible bonds	Weighted average exercise price in €
Outstanding at 31 December 2013	**1,896,803**	**2.88**
Granted in 2014	766,800	2.40
Forfeited in 2014	(63,891)	4.44
Exercised in 2014	(85,000)	2.10
Outstanding at 31 December 2014	**2,514,712**	**2.72**
Granted in 2015	379,000	1.80
Forfeited in 2015	(214,000)	3.34
Exercised in 2015	-	-
Outstanding at 31 December 2015	**2,679,712**	**2.54**

In the 2015 financial year, convertible bonds were only subscribed in connection with the 2012 and 2015 stock option plans.
The exercise prices of the remaining 2,676,812 convertible bonds outstanding range from € 1.07 to € 5.00, while the remaining term for exercising ranges from directly exercisable through to 25 August 2023 at the latest. The exercise price is set upon subscription and cannot be changed subsequently. Depending on the development in its share price, the Company expects the outstanding convertible bonds to be converted at the latest by 2023.
As of the balance sheet date, 636,812 of the outstanding convertible bonds were directly exercisable; the remaining convertible bonds were subject to the agreed lockup periods. In the financial year under report, expenses of € 630k were incurred for non-cash, share-based compensation (2014: € 689k).

40 RELATED PARTY TRANSACTIONS

Compensation of members of the management in key positions. Compensation of members of the management in key positions comprises:

€ 000s	2015	2014
Compensation of members of management		
Short-term benefits	1,410	1,199
Post-employment benefits	-	2
Other long-term benefits	327	-
Termination benefits	421	723
Share-based compensation	186	177
Compensation of members of management	**2,344**	**2,101**

Compensation of members of the management in key positions includes salaries, expense reimbursement, settlements, benefits in kind and expenses incurred for pension commitments and stock option plans.

Compensation of members of the management in key positions. Members of the Company's Management Board hold voting rights for 380,000 shares. Supervisory Board members have a total of 31,105,856 shares, corresponding to around 25.05 percent of voting rights.
In 2015, QSC participated in transactions with companies affiliated with members of the Management and Supervisory Boards. IAS 24 states that related parties are individuals or companies with the possibility of influencing or even controlling the other party. All contracts with those companies require the approval of the Supervisory Board and are concluded on the basis of prevailing market conditions.

€ 000s	Net revenues	Expenses	Cash received	Cash paid
2015 financial year				
IN-telegence GmbH	551	159	659	204
Teleport Köln GmbH	33	3	41	4
QS Communication Verwaltungs Service GmbH	-	153	-	182
2014 financial year				
IN-telegence GmbH	840	115	33	127
Teleport Köln GmbH	32	4	37	5
QS Communication Verwaltungs Service GmbH	-	155	-	202

€ 000s	Trade receivables	Trade payables
At 31 December 2015		
IN-telegence GmbH	69	-
Teleport Köln GmbH	6	-
QS Communication Verwaltungs Service GmbH	-	-
At 31 December 2014		
IN-telegence GmbH	73	14
Teleport Köln GmbH	7	-
QS Communication Verwaltungs Service GmbH	-	-

IN-telegence GmbH is a provider of value added services in the telecommunications industry and chiefly utilises network services from QSC. To a limited extent, subsidiaries of QSC AG also utilise these value added services from IN-telegence. Teleport Köln GmbH provides support to QSC in the installation of end-customer connections and utilises telecommunications services from QSC. QS Communication Verwaltungs Service GmbH advices QSC in connection with product management for cloud services.

41 DEFERRED AND CURRENT TAXES

QSC used an aggregate tax rate of 32.30 percent (2014: 32.32 percent) to calculate deferred taxes. The deferred tax expense and income for the period and the allocation of temporary variances are presented below:

€ 000s	Asset	Liability	Asset	Liability	Consolidated Statement of Income	
	2015	2015	2014	2014	2015	2014
Deferred tax assets and liabilities						
Intangible assets	123	10,285	-	15,123	4,961	(520)
Property, plant and equipment	3,378	2,866	4,407	5,236	1,342	6,842
Other financial assets	382	-	321	12	72	221
Other trade receivables	2,372	1,480	-	5,356	6,247	(2,221)
Inventories	272	-	727	-	(455)	(779)
Deferred revenues	171	170	753	208	(543)	391
Accrued pensions and other provisions	944	34	2,799	113	(1,695)	1,246
Change in market price of derivatives	780	-	731	-	1	27
Other liabilities	451	4,244	1,077	17	(4,853)	(666)
Total deferred taxes on temporary differences	**8,873**	**19,079**	**10,815**	**26,065**	**5,076**	**4,544**
Total deferred taxes on loss carryovers	**29,209**	**-**	**32,293**	**-**	**(3,084)**	**1,761**
Total deferred taxes before being netted out	**38,082**	**19,079**	**43,108**	**26,065**		
Netting out	(17,875)	(17,875)	(23,731)	(23,731)		
Total deferred taxes	**20,207**	**1,204**	**19,377**	**2,333**		

The temporary differences in conjunction with interests in subsidiaries for which no deferred tax liabilities are recorded amount to € 22,230k in the 2015 financial year (2014: € 22,411k). The following table presents the reconcilement of the expected income tax to the actual income tax expense. The expected tax income is calculated by multiplying net loss before taxes with the assumed income tax rate.

€ 000s	2015	2014
Reconciliation		
Net income (loss) before taxes	**(17,107)**	**(40,146)**
Tax rate	32.30 %	32.32 %
Expected tax expense	(5,526)	(12,976)
Tax effect of		
Adjustments made to allowances on deferred taxes		
relating to loss carryovers	3,123	(44)
Change in write-downs of intangible assets	-	5,819
Non-deductible operating expenses	768	903
Non-period expense	(292)	(223)
Change in taxation rate	8	(351)
Other	165	641
Reconciled tax expense	**(1,753)**	**(6,231)**

Reconciled tax income consists of € 239k for current income tax expenses (of which: € 311k for current income relating to previous years) and € 1,992k for deferred tax income (2014: deferred tax income of € 6,306k). Tax expenses of € 34k were recognised directly in equity in the 2015 financial year in connection with actuarial gains and losses (2014: tax income of € 903k).
As of 31 December 2015, corporate income tax loss carryovers at QSC AG came to € 378 million (2014: € 379 million), while trade tax loss carryovers totalled € 368 million (2014: € 370 million). As of 31 December 2015, corporate income tax loss carryovers at FTAPI Software GmbH amounted to € 4.8 million (2014: € 3 million), while trade tax loss carryovers also came to € 4.8 million (2014: € 3 million).
These tax losses can basically be offset to an unlimited extent against future taxable income at the companies at which deferred tax assets totalling € 29.2 million (QSC AG: € 27.6 million; FTAPI Software GmbH: € 1.6 million) have been recognised on loss carryovers (2014: QSC AG: € 31.3 million; FTAPI Software GmbH: € 1 million). In recognising and measuring deferred tax assets on loss carryovers, it is assumed that tax loss carryovers totalling € 86.8 million (QSC AG: € 82 million; FTAPI Software GmbH: € 4.8 million) can be used in the medium term (2014: QSC AG: € 94 million; FTAPI Software GmbH: € 3 million).
For trade tax purposes, it is assumed that trade tax loss carryovers totalling € 93.8 million (QSC AG: € 89 million; FTAPI Software GmbH: € 4.8 million) can be used in the medium term (2014: QSC AG: € 100 million; FTAPI Software GmbH: € 3 million).

The Company's long-term planning provides for the sustainable generation of taxable income. Given historical developments and the planning uncertainties resulting from the transformation process at the group of companies, however, only that portion of taxable income expected in a foreseeable period of 4 years has been accounted for (2014: 4 years). No deferred tax assets have been recognised in the balance sheet for the remaining corporate income tax and trade tax loss carryovers as yet unused.

42 LEGAL DISPUTES

The judicial review proceeding brought before Hamburg Regional Court by 31 former minority shareholders in Broadnet AG was concluded in February 2015 with the additional payment to minority shareholders resolved by the court, which involved payment of an amount of € 1,299k for the principal claim and interest.
QSC AG and its group companies are not involved in any court or arbitration proceedings that could materially impact on their economic position.

43 LEASES, ORDER OBLIGATIONS AND OTHER FINANCIAL OBLIGATIONS

Obligations from operating leases. The consolidated group is party to various long-term operating lease arrangements as lessee, mostly for technical rooms and offices, fibre optic connections, PC and vehicles. The Company concludes partial amortisation agreements without purchase options or price indexing clauses but with extension options in some cases and an average lease term of two to five years. The items concerned are not subleased to customers. As of 31 December future minimum lease payments under non-cancellable operating leases were as follows.

€ 000s	2015	2014
Operating lease arrangements		
Up to 1 year	26,298	18,983
1 to 5 years	43,730	44,575
Over 5 years	130	14,011
Operating lease arrangements	**70,159**	**77,569**

In the 2015 financial year, QSC recognised expenses of € 26,587k for operating leases (2014: € 22,228k). These have been reported under cost of revenues.

Obligations under finance lease arrangements. QSC has entered into lease obligations as lessor for various items of technical equipment and plant and operating equipment. Future payment obligations under these arrangements can be reconciled to their present values as follows.

€ 000s	2015	2014
Financing and rent-to-own arrangements		
Up to 1 year	2,821	4,610
1 to 5 years	1,758	4,578
Over 5 years	-	-
Total payment obligations	**4,579**	**9,188**
Less interest component	(132)	(314)
Present value of payment obligations	**4,447**	**8,874**

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

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 centre space, disk storage devices and shared hardware resources. The Company concludes partial amortisation agreements without purchase options or price indexing clauses but with extension options in some cases and an average lease term of three to five years. The consolidated group will receive the following future minimum lease payments under non-cancellable arrangements similar to operating leases:

€ 000s	2015	2014
Operating lease arrangements		
Up to 1 year	24,143	15,954
1 to 5 years	34,429	18,528
Over 5 years	8,358	903
Operating lease arrangements	**66,930**	**35,385**

For the purpose of measuring future minimum lease payments all major customers were taken into account for whom services were already provided at the reporting date and payments from whom were contractually stipulated at the balance sheet date. In 2015, € 27,543k (2014: € 20,154k) were recorded under revenues as rental payments.

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

€ 000s	2016	2017 – 2020	From 2021	Total
Future minimum lease payments				
Lease payments	4,474	4,301	-	8,775
Discounting fees	(60)	(87)	-	(147)
Present values	**4,414**	**4,214**	**-**	**8,628**

Lease payments received in 2015 totalled € 5,956k (2014: € 4,981k).

Other financial obligations. Other financial obligations amount to € 17,090k (2014: € 16,646k). This total comprises obligations of € 11,415k due in 2016 and obligations of € 5,675k due in the years 2017 to 2019. Purchase commitments for future investments amounted to € 739k in the past financial year (2014: € 498k) and mainly involved purchase orders for property, plant and equipment.

44 OBJECTIVES AND METHODS USED IN FINANCIAL RISK MANAGEMENT

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

The principal financial liabilities comprise essentially financing and rent-to-own arrangements, trade payables and liabilities due to banks. The main purpose of these financial liabilities is to raise finances for the consolidated group's operating activities. Financial assets directly resulting from business activities relate in particular to trade receivables and cash and cash equivalents. No derivatives were traded in the 2015 financial year.
The consolidated group's major risks that arise from the use of financial instruments include interest rate risk, credit risk and liquidity risk. Since no material transactions in foreign currencies are carried out, there are no material foreign currency risks. The following is a summary of the strategies and procedures used for managing each of the aforementioned risks.

Market interest rate risk. QSC is exposed to the risk of changes in market interest rates. This risk results primarily from the consolidated group's variable interest-bearing short-term liabilities due to banks, as well as from variable interest-bearing liquidity. Short and long-term liabilities under financing arrangements, on the other hand, are outside capital having a fixed interest rate. As of 31 December 2015, the share of variable-rate debts in total rate debts amounted to 53.9 percent.
The promissory note loan taken up in the second quarter of 2014 with a total volume of € 150,000k comprises five tranches with terms of 5 and 7 years and is subject to variable (€ 87,500k in 3 tranches) and fixed (€ 62,500k in 2 tranches) interest rates. To hedge the interest rate risk, in parallel with the placement of the promissory note loan QSC also concluded three interest swaps with nominal volumes totalling € 87,500k and identical terms running until 20 May 2019 (nominal: € 76,500k) and 20 May 2021 (nominal: € 11,000k).
The interest swaps enable the cash flows from those tranches of the hedged item with variable interest rates to be fully hedged throughout the respective term with regard to interest rate risk. Accounting for the hedge, QSC thus pays de facto fixed interest of 2.26 percent on those tranches of the promissory note loan with variable interest rates, as a result of which any changes in market interest rates will not have any net impact on the Company's interest expenses. However, any change in the level of interest rates by +/-100 basis points would change the fair value of the hedging instruments by € 451k and € -5,430k respectively. In the statement of comprehensive income, this would thus impact on the volume of income offset against equity and thus on shareholders' equity.
The following table reflects the sensitivity of the consolidated group's earnings before taxes to a reasonably possible change in interest rates in relation to variable rate debts as of 31 December and interest-bearing liquidity. The interest rate risks relating to the variable-rate tranches of the promissory note loan are covered by interest swaps with congruent terms.

	Increase/decrease in basis points	Impact on net income before income taxes in € 000s
2015	+ 100	200
2015	- 100	(154)
2014	+ 100	881
2014	- 100	(88)

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

Liquidity risk. The consolidated group monitors its risk of a liquidity shortfall through monthly recurring liquidity planning, which takes into account the remaining term of available financial assets as well as the expected future cash flows from operating activities. The consolidated group strives to maintain equilibrium between continuity of funding and flexibility through the use of short and long-term liabilities and liabilities under financing arrangements.
With regard to the promissory note loan, due to the full hedging of interest rate risks with opposing interest swaps (cash flow hedge; please see Note 28), QSC has to pay de facto fixed interest of € 3,591k for the periods through to 2019 and of € 981k thereafter. QSC intends to uphold the hedge relationship through to the maturity of the respective hedged items and hedging instruments. The expected cash flows for the hedged promissory note loan therefore involve ongoing interest payments and repayment of the liabilities for the underlying instruments upon their respective maturities. The cash flows for the underlying and hedge transactions have therefore been presented jointly in the chart below.
As of 31 December 2015, the short-term and long-term liabilities of the consolidated Group had the following maturities. These disclosures are based on the expected undiscounted payments.

€ 000s	Carrying amount	Due by end of 2016	Due by end of 2017	Due by end of 2018	Due by end of 2019	Due by end of 2020	Due after 2020	Total
Liabilities under financing								
and finance lease arrangements	4,483	2,821	1,377	306	76	76	-	4,655
Trade payables	30,596	30,596	-	-	-	-	-	30,596
Liabilities due to banks	157,970	5,980	7,699	3,884	117,125	981	35,381	171,051
Interest swaps *	2,414	-	-	-	-	-	-	-
Liabilities								
Phantom stock, put option	1,095	-	-	-	1,283	-	-	1,283
Other short and long-term liabilities	37,772	28,100	1,839	258	373	266	6,943	37,779
At 31 December 2015	**234,330**	**67,498**	**10,915**	**4,448**	**118,857**	**1,323**	**42,324**	**245,365**

* As well as the corresponding balance sheet line items, "Liabilities due to banks" also include interest swaps.

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

€ 000s	2015	2014
Capital management		
Liabilities under financing and finance lease arrangements	(4,483)	(8,874)
Liabilities due to banks	(157,970)	(161,068)
Interest-bearing liabilities	**(162,453)**	**(169,942)**
Plus cash and cash equivalents	73,982	87,803
Plus available-for-sale financial assets	-	343
Net debt	**(88,471)**	**(81,796)**
Shareholders' equity	124,195	145,634
Balance sheet total	358,525	405,489
Equity ratio	**35 %**	**36 %**

45 FINANCIAL INSTRUMENTS

The following table presents the carrying amounts and fair values of all financial instruments included in the consolidated financial statements except for convertible bonds issued in conjunction with the stock option plans.

€ 000s	Carrying amounts				Fair value			
31 December 2015	Loans and receivables	Fair value – hedging instruments	Designated at fair value	Other financial liabilities	Level 1	Level 2	Level 3	Total
Assets not measured at fair value								
Cash and Cash Equivalents	73,982	-	-	-	-	-	-	-
Long-Term Receivables from Multiple Element Arrangements	4,583	-	-	-	-	-	-	-
Short-Term Receivables from Construction Contracts	975	-	-	-	-	-	-	-
Short-Term Trade Receivables	47,729	-	-	-	-	-	-	-
Assets not measured at fair value	**127,269**	**-**	**-**	**-**				
Liabilities measured at fair value								
Interest Swaps – Hedge Accounting	-	2,414	-	-	-	2,414	-	**2,414**
Put Option, Minority Shareholders	-	-	1,095	-	-	-	1,095	**1,095**
Liabilities measured at fair value	**-**	**2,414**	**1,095**	**-**				
Liabilities not measured at fair value								
Trade Payables	-	-	-	30,596	-	-	-	-
Liabilities due To Banks	-	-	-	157,970	-	-	-	-
Liabilities under Financing and Finance Lease Arrangements	-	-	-	4,483	-	-	4,500	**4,500**
Other Short and Long-Term Liabilities	-	-	-	15,437	-	-	-	-
Liabilities not measured at fair value	**-**	**-**	**-**	**208,486**				

€ 000s	Carrying amounts					Fair value			
31 December 2014	Loans and receivables	Fair value – hedging instruments	Designated at fair value	Other financial liabilities	Available for sale	Level 1	Level 2	Level 3	Total
Assets measured at fair value									
Available-for-sale Financial Assets	-	-	-	-	343	343	-	-	**343**
Assets measured at fair value	**-**	**-**	**-**	**-**	**343**				
Assets not measured at fair value									
Cash and Cash Equivalents	87,803	-	-	-	-	7	-	-	**7**
Long-Term Receivables from									
Multiple Element Arrangements	7,761	-	-	-	-	-	-	-	**-**
Short-Term Receivables									
from Construction Contracts	875	-	-	-	-	-	-	-	**-**
Short-Term Trade Receivables	51,270	-	-	-	-	-	-	-	**-**
Assets not measured at fair value	**147,709**	**-**	**-**	**-**	**-**				
Liabilities measured at fair value									
Interest Swaps – Hedge									
Accounting	-	2,262	-	-	-	-	2,262	-	**2,262**
Put Option, Minority Shareholders	-	-	6,947	-	-	-	-	6,947	**6,947**
Liabilities measured at fair value	**-**	**2,262**	**6,947**	**-**	**-**				
Liabilities not measured at fair value									
Trade Payables	-	-	-	44,820	-	-	-	-	**-**
Liabilities due To Banks	-	-	-	161,068	-	-	-	-	**-**
Liabilities under Financing and									
Finance Lease Arrangements	-	-	-	8,874	-	-	-	9,039	**9,039**
Other Short and Long-Term									
Liabilities	-	-	-	9,400	-	-	-	-	**-**
Liabilities not measured at fair value	**-**	**-**	**-**	**224,162**	**-**				

Cash and cash equivalents as well as trade receivables largely have short remaining terms. Their carrying amount thus corresponds to their fair value at the balance sheet date. The fair value of liabilities under finance lease arrangements and of other short and long-term liabilities was calculated on the basis of regular interest rates. The carrying amount of receivables from multi-component arrangements already includes the discounted cash flows and thus corresponds to fair value.
The fair values of the interest swaps have been calculated by the intermediary bank on the basis of market data (Level 2 as per IFRS 13.81).
To calculate the fair values of the purchase options granted in connection with the acquisition of shares in FTAPI Software GmbH and fonial GmbH, the performance indicators expected on the basis of the respective company budgets have been measured using a risk and term-adequate interest rate (fair value: Level 3 as per IFRS 13.86). Account was also taken of the exercise terms agreed in the purchase options. The downward planning adjustment compared with the previous year has resulted in a lower volume of obligations at the balance sheet date.

€ 000s	From interests, dividends	Subsequent to initial recognition		Net gain (loss)	
		Allowance	At Fair Value	2015	2014
Loans and Receivables (LaR)	362	919	-	1,281	371
Available-for-sale Financial Assets (AFS)	-	-	-	-	-
Financial Liabilities measured at Amortised Cost (FLAC)	(5,197)	-	-	(5,197)	(5,880)
Financial Instruments measured at Fair Value	-	-	-	-	(282)
Net results by classification category	**(4,835)**	**919**	**-**	**(3,916)**	**(5,791)**

46 DECLARATION PURSUANT TO § 161 AKTG REGARDING COMPLIANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE

The declaration pursuant to § 161 of the Stock Corporation Act (AktG) regarding compliance with the German Corporate Governance Code, as amended 24 June 2014, and, since its en-forcement, as amended 5 May 2015, respectively has been issued by the Management and Supervisory Boards and is permanently and publicly available to the shareholders on the Com-pany's website. Future amendments to the rules relevant for compliance with the Corporate Governance Code will be posted on the QSC website without delay. Further information is provided in the separate Corporate Governance and Compensation Report.

47 AUDITOR'S FEES

At the Annual Shareholders' Meeting on 27 May 2015, the shareholders of QSC AG appointed KPMG AG Wirtschaftsprüfungsgesellschaft, headquartered in Berlin and with a branch in Cologne, as auditor and group auditor of QSC AG for the 2015 financial year. The following fees have been recognised as expenses for services provided by the auditor for the 2015 financial year.

€ 000s	2015		2014	
Auditor's fees				
Audit of financial statements (of which relating to previous years)	473	(96)	332	(16)
Other certification services	34		56	
Other services	20		100	
Auditor's fees	**527**		**488**	

Audit fees comprise the fees charged by KPMG for auditing the consolidated financial statements and the annual financial statements of QSC AG and its subsidiaries. Other certification services mainly involve the voluntary audit of the internal control system and IT organisation. Other services relate to ongoing advice on matters of business management and other non-audit services.

48 COMPENSATION OF THE MANAGEMENT AND SUPERVISORY BOARDS

Total Management Board compensation for the 2015 financial year came to € 1,182k, as against € 1,337k in the previous year. This comprises fixed compensation of € 721k (2014: € 750k), ancillary benefits of € 93k (2014: € 134k), variable compensation of € 276k (2014: € 0k) and share-based compensation of € 92k (2014: € 453k).
The breakdown of total compensation by individual Management Board member can be found in the compensation tables included in the Compensation Report within the Group Management Report. This report also includes extensive information about the compensation system and about payments committed to active Management Board members in the event of the premature termination of their activities.
Compensation paid to former Management Board members totalled € 421k in the 2015 financial year (2014: € 723k).

The Management Board member Henning Reinecke stood down from his position upon the expiry of 30 April 2015. His employment relationship was rescinded by mutual agreement upon the expiry of 31 May 2015. In connection with the termination of his Management Board activity, Mr. Reinecke was granted compensation of € 400k, a provisional allowance of € 17k and other ancillary benefits (retirement pension contribution, car use) worth € 4k.
The actuarial present value of provisions for vested claims to pensions for former Management Board members amounts to € 81k prior to the offsetting of an asset value of € 19k for a reinsurance policy.
The following table provides individualised disclosures concerning the number of shares and conversion rights held by Management Board members:

	Shares		Conversion rights	
	31 Dec. 2015	**31 Dec. 2014**	**31 Dec. 2015**	**31 Dec. 2014**
Jürgen Hermann	340,000	240,000	350,000	350,000
Stefan A. Baustert (since 1 January 2015)	40,000	-	100,000	-
Udo Faulhaber (since 1 August 2015)	-	-	-	-
Henning Reinecke (until 30 April 2015)	5,000[1]	5,000	150,000[1]	150,000
Barbara Stolz (until 31 December 2014)	-	10,000[1]	-	182,100[1]
Stefan Freyer (until 31 March 2014)	-	-	-	-

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

Jürgen Hermann and Stefan A. Baustert purchased shares via the stock exchange during their period of Management Board activity in the 2015 calendar year (please also see the corresponding directors' dealings notifications pursuant to § 15a of the German Securities Trading Act [WpHG]). Furthermore, on 25 August 2015 Stefan A. Baustert subscribed 100,000 convertible bonds in QSC AG. These were allocated to him by the Supervisory Board on 20 August 2015 in the context of the 2015 Stock Option Plan (2015 SOP). The fair value of each convertible bond on the subscription date amounted to € 0.92. Conversion into shares in QSC AG is only possible after a holding period of 4 years, and at the latest 8 years after the subscription date. The minimum value of the convertible bonds granted amounts to € 0, as it would make no economic sense to exercise the conversion rights if the stock market price falls short of the conversion price of € 1.71 determined upon subscription of the options during the period in which the conversion rights apply or should the exercise hurdles and performance targets laid down in the bond terms not be achieved. The maximum value of the share-based compensation in connection with the 2015 Stock Option Plan amounts to € 1,026k. This is reached when the weighted average price of QSC AG shares in Xetra trading on the Frankfurt Stock Exchange on the last twenty trading days preceding the day on which the exercising of the conversion declaration becomes effective pursuant to the bond terms exceeds € 11.97 (seven times the conversion price of € 1.71).

The Supervisory Board received compensation totalling € 315k (2014: € 315k) for its activity in the 2015 financial year. The breakdown of overall compensation by individual Supervisory Board member and further details can be found in the Compensation Report within the Group Management Report. This report also includes information about the compensation system. The following table provides individualised disclosures concerning the number of shares and conversion rights held by Supervisory Board members:

	Compensation as per § 15a of the Articles of Association (€ 000s)[1]				Shares		Conversion rights	
	2015		2014		31 Dec. 2015	31 Dec. 2014	31 Dec. 2015	31 Dec. 2014
Dr. Bernd Schlobohm, Chairman	95	(25)	95	(25)	15,518,372	15,518,372	132,000	200,000
Dr. Frank Zurlino, Deputy Chairman	60	(10)	60	(10)	10,000	10,000	-	-
Gerd Eickers	40	(5)	40	(5)	15,577,484	15,577,484	-	-
Ina Schlie	45	(10)	45	(10)	-	-	-	-
Anne-Dore Ahlers[2]	35	-	35	-	-	-	2,700	2,700
Cora Hödl[2]	40	(5)	40	(5)	-	-	4,100	4,100
Total	**315**	**(55)**	**315**	**(55)**				

[1] Numbers in parentheses refer to compensation for committee activity included in total amount.
[2] Employee representative

49 RISKS

Risks are presented in detail in the Risk Report forming part of the Group Management Report.

50 PROPOSED PROFIT APPROPRIATION

The Management and Supervisory Boards will propose to the Annual Shareholders' Meeting that a dividend of € 0.03 per share be paid to shareholders.

51 DIRECTORS AND OFFICERS

Management Board. The members of the Management Board in the 2015 financial year were as follows:

Management Board member	
Jürgen Hermann	Chief Executive Officer
Stefan A. Baustert	Chief Financial Officer
Udo Faulhaber	Chief Sales and Consulting Officer (since 1 August 2015)
Henning Reinecke	Chief Sales Officer, also responsible for enhancement
	of ICT product range, stood down as of 30 April 2015

Felix Höger assumed the position of Chief Technology and Operations Officer as of 1 January 2016.

Supervisory Board. The members of the Supervisory Board in the 2015 financial year were as follows:

Supervisory Board member	
Dr. Bernd Schlobohm	Entrepreneur, Chairman
Dr. Frank Zurlino	Managing Partner at Horn & Company, Deputy Chairman
Ina Schlie	Head of Group Tax Department at SAP SE
Gerd Eickers	Businessman
Anne-Dore Ahlers	Chairman of Works Council, Employee Representative
Cora Hödl	Head of TC Voice Services, Employee Representative

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

Cologne, 17 March 2016

QSC AG
The Management Board

Jürgen Hermann
Chief Executive Officer

Stefan A. Baustert

Udo Faulhaber

Felix Höger

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, 17 March 2016

QSC AG
The Management Board

Jürgen Hermann
Chief Executive Officer

Stefan A. Baustert

Udo Faulhaber

Felix Höger

AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by QSC AG, Cologne, comprising the consolidated statement of profit and loss, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated statement of cash flows and the notes to the consolidated financial statements together with the group management report for the business year from 1 January 2015 to 31 December 2015. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB [Handelsgesetzbuch „German Commercial Code"] are the responsibility of the parent 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 [Handelsgesetzbuch „German Commercial Code"] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

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

Cologne, 17 March 2016

KPMG AG
Wirtschaftsprüfungsgesellschaft

Pütz	Ismar
Wirtschaftsprüfer	Wirtschaftsprüfer

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25 May 2016

Quarterly Reports
9 May 2016
8 August 2016
14 November 2016

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