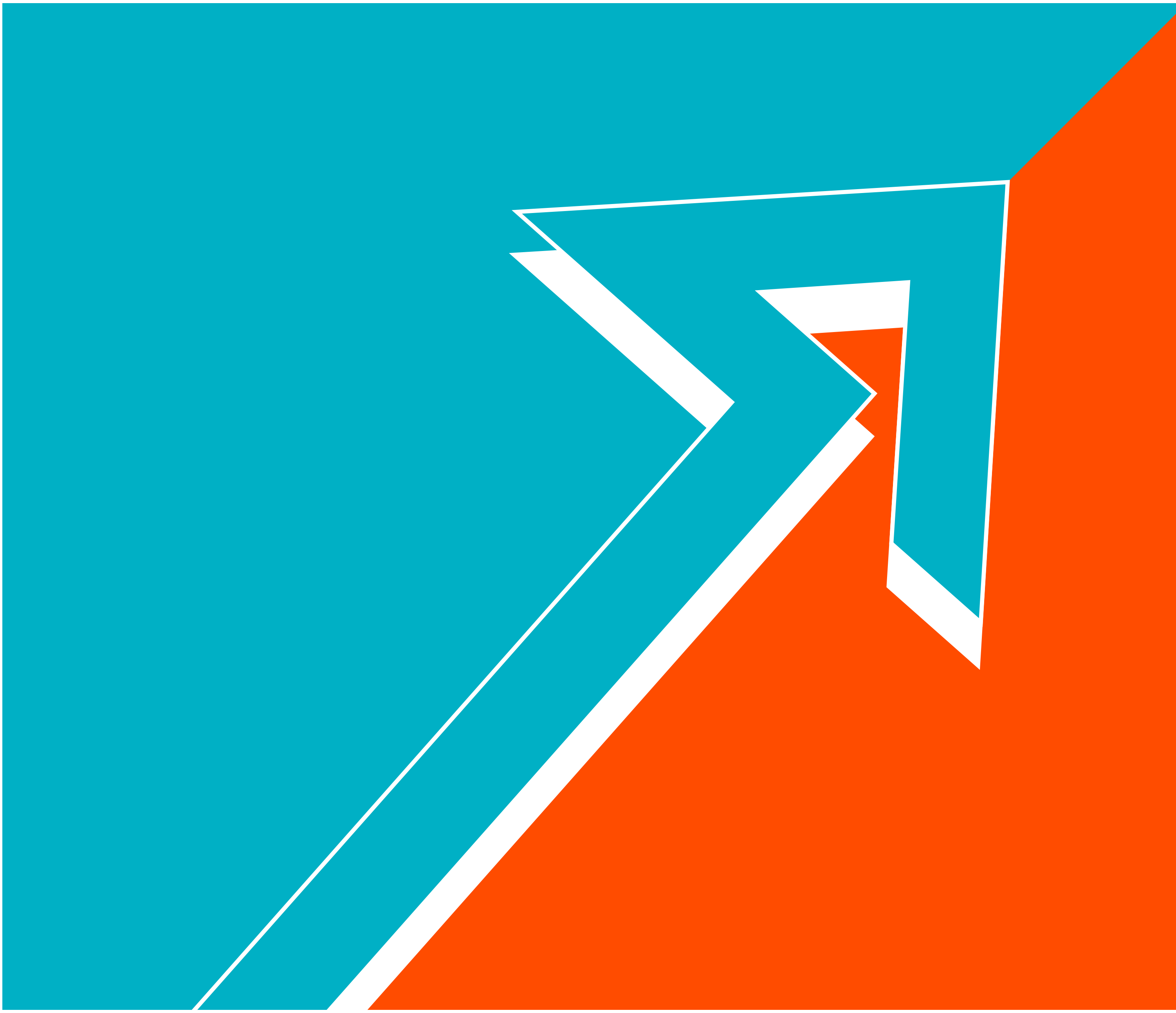


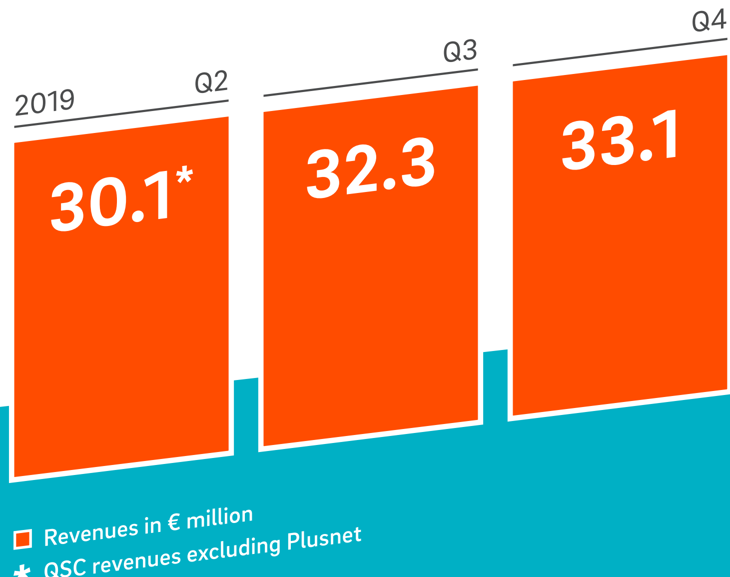
Annual Report 2019

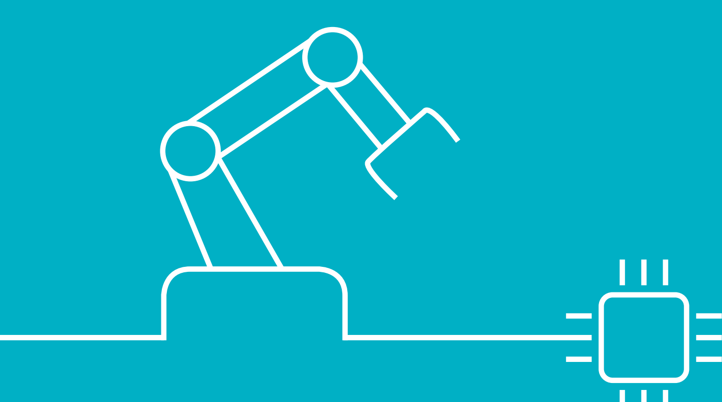
START OF A NEW GROWTH ERA.

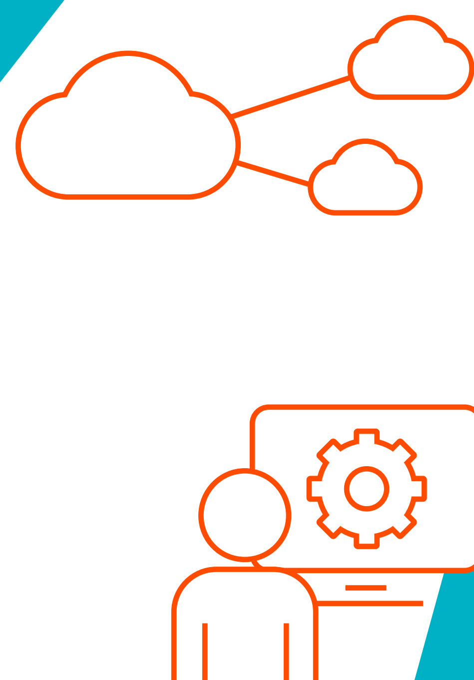
SECURE.
INNOVATIVE.
AT YOUR SIDE.

QSC AG

Back to growth. For QSC, selling the telecommunications business as of 30 June 2019 marked the beginning of a new era. Since then, revenues have risen from quarter to quarter. The “2020plus” growth strategy sets out ambitious targets for the next three years.







QSC IS NOW GROWING FROM YEAR TO YEAR. WE ARE AIMING FOR REVENUES OF € 200 MILLION IN 2022 – WITH AN EBITDA MARGIN OF MORE THAN 10% AND A SUSTAINABLY POSITIVE FREE CASH FLOW.

Key success factors in "2020plus" growth strategy

INNOVATIVE AS-A-SERVICE SOLUTIONS

QSC is a Cloud, SAP and IoT provider. As such, it is offering ever more solutions "as-a-Service". Customers can easily select the services they need and later request a swift expansion of those services. This makes the share of recurring revenues rise and our business model ever more scalable.

75%

OF QSC'S REVENUES ARE RECURRING

CLEAR SECTOR FOCUS

We focus on three key sectors: retail, manufacturing and energy. Thanks to our longstanding customer relationships, we know exactly what these sectors need and can offer a portfolio of services that stands out in the market.

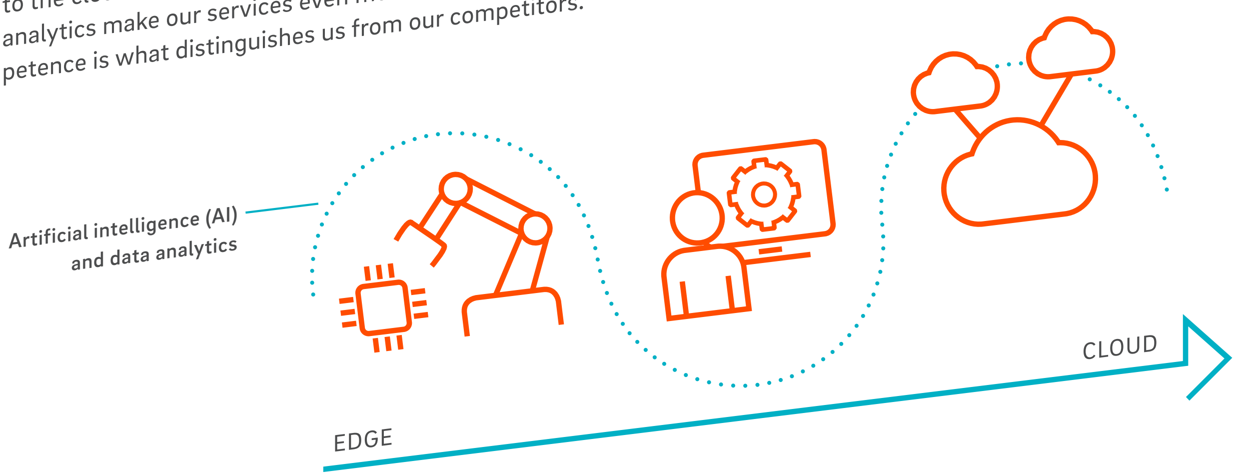
RETAIL

MANUFACTURING

ENERGY

UNIQUE INTEGRATED COMPETENCE

We cover the entire digital value chain – from sensor technology to applications to the cloud – and make sure its components interact smoothly. AI and data analytics make our services even more viable for the future. This integrated competence is what distinguishes us from our competitors.



TARGETED ACQUISITIONS

We are boosting our software and technology competence by developing digital services and making targeted acquisitions. We are particularly interested in start-ups and established specialists operating in attractive market niches. Start-ups should be able to contribute key technologies or software solutions to our portfolio.

EXPERIENCED MANAGEMENT TEAM

QSC is managed by an impressive team of seven. Alongside the CEO, it includes the managers responsible for QSC's three growth markets – Cloud, SAP and IoT – and the heads of technology, sales, sector solutions, innovation management & finance.

1. **JÜRGEN HERMANN**
As Chief Executive Officer, this prime mover at QSC focuses on corporate strategy and communications in particular.

2. **THORSTEN RAQUET**
This experienced consultant is responsible for the growing SAP business and also coordinates innovation processes.

3. **CHRISTOPH REIF**
Alongside finance, the CFO's responsibilities include human resources, legal, internal audit and compliance, and procurement.

4. **WALDEMAR GERLACH**
This IT veteran is working hard to expand QSC's sector solutions and is driving the Company's strategic partner management.

5. **DR. MYRIAM JAHN**
The Managing Director of Q-loud runs the promising IoT business, focusing on sensor technology and edge computing.

6. **RÜDIGER HOFER**
This expert in IT infrastructure is responsible for the Colocation business and is the first point of contact for all technology topics.

7. **THIES RIXEN**
This total professional in Cloud and IT Outsourcing is promoting growth throughout the Cloud business and also heads up QSC's sales activities.

Jürgen Hermann, CEO. One of QSC's prime movers from the very outset, Jürgen Hermann is now steering the Company into a new era of growth. Following the successful sale of the TC business in early summer 2019, he can now accelerate the implementation of his "2020plus" growth strategy. Alongside strategic planning, this graduate in economics focuses above all on communications and investor relations. Having spent several years in senior positions at Thyssen Telecom AG, he joined what was then QS Communication Service GmbH back in 1997. As Finance Director, he structured QSC's IPO in April 2000. He became CFO in 2009 and, as CEO of INFO AG, a company taken over by QSC, he pressed ahead with developing our IT strategy from 2011 already. In 2013, he then took over from co-founder Dr. Bernd Schlobohm as QSC's CEO.

"THE ABSOLUTE PRIORITY FOR ME IS GROWTH."

Dear Shareholders,

One topic has dominated our lives and the capital markets for weeks now – the corona pandemic. Apart from security staff, the whole of QSC has also been working from home since 17 March 2020. The sole focus has been on maintaining operations for our customers as well as possible without compromising the safety of our employees or our customers. Digitalisation has been a real help, whether for networking with tools such as Skype, SharePoint, Teams or simply for conversations on the phone. In short, this is the digital workplace in action. In this way, we have been able not only to hold meetings and operate our systems, but also to support our existing and new customers. As the digitaliser to SME players, QSC has all the means at its disposal to maintain business operations despite the challenging circumstances.

Nobody knows how long the crisis will last or what consequences we will have to contend with. What we can say, however, is this: Firstly, our Company is optimally equipped with a solid and healthy balance sheet. At the end of the year, we had an equity ratio of 71% and net liquidity of € 66 million. Secondly, our business model is more than 75% based on recurring and platform-based revenues – and that ensures continuity. Thirdly, once the crisis is over we expect everyone to have experienced firsthand the benefits and importance of a digitalised economy. This will lead to a further acceleration in demand for our digitalisation expertise.

It goes without saying that we too are not yet able to assess all of the implications. At present, though, we believe that our forecast for the current financial year and our “2020plus” growth strategy are still realistic. Thus, we are sticking to them.

We have a portfolio that covers the traditional IT solutions needed by any company, yet it is at the same time highly innovative. This enables us to meet the needs of our SME customers in every respect. Not only that, we are providing more and more of this portfolio on an “as-a-Service” basis, thus offering SME players the flexibility they desire when it comes to implementing and operating digital technologies. For QSC, this is another factor that raises the share of recurring revenues and enhances planning reliability.

“75 PERCENT OF OUR REVENUES ARE RECURRING AND PLATFORM-BASED. THAT ENSURES CONTINUITY.”

"WE ARE PRESSING AHEAD WITH DEVELOPING NEW DIGITAL SERVICES AND INVESTING IN ACQUISITIONS."

The digital value chain cannot be implemented without technology – and here there is no way round the three key technologies of IoT, SAP and Cloud. Our expertise in sensor technology and edge computing enables customers to capture data without any difficulties. Our experts in SAP, Microsoft and specialist software support customers in processing this data efficiently and intelligently. And thanks to our Cloud expertise, customers can store this data securely and access it whenever they want and wherever they are. In this way, we offer the entire digital value chain and also make sure that its components interact smoothly. What's more, creatively combining all these components and integrating further technologies, such as artificial intelligence, enables us to secure a significant competitive advantage.

We market this integrated solution competence with an efficient "go-to-market" approach, in which we focus our product management and sales activities on the retail, manufacturing and energy sectors. The numerous projects we have already implemented here have made us very familiar with what customers need. And we already have a unique portfolio to promote digitalisation in these sectors. We structure our sales activities on a regional basis, which enables us to get to know the relevant players and tenders and thus get involved at an early stage. This company-wide sales approach is ably supported and supplemented by colleagues from the specialist sales departments for their respective technologies.

Our Company's operations are managed by a strong seven-member team. This includes the managers responsible for the three business fields of IoT, SAP and Cloud, as well as the heads of technology, sales, sector solutions, innovation management, and finance. That gives me space to focus on corporate strategy and communications. At this point, I would like to warmly thank my longstanding colleague on the Management Board, Stefan Baustert, who left the Company by mutual agreement at the end of 2019.

Our solid balance sheet provides us with the scope needed to take our business further. With it, we can press ahead in developing new digital services while also investing in acquisitions. Here, our strategy is two-pronged: One, we are interested in investing in more start-ups that master a technology important to us or that already market a home-grown software solution. For these start-ups, we can offer further financing and established sales structures. We commit by initially acquiring a minority stake with the option of acquiring a majority if the business model proves viable. That way, we secure all of the opportunities while at the same time limiting our risks. That is precisely the approach we took with aiXbrain in November 2019. With aiXbrain, we now have expandable solutions for deploying artificial intelligence in production. Two, we aim to take over established specialists that are already successfully positioned in the market. This implies that they have existing customer relationships, sustainable revenues and positive earnings.

"WE ARE AGAIN PROPOSING THE DISTRIBUTION OF A DIVIDEND OF 3 CENTS PER SHARE."

My particular thanks are due to all members of our QSC team, who are channelling all their efforts into promoting our Company's fundamental transformation. Our internal and external recruiting in recent years has focused above all on IT-related skills. Here, we have hired software developers, cloud architects, and SAP and IoT specialists. By taking innovative recruiting approaches and launching our new employer brand, we will further boost QSC's standing as an attractive employer and score some points in the competition for talent.

A word to our shareholders: The past few years have not exactly been easy. Our share price has not performed in the way that you and I would have hoped. QSC's ongoing restructuring has made institutional investors in particular more reluctant to invest in our shares. In recent months, we have marketed QSC's potential for development with great conviction at capital market conferences and in numerous one-to-one meetings and interviews and sought to gain investors' trust. Maintaining dividend continuity is part of this effort: The Management and Supervisory Boards are once again proposing the distribution of a dividend of 3 cents per share for the 2019 financial year. In recent weeks, however, the implications of coronavirus for the global economy and the risk of an extended recession have unfortunately overshadowed the positive developments. Even so, now two prestigious banks – Commerzbank and Bankhaus Lampe – have recommended buying our shares.

We have a great deal of work ahead of us, but we have the right strategy and our targets are clear: In 2022, we aim to generate a sustainably positive free cash flow and an EBITDA margin of more than 10% based on revenues of € 200 million. In qualitative terms, we are building on our innovative portfolio, our integrated technology competence, our clear sector focus and the trust we have built in longstanding customer relationships.

For me, not least as a shareholder, the absolute priority in the years ahead will be to generate growth. As our revenues rise, our strategy will manifest itself in a higher Company valuation and thus also in a higher share price.

In these turbulent times, what I wish you first and foremost is this: Please look after yourselves and keep well!

Cologne, 25 March 2020

Jürgen Hermann
Chief Executive Officer

CONTENTS

THE SUPERVISORY BOARD

The six-member Supervisory Board comprises four shareholder and two employee representatives. At the Annual General Meeting held in Cologne on 12 July 2018, shareholders re-elected their existing representatives. Their terms in office now run until the conclusion of the Annual General Meeting for the 2022 financial year. The employees selected their two representatives in advance of the meeting.

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 2019, these two shareholders held a combined stake of 25% 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 German technology market, particularly in his capacity as President of the Association of Telecommunications and Value-Added Service Providers (VATM).

Ina Schlie
Ina Schlie, a graduate in economics, has been a member of the Supervisory Board since September 2012. Drawing on her experience as the longstanding head of the group tax department at SAP, she also chairs the Audit Committee.

Matthias Galler
In June 2018, QSC's workforce elected the Hamburg-based Works Council Chairman as a new member of the Supervisory Board. A senior IT consultant, Matthias Galler has worked at the Company since 2002 already.

Cora Hödl (until 30 June 2019)
QSC's employees once again elected Cora Hödl, Head of the Technology/Infrastructure & Voice department at the TC subsidiary Plusnet as its second representative on the Supervisory Board. Based in Cologne, the qualified communications electrician left the Supervisory Board upon the sale of Plusnet.

Martina Altheim (since 1 July 2019)
Martina Altheim, at the time Head of Central Process and Quality Management, joined the Supervisory Board as the second employee representative in July 2019. Since January 2020, the graduate in biology who is based at QSC's location in Cologne, has been responsible for the Company's Corporate Social Responsibility.

REPORT OF THE SUPERVISORY BOARD

Dear Shareholders,

The following Supervisory Board Report informs you about the activities of the Supervisory Board in the 2019 financial year.

Activities of the Supervisory Board. The Supervisory Board performed all of the duties incumbent on it by law and the Articles of Association once again in 2019. It continually monitored and advised the Management Board in its management of QSC AG and the Group. 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, it 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.
Unless stipulated otherwise by the Supervisory Board Chairman, the members of the Management Board attended the Supervisory Board meetings.
At these joint meetings, the Supervisory and Management Boards discussed key aspects of the Company's business policy 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. In particular, these reports also included information about variances in the Company's actual business performance from its internal planning and from the financial targets previously published. The corresponding Management Board 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 the 2019 financial year were:

1. **Sale of Plusnet GmbH and its shareholdings.** The sale of the TC subsidiary Plusnet GmbH and its shareholdings was granted significant attention in the discussions and resolutions adopted by the Supervisory Board in the first half of the 2019 financial year. The Supervisory Board ensured that it was kept regularly informed by the Management Board about the status of negotiations, and here in particular about the risks to be contractually assumed by QSC. By resolution on 5 May 2019, the Supervisory Board approved the sale of all shares in Plusnet GmbH to EnBW Telekommunikation GmbH on the conditions negotiated by the Management Board and presented to the Supervisory Board, and in particular at a sale price (equity value) of € 229 million. The sale contract was notarised on 6 May 2019 and completed on 30 June 2019 by transfer of the shares in Plusnet GmbH to EnBW Telekommunikation GmbH.

2. **Positioning of QSC after Plusnet sale.** The Supervisory Board addressed the Company's strategy and organisation after any sale of the telecommunications business at an early stage of proceedings. The sector focus was one focus of discussion, as were the associated restructuring of sales activities and stepping up of cooperation with strategic partners. Following the sale, measures to scale down the Company's administrative structures in line with its new size were also on the agenda.

3. **"2020plus" growth strategy.** Together with the Management Board, the Supervisory Board dealt with the Company's growth prospects following any sale of the TC business. These discussions were based on the Management Board's growth strategy. The Supervisory Board ensured that it was informed about the development in the operating business on an ongoing basis and, via the monthly reports, also received insights into the sales pipeline.

4. **Acquisitions.** One aspect of the new growth strategy involves acquisitions. Here, the Supervisory Board supports the Management Board decision to focus on the one hand on acquiring additional technological expertise and on the other on software-based, scalable business models. The Management Board reported regularly to the Supervisory Board on potential acquisition candidates. At its meeting on 8 August 2019, the Supervisory Board approved the acquisition of 25.1% of the shares in the Aachen-based company aiXbrain GmbH.

5. **Adjustment in target agreements and Management Board downsizing.** The multiyear targets set in March 2018 for a performance period through to the end of the 2020 financial year and the (one-year) annual target set in March 2019 for the variable compensation payable to the Management Board were each largely based on consolidated key figures that were significantly influenced by the execution of the sale of Plusnet GmbH as of 30 June 2019 and its removal from the scope of consolidation. The Supervisory Board made a retrospective adjustment to the (one-year) annual target for the 2019 financial year and the previously set

multiyear targets. This was intended to ensure that variable compensation for the Management Board was still based on appropriate and ambitious performance targets.
In the fourth quarter of 2019, the Supervisory Board addressed the departure of CFO Stefan Baustert. Following five-years of activity and the completion of the Company's transformation, Stefan Baustert left the Company based on mutual agreement as of 31 December 2019. He played a key role in making QSC fit for the future, and that with great consistency and farsightedness. The Supervisory Board extends its exceptional thanks to him for these achievements.
The Supervisory Board decided that this position should not be reoccupied and that Jürgen Hermann should therefore represent QSC AG as its sole director from 1 January 2020. At the same time, the Supervisory Board welcomed the intention on the part of the sole director to involve heads of department beneath the Management Board in the Company's management even more closely than before.

6. **Compliance.** An internal review commissioned by the Management Board discovered the erroneous recognition of sales in the Cloud segment in the 2018 financial year. At the time of entry, these items did not meet the requirements for recognition as sales. Immediately upon discovering this error made in the 2018 financial year, QSC made a retrospective correction pursuant to IAS 8 in the half-year financial report as of 30 June 2019 and adjusted the comparative figures for earlier periods accordingly. Furthermore, the item relating to Q-loud GmbH was analysed and assessed by internal audit and external advisors. The Supervisory Board was informed in detail about the findings of the review completed in October 2019 and about the measures initiated by the Management Board of QSC to improve processes and sanctions.

Composition of the Supervisory Board. The Supervisory Board is composed in accordance with the requirements of the German Stock Corporation Act (AktG) and the German One-Third Participation Act (Drittelbeteiligungsgesetz) and continues to comprise four shareholder representatives and two employee representatives. The shareholder representatives on the Supervisory Board are still its Chairman, Dr. Bernd Schlobohm, and its Deputy Chairman, Dr.-Ing. Frank Zurlino, as well as Gerd Eickers and Ina Schlie. The employee representatives are Matthias Galler and, since 1 July 2019, Martina Altheim. The former employee representative Cora Hödl left the Supervisory Board as of 30 June 2019 upon the sale of Plusnet GmbH, where she works. Since 1 July 2019, she has been replaced on the Supervisory Board by Martina Altheim, who was elected by employees as a substitute member in the 2018 financial year already.
The Supervisory Board thanks Cora Hödl for the great commitment she showed to her work on the Supervisory Board and for her constructive cooperation.

Supervisory Board meetings and committees. In the 2019 financial year, the Supervisory Board held four scheduled meetings attended in person and five unscheduled meetings by conference calls. All of these meetings were attended by all members. Where necessary, the Supervisory Board also adopted resolutions on individual topics by circulating and approving the respective documents.

To assist it in its work, the Supervisory Board has formed four committees. 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. All committee members attended all meetings of their respective committees in 2019.

The **Human Resources Committee** met three times in the year under report. As well as preparing the Supervisory Board decisions concerning the target achievement of Management Board members in the 2018 financial year and the target agreements to be reached with the Management Board for the 2019 and 2020 annual targets, the Human Resources Committee dealt in particular with preparing the resolutions needed to approve the retirement of Stefan Baustert from his Management Board position and conclude the relevant rescission agreement. The committee members still included Dr. Bernd Schlobohm (Chairman) and Gerd Eickers. Cora Hödl also sat on the Human Resources Committee through to her departure from the Supervisory Board as of 30 June 2019. Having been elected by the full Supervisory Board, Martina Altheim succeeded Cora Hödl in this role.

The composition of the **Audit Committee** is also unchanged; its members are Ina Schlie as its Chair and independent financial expert, as well as Dr. Bernd Schlobohm and Dr.-Ing. Frank Zurlino. The Audit Committee monitors the financial reporting process and may submit recommendations to safeguard its integrity. It also monitors the effectiveness of the internal control, risk management and internal audit systems, as well as compliance, and prepares all decisions required by the full Supervisory Board in this respect. The Audit Committee deals with the audit of the financial statements and is responsible for selecting and issuing the audit assignment to the auditor, as well as for monitoring the auditor's independence. It decides whether the Company may commission the auditor to provide non-audit services and, where appropriate, monitors the auditor's provision of such services.

The Audit Committee held five meetings in the past financial year. It reviewed the documents relating to the annual and consolidated financial statements, including the dependent company report, for the 2018 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. Prior to publication of the respective documents, the Management Board discussed the half-year financial report as of 30 June 2019 and the interim statements as of 31 March and 30 September 2019 with the Audit Committee. In this regard, the Audit Committee also dealt with the correction made to the errors in recognising sales in the Cloud segment in the half-year financial report. It subsequently ensured that it was kept informed of the internal review of the underlying issue and the results of this review. The committee also dealt with planning the audit and key audit focuses for the 2019 financial year and negotiated and concluded the auditor's fee agreement. Furthermore, it regularly addressed the sale of Plusnet GmbH and its implications for QSC's key financial figures.

The task of the **Nomination Committee** is to propose suitable candidates to the full Supervisory Board for its nomination of candidates at any forthcoming election of shareholder representatives to the Supervisory Board at the Annual General Meeting. The composition of the Nomination Committee has not changed; its members are still Gerd Eickers (Chair) and Dr.-Ing. Frank Zurlino. The Nomination Committee did not hold any meetings in the 2019 financial year as no Supervisory Board elections were pending.
The composition of the **Strategy Committee** is also unchanged; its members are Dr. 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. The Committee held one meeting in 2019 and dealt in particular with the consequences of the Plusnet GmbH sale and the future growth strategy developed with the Management Board of QSC AG.

Corporate governance. The Supervisory Board continuously monitors the status and development in the German Corporate Governance Code and the implementation of the Code's recommendations at QSC AG. At its meeting on 21 November 2019, the Supervisory Board acting together with the Management Board submitted its annually updated Declaration of Compliance with the recommendations of the Code dated 7 February 2017 pursuant to § 161 AktG. This is permanently available 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 and the Corporate Governance Declaration. 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 conflicts of interest arose in the year under report.

Audit of financial statements. Consistent with the relevant recommendation submitted by the Audit Committee, the Supervisory Board proposed to the Annual General Meeting on 29 May 2019 that KPMG AG Wirtschaftsprüfungsgesellschaft, headquartered in Berlin and with a branch office Cologne, should be re-elected as auditor and group auditor for the 2019 financial year. In line with the resolution adopted by the Annual General Meeting, the Audit Committee awarded the audit assignment to KPMG AG Wirtschaftsprüfungsgesellschaft.
KPMG AG Wirtschaftsprüfungsgesellschaft audited both the annual financial statements of QSC AG as of 31 December 2019 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 2019 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 § 315e of the German Commercial Code (HGB), as well as the management and group management reports.
Key audit matters for 2019 included revenue recognition (QSC AG and QSC Group) and the recoverability of the goodwill recognized in the balance sheet (QSC Group).

The auditor granted unqualified audit opinions to the Company's annual financial statements (HGB) and consolidated financial statements (IFRS) for the 2019 financial year, including the respective management reports.
Furthermore, the Management Board compiled a report on relationships with affiliated companies for the 2019 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 25 March 2020, the Supervisory Board discussed all these 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. Furthermore, the Supervisory Board reviewed and discussed the Management Board's proposal concerning the appropriation of profit. The auditor reported to the meeting held on 25 March 2020 on its key audit findings and was available to answer questions and provide further information. The auditor also reported on the audit of the internal control system in respect of the financial reporting process and the risk management system. It 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 2019 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 performed 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 thus 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 € 0.03 per share with corresponding entitlement for approval by the Annual General Meeting on 20 May 2020.
Furthermore, following its own review the Supervisory Board approved the Management Board's report on relationships with affiliated companies and concurred with the findings of the audit of the report by the auditor. Based on this review, the Supervisory Board established that no objections were to be raised to the declaration by the Management Board at the end of the report on relationships with affiliated companies.

The Supervisory Board also reviewed the Separate Non-Financial (Group) Report for the 2019 financial year. This will be published on the company's website at the latest at the end of April 2020. At the meeting on 25 March 2020, the Supervisory Board concluded that no objections were to be raised against the Separate Non-Financial (Group) report.
The Supervisory Board would like to thank all shareholders for the trust they have continued to place in QSC during the years of restructuring. The new growth era should mark the beginning of a period in which our share prices also rises. We owe our particular thanks to all employees and the members of the Management Board for what they achieved and for the dedication they showed in the past financial year.

Cologne, 25 March 2020
On behalf of the Supervisory Board of QSC AG

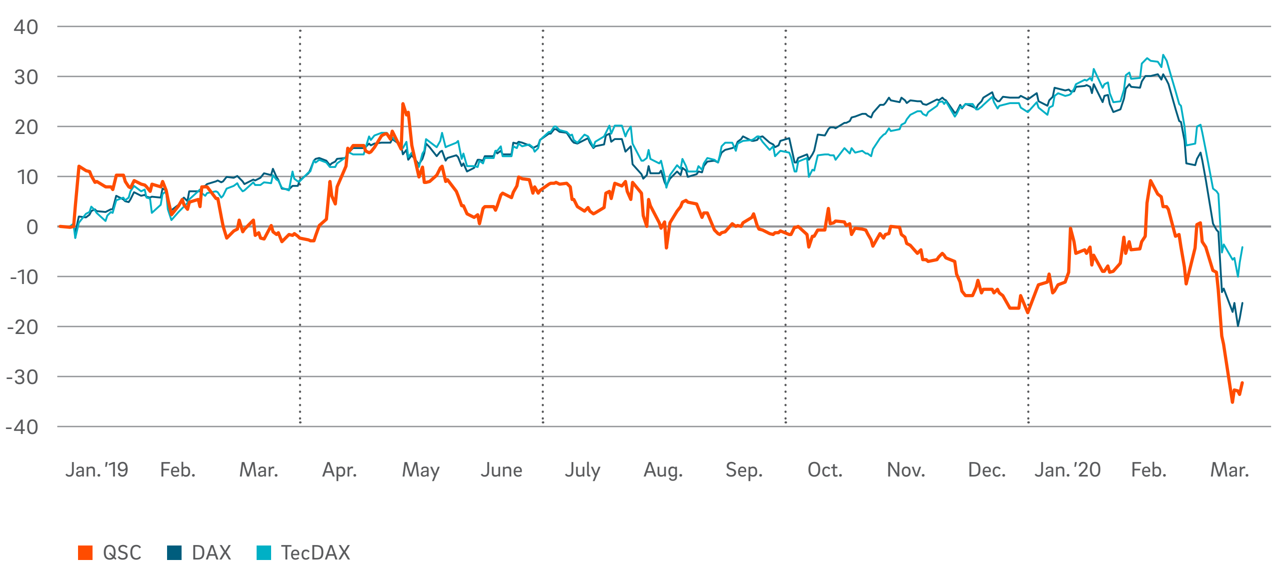
Dr. Bernd Schlobohm
Supervisory Board Chairman

QSC SHARE PERFORMANCE

Coronavirus puts an end to global stock market highs. In February and March 2020, capital markets worldwide lost all of the gains made in the previous year. On 20 March 2020, the date on which the share performance chapter of this Annual Report was completed, the DAX closed at 8,929 points, and thus 33% lower than at the end of 2019 and 15% down on the end of 2018. By comparison, the TecDAX performed marginally better, falling by "only" 22% and 4% compared with the end of 2019 and 2018. This massive fall in prices was triggered by the rapid spread of coronavirus around the world, the drastic restrictions imposed on public life to slow the spread and accompanying fears of a substantial fall in gross domestic product. Prior to this, the extremely loose monetary policies adopted by major central banks had helped lead indices to reach new record highs, and not only in Germany. The DAX reached its all-time high at 13,795 points on 17 February 2020, just before the "corona crash" set in.

At beginning of 2020 DAX sheds all gains made in 2018 and 2019

QSC's share price performance
(indexed)



Coronavirus halts recovery in QSC's share price. Until early March 2020, QSC's shares were able to escape the downturns seen on capital markets worldwide. In two especially turbulent weeks after 9 March 2020, however, the Company's shares also lost value and were listed at € 0.87 on 20 March, 17% down on the year-end closing price of € 1.05 for 2019 and 31% since the end of 2018. In the first weeks of 2020, the share price had risen significantly and peaked at

€ 1.41. This substantial increase in just a few weeks was chiefly fuelled by growing confidence among investors that our "2020plus" growth strategy was gaining traction. Since autumn 2019, the Management Board and Investors Relations department had held in-depth talks with investors. At conferences and in interviews, they also explained the progress made so far in implementing the strategy. At the beginning of February 2020, this progress was then underlined with the publication of our initial preliminary figures for 2019 and a revenue forecast for 2020. Confidence grew among investors. The first institutional investors built up small positions. Then came the "corona crash", bringing the upward trend to an abrupt halt.

In 2019, our share price performance was still characterised by the reserved stance shown by institutional investors in particular. The announcement in April 2019 that negotiations to sell Plusnet had begun provided short-lived momentum. Within a month, the share price grew by more than 30%, reaching its annual high at € 1.70 on 7 May 2019. After this, the reservations among institutional investors began to make themselves felt once again. In numerous talks held after the Plusnet sale, domestic and foreign fund managers were virtually unanimous in welcoming our Company's new alignment and strategy. They nevertheless made their decision to buy our shares dependent on there being visible progress in the operating business at the "new" QSC. The resultant low level of initial demand led to an erosion in our share price in the second half of the year. At the end of 2019, the pressure on the share price intensified due to a short sale involving nearly 1% of all QSC shares. Our share price closed at its annual low.

Analysts carefully note progress in QSC's operating business

Second "buy" recommendation for QSC shares. Analysts who regularly monitor our shares carefully noted the advances made in our operating business in the autumn and winter of 2019/2020. In early March 2020, Commerzbank was the second financial institution to issue a "buy" recommendation for QSC shares. Bankhaus Lampe had long been advising investors to buy our shares. Other analysts continued to recommend "holding" our shares.

With five analysts, our shares once again enjoyed a high level of attention for what is a second-tier stock in 2019. Following the departure of its analyst, Oddo BHF discontinued its coverage in the fourth quarter of 2019. In return, we managed to attract Mainfirst Bank AG, a financial services provider with operations across Europe that is expected to publish regular studies on QSC starting in April 2020.

Retail investors dominate shareholder structure. Institutional investors only began to increase their commitment in the first weeks of 2020. According to QSC's share register, their share of the free float slipped by a further four percentage points to 23% during 2019, with only the US fund Dimensional Holding exceeding the 3% disclosure threshold. At 77%, by far the majority of free float shares were owned by retail investors at the end of 2019. Overall, free float shares make up just under 75% of QSC's shares and are distributed among 25,872 shareholders.

Shareholder structure as of 31 December 2019

Around 25% of QSC's shares are held by the Company's two founders Gerd Eickers and Dr. Bernd Schlobohm. Now members of QSC's Supervisory Board, these two individuals have not sold any shares since the Company's IPO in spring 2000. On the contrary, they have repeatedly increased their shareholders further in the intervening years, most recently in June 2019 after the Annual General Meeting for the 2018 financial year.

Founders have not yet sold a single share since QSC's IPO

CEO invests variable compensation in QSC shares. Along with the two founders, our CEO Jürgen Hermann is one of QSC's prime movers. For years now, he has been using his variable compensation to acquire further shares in QSC. Independently of any bonus payment, in March 2020 he placed a discretionary order to acquire up to 330,000 shares in such a way as to protect the share price in the period from 12 March 2020 to 9 April 2020. This way, he once again underlined his firm belief in the opportunities available to our Company – and its share price – from consistently implementing the "2020plus" growth strategy. If the discretionary order is fully executed, Jürgen Herman will own one million shares in QSC.

Wide variety of communications with investors. Alongside the Plusnet sale, the "2020plus" growth strategy was the dominant topic in our investor relations activities in the past year. We presented our new strategy at events including the capital market conferences at Berenberg Bank, Commerzbank, Oddo BHF and two financial service providers specialising in small and mid-caps, namely GBC Research and Montega. In November 2019, the Management Board also presented our Company at the Deutsches Eigenkapitalforum. These activities were supplemented by numerous one-to-one talks at QSC's locations in Cologne and Hamburg and by conference calls. These talks created the necessary basis of trust in our strategy among investors and offer a strong foundation for returning our share price to its upward trend once the "corona crash" has been mastered.

Clear commitment to sustainably increasing the Company's value

Stable dividend of 3 cents per share. The new growth strategy also involves a clear commitment by the Management Board to sustainably increase the value of the Company. The Management Board is convinced that, by consistently implementing this strategy, QSC will be able to offer its shareholders excellent opportunities to participate in the Company's value growth by way of higher share prices. Irrespective of this, in the current market climate it attaches great value to upholding dividend continuity. The Management and Supervisory Boards will therefore once again be proposing the distribution of a dividend of 3 cents per share for approval by the Annual General Meeting.

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

IR website acts as central information platform. Anyone interested can find all relevant information about our shares in the IR section of QSC's website (www.qsc.de/en/investor-relations). Visitors here will find our reports and announcements, as well as key figures on our shares, the latest consensus among analysts, corporate governance and much more. This is also where presentations and recordings of comments made by the Management Board in conference calls can be found following the publication of quarterly results.
The IR Department also maintains an ongoing exchange of information with retail and institutional investors by mail and telephone. It keeps interested capital market players up to date with various newsletters and social media activities. Particularly worth mentioning here are QSC's IR Newsletter and its IR channel on Twitter.

Key facts about QSC shares

Securities identification code	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	Mainfirst Bank AG
	Oddo Seydler Bank AG
Shares outstanding as of 31 December 2019	124,172,487
Share class	No-par-value registered shares of common stock
Xetra closing price on 28 December 2018	€ 1.27
Xetra share price high in 2019	€ 1.70
Xetra share price low in 2019	€ 1.05
Xetra closing price on 30 December 2019	€ 1.05

GROUP MANAGEMENT REPORT

62 – 67 RISK REPORT

68 – 71 OUTLOOK AND OPPORTUNITY REPORT

GROUP FUNDAMENTALS

Business Activities

QSC is digitalising the German SME sector. Our Company is enabling its customers to digitalise their business processes and their business models with the utmost flexibility and efficiency. Here, we have longstanding technological and application expertise in the fields of Cloud, Colocation, SAP and the Internet of Things (IoT). Our service portfolio provides what SME players need in the age of digitalisation: from standardised pay-as-you-use services through to individualised full-range solutions for the retail, manufacturing and energy sectors. All services offer end-to-end quality and high security. QSC bases its relationships with customers on an entrepreneurial approach, a service-driven mindset and a desire to forge mutually beneficial partnerships. This way, QSC is showing ways for SME players to move towards integrated digital solutions, as well as implementing and operating such solutions. We support our customers in implementing new ways to work and to manufacture and sell their products and services in the digital age. One example: We have been offering comprehensive services for digital workplaces for years now.
Until 30 June 2019, our portfolio also included telecommunications (TC) services. With the sale of Plusnet GmbH, the subsidiary responsible for these services, QSC has withdrawn from this business. The corresponding agreement with EnBW Telekommunikation GmbH, a subsidiary of EnBW Energie Baden-Württemberg AG, was concluded on 6 May 2019 (see "Business Performance" from Page 53 onwards). The Plusnet sale also marked a milestone on QSC's path towards a new era of growth. Since then, we have focused on our growing Cloud, SAP and IoT businesses with SME companies (see "Strategy" from Page 28 onwards).
In the past financial year, QSC managed its operating business in the four segments described below. From 2020, we will pool the business in two segments: "Cloud & IoT" (also including Outsourcing and Colocation) and "SAP".

SEE PP. 53 FF.
BUSINESS PERFORMANCE

SEE PP. 28 FF.
STRATEGY

Cloud – the motor of digitalisation. In this, its fastest-growing segment for years now, QSC pools its Cloud and IoT service activities. Cloud Services support companies in gradually advancing into the digital age. Customers can procure all major IT functions as turnkey cloud modules. These range from virtual IT workplaces and sophisticated business applications through to flexible IT resources. Individual customers decide which infrastructure they would like to draw on, as all services are already designed to cover the latest multi-cloud deployment scenarios. The IoT activities are pooled at Q-loud. This subsidiary offers the full range of services, software competence, hardware from sensors to gateways, and secure transmission and storage of the relevant data. This means that Q-loud is in demand as a partner for IoT applications in building technology. Its latest business field is the German engineering sector, for which it has developed an edge gateway that collects relevant machine data and, using cloud technology, makes this available to the respective company IT. Directly coupling IoT and cloud technology in this way provides a great competitive advantage.

Creating a competitive advantage by coupling IoT and Cloud technology

Outsourcing – self-determined transformation in the digital age. The Outsourcing segment offers all services required for traditional company IT. Customers are absolutely free to select the structure of their IT processes and themselves determine the direction and speed at which their processes are transformed and moved into the digital world. Outsourcing services offered by QSC also include managing basic IT and horizontal services, business-critical applications, stationary and mobile terminals, cutting-edge collaboration solutions and professional IT service management with 24/7 service. If customers so wish, QSC can also assume responsibility for operating the entire infrastructure.

Consulting – on the way towards digital business processes. Our experts advise companies on digitalising and optimising their business processes, with a key focus on SAP technologies. We are an SAP Gold Partner and an SAP Recognized Expertise Partner for SAP HANA and Retail and have extensive experience in the fields of basic operations, application management, implementation, user support and maintenance, as well as in licence and lease models. QSC supports its customers, for example, in deploying innovative SAP solutions such as SAP Customer Activity Repository, SAP Leonardo, SAP Analytics Cloud and above all in migrating customers to SAP S/4HANA. QSC supplements its range of consulting services with advice on Microsoft applications, such as Sharepoint, Skype for Business and Azure, as well as its own multi-cloud consulting.

Focus on migration to SAP S/4HANA

Telecommunications (TC) – Plusnet sold as of 30 June 2019. The operation of broadband technologies and a proprietary nationwide network infrastructure traditionally accounted for a large share of our portfolio. We sold this business as of 30 June 2019. The remaining Colocation business, which is based on proprietary data centres, provides SMEs with access to a secure and flexible IT infrastructure. The offering comprises traditional products, such as the letting of data centre space, the management of racks and cages, and virtualised solutions offered via virtual data centres. The portfolio is supplemented with management packages and security concepts.

TÜV and ISO-certified data centres in Germany. QSC's segments work with the Company's own infrastructure in Germany, and above all with its TÜV and ISO-certified data centres located within the country's borders. We operate data centres at four locations with total floor space of around 20,000 square metres. All data centres are governed by German data protection requirements, which are very strict by international standards. Drawing on a high-performance backbone, they act as a geo-redundant network and thus meet the utmost standards in terms of scalability, availability and security.

20,000 m²

of space at data centres

Market and Competitive Position

Clear focus on German SME sector and on three key industries. We focus on medium-sized companies based in Germany. Thanks to our own character as a medium-sized company, our presence throughout Germany and the fact that all of our data centres are located within the company's borders, we enjoy a high degree of acceptance among this target group. To be able to address the specific needs of our customers even more closely than before, in our portfolio development and sales activities we are now concentrating on three key industries: retail, manufacturing and energy. Here, we already have a strong customer base and corresponding industry expertise. These factors are supplemented by our close cooperation with strategic partners such as SAP and Microsoft.

Awards document QSC's strong position in relevant sectors

Numerous awards underline QSC's strong position in relevant sectors, particularly with regard to cloud technologies. The consultancy ISG[1], for example, identified our Company in summer 2019 as a "Leader" in the field of "Private/Hybrid Cloud", and that in no fewer than three categories. For the "Managed Services", "Managed Hosting" and "Colocation" categories, ISG sees us as providing one of the most attractive range of services and offering the greatest competitiveness. QSC's proprietary cloud also bears the "Trusted Cloud" quality seal awarded by the German Federal Ministry for Economic Affairs and Energy. This seal is only awarded to cloud solutions that meet strict criteria in terms of their security, quality and legal conformity, among other factors. In our Consulting business, our performance capacity is underlined by numerous SAP certifications.

Strategy

Growth strategy with clear targets. The "2020plus" growth strategy published in May 2019 sets clear goals: In 2022, QSC intends to generate revenues of € 200 million, a sustainably positive free cash flow and an EBITDA margin of more than 10%. On the way there, the strategy provides for double-digit revenue growth each year, with revenues increasing from quarter to quarter. Together with a business model entirely focused on digitalisation, this consistent growth will enable QSC to create a convincing basis for continually increasing its value. The core elements of our business model are:

- **Attractive portfolio.** Software-based services, intellectual property and long-term customer contracts ensure recurring revenues and high customer retention.

- **Top innovations.** The portfolio of services covers the digital value chain – from sensor technology to SAP applications to cloud scenarios – and smartly interlinks the individual components of this chain.

- **Efficient "go-to-market" approach.** Product development, partner management and sales focus on the three sectors of retail, manufacturing and energy.

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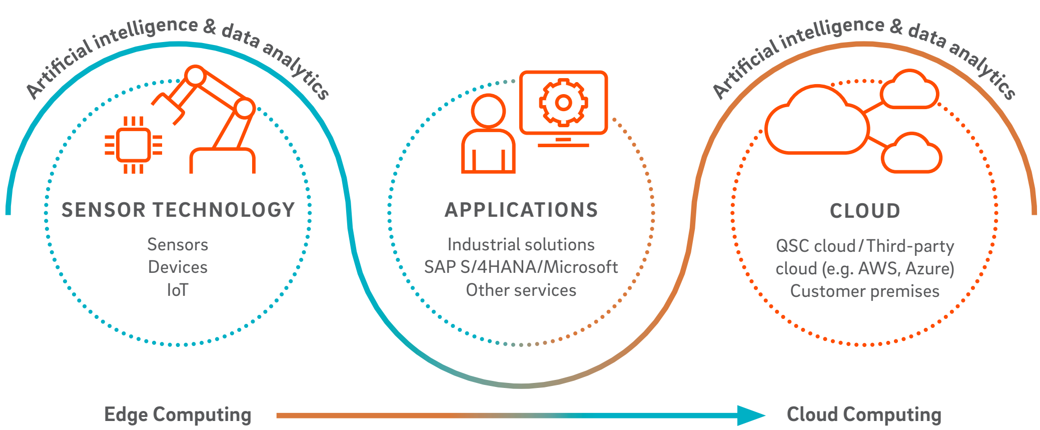
[1] ISG Provider Lens, Private/Hybrid Cloud – Data Center Services & Solutions, Germany 2019.

– **Experienced management team.** The industry, technology and sales expertise pooled in the management team ensures the implementation of our growth strategy.

– **Solid balance sheet.** A high equity ratio and high volumes of available liquidity make it possible to support the strategy with targeted acquisitions.

QSC masters digitalisation technologies (unaudited*). The new growth strategy is consistent with the current and future needs of the German SME sector, which is increasingly recognising digitalisation as an opportunity to introduce new business models, boost customer retention and enhance process efficiency. QSC masters all of the technologies needed for this.

QSC's business model



All digitalisation begins with data collection – and this requires sensor technologies, hardware and software for devices and edge computing. Our IoT subsidiary Q-loud is an expert here. In the second stage, it is about using this data to manage the business – that is a topic for our experts in SAP, Microsoft and special software. Thirdly, all data has to be permanently and securely stored while also being available at all times and in all places – that is a job for our cloud specialists. These three steps basically enable all business processes to be digitally portrayed. To this end, our Company offers the entire digital value chain, from edge computing to cloud computing, while simultaneously ensuring that the individual components are seamlessly interlinked. Our growing expertise in artificial intelligence and machine learning enables us to integrate solutions across various technologies and accelerate the digitalisation of the SME sector.

QSC offers entire digital value chain to its customers

* Contents of the sections designated "unaudited" have not been reviewed by the auditor.

Increasing growth momentum and scalability. We have the resources we need to generate double-digit revenue growth rates in the coming years and reach revenues of € 200 million we have planned for 2022. By continually investing in growth, we will achieve increasingly dynamic revenue growth from year to year. Based on our planning, our growing development and software competence will over time raise the share of revenues generated with scalable products and consistently increase our margins.

Research and Development

Research and development forms an integral component of our operating business. We operate in highly dynamic markets and deploy the latest technologies. Innovation is therefore an integral component of our operating business. This mostly involves quality and process-related innovations intended, for example, to ensure the smooth migration of customers' complex systems to our portfolio and enable these to be continually optimised. It also involves the integration of new technologies such as artificial intelligence into existing or new solutions. Innovations of this kind arise in dialogue with customers, an exchange which creates momentum for new products and services.

The key focus is on quality and process innovation

For us, research and development (R&D) is a cross-divisional activity which does not involve the separate allocation of resources. For this reason, we also do not report the number of employees working in R&D. The R&D budget also provides only limited information concerning innovation processes. Here, QSC chiefly recognises work performed on further developing its IoT portfolio and sector solutions. Total research and development expenses amounted to € 3.6 million in 2019, as against € 7.9 million in the previous year. Of this sum, an amount of € 0.4 million was capitalised (2018: € 2.0 million). Amortisation of € 0.8 million was recognised on capitalised development expenses in 2019 (2018: € 0.0 million).

Expanding software competence. In parallel, a growing number of developers is at work in our business units. They are designing cloud architectures, programming applications and integrating apps, also from third parties, into our customers' systems. Over time, their work is expanding our intellectual property (IP). Current examples include the development of a digital shelf for the retail sector and an artificial intelligence-based solution for planning and managing industrial processes. This latter solution comes from our new shareholding in aiXbrain (see Page 54). The team of mathematicians, IT experts and engineers at this company aims to develop a self-learning software that makes industrial processes digitally controllable in all of their complexity. Acquiring technological expertise, and thus IP, will also be a key focus of future acquisitions. A growing pool of IP and corresponding products will also increase the scalability of our business model.

SEE P. 54
BUSINESS PERFORMANCE

Employees

Our success is based on the commitment and willingness to perform of all our employees. For this reason alone, our Company has always accorded great priority to employee concerns. QSC had 902 employees as of 31 December 2019, as against 1,282 employees one year earlier. The reduction is mainly due to the sale of Plusnet as of 30 June 2019.

WWW.QSC.DE/EN/IR-PUBLICATIONS

Separate report on employee concerns and other non-financial topics. We will for the first time be publishing a separate non-financial report to provide extensive information on employee and social concerns, as well as on other non-financial topics such as data protection and information security, customer satisfaction and retention, service quality, energy efficiency at our data centres, ethical business practices and compliance. This report will be published on our website at www.qsc.de/en/ir-publications at the end of April 2020 and then made permanently available there.

Organisation

Nationwide presence in German market. Our Company has its legal domicile in Cologne and a second major location in Hamburg. These two sites are supplemented by eight offices located across Germany. Following the sale of its TC business with the three material subsidiaries Plusnet GmbH, Ventelo GmbH and Plusnet Infrastruktur GmbH & Co. KG, QSC now has only one material participating interest: Q-loud GmbH. Since November 2016, this company has pooled all of QSC's IoT activities.

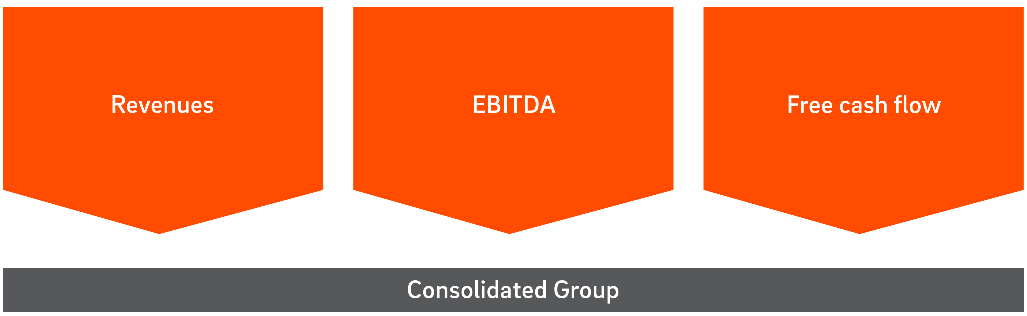
SEE PP. 131 FF. NOTES

A complete overview of the scope of consolidation as of 31 December 2019 can be found in Note 37 ("Subsidiaries") in the Notes to the Consolidated Financial Statements.

Corporate Management

Management by key financial performance indicators. QSC is managed on the level of its segments, which 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 and free cash flow. 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, impairment losses on customer-related inventories and depreciation/amortisation and impairment losses recognized for items of property, plant and equipment and intangible assets. The EBITDA margin presents EBITDA as a percentage of revenues. The free cash flow presents the change in net liquidity/debt before acquisitions and distributions, including divestments. From the 2020 financial year, financial assets with terms of up to 12 months will also be included in the calculation of liquidity. The key figure referred to by management when managing the segments is the segment contribution. This is defined as EBITDA before general administration costs and the other operating result. The segment margin presents the segment contribution as a percentage of the respective revenues.

Monthly reports as core management instrument. The monthly reports contain all relevant key figures and budget/actual comparisons. They serve as a key basis of discussion for the Management and Supervisory Boards. Moreover, the latest budget/actual comparisons are used as a basis for regularly updating the rolling planning. This acts 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 62 onwards. This ensures that any changes in opportunities and risks are directly factored into the management system.

SEE PP. 62 FF.
RISK MANAGEMENT SYSTEM

CORPORATE GOVERNANCE

Corporate Governance Report (unaudited*)

Sustainable success requires high-quality corporate governance

Transparent management and supervision. Sustainable business success requires good corporate governance. Not least for that reason, the Management and Supervisory Boards attach very great importance to ensuring that the Company is transparently managed and supervised. In this, they refer to the German Corporate Governance Code ("Code"), whose requirements they consistently implement apart from a small number of substantiated exceptions. In the following section the Management Board reports, also on behalf of the Supervisory Board, on corporate governance pursuant to Item 3.10 of the Code. This report integrates the statutory compensation report and, in a separate section, the corporate governance declaration required by § 289f and § 315d of the German Commercial Code (HGB).

MANAGEMENT AND SUPERVISION (unaudited*)

Dual management structure. QSC AG is a publicly listed stock corporation under German law and has a dual management structure. The Management Board manages the Company under its own responsibility while the Supervisory Board appoints, supervises and advises the Management Board. Members of both boards are bound solely by the Company's interests. No conflicts of interest arose in the past financial year.
The Management Board ensures that legal requirements and internal company guidelines are complied with throughout the Group. The Company has an extensive compliance management system. An electronic whistleblowing system enables employees and third parties to provide tip-offs of any violations of the law at the Company in a protected manner. Furthermore, the Management Board also ensures that adequate risk management and controlling structures are in place. Further information about these can be found in the Risk Report on Pages 62 to 67.

SEE PP. 62–67
RISK REPORT

QSC managed by a lean Management Board. In the 2019 financial year, the Management Board comprised two members: Jürgen Hermann (CEO) and Stefan A. Baustert (CFO). Following the departure of Stefan A. Baustert as of 31 December 2019, since 1 January 2020 the Management Board has comprised one member: Jürgen Hermann. The current organisational structure enables the Company to be efficiently managed by just one Management Board member. He is assisted by an extended group of managers. In view of this, the Supervisory Board currently does not deem it necessary to appoint further Management Board members.
Consistent with legal requirements, at the beginning of 2018 the Supervisory Board adopted a diversity concept for the Management Board. This lays down the criteria to be referred to when selecting candidates for future Management Board positions. These focus on specialist qualifications for the position to be occupied, management qualities, achievements and skills acquired to date and knowledge of the Company. Furthermore, in the search for suitably qualified candidates for the Management Board due account should also be taken in future of diversity considerations. The extent to which the Management Board activities benefit from different,

* Contents of the sections designated "unaudited" have not been reviewed by the auditor.

mutually complementary specialist profiles, professional and life experience and suitable representation of both genders should be appraised. The full version of the diversity concept for the Management Board can be found at www.qsc.de/en/diversity.
The Supervisory Board has also issued Rules of Procedure for the Management Board. Among other aspects, these also govern the majorities required in voting procedures. In the 2019 financial year, these required unanimity between the two members of the Management Board. All measures and transactions that are of major significance to the Company or that involve substantial financial risk require a Management Board decision. When the Management Board comprises several members, a business allocation plan governs the areas of responsibility of the individual members. Each Management Board member then manages those areas under his or her own responsibility within the framework of Management Board resolutions.

WWW.QSC.DE/EN/DIVERSITY

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

Six-member Supervisory Board in office until 2023. Pursuant to the Articles of Association, QSC's Supervisory Board comprises six members. Consistent with the requirements of the German Codetermination Act (MitbestG), two thirds of Supervisory Board members are elected by shareholders and one third by employees. In July 2018, the Annual General Meeting confirmed the four existing shareholder representatives on the Supervisory Board with large majorities. The employees had already selected their representatives in advance. One of the employee representatives left the Company in connection with the Plusnet sale. As a result, Martina Altheim, who had already been elected as a substitute member in the 2018 financial year, joined the Supervisory Board as of 1 July 2019. The term in office of the overall Supervisory Board expires upon the conclusion of the Annual General Meeting approving the actions of the Supervisory Board for the 2022 financial year.

Retiring Supervisory Board member succeeded by new employee representative

Supervisory Board committees

Nomination Committee	HR Committee	Audit Committee	Strategy Committee
Gerd Eickers (Chair)	Dr. Bernd Schlobohm (Chair)	Ina Schlie (Chair)	Dr. Bernd Schlobohm (Chair)
Dr. Frank Zurlino	Gerd Eickers	Dr. Bernd Schlobohm	Dr. Frank Zurlino
	Martina Altheim	Dr. Frank Zurlino	

Unless otherwise stipulated by law or the Articles of Association, 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 draft versions of its resolutions where appropriate. Detailed information about the activities of the Supervisory Board and its committees can be found in the Supervisory Board Report on Pages 13 to 19. D&O insurance cover is concluded for all members of the Supervisory Board. As called for by the Code, this includes a deductible of 10% of total damages. Liability is nevertheless capped at 100% of the fixed annual compensation paid to Supervisory Board members, as the Company does not deem it appropriate for the deductible to exceed this amount.

SEE PP. 13 – 19
SUPERVISORY BOARD REPORT

Supervisory Board meets all targets for its composition. In May 2017, the Supervisory Board adopted specific targets for its composition and a competence profile. The complete document is available at www.qsc.de/en/diversity. Accordingly, the Supervisory Board should as a whole have the specific knowledge, skills and experience necessary to perform its duties correctly. As well as a detailed competence profile, the document also lays down principles governing the independence of Supervisory Board members, the appropriate participation of women, the membership of former Management Board members and an age limit. The targets are consistent with the recommendations made in Item 5.4.1 of the Code – with two exceptions: There is no regular limit set on the length of membership, as 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. To enhance the legal security of future elections to the Supervisory Board, the Management and Supervisory Boards also decided to declare a divergence from the recommendation made in the Code that Supervisory Board election proposals should disclose the personal and business relations of the respective candidates with the Company, its executive bodies and with any shareholders holding material interests in the Company. In our opinion, this recommendation does not provide sufficient clarity as to which specific relations should actually be disclosed or as to the degree of detail required for such disclosures.

WWW.QSC.DE/EN/DIVERSITY

The Supervisory Board met these self-imposed targets once again in the past financial year. With Ina Schlie and Dr. Frank Zurlino, it has two independent members. As the longstanding Director of the Group Tax Department at SAP, Ina Schlie also has the expert knowledge called for in the fields of accounting and auditing. Her membership also ensures that the self-imposed minimum share of women in the Supervisory Board, namely 16.6%, is met. With Dr. Bernd Schlobohm and Gerd Eickers, the Supervisory Board includes a maximum of two former members of the Management Board. All candidates at the election in July 2018 were aged below 75. The Supervisory Board ascertained from the respective candidates in advance of the election that they would be have the time required for the role. As provided for by the Code, prior to the election the Supervisory Board also published the CVs of the candidates, thus providing information about their relevant specialist knowledge, skills and experience. These CVs are available for viewing on the Company's homepage (www.qsc.de/en/supervisory-board) and are updated each year.

WWW.QSC.DE/EN/
SUPERVISORY-BOARD

SHAREHOLDERS AND ANNUAL GENERAL MEETING (unaudited*)

IR website ensures prompt and transparent communications with the capital market. QSC uses its own website to report promptly on all developments relevant to the capital market. Interested parties will find ad-hoc and press releases on the site, as well as the quarterly and annual reports, latest presentations and a financial calendar. The website is also where we make available all of the documents relevant to our Annual General Meeting.
One aspect of transparent communications involves providing prompt information about any purchase or sale of QSC shares by Management or Supervisory Board members or parties closely related to such. An overview of the transactions in the 2019 financial year can be found at www.qsc.de/en/directors-dealings.

WWW.QSC.DE/EN/
DIRECTORS-DEALINGS

Annual General Meeting as central platform for dialogue. The most important event for the Company's dialogue with its shareholders is the Annual General Meeting. Just under 34% of the share capital was present at the Annual General Meeting for the 2018 financial year held in Cologne on 29 May 2019. Shareholders not present were able to have their voting rights exercised 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. Like in previous years, the Chair of the Meeting ensured that the meeting progressed efficiently.
It was decided not to broadcast the event on the internet, as the associated costs and legal uncertainties continued to outweigh the potential benefit for absent shareholders. The presentations by the members of the Management Board were recorded and made available online after the meeting at www.qsc.de/hv (contents available in German language only).
In the course of the year, the Company maintains its dialogue with shareholders above all at roadshows and in 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 all target groups receive up-to-date information. The respective presentations, as well as recordings of the comments made by members of the Management Board, are made available to all shareholders. Further information about the Company's investor relations activities can be found in "QSC Share Performance" on Pages 20 to 23 of this Annual Report.

WWW.QSC.DE/HV
(IN GERMAN LANGUAGE ONLY)

SEE PP. 20 – 23
QSC SHARE PERFORMANCE

Corporate Governance Declaration (unaudited*)

Information pursuant to § 289f and § 315d of the German Commercial Code (HGB). The corporate governance declaration is a constituent component of the management report. Pursuant to § 317 (2) Sentence 6 of the German Commercial Code (HGB), the review performed by the auditor is limited to the presentation of the disclosures made below and does not address their contents.

Declaration pursuant to § 161 of the German Stock Corporation Act (AktG). The Management and Supervisory Boards published the following Declaration of Compliance on 21 November 2019.

* Contents of the sections designated "unaudited" have not been reviewed by the auditor.

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 ("Deutscher Corporate Governance Kodex") in the version dated 7 February 2017

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 submitting its previous Declaration of Compliance, the Company has complied and continues to comply with the recommendations of the Government Commission "German Corporate Governance Code" in the version dated 7 February 2017, with the following exceptions:

– **No agreement regarding a deductible in the D&O insurance for members of the Supervisory Board (§ 93, paragraph 2 of the German Stock Corporation Act ["AktG"]) (Item 3.8, Paragraphs 2 and 3 of the Code).** QSC complies with the recommendation of the German Corporate Governance Code in that the D&O insurance policy for Supervisory Board members includes a deductible of 10 percent of the respective damages per damage event. However, and contrary to the recommendation, the liability per year is capped at 100 percent of the fixed annual remuneration of the Supervisory Board members, since QSC does not deem it appropriate for the deductible to exceed their annual remuneration.

– **Management Board no longer to consist of several members in future (Item 4.2.1 of the Code).** Once Stefan Baustert stands down from the Management Board as of 31 December 2019, from 1 January 2020 onwards the Management Board will consist of one member, namely the Management Board member and current Chief Executive Officer Jürgen Hermann. The Company's current organisational structure allows it to be efficiently managed by just one Management Board member. The Management Board will be supported by an extended group of senior managers. The Supervisory Board currently does not deem it necessary to appoint further members to the Management Board.

– **No exclusion of subsequent amendments to performance targets or comparison parameters for the variable remuneration of Management Board members (Item 4.2.3, Paragraph 2, Sentence 8 of the Code).** The Management Board contracts provide for variable remuneration, the amount of which is based on achievement of (one-year) annual targets ("short-term incentives") and multiyear targets based on a three-year performance period ("long-term incentives"), with both incentives to be agreed in a separate target agreement. The multiyear targets stipulated in March 2018 for a performance period running until the conclusion of the 2020 financial year and the (one-year) annual target stipulated in March 2019 are largely based on group key figures. These were significantly influenced by the closing of the sale of Plusnet GmbH in June 2019 and the deconsolidation of that company. The Supervisory Board believes that this situation made it necessary to introduce a subsequent amendment to the (one-year) annual target for the 2019 financial year, as well as to the stipulated multiyear targets, to ensure that both the short-term and the long-term variable remuneration for the Management Board continue to be based on relevant and demanding performance targets. In view of this, QSC did not comply with the recommendation made in Item 4.2.3, Paragraph 2, Sentence 8 of the Code. This recommendation will nevertheless be complied with once again in future.

– **No regular limit set for length of Supervisory Board membership (Item 5.4.1, Paragraph 2, Sentence 2 of the Code).** The Supervisory Board of QSC has compiled a competence profile for the board as a whole and set specific targets for its composition that are consistent with the recommendations made in Item 5.4.1 with the exception of the requirement to set a regular limit for the length of Supervisory Board membership. 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 the Company, its executive bodies and with any shareholders holding material interests in company in election proposals to the Annual General Meeting (Item 5.4.1, Paragraphs 6 to 8 of the Code).** In QSC's opinion, the recommendation of the German Corporate Governance Code does not specify clearly enough which relationships of a candidate must be disclosed and the extent to which such disclosures are required to be made for proposed elections at the Annual General Meeting in order to comply with the recommendation. In the interests of legal certainty with respect to future elections to the Supervisory Board, the Management Board and Supervisory Board have decided to declare a divergence from the recommendation. QSC is of the opinion that the existing disclosure requirements contained in § 124, paragraph 3 sentence 4 and in § 125, paragraph 1 sentence 5 of the German Stock Corporation Act ("AktG") are sufficient to meet the informational needs of the shareholders and will, at an appropriate date, investigate and decide – voluntarily and without tying itself to the Code's recommendation – whether to disclose additional information about candidates proposed for election at the Annual General Meeting.

Cologne, 21 November 2019

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

WWW.QSC.DE/EN/
CODE-OF-CONDUCT

Relevant corporate governance practices. QSC views corporate governance as providing a framework for transparently managing and supervising the entire Company. Not least for that reason, its internal policies are consistent with the Code. Moreover, QSC's corporate management is based on a system of shared values. QSC's Compliance Guidelines summarise the main contents of this system in the Code of Conduct. These are binding for the Management Board and for all employees and are also expected to shape business dealings with third parties. The Code of Conduct has been published at www.qsc.de/en/code-of-conduct.
Compliance naturally requires the ongoing attention of the Company's executive bodies. The Management and Supervisory Boards therefore address this topic regularly, as does the Supervisory Board Audit Committee. In doing so, they draw on information including the quarterly risk reports, in-house controlling and internal audit reports. The associated discussions generate major impetus for enhancing the compliance management system on an ongoing basis.

SEE PP. 33 – 34 CORPORATE GOVERNANCE REPORT
SEE PP. 13 – 19 SUPERVISORY BOARD REPORT

Description of the mode of operation of the Management and Supervisory Boards. The mode of operation of the Management Board is described in the Corporate Governance Report on Pages 33 and 34. Information about the Supervisory Board can be found on Pages 34 and 35 and in the Supervisory Board Report on Pages 13 to 19.

33%
share of women in Supervisory Board

Diversity pursuant to § 76 (4) and § 111 (5) of the German Stock Corporation Act (AktG). The Supervisory Board has set itself the target that at least 16.6% of its members should be women. The inclusion of women is basically viewed as a responsibility shared by shareholder and employee representatives alike. As the Supervisory Board does not have any influence over the election of employee representatives, the shareholder representatives have assumed the task of meeting this target. With Ina Schlie, the Supervisory Board included one female shareholder representative previously, and has continued to do so in the period since the election of new members in July 2018. She is joined by one female employee representative. With a female quota of 33%, the newly elected Supervisory Board also meets its self-imposed targets and legal requirements.
For the Management Board, the Company has set itself a target of 0% female members. Given the Company's great focus on IT and technology, in the 2017 financial year the Supervisory Board set this target for the period until 30 June 2022. In the past financial year, the Management Board comprised two men. Since 1 January 2020, the Management Board has consisted of one man. For both of the top two management tiers, the target for the share of female managers amounts to 15%. At the end of 2019, women made up 16% of managers in the first management tier and 13% of the second management tier.

WWW.QSC.DE/EN/IR-PUBLICATIONS

Separate Non-Financial (Group) Report to be published at end of April 2020 (unaudited*). QSC will be preparing a Separate Non-Financial (Group) Report outside the Group Management Report pursuant to § 289b (3) and § 315b (3) of the German Commercial Code (HGB). This separate report will be published on our website at www.qsc.de/en/ir-publications by the end of

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April 2020 and made permanently available there. This report will include the disclosures requiring inclusion in the non-financial declaration pursuant to § 315c in conjunction with § 289c of the German Commercial Code (HGB) and will be reviewed by the Supervisory Board.

QSC has long accorded high priority to corporate social responsibility (CSR). Any business wishing to succeed in the longer term has to think and act sustainably. This being so, since its foundation our Company has always accorded high priority to employee and environmental concerns. Environmental protection, respect for human rights and measures to combat bribery and corruption are a matter of course at QSC. To date, we nevertheless forewent the compilation of concepts pursuant to § 315c in conjunction with § 289c (3) Nos. 1 and 2 of the German Commercial Code (HGB). While our Company was undergoing its fundamental restructuring process, other tasks had priority and absorbed the necessary resources. Even then, however, the creation of sustainable value was the focal point of our strategy, while numerous processes, programmes and approaches involved promoting and protecting sustainable ways of thinking and acting.

New CSR position from 1 January 2020. Now that we have completed the restructuring stage, we are expanding our CSR activities. We created a new CSR position as of 1 January 2020 in order to coordinate all relevant activities and provide fresh momentum. The CSR manager will on the one hand offer specialist support to all business units and on the other hand work together with the Management Board in the current year to compile a sustainability strategy and a corresponding programme. To this end, she will work with the existing workgroup that includes representatives of all relevant company departments (Corporate Social Responsibility, Quality and Process Management, Investor Relations, Human Resources, Central Procurement, Internal Audit & Compliance, Corporate Communications, Marketing, Data Centre Services and Colocation). The workgroup acts as a multiplier and has already created a high degree of awareness for the topic throughout the Company. In a first step, the interdisciplinary team revised and extended the existing materiality analysis. According to this analysis, the following topics form the focus of our CSR activities: data protection and information security, customer satisfaction and retention, service quality, data centre energy efficiency, employee retention and development, training and securing the next generation of employees, ethical business practices and compliance.

Dedicated sustainability strategy to be compiled in the 2020 financial year

Compensation Report

Transparent presentation of compensation paid to Management and Supervisory Boards. One aspect of good corporate governance involves transparently presenting the total compensation paid to members of the Management and Supervisory Boards. The compensation system for members of the Management Board was most recently approved by the Annual General Meeting on 27 May 2015. According to this system, the Supervisory Board determines the total compensation payable to individual members of the Management Board. In assessing the appropriateness of this compensation, the Supervisory Board is guided by the tasks of the individual Management Board member, his or her personal performance and the Company's economic situation and its sustainable development. It also takes due account of the appropriateness of the compensation by reference to peer group companies and compensation structures otherwise applicable within the company and at comparable companies. Total compensation is structured in such a way as to be competitive in the market for highly qualified executives.

High share of annual target compensation is performance-based

A high share of annual target compensation for Management Board members is performance-related. The compensation system for QSC's Management Board consists of fixed and variable compensation components, pension benefits and other fringe benefits.

The annual non-performance-related fixed compensation should make up a maximum of 50% of total annual target compensation (comprising fixed and variable compensation based on 100% target achievement). Fixed compensation accounts for the performance of the respective member of the Management Board and the function and responsibilities assigned to him or her. It is paid by 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 this bonus is based on the achievement of the annual targets (short-term incentives) and multiyear targets (long-term incentives) to be agreed in separate target agreements. These targets may be based on Company-related key figures and/or 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 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 should account for at least 50% of the total annual target compensation (based on 100% 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 General Meeting is held following 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 General Meeting is held following 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. Acting upon a recommendation made by its Human Resources Committee, on one occasion in the 2017 financial year the Supervisory Board diverged on an exceptional basis from the compensation system approved by the Annual General Meeting. When extending the employment contract with Stefan A. Baustert, it was agreed that, as of 1 January 2018 and for the remaining term of the employment contract, his fixed compensation would make up 54.5% of his annual target compensation (based on 100% target achievement) and thus exceed the 50% mark. This exemption was approved, as the increase in fixed compensation represented a key factor in Stefan A. Baustert agreeing to the extension of his employment contract. At the time at which the contract was extended, the Supervisory Board and its Human Resources Committee believed that it was in the Company's interests to extend the Management Board activity of Stefan A. Baustert.

Variable compensation dependent on achievement of 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 any condition governing an annual target and/or 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% target achievement.
In concluding target agreements, the Supervisory Board ensures that the share of variable target compensation due to achievement of the multiyear targets basically reaches a minimum of the share attributable to 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 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 periods. 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 be agreed in this regard as well.

Management Board compensation for 2019. Total Management Board compensation for the 2019 financial year came to € 929k, as against € 1,132k in the previous year.
The year-on-year reduction in total compensation was mainly due to the lower volume of variable compensation based on the annual target for the Management Board. Furthermore, the total amount of variable compensation paid in the previous year included a retrospective payment of € 156k for the multiyear targets for the period from 2015 to 2017.

SEE P. 44
COMPENSATION TABLE

Individualised Management Board compensation is presented in the table on Page 44. In the target agreements entered into for the 2019 financial year, a congruent annual target and two separate, equally weighted multiyear targets were agreed for all Management Board members in office in the 2019 financial year. The annual target was retrospectively adjusted in August 2019 to take appropriate account of the effects of the sale of the Plusnet shareholding as of 30 June 2019.

The original and the amended annual target for 2019 were each linked to the Group's revenues in the 2019 financial year. This target, as amended in August 2019, was 90% met.

Multiyear targets are linked to EBITDA margin and Cloud revenues

The assessment period for multiyear targets covers the financial years from 2018 to 2020. The multiyear targets are linked to the consolidated EBITDA margin at the end of the assessment period in 2020 and to the revenues generated in the Cloud segment in the 2020 financial year. Entitlement to the portion of variable compensation attributable to the multiyear targets arises for each year within the three-year assessment period. However, the portion of variable compensation attributable to the multiyear targets is only accounted for as a component of total compensation following expiry of the assessment period if the agreed multiyear targets were met. No information indicating that the agreed minimum targets would not be met, thus leading to the complete loss of the variable compensation attributable to the multiyear variable compensation, was available at the end of 2019.

Should the appointment of a Management Board member expire prematurely during the three-year assessment period for the multiyear targets, any share of variable compensation attributable to the financial year in which the Management Board member stands down is calculated on a time-apportioned basis and the target bonus correspondingly reduced. In this case, the resultant obligation may, at the Company's discretion, be settled by way of a premature payment, with the Supervisory Board then agreeing a hypothetical degree of target achievement with the respective Management Board member.

Once again in the past financial year, no loans were granted to Management Board members.

Benefits granted
€ 000s

	Jürgen Hermann Chief Executive Officer since 30 May 2013				Stefan A. Baustert Member of the Management Board until 31 December 2019			
	2018	2019	2019 (min.)	2019 (max.)	2018	2019	2019 (min.)	2019 (max.)
Benefits granted								
Fixed compensation	300	300	300	300	300	300	300	300
Fringe benefits	32	32	32	32	36	36	36	36
Total	**332**	**332**	**332**	**332**	**336**	**336**	**336**	**336**
One-year variable compensation	150	150	0	225	125	125	125	125
Multiyear variable compensation								
Long-term incentive (2018–2020)[1]	150	150	0	225	125	-	-	-
Total compensation pursuant to DCGK	**632**	**632**	**332**	**782**	**586**	**461**	**461**	**461**
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)	(125)		
Less long-term incentive (2018–2020)[2]	(150)	(150)			(125)	-		
Plus annual variable actual compensation paid	168	136			140	125		
Plus long-term incentive paid (2015–2017)[3]	85	-			71	-		
Total compensation	**585**	**468**			**547**	**461**		
Total expenses for share-based compensation recognised in reporting period	22	0			39	30		

Benefits paid
€ 000s

	Jürgen Hermann Chief Executive Officer since 30 May 2013		Stefan A. Baustert Member of the Management Board until 31 December 2019	
	2018	2019	2018	2019
Benefits paid				
Fixed compensation	300	300	300	300
Fringe benefits	32	32	36	36
Total	**332**	**332**	**336**	**336**
One-year variable compensation	168	136	140	125
Multiyear variable compensation				
Long-term incentive (2015–2017)[3]	85	-	71	-
Long-term incentive (2018–2020)[2]	-	-	-	-
Total compensation pursuant to DCGK	**585**	**468**	**547**	**461**

< Footnotes from Page 44

[1] The variable compensation for the long-term incentive (2018–2020) was agreed on the basis of two separate, equally weighted multiyear targets. The assessment period for the multiyear targets covers the financial years from 2018 to 2020. The multiyear targets are linked to the consolidated EBITDA margin for the 2020 financial year and the revenues generated in the Cloud segment in the 2020 financial year. No information indicating that the targets agreed for the 2020 financial year would not be met was available at the end of 2019.

[2] Consistent with § 314 (1) No. 6a of the German Commercial Code (HGB), this compensation is only considered granted as of the end of the respective three-year assessment period, as the conditions governing target achievement are only deemed to have been met as of this time.

[3] The variable compensation for the long-term incentive (2015–2017) was agreed on the basis of two separate, equally weighted multiyear targets. The assessment period for the multiyear targets covered the financial years from 2015 to 2017. At the recommendation of the Human Resources committee, in March 2018 the Supervisory Board decided to neutralise material one-off charges affecting the calculation of consolidated EBITDA for 2017. This increased the degree of target achievement. The amount resulting from this adjustment was paid in the 2018 financial year.

Benefits in the event of premature termination. The Management Board member Jürgen Hermann has been promised a settlement should his Management Board position be prematurely terminated due to effective revocation of his appointment by the Company. This settlement still amounts to unchanged total of € 600k in the first two years covered by his employment contract. In the final year of the employment contract, 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 should the employment relationship be terminated without notice due to compelling reason (§ 626 BGB) or in the event of the employment relationship being terminated due to the 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 amount of € 600k.

Disclosures on retired Management Board members. Total compensation for former Management Board members came to € 550k in the 2019 financial year (2018: € 4k).
The Management Board member Stefan A. Baustert stood down from his position as of 31 December 2019. His employment relationship was rescinded by mutual agreement upon the expiry of 31 December 2019. A settlement of € 550k was promised to him in connection with the termination of his Management Board activity.
Dr. Bernd Schlobohm, a former Management Board member, was granted a direct pension commitment for a retirement, occupational disability and widow's pension in 1997. At the balance sheet date, the obligation amounted to € 2,442k prior to the offsetting of reinsurance claims of € 1,910k.
The actuarial present value of provisions for vested pension claims for other former Management Board members amounted to € 109k.

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

	Shares		Convertible bonds	
	31 Dec. 2019	31 Dec. 2018	31 Dec. 2019	31 Dec. 2018
Jürgen Hermann	670,000	600,000	150,000	350,000
Stefan A. Baustert (until 31 December 2019)	40,000[1]	40,000	200,000[1]	200,000

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

Jürgen Hermann purchased the following number of shares in the Company via the stock exchange in the past two calendar years:

	Number of shares purchased	Transaction volume (€ 000s)
February 2018	100,000	152
September 2018	100,000	145
June 2019	70,000	96

Further details can be found in the directors' dealings notifications made pursuant to Article 19 of the European Market Abuse Directive on QSC's website at www.qsc.de/en/directors-dealings.

WWW.QSC.DE/EN/
DIRECTORS-DEALINGS

Supervisory Board compensation system laid down in Articles of Association. Consistent with the provisions of the Articles of Association, each member of QSC's Supervisory Board receives fixed annual compensation of € 35k payable after the end 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.

Supervisory Board compensation for the 2019 financial year. As in the previous year, for its activity in the 2019 financial year the Supervisory Board 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:

	Compensation as per § 15a of Articles of Association (€ 000s)[1]				Shares		Number of convertible bonds	
	2019		2018		31 Dec. 2019	31 Dec. 2018	31 Dec. 2019	31 Dec. 2018
Dr. Bernd Schlobohm, Chairman	95	(25)	95	(25)	15,769,910	15,519,910	-	132,000
Dr. Frank Zurlino, Deputy Chairman	60	(10)	60	(10)	10,000	10,000	-	-
Gerd Eickers	40	(5)	40	(5)	15,777,484	15,577,484	-	-
Ina Schlie	45	(10)	45	(10)	-	-	-	-
Matthias Galler (from 12 July 2018)[2]	35	-	17	-	-	-	2,700	2,700
Martina Altheim (from 1 July 2019)[2]	20	(3)	-	-	-	-	1,900	-
Cora Hödl (until 30 June 2019)[2]	20	(2)	40	(5)	-	-	-	4,100
Anne-Dore Ahlers (until 12 July 2018)[2]	-	-	18	-	-	-	-	2,700[3]
Total	**315**	**(55)**	**315**	**(55)**				

[1] Numbers in parentheses refer to compensation for committee activity included in total amount.
[2] Employee representative.
[3] Holdings at the time of retirement from the Supervisory Board.

The Supervisory Board members Dr. Bernd Schlobohm und Gerd Eickers purchased the following number of shares in the Company via the stock exchange in the 2019 calendar year:

	Number of shares purchased	Transaction volume (€ 000s)
Dr. Bernd Schlobohm (June 2019)	250,000	339
Gerd Eickers (June 2019)	200,000	271

WWW.QSC.DE/EN/DIRECTORS-DEALINGS

Further details can be found in the directors' dealings notifications made pursuant to Article 19 of the European Market Abuse Directive on QSC's website at www.qsc.de/en/directors-dealings.

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 also maintains a liability indemnification insurance policy which covers the members of the Supervisory Board.

Takeover-related Disclosures and Explanatory Comments

Customary regulations for a listed company. The following overview outlines the disclosures mandatory under § 315a (1) of the German Commercial Code (HGB). Overall, these involve regulations that are typical at listed companies. The following disclosures reflect the circumstances at the balance sheet date.

Composition of issued capital. Issued capital amounted to € 124,172,487 as of 31 December 2019 and was divided into 124,172,487 no-par registered ordinary shares. According to the Share Register, these shares were distributed among 25,872 shareholders.

Limitations on voting rights or transfer of shares. Each share grants one vote at the Annual General 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% of capital. There are the following direct and (pursuant to § 34 of the German Securities Trading Act [WpHG]) indirect holdings in the Company's capital that exceed 10% of voting rights:

- Dr. Bernd Schlobohm, Germany, 25.41% of voting rights (of which 12.70% directly and 12.71% indirectly)
- Gerd Eickers, Germany, 25.41% of voting rights (indirectly)
- Gerd Eickers Vermögensverwaltungs GmbH & Co. KG, Cologne, Germany, 25.41% of voting rights (of which 12.71% directly and 12.70% 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 12 February 2020. 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% 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 General Meeting on 12 July 2018, the Management Board is authorised pursuant to § 71 (1) No. 8 of the German Stock Corporation Act (AktG) until 11 July 2023 to acquire QSC shares on a scale of up to 10% of issued capital. To date, the Management Board has not acted on this authorisation.

Authorised capital. By resolution of the Annual General 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 € 42,751,500 as of the balance sheet date. This was divided into Conditional Capital IV (€ 40,000,000), Conditional Capital VIII (€ 2,001,500) and Conditional Capital IX (€ 750,000).

Conditional Capitals 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) or to Management Board members, managing directors of affiliated companies, employees of QSC and affiliated companies (Conditional Capital VIII). 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 General 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.

Capital limits for the exclusion of subscription rights. 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 to an aggregate total of no more than 10% of issued capital during the term of the respective authorisation. Apart from this, the exclusion of shareholders' subscription rights 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% of issued capital during the term of the respective authorisation. Treasury stocks sold to the exclusion of subscription rights would be imputed to the 20% of issued capital limit if they were sold during the term of the other authorisations.
Further details apply in accordance with the underlying resolutions adopted by the Annual General Meeting for each of these measures.

Material agreements conditional on a change of control due to a takeover bid. 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.

BUSINESS REPORT

Overall Summary / Actual vs. Forecast Business Performance

All targets published after Plusnet transaction successfully met

Focus on Cloud, SAP and IoT applications pays off. By concentrating on Cloud, SAP and IoT applications, our Company consistently promoted its further development in the past year. It reached all of the targets set following the premature completion of the Plusnet transaction and deconsolidation as of 30 June 2019: At € 238.0 million, revenues exceeded the target of € 235 million. The EBITDA of € 140.3 million was consistent with the communicated target of more than € 140 million, while the free cash flow of € 136.4 million was ahead of the target of more than € 130 million. The first forecast after the closing of the Plusnet contract, published on 23 May 2019, provided for revenues of more than € 255 million and EBITDA of more than € 145 million. However, this was still based on the assumption that Plusnet would be deconsolidated as of 31 July 2019. The forecast published on 27 February 2019 still included Plusnet's business activities for the whole of 2019.

	Targets 2019	Actual 2019 results	
Revenues	> € 235 million	€ 238.0 million	✓
EBITDA	> € 140 million	€ 140.3 million	✓
Free cash flow	> € 130 million	€ 136.4 million	✓

€133m
new orders in 2019

Since the successful Plusnet sale, our Company has been on a growth course once again. Calculated on a like-for-like basis, revenues showed consistent growth, rising from € 30.1 million in the second quarter to € 32.3 million in the third quarter and € 33.1 million in the fourth quarter of 2019. The new orders of € 133 million received in the 2019 financial year offer a solid foundation for the growth planned in 2020 and beyond.

Macroeconomic and Industry Framework

German economy grows by 0.6%[2]. Our Company focuses on the German market, where macroeconomic activities are significantly influenced by international trade. Lower growth rates in key sales market, uncertainty surrounding Brexit, and the threat of trade wars – these factors held back growth in German gross domestic product in the past year. This rose by 0.6%, as against 1.5% in the previous year, with momentum chiefly coming from the domestic economy.

[2] Federal Minister for Economic Affairs and Energy, 29 Jan. 2019, www.bmwi.de/Redaktion/DE/Pressemitteilungen/2020/20200129-altmaier-legt-jahreswirtschaftsbericht-vor.html.

IT market in Germany grows by 2.9%[3]. One of the growth drivers in the domestic economy was the IT market, which is now the only sector relevant to our Company. Based on calculations compiled by the Bitkom sector association, IT revenues grew by 2.9% to € 92.9 billion in 2019. While developments in the hardware segment were subdued, software revenues grew year-on-year by 6.3%. Revenues with IT services rose by 2.4%.

The German IT market
(€ billion)

Until 30 June 2019, we also still operated in the German TC market, and here in particular in the business with TC services. According to Bitkom's figures, revenues generated with TC services in Germany stagnated in 2019, as was already the case in 2018.

Focus on three growth markets. Our Company now chiefly operates in three particularly attractive IT markets, namely Cloud, SAP and IoT. According to KPMG's Cloud Monitor[4], 73% of companies now work with cloud technologies. Four years ago, this figure was just 54%. Both private and public cloud solutions are growing in popularity. Here, our multi-cloud competence is consistent with these market requirements.

73%
of companies already using Cloud solutions

Following an initial period of hesitancy, within the SAP environment companies are now actively working on launching S/4HANA. Based on disclosures by the "German-speaking SAP User Group" (DSAG)[5], only one in ten companies has yet made the transition. 9% of companies nevertheless intend to address the topic this year and a further 40% of companies are planning to transition in the years ahead. We acted early to prepare for this conversion and are now able to offer comprehensive support to companies.

IoT noticeably growing in relevance. Our IoT subsidiary Q-loud also operates in a growth market. According to the "Internet of Things 2020" study compiled by IDG, nearly one in two companies has now implemented projects in the internet of things. One year earlier, this figure was just 44%. As expected, IoT solutions are slowly but continuously gaining in relevance and usefulness to businesses. Particularly at small and medium-sized businesses, managers often think in the long term and tend to introduce IoT solutions on a gradual basis. Regardless of this, the IDG surveys shows that the topic is relentlessly gaining in relevance. In 2019, 56% of companies already referred to IoT as being of great or even very great relevance. Nine out of ten companies are even convinced that IoT will play an important role in their businesses by 2022.

IoT set to play a major role for nine out of ten companies by 2022

[3] Bitkom, ICT market statistics, January 2020.
[4] KPMG, Cloud-Monitor 2019.
[5] German-speaking SAP User Group (DSAG) e. V., https://www.dsag.de/pressemitteilungen/switch-s4hana-complete.

Q-loud is prepared for this. Since being founded, our subsidiary has already linked 600,000 industrial devices to the internet of things. These involve a wide variety of devices, ranging from windows, doors, heating and cooling systems, pumps, rollers, valves and pipes through to manhole covers. Companies across all sectors are looking ever more closely at integrating IoT applications with the cloud. Here too, we are among the pioneers in the German market and are already networking our Cloud, SAP and IoT competence in customer projects.

QSC is already networking its Cloud, SAP and IoT competence for customers

Regulatory framework no longer relevant after Plusnet sale. Through to the sale of our TC business as of 30 June 2019, our Company also operated in a market in which core sections were subject to regulation by the German Federal Network Agency ("Bundesnetzagentur"). In the past, decisions taken by this authority and the EU Commission had a significant impact on our operating business performance and also harboured risks. Following the Plusnet sale, these topics are no longer relevant to our business.

Business Performance

Consolidated financial statements shaped by successful Plusnet sale. The complete sale of our telecommunications subsidiary Plusnet GmbH marked a milestone on our Company's way towards a new era. We signed the corresponding agreement with EnBW Telekommunikation GmbH, a subsidiary of EnBW Energie Baden-Württemberg AG, on 6 May 2019. Following the approval granted by the German Federal Cartel Office, the transaction was already completed as of 30 June 2019 – and thus one month earlier than planned in May. The purchase price amounted to € 229 million.

€ 229 m

sale price for Plusnet

In Plusnet, we sold a company that in 2018 generated revenues of € 231.5 million. Of these revenues, 79% were attributable to the Telecommunications segment, 18% to the Outsourcing segment (VPN business) and 3% to the Cloud segment (cloud-based telephony). The high share of revenues and earnings previously attributable to Plusnet limits the meaningfulness of any year-on-year comparison. The information provided below on our financial position, financial performance and cash flows therefore focuses in part on developments in the 2019 financial year. When comparing figures, due account should also be taken of our Company's business relationships with Plusnet since 1 July 2019. Some Plusnet customers continue to procure IT services from QSC, while some QSC customers are still provided with TC services by Plusnet. Furthermore, we also performed administrative services for Plusnet in the second half of the year.

Start of a new era with the "2020plus" growth strategy. The proceeds from the Plusnet sale serve to accelerate the implementation of our "2020plus" growth strategy. This is based on five pillars: an attractive business portfolio; innovations and new technologies; a clear sector focus and strong partners; an effective operating management team as well as a value-adding investment and acquisition policy (see "Strategy" from Page 28 onwards). Moreover, we also used the proceeds from the sale to fully repay the Company's external debt, which at the end of 2018 had amounted to € 120.0 million.

SEE PP. 28 FF.
STRATEGY

Acquisitions provide additional growth momentum (unaudited*). Alongside the development of innovative services, investments in technology companies are also a key component of the measures we are taking to implement our growth strategy. Here, we reported our first success in November 2019 already – the acquisition of 25.1% of the shares in aiXbrain GmbH, a specialist in process analytics and artificial intelligence (AI) for the manufacturing sector. aiXbrain is a spin-off of the Institute for Theoretical Information Technology at RWTH Aachen University. Its team of mathematicians, IT specialists and engineers works to develop AI modules and complete solutions for use in manufacturing. aiXbrain's self-learning software sees to the orchestration of even highly complex production processes, presents the status quo in digital terms and analyses this, also in terms of hidden process expertise (process mining).

25.1%

stake acquired in aiXbrain GmbH

Return to growth courses. Since the Plusnet sale, our Company once again reported revenue growth, with revenues of € 32.3 million in the third quarter and € 33.1 million in the fourth quarter of 2019. The Cloud segment, with its two fields of Cloud Services and IoT, reported particularly high growth. Revenues here rose by more than a quarter to € 10.2 million in the third quarter and by a further 8% to € 11.0 million in the fourth quarter. For 2019 as a whole, revenues in the Cloud segment came to € 42.1 million, as against € 33.0 million (adjusted pursuant to IAS 8 as explained in Note 6 in the Notes to Consolidated Financial Statements). In 2018, the cloud-based telephony business still formed part of this segment on a full-year basis.

SEE PP. 99 FF.
NOTES

Development of quarterly revenues since Plusnet sale
(€ million)

* QSC revenues excluding Plusnet.

Ever more SME players are relying on our comprehensive Cloud Services. We can report highly positive developments in 2019 in our Cloud Services business in particular: here, the team managed to acquire new customers, expand relationships with existing customers and support further Outsourcing customers in migrating their IT to the cloud. In May 2019, for example, the

* Contents of the sections designated "unaudited" have not been reviewed by the auditor.

Swiss steel group Schmolz + Bickenbach commissioned us to install a multi-cloud solution. In a first stage, the various IT systems used at more than half of the company's business units were migrated to our QSC Enterprise Cloud. In December 2019, the fashion accessories provider beeline placed an order with us to operate all of its SAP applications in the cloud. To this end, the retail company with 23,000 points of sale in 47 countries migrated its core business management systems from the SAP HANA Enterprise Cloud (HEC) and from various services providers and in-house resources to our QSC Enterprise Cloud.
The Fressnapf Group, Europe's largest specialist retail chain for pet food and accessories, extended the term and scope of its contract through to 2023. The key topic here is the migration of SAP systems and further IT solutions to the cloud. In future, the SAP environment will be operated in the SAP HANA Enterprise Cloud. We act as general contractors for the SAP operations and application management.

Development and operation of one of the largest IoT platforms in the German energy sector. We also managed to convince new customers and intensify our customer relationships in 2019 in our IoT business. In future, our Company will thus be operating one of Germany's largest IoT platforms in the energy sector. We have been commissioned by Techem, one of Germany's key providers of building energy services, to develop and then operate this platform. In future, it will be relying even more closely on networked appliance infrastructure and data-based solutions. Looking ahead, Q-loud's IoT hub should act as the sole data hub providing information for Techem's different cloud environments and decentralised systems.

Ongoing migration of Outsourcing customers to Cloud. Two factors render any year-on-year comparison of revenues in the Outsourcing segment more difficult. On the one hand, through to 30 June 2019 this segment still included revenues of € 19.5 million from marketing IP-VPN solutions. On the other hand, we are pressing ahead with migrating our Outsourcing customers to Cloud. Outsourcing revenues therefore totalled € 50.0 million in the past financial year, as against € 91.0 million in 2018.
These figures conceal the success in our operating business. After all, since 2018 our Outsourcing experts have managed to extend the terms and in some cases even the scope of all contracts that were otherwise due to expire.

10%

revenue growth in Consulting in 2019

Consulting shows substantial growth and benefits from S/4HANA competence. Revenues in the Consulting segment grew by 10% to € 42.4 million in 2019. Most of these revenues were generated with operating and advisory services relating to SAP software. Since mid-2019, for example, we have been launching the new generation of S/4HANA generation at the fast-growing DIY chain Fishbull. Factors which convinced this new customers included the expertise we have built up over years now in the retail sector, with customers such as Fressnapf and SportScheck.
Since August 2019, the heating energy metering specialist Brunata-Metrona Hürth has also been drawing on our SAP expertise. It has commissioned us to perform application management services for all of its SAP applications. Here, we will be drawing on state-of-the-art, cloud-based application services. In a first stage, we provided the necessary SAP systems from our QSC Enterprise Cloud.

TC segment changed by Plusnet sale. Plusnet, which was sold as of 30 June 2019, generated most of its revenues with TC services. That is why the revenues of € 103.5 million reported for the TC segment in the 2019 financial year were only half the figure of € 200.9 million for 2018. Following the Plusnet sale, the Telecommunications segment includes the Colocation business relating to data centre services. The stability of this business field is underlined by the ten-year extension agreed in July 2019 for the colocation contract with DATEV. We have provided this specialist in software solutions for accountant, auditors and lawyers with its own data centre since 2011 already.

Key Performance Indicators

Full-year revenues of € 238.0 million in 2019. With revenues of € 238.0 million in the 2019 financial year as a whole, compared with € 363.4 million in the previous year, our Company's revenue performance was fully consistent with its expectations. When comparing the figures, it should be noted that Plusnet still accounted for revenues of € 231.5 million in 2018, but only for revenues of € 110.6 million in the first six months of 2019 (see "Overall Summary" on Page 51 and "Business Performance" from Page 53 onwards).

SEE P. 51
OVERALL SUMMARY
SEE PP. 53 FF.
BUSINESS PERFORMANCE

One-off EBITDA totalling € 140.3 million in 2019. EBITDA surged to € 140.3 million in the past financial year, compared with € 35.3 million in 2018. This increase was due to the high volume of other operating income of € 135.3 million resulting from the Plusnet sale (see Note 2 in the Notes to Consolidated Financial Statements).

SEE PP. 82 FF.
NOTES

Free cash flow amounts to € 136.4 million in 2019. The free cash flow came to € 136.4 million in the past financial year, as against € 12.2 million in the previous year, with this increase also being related to the Plusnet sale. This key figure is calculated as the change in net liquidity/debt before acquisitions and distributions. It does not account for the effect on liabilities of the new IFRS 16 lease standard. The table below shows the relevant parameters as of the balance sheet dates on 31 December 2019 and 31 December 2018:

€ million	31 Dec. 2019	31 Dec. 2018
Liquidity	**66.0**	**53.6**
Long-term other financial liabilities	-	(100.0)
Short-term other financial liabilities	-	(20.0)
Interest-bearing financing liabilities	**-**	**(120.0)**
Net liquidity/debt	**66.0**	**(66.4)**

€ 66m

liquidity as of 31 Dec. 2019

Due to the Plusnet sale, liquidity rose to € 66.0 million in 2019, up from € 53.6 million in the previous year. The purchase price was also used to repay all interest-bearing financial liabilities. As of 31 December 2018, long-term and short-term other financial liabilities had still amounted to € 120.0 million.
As a result, net liquidity/debt changed by € 132.4 million in 2019. As the free cash flow presents the financial strength of the operating business, this key figure is adjusted to eliminate payments for acquisitions and distributions. The distribution of a dividend of € 0.03 per share after the Annual General Meeting on 29 May 2019 led to an outflow of funds of € 3.7 million. The investment in aiXbrain in November 2019 required € 0.2 million. When rounded up or down as applicable, these factors produced a free cash flow of € 136.4 million.

Earnings Performance

Plusnet sale and first-time application of IFRS 16 lead to changes in cost ratios. The revenues of € 238.0 million were countered in the 2019 financial year by cost of revenues of € 208.8 million. Based on higher revenues, the cost of revenues still amounted to € 295.4 million in the previous year. In the wake of the Plusnet sale, costs of purchased services in particular fell sharply, as the TC business was significantly influenced by preliminary services provided by large network operators, such as Deutsche Telekom.
When comparing the figures, further account should be taken of the first-time application of the IFRS 16 lease standard in the opening balance sheet as of 1 January 2019 (see Note 19 in Notes to Consolidated Financial Statements). The new standard requires lessees to recognize operating leases in their balance sheets and depreciate these like any other asset. Other factors being equal, this increases depreciation and interest expenses, with a corresponding reduction in operating expenses and here in particular in cost of revenues. As most of the leases related to the TC business, the resultant effects are reflected above all in the 2019 consolidated financial statements. From 2020 onwards, leasing will only play a subordinate role in our business.
Sales and marketing expenses decreased to € 22.8 million in 2019, down from € 29.7 million one year earlier. A significant part of this reduction was due to the discontinuation of most commission payments in the second half of 2019. The TC business had involved a large degree of cooperation with sales partners. General and administrative expenses, by contrast, rose to € 38.7 million, up from € 30.9 million in 2018. This increase was driven on the one hand by one-off transaction costs relating to the Plusnet transaction. On the other hand, we still performed a significant volume of administrative services for Plusnet in the second half of the year. The corresponding income, totalling € 2.8 million, is reported under other operating income.

SEE PP. 114 FF.
NOTES

One-off high volume of other operating income due to Plusnet sale. Overall, the deconsolidation of Plusnet led to the recognition of other operating income totalling € 139.1 million in the income statement for the 2019 financial year (2018: € 2.2 million). The major share of this one-off income resulted from accounting gains due to the difference between the agreed purchase price and the net assets disposed of in connection with the transaction. The other operating expenses of € 18.9 million, as against € 1.1 million in 2018, were due to a one-off write-down of goodwill, as well as to one-off expenses incurred in connection with the Plusnet transaction.

EBITDA boosted by other operating result. The development in EBITDA is more clearly apparent if, like in the quarterly reporting during the financial year, depreciation and amortisation and non-cash share-based compensation are presented separately in the income statement. Consistent with IAS 1, these line items form part of individual cost items in these consolidated financial statements. In the abridged income statement below, depreciation and amortisation are presented as a separate line item. This results in EBITDA of € 140.3 million for the 2019 financial year, as against € 35.3 million in 2018.

€ million	2019	2018[2]
Net revenues	**238.0**	**363.4**
Cost of revenues[1]	(177.8)	(273.3)
Gross profit	**60.2**	**90.1**
Sales and marketing expenses[1]	(22.0)	(28.3)
General and administrative expenses[1]	(32.3)	(27.5)
Other operating income and expenses	134.4	1.0
EBITDA	**140.3**	**35.3**
Depreciation and amortisation		
(including non-cash share-based compensation)	(52.4)	(26.9)
Operating profit (EBIT)	**87.9**	**8.4**

[1] Excluding depreciation and amortisation and non-cash share-based compensation.
[2] Adjusted (see Note 6 of the Notes to the Consolidated Financial Statements).

Depreciation and amortisation per se rose to € 38.2 million in 2019, compared with € 26.9 million in the previous year. This increase was due on the one-hand to the first-time application of the IFRS 16 lease standard; the corresponding depreciation and amortisation came to € 19.9 million in 2019. On the other hand, the Company fundamentally revised and updated its planning after the Plusnet sale. This resulted in the recognition of an impairment loss of € 14.2 million on goodwill. This is explained in further detail in Note 18 in the Notes to the Consolidated Financial Statements.

SEE PP. 111 FF.
NOTES

High operating earnings due to Plusnet sale. Operating earnings (EBIT) improved to € 87.9 million in the past financial year, compared with € 8.4 million in 2018. Financial expenses rose over the same period to € 6.1 million, up from € 4.5 million in 2018. This was due to two factors: On the one hand, the repayment of all of the Company's liabilities in the middle of 2019 also

involved one-off expenses. On the other hand, this line item included interest expenses of € 2.1 million for leases first recognised in accordance with IFRS 16 in 2019.
The high volume of taxes expenses, amounting to € 8.4 million as against € 0.8 million in the previous year, was attributable to the adjustment made to the calculation of deferred taxes to account for the Company's new size after the Plusnet sale. Explained in Note 41 in the Notes to the Consolidated Financial Statements, this adjustment reduced the volume of taxable earnings budgeted for the future. As a result of the aforementioned factors, consolidated net income came to € 73.5 million in 2019, compared with € 3.2 million in 2018.

SEE PP. 138 FF.
NOTES

Earnings Performance by Segment

Gross profit and positive segment contribution in Cloud segment once again

Cloud segment invests in future growth. Despite significantly increasing the investments made in future growth, this – the Company's fastest-growing segment – generated a gross profit and a positive segment contribution once again in 2019. The investments made in innovations and new employees led revenues and cost of revenues to rise to € 42.1 million and € 33.6 million respectively. This resulted in gross profit of € 8.5 million in 2019, compared with € 12.4 million one year earlier. Given a slight reduction in sales and marketing expenses, the segment contribution came to € 2.0 million, compared with € 5.6 million in 2018.

Outsourcing continues to generate a double-digit segment margin. Revenues of € 50.0 million in this segment in 2019 were countered by cost of revenues of € 37.5 million. This produced a gross profit of € 12.5 million. Based on revenues of € 91.0 million, in the previous year gross profit amounted to € 17.2 million. As explained above, this reduction was mainly due to the migration of Outsourcing customers to the Cloud segment, as well as to the sale of the IP-VPN business included in Outsourcing as of 30 June 2019. At the same time, Outsourcing stepped up its sales efforts and was thus able to extend the terms of all its existing contracts, and in some cases the scopes of the contracts as well. Sales and marketing expenses rose to € 6.7 million, up from € 5.6 million in 2018. These factors resulted in a segment contribution of € 5.8 million, as against € 11.5 million in the previous year. At 12%, the segment margin fell only slightly short of the previous year's figure of 13%.

Consulting on growth course. The 10-percent rise in Consulting revenues to € 42.4 million in 2019 was accompanied by higher cost of revenues, which stood at € 39.3 million, as against € 31.5 million in 2018. To account for growing demand, Consulting expanded its team, provided it with targeted training for its S/4HANA deployment and increasingly drew on external experts for projects. Gross profit therefore came to € 3.1 million, compared with € 6.9 million in 2018. This market success was due not least to additional marketing, the costs of which rose from € 1.4 million in the previous year to € 2.2 million in 2019. This led to a segment contribution of € 0.9 million, down from € 5.4 million in 2018.

High margin in Colocation business. Following the Plusnet sale, in the second half of the year, the Telecommunications segment comprised the Colocation business. Of total revenues of € 103.5 million in 2019, 17% were attributable to this high-margin business field. In the 2019 financial year as a whole, however, the earnings performance of this segment was shaped by the sale of the TC business as of 30 June 2019. The segment reported gross profit of € 36.0 million in 2019, down from € 53.7 million, with the segment contribution also decreasing year-on-year, in this case from € 39.2 million to € 29.5 million.

New segmentation since 1 January 2020. Since the first quarter of 2020, the Colocation business has, together with the existing Cloud and Outsourcing segments, formed the new “Cloud & IoT” segment. This way, we are taking due account of the amended management of the Company following the Plusnet sale, as well as of the fact that customers are increasingly combining services from these business fields. This segment will be joined by the “SAP” segment.

New segment reporting at the Company since 2020: “Cloud & IoT” and “SAP”

Financial Position

Two core objectives of financial management. QSC’s financial management served once again in 2019 to ensure smooth financing of the operating business and upcoming capital expenditure. In this, it pursues two core objectives – maintaining and optimising the Company’s financing capacity and reducing its financial risks. Surplus liquidity is exclusively invested in money market and low-risk investments. As virtually all of QSC’s operations are in the euro area, the Company is not exposed to any exchange risks. Further information about financial risk management can be found in Note 43 in the Notes to the Consolidated Financial Statements.

SEE PP. 140 FF.
NOTES

QSC is debt-free. Alongside the cash flow from operating activities, our Company traditionally also drew on bank loans and a promissory note bond. The Plusnet sale price made it possible for the Company to repay all of its interest-bearing liabilities due to banks in the past financial year. As of 31 December 2018, our balance sheet still included liabilities of € 120.0 million. The Company now finances its operations chiefly from existing liquidity; the balance sheet as of 31 December 2019 included cash and cash equivalents of € 66.0 million.

Financing now chiefly based on existing liquidity

Plusnet sale also shapes 2019 cash flow statement. Non-recurring items relating to the Plusnet transaction substantially changed relations within the cash flow statement. The cash from operating activities, for example, amounted to € -17.7 million in 2019, as against € 34.1 million in the previous year. The cash flow from investing activities surged to € 173.2 million, compared with € -17.7 million, as the inflow of funds (less cash and cash equivalents disposed of with Plusnet) was recognized here. Due to the repayment of all liabilities due to banks, the cash flow from financing activities totalled € -143.1 million, compared with € -24.7 million in the previous year.

Net Asset Position

Capital expenditure of € 12.0 million in 2019 financial year. Excluding the impact of IFRS 16, capital expenditure totalled € 12.0 million in 2019, down from € 17.2 million in the previous year. Of this total, only 28% still related to customer-related investments (2018: 46%); the TC business had required ongoing investments in customer connections and associated hardware. At 58%, technology and other items of property, plant and equipment accounted for most of the Company's capital expenditure in 2019, with the remaining 14% of capital expenditure required to purchase intangible assets such as licences.

Plusnet transaction reduces total assets. Due in particular to the deconsolidation of Plusnet, total assets fell to € 225.1 million as of 31 December 2019, compared with € 281.4 million at the previous year's balance sheet date. The asset side of the balance sheet showed a reduction in long-term assets in particular, which fell from € 166.6 million to € 111.7 million as of 31 December 2019. Due to the Plusnet sale, as well as to depreciation, property, plant and equipment fell to € 30.3 million, as against € 50.2 million as of 31 December 2018. Goodwill declined in value to € 18.4 million, down from € 55.6 million one year earlier, with this being due to two reasons. Firstly, most of the goodwill attributable to the TC business no longer applied as of 31 December 2019. Secondly, as described in greater detail in Note 18 in the Notes to the Consolidated Financial Statements, an impairment loss of € 14.2 million was recognised on goodwill.

SEE PP. 111 FF.
NOTES

The consolidated balance sheet as of 31 December 2019 includes right-of-use assets of € 19.1 million. These assets have been recognised for the first time due to initial application of the IFRS 16 lease standard, which is outlined more closely in Note 19 in the Notes to the Consolidated Financial Statements.

At € 113.4 million, by contrast, the short-term assets reported as of 31 December 2019 fell only slightly short of the previous year's figure of € 114.8 million. Here, the increase in cash and cash equivalents was mainly countered by lower trade receivables. Not only that, short-term assets rose to € 12.6 million, as against € 1.0 million as of 31 December 2018, with this increase mainly being due to the Plusnet transaction.

71%
equity ratio as of 31 Dec. 2019

Equity ratio rises to 71%. The successful Plusnet sale fundamentally changed the relations on the equity and liabilities side of the balance sheet. Shareholders' equity surged to € 160.2 million as of 31 December 2019, up from € 90.1 million one year earlier. As a result, the equity ratio improved from 32% at the previous year's balance sheet to 71%. This increase was chiefly attributable to the high volume of one-off consolidated net income in the past financial year. The accumulated deficit therefore amounted to € -106.0 million as of 31 December 2019, as against € -175.9 million as of 31 December 2018.

Complete repayment of liabilities due to banks. The consolidated balance sheet as of 31 December 2019 now only includes liabilities of € 64.9 million, down from € 191.3 million as of 31 December 2018. This was due to the repayment of all liabilities due to banks. Long-term liabilities now mainly relate to lease liabilities of € 16.7 million and pension provisions of € 6.3 million. Short-term liabilities are dominated by trade payables and other liabilities, which totalled € 28.6 million as of 31 December 2019, as against € 55.9 million as of the 2018 balance sheet date.

RISK REPORT

Risk management

Risk management boosts competitiveness. Like any other company, QSC is permanently exposed to numerous potential risks. By consciously addressing and assessing these risks, the Company boosts its competitiveness and lays a key foundation for its sustainable business success. Professional risk management therefore has to ensure that all events, actions or neglected actions that could potentially pose a threat to the success of our Company, or even to its continued existence, are already identified, analysed, assessed, managed and monitored at the earliest possible stage of their development. Risk management comprises coordinated procedures, measures and the necessary rules for dealing with risks. In many cases, risk management thus supports decision-making processes at the parent company (AG) and all of its subsidiaries.

Organisation and Procedures

Integrated risk management system as centrepiece. We have implemented a Company-wide uniform integrated risk management system (RMS) to ensure the effectiveness of our risk management and facilitate the aggregation of risks and transparent reporting. The use of a risk management software that has proven its worth enables us to classify risks precisely and, as a result, to clearly focus on material risks.

Risk management system as integral component of decision-making processes

The RMS is an integral component of decision-making processes. 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 relevant responsibility. 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 ISO 9001 (Quality Management), ensure uniform, efficient reporting.

The RMS covers all Company departments. Managers reporting directly to the Management Board (heads of department) continually monitor and assess the risks arising. Within the RMS framework, they act as risk coordinators and are responsible 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 new risks with material implications and previously undetected have arisen in their areas of responsibility and whether there is any need to amend the assessment of risks already identified. This process ensures that potential risks in the operating business can be detected at an early stage.

Risk management is responsible for risk reporting

Corporate Risk Management is responsible for reporting. Corporate Risk Management is responsible for risk reporting to group management. It sees to the consolidation and documentation of the risks assessed by the risk coordinators. Based on the risk reports submitted by departments, it compiles a compact report (using the "R2C_RISK TO CHANCE" risk management software) and forwards this to the Management Board on a quarterly basis. The Management Board is informed immediately of any newly detected high risks. The Management Board informs the Supervisory Board Audit Committee with an extensive risk report at least once a year. Corporate Risk Management 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.
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 the audit of the financial statements, the external auditors each year review 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 140 onwards.

SEE PP. 140 FF.
NOTES

Assessment Methodology

Risk classification based on probability of occurrence and potential implications. The risk management software supports the overall risk management process throughout the Company. The tool initially uses a gross view to classify a risk in terms of its estimated probability of occurrence and potential implications. This means that the probability of occurrence and extent of damages are assessed without accounting for any measures taken to minimise risks. 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 the continued existence of our Company. The classification of a risk as "low", "medium" or "high" is based on the combination of its probability of occurrence and damage class. 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
Low:	Not more than once in 5 years
Medium:	Once a year on average
High:	More than once a year
Very high:	Once a quarter or more

Damage class (estimated damage in the event of occurrence)

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

General risks are analysed to assess whether and how these could specifically harm our Company. If this analysis concludes that relevant damages from such risks really are conceivable, then these risks are included as specific risks. General risks with no 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, 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.

Net assessment of risks is key. The risk is subsequently reassessed in terms of its probability of occurrence and scope of damages to account for the aforementioned measures (net view). The external risk report only includes those risks that still have to be deemed material for our future business performance even after all risk reduction and avoidance measures have been factored in, i.e. subsequent to performance of the net analysis. Based on this classification, these risks are categorised as "high risks". A risk that is allocated to the "risk to continued existence" damage class, for example, is only assessed as constituting a "high risk" in the overall assessment if there is at least a "medium" probability of occurrence. Risks to the Company's continued existence that are assessed as having a low probability of occurrence ("very low" or "low") are therefore not classified as "high risks" for ongoing observation purposes and are not viewed overall as direct threats to the Company's continued existence.

Risks classified by class of damages

As a result of this risk analysis, in our external risk report we report risks that are either individually material or aggregate individually immaterial risks in suitable risk categories (e.g. "shortage of specialists"). The assessments and accompanying comments and requirements are only provided in quantitative terms in cases where quantitative assessment of the specific extent of damages is possible. As this is generally not the case, however, the relevant risks are usually classified in terms of classes of damage.

Supplementary Disclosures pursuant to § 315 (4) HGB

Permanent monitoring of accounting risks. 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. Within the audit of the annual financial statements, the external auditor also reviews the financial reporting process. 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.

The RMS is characterised by the following key features:

- Our Company 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.
- Our Company 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 for document creation and posting in its controlling department.
- Our Company uniformly deploys standard SAP software across all divisions.
- The accounting software is comprehensively protected against 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.

With these measures, we create the necessary transparency for our financial reporting and – to the greatest extent possible – prevent any potential risks arising in this process.

Measures create the transparency needed

Individual Risks

Focus on actual risk situation. Risk monitoring focuses not so much on the risks identified by the gross assessment 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" and are presented below in descending order of significance for our Company.

Shortage of specialists and drain of expertise. Our Company needs qualified specialists to operate and further develop its product portfolio. Given the shortages, particularly of IT specialists, in the German labour market, it is sometimes difficult to find adequate replacements for the relevant positions within a short timeframe. This risk, which applies both to the Cloud and Outsourcing businesses and to the SAP Consulting business, may be exacerbated by employees resigning, particularly when this leaves the Company without the resources needed to maintain the same level of performance capacity or when the employees resigning have special expertise that cannot be replaced immediately. The shortage of specialist staff may result in bottlenecks in operations and delays to the further development of both existing and new applications. Not only that, it would then not be possible to exploit all growth opportunities.
Our Company is countering this risk above all by consistently training young specialists, cooperating with select universities and offering a range of targeted retention measures for those specialists and executives who are especially important to the Company's operations.

Lack of success in new business fields. Today's digitalisation is characterised by a high pace of innovation. We are developing new digital services and focusing on three key sectors: retail, manufacturing and energy. These kinds of innovation provide our Company with a variety of opportunities, but may also prove to be risks in the event of delays arising in development processes and market launches. Reasons for such delays include protracted agreement processes with development partners and pilot customers, as well as a lack of internal resources. We limit this risk, which currently relates in particular to the energy business, by cooperating in a highly focused manner with select partners, drawing on external experts and, where possible, recruiting additional specialists for the development of new products and business models.

Impact of corona pandemic. News of the first cases of people being taken ill with coronavirus (SARS-CoV-2) in China in December 2019 was followed in the first months of the current financial year by the worldwide spread of the virus. Protective measures taken by governments to slow down the spread of the virus in Europe, particularly since March 2020, have massively restricted public life and are beginning to have a severe impact on companies' business activities. It is currently not possible to predict how long the corona pandemic will paralyse public life and business activity. The International Monetary Fund (IMF) nevertheless already expects to see lower global economic growth due to the impact of COVID-19.

For our Company, there is the risk that in the exceptional current circumstances customers will postpone, scale back or even cancel IT and digitalisation projects that are not viewed as absolute prirorities. This reduction in demand and the temporary impact of quarantine measures could adversely affect revenues and earnings in our two segments of "Cloud & IoT" and "SAP". Furthermore, financial difficulties on the part of our customers could increase receivable default risk. We are countering this risk by maintaining strict receivables management and remaining in very close contact with our customers. The long-term nature of many of our customer relationships and high share of recurring revenues can be expected to stabilise our business model in the months ahead. Not only that, the digitalisation of the SME sector will accelerate once the pandemic has been mastered. Demand for virtual workplaces in particular could rise significantly and provide new revenue and earnings potential for our Company.

Digitalisation set to accelerate after the corona pandemic

Overall Summary

All necessary measures taken to detect risks at an early stage and take appropriate action. Taking due account of the potential scope of damages and probabilities of occurrences of these and other 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 discernible at present. In organisational terms, all meaningful and reasonable measures have been taken 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, future earnings may nevertheless deviate materially from the expectations of our Company and its management. All statements made in this Group Management Report 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.

OUTLOOK AND OPPORTUNITY REPORT

Overall Summary

Double-digit revenue growth expected. The current financial year will be shaped by the consistent implementation of the "2020plus" growth strategy. We plan to expand our attractive business portfolio based on Cloud, SAP and IoT applications and to extend this with further innovations and new technologies. Our clear sector focus, close cooperation with strong partners and value-adding investment and acquisition policies – these factors provide a strong foundation to generate the double-digit revenue growth budgeted for 2020 and beyond.
Given the strong development in new orders in 2019, in the current financial year we expect to increase our revenues by at least 13% to more than € 143 million[6]. As planned, our company will continue to invest in its future growth, develop new digital services and recruit additional software experts and further S/4HANA specialists. Against this backdrop, QSC has budgeted for negative EBITDA of up to € -5 million and, due to the Plusnet sale in the 2019 financial year, for a sharp reduction in free cash flow, which is expected to be negative at up to € -16 million. QSC plans to generate sustainably positive EBITDA once again from the fourth quarter of 2020 onwards.
The forecast does not account for the potential impact of any economic downturn resulting from the corona pandemic. Upon preparation of this report, it was still too early to assess the economic consequences for our Company. Further information about the risks of a corona pandemic can be found in the Risk Report on Page 67.

13%
budgeted revenue growth in 2020

SEE P. 67
RISK REPORT

Future Macroeconomic and Industry Framework

IT sector grows faster than overall economy. At the beginning of 2020, and thus before the outbreak of the corona pandemic, the Federal Government expected the German economy to recover in the current financial year. In its Annual Economic Report, it forecast growth of 1.1% in Germany's gross domestic product, as against 0.6% in 2019[7]. Based on a forecast issued by the sector association Bitkom[8], the IT sector will grow more than twice as fast, with revenues expected to rise by 2.7% to € 95.4 billion in 2020.

The German IT market
(€ billion)

[6] Excluding the TC business sold as of 30 June 2019, revenues for the 2019 financial year stood at € 127.4 million.
[7] Federal Minister for Economic Affairs and Energy, 29 Jan. 2019, www.bmwi.de/Redaktion/DE/Pressemitteilungen/2020/20200129-altmaier-legt-jahreswirtschaftsbericht-vor.html.
[8] Bitkom, ICT market statistics, January 2020.

SEE PP. 51–53 MACROECONOMIC AND INDUSTRY FRAMEWORK

Within the IT market, we focus on the three forward-looking submarkets of Cloud, SAP and IoT. The ongoing process of digitalisation at German companies is expected to produce a further increase in demand for Cloud Services in 2020. In SAP consulting, the migration to the new software generation S/4HANA is gaining momentum[9], while in the IoT market increasing numbers of projects are moving to regular operations (further information can be found under "Macroeconomic and Industry Framework" on Pages 51 to 53).

Expected Financial Position, Financial Performance and Cash Flows

Ongoing investment in future growth. The dynamic development in the operating business will require ongoing capital expenditure in 2020, with the associated investments being channelled on the one hand into innovative services and on the other into the Company's existing and new employees. Irrespective of this, we expect our operating earnings strength to improve as the year progresses and to generate sustainably positive EBITDA for the fourth quarter of 2020 already. This is crucially due to the scalability of our business model: Higher revenues do not lead to a corresponding increase in expenses.

QSC is interested in start-ups and established specialists

Dynamic growth solidly financed. Our Company plans to finance the growth planned for 2020 and beyond with its own resources. The consolidated balance sheet at the end of 2019 included net liquidity of € 66.0 million. Alongside the development of innovative services, investments in technology companies also provide a basis for implementing the "2020plus" growth strategy. Conceivable approaches here include both the acquisition of interests in innovative start-ups – such as the investment in aiXbrain in November 2019 – and the takeover of established specialists. All relevant decisions will be based on whether the investments boost our software and technology competence and generate new growth momentum.

Expected Earnings Performance by Segment

Two growth segments. Having started in 2020, segment reporting is now based on the two segments of "Cloud & IoT" and "SAP". We expect substantial revenue growth in both segments and plan to expend capital on our future growth. We plan to recruit new Cloud, SAP and IoT experts, provide these with further internal and external training and channel resources into developing innovative services. Irrespective of these measures, we expect both segments to generate positive segment contributions in the current financial year.

[9] German-speaking SAP User Group (DSAG) e. V., https://www.dsag.de/pressemitteilungen/switch-s4hana-complete.

Opportunity Management

New opportunities for further growth. We are focusing on three growing markets: Cloud, SAP and IoT. The dynamic growth in these markets presents us with ever new opportunities. 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. They also draw on the expertise available in the sales and marketing departments, as well as on various market and competition analyses.
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. In what follows, we report on the future developments and events that could lead to a positive variance from the full-year outlook for 2020 provided in this 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. The individual opportunities are presented below in descending order of significance for our Company.

Individual Opportunities

Additional customers for Cloud Services. Past experience shows that a substantial period of time generally passes between initial contacts with customers and the first revenues in the Cloud Services business. This being so, we have traditionally budgeted for only a moderate level of growth with new customers. Enormous technological advances and the requirements of digital business models nevertheless mean that the IT in place at many small and medium-sized companies is increasingly reaching its limits. Actual demand could therefore exceed our expectations.

Rapid implementation of new SAP solutions. The technological advance currently underway at SAP from the ERP product family R/3 to S/4HANA will continue to drive growth in the "SAP" segment in 2020 as well. As this new product family is a key to digitalising business models, demand for corresponding advisory and implementation services may possibly exceed expectations.

Integrated Cloud, SAP and IoT competence. We are one of only a small number of medium-sized providers in Germany that is able to cover the digital value chain in an industrial environment – from capturing data to processing it to storing it in the cloud. By adopting a new sales approach, we will increasingly be marketing this integrated competence in the current financial year. Revenues may rise more rapidly than expected if this results in several major orders in the current financial year already.

Increased marketing of integrated competence with new sales approach

More IoT projects in regular operation. Many of our IoT customers are currently focusing on pilot projects and, together with our experts, testing the opportunities offered by deploying this innovative technology on an industrial scale. Should more of these projects be transferred to operations than expected, this may trigger an additional boost to revenues. This would also be the case if SME companies were to draw on our extensive IoT expertise in the mass production of networked appliances to a greater extent than planned.

New software products. We are systematically expanding our software competence along the digital value chain. Our developers are working on the one hand on bespoke solutions for our customers. On the other hand, they are drawing on this expertise to press ahead with developing proprietary products. At the beginning of 2020, for example, our SAP and IoT teams are working on a centrally managed digital shelf for the retail sector and a self-learning software to make the complexity of industrial processes digitally controllable. This latter activity is largely being managed by our new aiXbrain shareholding. Should this product, or any other of our products, become ready for market earlier than expected and quickly meet with interest in the market, then this could produce additional opportunities to generate revenues and earnings contributions.

QSC is developing a state-of-the-art edge computing network

High-growth edge computing market. Demand for data from machines and sensors is rising significantly. These data volumes and the low latency times thereby required cannot be presented by cloud architectures alone. For this reason, data processing is moved to the edge of the network, i.e. directly to the data source. Artificial intelligence plays a key role in edge computing. We are currently developing a state-of-the-art edge computing network based on an interdepartmental approach. There is the chance that this work will produce initial opportunities to generate revenues with new and existing customers in the current financial year.

FINANCIAL REPORT

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Income

Euro amounts in thousands (€ 000s)

	Note	2019	2018 adjusted*
Net revenues	7	**238,047**	**363,386**
Cost of revenues	8	(208,818)	(295,428)
Gross profit		**29,229**	**67,958**
Sales and marketing expenses	9	(22,787)	(29,678)
General and administrative expenses	10	(38,722)	(30,893)
Other operating income	12	139,068	2,164
Other operating expenses	12	(18,851)	(1,140)
Operating profit (EBIT)		**87,937**	**8,411**
Financial income	13	87	138
Financial expenses	13	(6,108)	(4,504)
Income from associates	14	(16)	-
Net income before income taxes		**81,900**	**4,045**
Income taxes	41	(8,357)	(833)
Net income		**73,543**	**3,212**
Attribution of net income			
Owners of the parent company		73,619	3,454
Non-controlling interests		(76)	(242)
Earnings per share (basic) in €	15	0.59	0.03
Earnings per share (diluted) in €	15	0.59	0.03

* See Note 6 of the Notes to the Consolidated Financial Statements.

Consolidated Statement of Comprehensive Income

Euro amounts in thousands (€ 000s)

	2019	2018 adjusted*
Net income for the period	**73,543**	**3,212**
Other comprehensive income		
Line items that are not reclassified in the income statement		
Actuarial losses (gains) from defined benefit pension plans	(1,314)	42
Tax effect	438	(11)
Line items that are not reclassified in the income statement	**(876)**	**31**
Line items that were or might subsequently be reclassified		
in the income statement		
Fair value measurement of cash flow hedge	318	1,063
Tax effect	(106)	(344)
Line items that were or might subsequently be reclassified		
in the income statement	**212**	**719**
Total fair value changes (net of tax) recognised directly	**(664)**	**750**
Total comprehensive income for the period	**72,879**	**3,962**
Attribution of total comprehensive income		
Owners of the parent company	72,955	4,204
Non-controlling interests	(76)	(242)

* See Note 6 of the Notes to the Consolidated Financial Statements.

Consolidated Balance Sheet

Euro amounts in thousands (€ 000s)

	Note	31 Dec. 2019	31 Dec. 2018 adjusted*
ASSETS			
Long-term assets			
Property, plant and equipment	17	30,341	50,211
Land and buildings	17	21,498	22,291
Goodwill	18	18,365	55,568
Right-of-use assets	19	19,127	-
Other intangible assets	20	15,911	24,411
Financial assets recognised at equity	14	202	-
Trade receivables	21	-	1,953
Prepayments	22	1,401	3,353
Other long-term assets	24	4,819	430
Deferred tax assets	41	-	8,417
Long-term assets		**111,664**	**166,634**
Short-term assets			
Trade receivables	21	31,034	53,822
Prepayments	22	3,525	5,710
Inventories	23	228	670
Other short-term assets	24	12,610	959
Cash and cash equivalents	25	66,031	53,618
Short-term assets		**113,428**	**114,779**
TOTAL ASSETS		**225,092**	**281,413**

* See Note 6 of the Notes to the Consolidated Financial Statements.

	Note	31 Dec. 2019	31 Dec. 2018 adjusted*
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Issued capital	26	124,172	124,172
Capital surplus	27	144,132	144,119
Other capital reserves	29	(2,147)	(1,531)
Accumulated deficit		(105,989)	(175,883)
Equity attributable to owners of the parent company		**160,168**	**90,877**
Non-controlling interests		-	(780)
Shareholders' equity		**160,168**	**90,097**
Liabilities			
Long-term liabilities			
Lease liabilities	19	16,698	-
Other financial liabilities	30	25	100,036
Accrued pensions	31	6,293	5,545
Other provisions	32	548	2,922
Trade payables and other liabilities	33	-	454
Deferred tax liabilities	41	-	352
Long-term liabilities		**23,564**	**109,309**
Short-term liabilities			
Trade payables and other liabilities	33	28,593	55,924
Lease liabilities	19	5,501	-
Other financial liabilities	30	-	20,013
Other provisions	32	7,030	2,655
Accrued taxes	32	54	1,631
Deferred income	34	182	1,784
Short-term liabilities		**41,360**	**82,007**
Liabilities		**64,924**	**191,316**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**225,092**	**281,413**

* See Note 6 of the Notes to the Consolidated Financial Statements.

Consolidated Statement of Changes in Equity

Euro amounts in thousands (€ 000s)

		Equity attributable to equity holders of QSC AG			
				Other capital reserves	
	Note	Issued capital	Capital surplus	Actuarial gains (losses)	Cash flow hedge reserve
Balance as of 1 January 2019 (before correction)		**124,172**	**144,119**	**(1,319)**	**(212)**
Correction	6	-	-	-	-
Balance as of 1 January 2019 (after correction)		**124,172**	**144,119**	**(1,319)**	**(212)**
Net income for the period		-	-	-	-
Other comprehensive income for the period, net of tax	29	-	-	(876)	212
Total comprehensive income		**-**	**-**	**(876)**	**212**
Change in scope of consolidation	2	-	-	48	-
Dividends paid	26	-	-	-	-
Non-cash share-based compensation	39	-	13	-	-
Balance as of 31 December 2019		**124,172**	**144,132**	**(2,147)**	**-**
Balance as of 1 January 2018		**124,172**	**143,787**	**(1,350)**	**(931)**
Net income for the period (correction)	6	-	-	-	-
Other comprehensive income for the period, net of tax	29	-	-	31	719
Total comprehensive income		**-**	**-**	**31**	**719**
Dividends paid	26	-	-	-	-
Non-cash share-based compensation	39	-	332	-	-
Balance as of 31 December 2018		**124,172**	**144,119**	**(1,319)**	**(212)**

Accumulated deficit	Total	Non-controlling interests	Total equity	
(175,819)	**90,941**	**(780)**	**90,161**	**Balance as of 1 January 2019** (before correction)
(64)	(64)	-	(64)	Correction
(175,883)	**90,877**	**(780)**	**90,097**	**Balance as of 1 January 2019** (after correction)
73,619	73,619	(76)	73,543	Net income for the period
-	(664)	-	(664)	Other comprehensive income for the period, net of tax
73,619	**72,955**	**(76)**	**72,879**	**Total comprehensive income**
-	48	856	904	Change in scope of consolidation
(3,725)	(3,725)	-	(3,725)	Dividends paid
-	13	-	13	Non-cash share-based compensation
(105,989)	**160,168**	**-**	**160,168**	**Balance as of 31 December 2019**
(175,612)	**90,066**	**(538)**	**89,528**	**Balance as of 1 January 2018**
3,454	3,454	(242)	3,212	Net income for the period (correction)
-	750	-	750	Other comprehensive income for the period, net of tax
3,454	**4,204**	**(242)**	**3,962**	**Total comprehensive income**
(3,725)	(3,725)	-	(3,725)	Dividends paid
-	332	-	332	Non-cash share-based compensation
(175,883)	**90,877**	**(780)**	**90,097**	**Balance as of 31 December 2018**

Consolidated Statement of Cash Flows

Euro amounts in thousands (€ 000s)

	Note	2019	2018 adjusted*
Cash flow from operating activities	35		
Net income before income taxes		81,900	4,045
Depreciation and amortisation of long-term assets	11, 17, 20	18,253	26,587
Write-downs of goodwill	18	14,172	-
Depreciation of right-of-use assets (IFRS 16)	19	19,939	-
Other non-cash income and expenses		485	828
Profit from sale of subsidiaries	2	(135,253)	-
Loss (gains) on disposals of assets		239	(26)
Income tax paid		(1,744)	(1,889)
Income tax received		61	10
Interest received		10	92
Interest paid in connection with leases (IFRS 16)	19	(2,051)	-
Net financial expenses	13	6,022	4,365
Income from associates	14	16	-
Changes in provisions	31, 32	1,341	(6,698)
Changes in trade receivables	21	24,269	(1,532)
Changes in trade payables	33	(33,827)	7,714
Changes in other assets and liabilities		(11,542)	629
Cash flow from operating activities	35	**(17,710)**	**34,125**
Cash flow from investing activities	36		
Purchase of intangible assets		(4,256)	(8,354)
Purchase of property, plant and equipment		(8,179)	(9,439)
Purchases of financial assets recognised at equity		(218)	-
Proceeds from sale of property, plant and equipment		33	92
Proceeds from sale of a subsidiary, less liquid funds thereby disposed of	2	185,813	-
Cash flow from investing activities	36	**173,193**	**(17,701)**
Cash flow from financing activities	36		
Dividends paid	26	(3,725)	(3,725)
Repayment of convertible bonds	30	(11)	(2)
Proceeds from loan to former subsidiary		3,430	-
Taking up of loans	30	23,000	65,000
Repayment of loans	30	(142,000)	(81,412)
Interest paid		(4,993)	(4,253)
Repayments of lease liabilities			
(2018: liabilities under finance lease arrangements)	19	(18,771)	(295)
Cash flow from financing activities	36	**(143,070)**	**(24,687)**
Change in cash and cash equivalents		**12,413**	**(8,263)**
Cash and cash equivalents as of 1 January		53,618	61,881
Cash and cash equivalents as of 31 December	25	**66,031**	**53,618**

* See Note 6 of the Notes to the Consolidated Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE 2019 FINANCIAL YEAR

Company Information

QSC AG is digitalising the German SME sector and enabling its customers to enhance their business processes and business models with the utmost flexibility and efficiency. QSC has longstanding technological and application expertise in the fields of Cloud and Colocation, SAP and the Internet of Things. Its extensive service portfolio provides what SME players need as they move into the digital age: from standardised pay-as-you-use services through to individualised full-range solutions for the retail, manufacturing and energy sectors. All services offer end-to-end quality and high security. QSC bases its relationships with customers on an entrepreneurial approach, a service-driven mindset and a desire to forge mutually beneficial partnerships.
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 in the Prime Standard since the beginning of 2003.

Accounting 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). Pursuant to § 315e (1) of the German Commercial Code (HGB), it is thus exempted from preparing consolidated financial statements in accordance with HGB.
QSC prepares its consolidated financial statements in accordance with the IFRSs issued by the International Accounting Standards Board (IASB) that require application in the EU as of 31 December 2019, as well as with the supplementary requirements of § 315e (1) HGB. The Company took due account of all IFRSs requiring mandatory application in the EU in the 2019 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 liabilities for equity-settled share-based payments and the net liability for defined benefit pension plans, which are recognised at fair value.
This is the first set of consolidated financial statements in which IFRS 16 (Leases) has been applied. The resultant changes to significant accounting policies are presented in Note 19.

The financial year of QSC and its subsidiaries included in consolidation (hereinafter also referred to as "QSC") corresponds to the calendar year. The consolidated financial statements are presented in euros, the Company's functional currency. All amounts, unless otherwise stated, are rounded up or down to the nearest thousand euro amount (€ 000s). The rounding up or down of figures may result in minor discrepancies on a scale of € 1k or 0.1% between numbers and percentages in this Annual Report.

No events or transactions which would have a material effect on the Group's financial position, financial performance or cash flows occurred between the end of the reporting period and 25 March 2020 (the date on which the consolidated financial statements were approved by the Management Board for submission to the Supervisory Board).

The consolidated 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 SCOPE OF CONSOLIDATION AND AMENDMENTS UNDER COMPANY LAW

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.

All intragroup transactions and balances are eliminated in full. Subsidiaries are fully consolidated from the date of acquisition, i.e. the date on which QSC obtains control. Inclusion by way of full consolidation ends upon the parent company no longer exercising control. Information on the companies included in the consolidated financial statements is provided in Note 37.

Non-controlling interests are measured upon acquisition at their respective share of identifiable net assets at the company thereby acquired. Changes in the level of shareholding held by the Company in a subsidiary that do not lead to a loss of control are recognised as equity transactions.

By purchase agreement dated 6 May 2019, QSC AG concluded a contract with EnBW Telekommunikation GmbH, a subsidiary of EnBW Energie Baden-Württemberg AG, regarding the sale of all shares in Plusnet GmbH. This transaction was closed as of 30 June 2019. Control by the parent company ended upon the expiry of 30 June 2019 and Plusnet GmbH was deconsolidated at this point in time. The sale also involved all shareholdings directly and indirectly held by Plusnet GmbH, namely: Ventelo GmbH, Plusnet Infrastruktur GmbH & Co. KG, Plusnet Verwaltungs GmbH, BroadNet Deutschland GmbH, Q-DSL home GmbH, 010090 GmbH, 01012 Telecom GmbH, Broadnet Services GmbH, 01098 Telecom GmbH, 010052 Telecom GmbH, 010088

Telecom GmbH, 01052 Communication GmbH, T&Q Netzbetriebs GmbH & Co. KG, T&Q Verwaltungs GmbH, F&Q Netzbetriebs GmbH & Co. KG, F&Q Netzbetriebs Verwaltungs GmbH, fonial GmbH and T&Q Netz GmbH & Co. KG.

The following overall purchase price was received in return for the sale of shares:

€ 000s	
In cash	**224,385**

The profit on the sale was calculated as follows:

€ 000s	
Property, plant and equipment	(16,390)
Right-of-use assets	(77,964)
Other intangible assets	(5,593)
Trade receivables	(35,339)
Prepayments	(2,387)
Other assets	(1,303)
Inventories	(95)
Cash and cash equivalents	(38,573)
Lease liabilities	78,049
Other financial liabilities	2,569
Pension provisions	63
Other provisions	2,730
Trade payables and other liabilities	25,869
Deferred tax liabilities	417
Tax provisions	102
Deferred income	1,744
Retirement of goodwill	(23,031)
Profit on sale before transaction costs	**135,253**

In the statement of cash flows, the disposal of Plusnet GmbH and its subsidiaries is accounted for as follows:

€ 000s	
Purchase price payable in cash	224,385
Less liquid funds thereby sold	(38,572)
Inflow of cash funds	**185,813**

3 SIGNIFICANT JUDGEMENTS AND ESTIMATES

The application of accounting policies requires the use of judgements as well as of forward-looking assumptions and estimates. Actual outcomes may differ from those assumptions and estimates. Significant adjustments to the carrying amounts of assets and liabilities may therefore be required within the coming financial year. The use of judgements, assumptions and estimates was required in particular for the accounting treatment of the following items:

(a) Judgements made when applying accounting policies which could have the most material impact on the amounts recognised in the consolidated financial statements relate to the following items:

Note 7 – Revenues: Determining the percentage of completion for performance obligations satisfied over time

Note 7 – Revenues: Determining allocation of the transaction price to the performance obligations

Note 19 – Term of lease contract: Determining whether the exercising of extension options is reasonably certain

(b) Assumptions and estimates mainly relate to the following items:

Notes 18 and 20 – Impairment test on **intangible assets** and **goodwill:** Significant assumptions underlying calculation of the recoverable amount

Note 19 – Determining discount rates to calculate the present value of **lease liabilities.**

Note 21 – Trade receivables: Measuring impairments based on expected credit losses: significant assumptions used to determine weighted average default rate

Note 41 – Recognition of **deferred tax assets:** Availability of future taxable earnings against which deductible temporary differences and tax loss carryovers can be offset

Note 31 – Measurement of **pension provisions:** Significant actuarial assumptions

Note 32 – Recognition and measurement of **provisions:** Significant assumptions concerning probability and scale of outflow of benefits

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue and expense recognition. QSC recognises revenues upon satisfaction of the respective performance obligation by transfer of the promised good or promised service to the customer. The asset counts as transferred when the customer gains control over it. Furthermore, the following criteria have to be met for revenues to be recognised:

- For services performed by QSC, the benefits of those services generally flow to customers who simultaneously receive and consume the benefits of the services while they are being performed (IFRS 15.35a). On this basis, revenues are recognised over time.
- For services performed in regular IT service operations, QSC draws on the practical expedient provided for in IFRS 15.B16, under which revenues are recognised in the amount for which QSC is entitled to invoice the customer, as QSC is entitled to consideration in the amount directly corresponding to the value of services already performed.
- For the performance of transition services (mainly in connection with the outsourcing of IT infrastructures) which precede the performance of regular IT service operations, revenues are recognised based on the percentage of completion. This is determined using “milestones reached” as a specific variant of the output-based method.
- For services performed in regular IT service operations, standalone prices are, as a general rule, contractually allocated to the individual performance obligations. No further allocation is therefore required.
- For transition services, standalone milestones are measured at expected cost plus a margin (IFRS 15.79b), with the transaction price being allocated to individual milestones on this basis.
- Government grants are recognised as other operating income over the periods in which QSC expenses those costs the grants are intended to compensate.
- QSC recognises interest income when it arises using the effective interest method (i.e. the rate that discounts estimated future cash flows over the expected life of the financial instrument to its net carrying amount). 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, where the fair values of the two components are separable and can be reliably determined. Application of IFRS 16 requirements to hardware leases means that QSC functions as lessor in certain multiple element arrangements. The lease agreements relate to identifiable assets usable exclusively by the customer.
  Revenues for services performed under the service contract are 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 inception of the arrangement and the interest portion is recognized over the term of such.
  In these cases, amounts owed by customers (lessees) under a finance lease are recognised 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 residual value method, as this most closely reflects the economic substance of the contracts.
- Operating expenses are recognised when the performance has been utilised or at the time they are incurred.

Specifically, QSC structures its revenue recognition as follows:

The **Cloud** segment includes all Cloud Services and all activities relating to the Internet of Things (IoT). QSC recognises revenues here in line with the services performed and thus basically on a time-apportioned basis over the contract term. Furthermore, this segment generates revenues from sales of hardware and software.

The **Outsourcing** segment primarily entails the provision of IT and data storage services for companies, as well as related hardware sales. It also involves IP-VPN networking for Outsourcing customers. QSC recognises revenues for IT services in line with the services performed, i.e. basically on a time-apportioned basis over the contract term.
Revenues from sales of hardware and from rental and lease transactions viewed as sales in terms of their economic substance are recognised upon shipment of the hardware to the customer, provided that QSC does not have any unsatisfied obligations impacting on final acceptance by the customer. All costs resulting from these obligations are recognised upon recognition of the corresponding revenues. Revenues from rental and lease transactions not viewed as sales in terms of their economic substance are recognised on a straight-line basis over the lease term.

In its **Consulting** segment, QSC advises companies on optimising their business processes, with a key focus on SAP-based technologies.
Revenues from the respective service contracts are recognised in line with the services performed, i.e. basically on a time-apportioned basis over the contract term. Revenues from contracts for services charged in line with time inputs are recognised upon performance of the working hours and at the contractually agreed hourly rates.

Through to its disposal as of 30 June 2019, the **Telecommunications** segment offered a broad portfolio of voice and data services. Revenues were recognised upon performance of the agreed services. The services thereby performed referred either to use by the customer (telephone minutes/units consumed), the passage of time or other agreed tariff models. The remaining services involve letting data centre space by way of rack and cage management.
Revenues from the respective rental and service contracts are recognised in line with the service performance, i.e. generally on a time-apportioned basis over the term of the contract.

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

Property, plant and equipment. QSC recognises property, plant and equipment at 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 assets are taken as the basis for applying straight-line depreciation.
Any excess in the carrying amount of an asset over its respective recoverable amount is recognised through profit or loss as an impairment loss. Property, plant and equipment are subject to straight-line depreciation over the following expected useful lives:

	Useful life in years
Property, plant and equipment	
Building	8 – 50
Networks and technical equipment	2 – 25
Installations on third-party land	4 – 20
Plant and operating equipment	3 – 15

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. This involves recognising all identifiable assets, liabilities and contingent liabilities of the acquired business at fair value. Goodwill arising in a business combination is initially measured at the amount by which the Company's interest in the fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination. QSC tests goodwill for impairment at least once a year and upon any indication that the carrying amount is potentially impaired.

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 IAS 38 recognition criteria are met. The costs involved relate primarily to personnel and materials. Costs not eligible for capitalisation are recognised through 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 subject to straight-line amortisation over their useful economic lives and tested for impairment whenever there is any indication of such. For assets with finite useful lives, the amortisation period and method are reviewed at least at the end of each financial year.
Other intangible assets primarily include software, licences and similar rights. Moreover, brands and customer bases have been recognised as assets in conjunction with initial consolidations. Any excess in the carrying amount of an asset over its respective recoverable amount is recognised through profit or loss as an impairment loss.
Acquired software is amortised over periods of 3 to 5 years. Internally generated intangible assets (development costs) are amortised after completion of the development phase over a period of 2 to 5 years. Acquired brands are written down over periods of 2 to 10 years.
The useful lives of intangible assets identified in the business combinations with IP Partner AG and INFO AG in 2011 are 10 to 20 years for customer bases.

Financial assets recognised using the equity method

The shares held by QSC in financial assets recognised using the equity method comprise investments in associates. Associates are companies over which QSC has significant influence, but not control or joint control, over the financial and operating policy decisions of the companies. The equity method requires investments in an associate to be recognised in the balance sheet at cost. The goodwill relating to an associate is included in the carrying amount of the investment and is not subject to amortisation. In applying the equity method, QSC determines whether any additional impairment losses require recognition in connection with the net investment held by QSC in the associate. The income statement includes QSC's share in the performance of the associate. Changes recognised by the associate directly in equity are recognised by QSC directly in equity in line with its share and – where necessary – included in the statement of changes in equity.

Financial instruments

Financial assets and liabilities. Within the scope of IFRS 9, QSC has financial assets liabilities that are primary debt instruments. QSC measures financial assets and liabilities within the scope of IFRS 9 as follows:

	IFRS 9 category
Assets not measured at fair value	
Cash and cash equivalents	Amortised cost
Long-term trade receivables	Amortised cost
Short-term trade receivables	Amortised cost
	(previous year: FVOCI)
Liabilities measured at fair value	
Trade payables and other liabilities	Amortised cost
Other financial liabilities	Amortised cost

The classification category is based on the management requirements for financial debt instruments ("business model") and the cash flow criterion ("basic loan feature/SPPI").
The Company determines this classification upon initial recognition and reviews the allocation at the end of each financial year. Where permitted and necessary, items are reclassified between categories.
Upon initial recognition, QSC measures financial assets at fair value. QSC recognises all regular-way purchases and sales of financial assets using trade date accounting, i.e. as of the date on which QSC enters into the obligation to purchase or sell the asset.
Regular-way purchases and sales involve purchases or sales of financial assets under a contract whose terms require delivery of the asset within the timeframe established by regulation or convention in the marketplace.
QSC measures cash and cash equivalents and trade receivables with fixed or determinable payments that are not listed on an active market at amortised cost using the effective interest method, less any impairments, and including transaction costs. Gains and losses are recognised in period earnings if the assets are derecognised or impaired, as well as in the context of amortisations.
Moreover, other assets are recognised at nominal value and reported in line with their respective terms in the "Long-term assets" and "Short-term assets" line items.

Impairments of financial assets. The expected credit loss model pursuant to IFRS 9 requires not only an appraisal of information about past events and current conditions but also due consideration of forecasts of future economic conditions.

Financial instruments and contract assets. The estimated volume of expected receivables defaults is calculated using the simplified lifetime model base on experience with actual receivables defaults. For the purposes of credit risk management and calculating impairments, following the sale of Plusnet GmbH – and thus of the major share of the Telecommunications segment – as of 30 June 2019, QSC no longer divides its receivables by customer group (in previous year: distinction between project business [QSC] and other receivables [telecommunications]), as all receivables now have homogenous risk characteristics.

QSC recognises impairments for expected credit losses on:

- financial assets measured at amortised cost
- contract assets (where applicable)
- other receivables, including lease receivables.

Application of the IFRS 9 impairment requirements has not resulted in any material impairment of cash and cash equivalents. These are exclusively deposited on a short-term basis at German banks which, as of 31 December 2019, had been provided with investment grade ratings by the rating agencies Standard & Poor's, Fitch and Moody's.
QSC measures impairments in the amount of lifetime expected credit losses. When determining whether the default risk of a financial asset has increased significantly since initial recognition and estimating expected credit losses, QSC draws on reasonable and supportable information that is relevant and available within a reasonable timeframe and at reasonable cost. This includes both quantitative and qualitative information and analysis based on historical data at QSC and on in-depth assessments which include forward-looking information.
QSC assumes that the default risk for a financial asset has increased significantly when it is more than 180 days past due.
QSC considers a financial asset as being in default when the debtor is unlikely to be able to meet its credit obligation to QSC in full without QSC reverting to measures such as drawing on collateral (if available).
Lifetime expected credit losses are the credit losses expected to result from all potential default events during the expected term of the financial instrument.
The maximum period over which expected credit losses are measured is the maximum contractual period over which QSC is exposed to credit risk. Expected credit losses represent the probability-weighted estimates of credit losses.

Credit-impaired financial assets. QSC determines as of each balance sheet date whether financial assets recognised at amortised cost are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred.

Indicators that a financial asset may be impaired included the following observable data:

- Significant financial difficulty of the debtor
- Breach of contract, such as default or more than 180 days past due
- Probability that the debtor will enter bankruptcy or other financial reorganisation.

Presentation of impairments for expected credit losses in the balance sheet. Impairments of financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Impairment. An impairment loss is charged to the gross carrying amount of a financial asset when, based on reasonable assessment, QSC expects that all or a portion of the financial asset will not be recovered. QSC performs an individual assessment of the time at which an impairment loss should be recognised, and the amount of such, based on whether there is reasonable expectation of collection.
Reminders are issued for outstanding receivables as soon as they become overdue. For all receivables, if payment is more than 180 past due this is viewed as an indication of an increase in default risk. This triggers an impairment test for the receivable, i.e. all receivables that are more than 180 days past due are individually analysed to assess any need for impairment.
Based on historic recoverability data for the past five years, receivables that are not more than 180 days past due have a very low default rate of less than 0.02%. For these receivables, QSC recognises a risk provision in the amount of the aforementioned default rate of 0.02%.
QSC does not expect to collect any significant proportion of impaired amounts. In keeping with the respective group policy, financial assets for which impairment losses have been recognised may nevertheless be subject to enforcement measures to collect overdue receivables.

Contract acquisition costs. Contract assets are accounted for in accordance with IFRS 15. This involves recognising the costs incurred to obtain and perform the contract and writing these down over the contract term. If the costs exceed the expected revenue, the resultant loss is recognised immediately as an expense.

Prepayments. Transitory items involving outlays prior to the balance sheet date and relating to a specified period after the balance sheet date are recognised as prepayments.

Inventories. QSC initially measures inventories at cost. As of the balance sheet date, items 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 on hand, cash at banks, and short-term deposits with original maturities of three months or less. Cash funds that are subject to restrictions on disposal are recognised under other assets.

Provisions. A provision is recognised when QSC 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 obligation 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.

- **Severance payments.** Provisions are recognised for any existing legal or constructive obligations to grant severance payments to employees in connection with the termination of employment.

- **Dismantling obligations.** Provisions are recognised to cover the obligation to return the space let at a data centre to a contractually agreed state following expiry of the expected term of letting.

- **Restructuring measures.** A provision for restructuring measures is recognised as soon as QSC has approved a detailed and formal restructuring plan and the respective measures have either begun or been publicly announced.

Pensions. The obligations for defined benefit plans are determined separately for each plan using the projected unit credit method and on the basis of actuarial surveys.
Actuarial gains and losses are recognised under other reserves within other comprehensive income. The assumptions used by the Company to measure actuarial obligations are described in Note 31. Obligations for contributions to defined contribution plans are expensed as soon as the associated work has been performed.

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) and uses an appropriate option price model. Further details can be found in Note 39. The expense recognised for granting equity instruments and the corresponding increase in equity are 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 an equity-based compensation agreement are modified, QSC recognises as a minimum the level of expense that would have arisen in the absence of such modification. If an equity-based compensation agreement is cancelled, QSC accounts for the agreement as if it had been exercised on the cancellation date and recognises the previously unrecognised expense immediately.

Leases. QSC made first-time application of IFRS 16 as of 1 January 2019 using the modified retrospective method. For this reason, the cumulative effect resulting from application of IFRS 16 has been recognised as an adjustment to the figures in the opening balance sheet as of 1 January 2019 without any adjustment in the comparative information. Details of the accounting policies applied pursuant to IAS 17 and IFRS 4 have been presented separately.
Previously, QSC determined upon commencement of the respective contract whether the arrangement was or contained a lease pursuant to IFRIC 4 Determining whether an Arrangement Contains a Lease. Now, QSC assesses whether a contract is or contains a lease based on the definition of a lease, as explained in the following.

In transitioning to IFRS 16, QSC opted to apply the practical expedient allowing it to retain the assessment as to which transactions constitute leases. QSC has thus applied IFRS 16 only to those contracts previously identified as leases. Contracts previously identified pursuant to IAS 17 and IFRIC 4 as not constituting leases were therefore not reviewed to assess whether they were or contained a lease pursuant to IFRS 16. Accordingly, the definition of a lease provided in IFRS 16 was only applied to contracts concluded or amended on or after 1 January 2019.

METHOD APPLIED FROM 1 JANUARY 2019

Upon commencement of the respective contract, QSC assesses whether it is or contains a lease. This is the case when the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. QSC bases its assessment of whether a contract conveys the right to control an identified asset on the definition of a lease provided in IFRS 16. This method is applied to contracts concluded on or after 1 January 2019.

I. QSC as lessee

Upon the commencement or amendment of a contract containing a lease component, QSC divides the contractually agreed consideration on the basis of the relative stand-alone prices. For leased data centre space and for closed non-lease components in the case of leased motor vehicles, QSC has nevertheless opted to forego separating the non-lease components and has rather recognised the lease and non-lease components as a single lease component.
At the commencement date, QSC recognises an asset for the right thereby conveyed to use the leased asset ("right-of-use asset") and a lease liability.
The right-of-use asset is initially measured at cost, corresponding to the initial measurement of the lease liability, adjusted to account for payments made at or before the commencement date, plus any initial direct costs and the estimated costs of dismantling or removing the underlying asset or of restoring the underlying asset or the place in which it is located, and less any lease incentives received.
In subsequent periods, the right-of-use asset is subject to straight-line depreciation from the commencement date though to the end of the lease period. Furthermore, the right-of-use asset is corrected where necessary to account for impairments and adjusted to account for specified remeasurements of the lease liability.
The lease liability is initially recognised at the present value of the lease payments that have not yet been paid at the commencement date, discounted using the interest rate implicit in the lease or, if that cannot be readily determined, using QSC's incremental borrowing rate. In general, QSC uses its incremental borrowing rate as the discount rate.
To calculate its incremental borrowing rate, QSC obtains interest rates from various external financial sources and makes specified adjustments intended to account for the lease conditions and asset type.

The lease payments included in the measurement of the lease liability comprise:

- fixed payments
- variable payments that depend on an index or a rate
- payments of penalties for terminating the lease if the lease term reflects the lessee exercising an option to terminate the lease.

The lease liability is measured at its updated carrying amount using the effective interest method. It is remeasured if the future lease payments change due to a change in an index or if QSC changes its assessment concerning the exercising of any extension or termination option. Any such remeasurement of the lease liability leads to a corresponding adjustment in the carrying amount of the right-of-use asset, or to recognition of such remeasurement through profit or loss if the carrying amount of the right-of-use asset is reduced to zero.

QSC has drawn on the following significant options and practical expedients:

- Right-of-use assets and lease liabilities are recognised as separate line items in the balance sheet.
- Lease contracts for low-value assets are not treated as leases, but will rather be presented as current expenses in future as well.
- Short-term leases (less than twelve months) are not recognised in the balance sheet.
- Leases of intangible assets are not within the scope of IFRS 16 but are rather governed by IAS 38.
- Consistent with the internal management of the Company, intragroup leases are basically still presented in segment reporting as operating leases pursuant to IFRS 8.

Furthermore, QSC has drawn on the following significant options and practical expedients upon the first-time application of IFRS 16:

- Leases with remaining terms of less than 12 months as of 1 January 2019 have been recognised as short-term leases, with the associated costs being reported accordingly in the notes as expenses for short-term leases.

II. QSC as lessor

Upon the commencement or amendment of a contract containing a lease component, QSC divides the contractually agreed consideration on the basis of the relative stand-alone prices. For arrangements containing lease and non-lease components, QSC applies IFRS 15 to allocate the contractually agreed consideration.
When QSC acts as a lessor, each lease is classified upon commencement of the contract either as a finance lease or as an operating lease.
To assess each lease, QSC has performed an overall assessment to ascertain whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset.

The lease is classified as a finance lease where this is this case, and otherwise as an operating lease. In making this assessment, QSC accounts for certain indicators, such as whether the lease covers the major part of the economic life of the asset.
QSC recognises the head lease and the sublease separately in cases in which the Company acts as an intermediate lessor. QSC classifies the sublease by reference to the right-of-use asset arising from the head lease rather than by reference to the underlying asset. If the head lease is a short-term lease, QSC classifies the sublease as an operating lease.
QSC applies IFRS 9 requirements for derecognition and impairment to its net investment in a lease.
Lease payments from operating leases are credited to sales on a straight-line basis over the term of the lease.
In general, the accounting policies which QSC is required to apply in its capacity as lessor pursuant to IFRS 16 do not differ from those in the comparative period. One exception relates to subleases concluded in the current reporting period, which have been classified as finance leases.

METHOD APPLIED PRIOR TO 1 JANUARY 2019

For contracts concluded before 1 January 2019, QSC assessed whether an arrangement was or contained a lease as follows:

- The performance of the arrangement was dependent on use of a specified asset or specified assets and
- The arrangement conveyed a right to use the asset. This was the case when the following conditions were met:
  - The purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output.
  - The purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output.
  - Facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output and the price the purchaser would pay was neither contractually fixed per unit of output nor equal to the current market price per unit of output.

I. QSC as lessee

In accordance with IAS 17, items attributable to QSC as their economic owner were recognised as assets and depreciated over their customary useful lives or over the lease term if shorter. The obligation arising from the lease arrangement was recognised as a liability and reduced over the lease period by the capital portion of the lease payments. Contracts classified as finance leases primarily related to arrangements for IT hardware and data centre technology. Leased assets were 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 were divided into their constituent elements of financing expense and

capital repayment using the effective interest method and in such a way that the remaining carrying amount of the lease obligation was subject to a consistent interest rate.
Financing expenses were charged to income. QSC's finance leases had remaining terms of less than one year.
QSC classified lease arrangements which did not transfer substantially all the risks and rewards incidental to ownership to the lessee as operating leases. Operating lease payments were recognised as an expense in the income statement on a straight-line basis over the lease term.

II. QSC as lessor

Based on the requirements of IFRIC 4, QSC acted as the lessor in certain multiple element arrangements. The standard customer contract was 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 was recognised as a discounted receivable within "Trade receivables", while the revenues from the sale transaction were recognised in full in the year in which the contract was concluded. Customer payments on the leasing component were divided into principal and interest portions and recognised accordingly. Service revenues were recognised on a time-apportioned basis over the contract term. Operating lease income was recognised as income through profit or loss on a straight-line basis over the lease term.

Financial liabilities. Until such time as they were repaid in full, all interest-bearing loans were measured on initial recognition at fair value, less directly attributable transaction costs. Subsequent measurement was based on amortised cost using the effective interest method. Gains and losses were recognised in the income statement when the liabilities were derecognised as well.

Derivative financial instruments. QSC had been party to derivative financial instruments in the form of interest rate swaps used to hedge the risk of fluctuations in interest payments.
Derivative financial instruments were recognised initially at the contract date and measured both then and at the end of subsequent reporting periods at their fair value. Positive and negative fair values were reported as assets and other financial liabilities respectively. The fair value of interest-rate derivatives was determined on the basis of present value models, taking account of relevant market information (interest rate curves).
Where derivatives were used to hedge cash flow risks (cash flow hedges), the hedge relationship was documented and its effectiveness measured at each reporting date. The change in the fair value of the hedge instrument attributable to its effective portion was recognised in the statement of comprehensive income as a change in value charged or credited to equity. The ineffective portion of the hedge relationship was recognised through profit or loss. Amounts recognised in the cash flow hedge reserve were reclassified to the income statement in the period in which the underlying hedged transaction influenced earnings. Upon repayment of all interest-bearing loans in the 2019 financial year, QSC also terminated the respective derivative financial instruments.

Deferred income. Through to the disposal of the Plusnet companies, QSC deferred one-time income from the installation of customer lines on a time-apportioned basis over their respective terms.

Contract liabilities. One-off payments that have been received before the related performance obligation has been satisfied are stated as contract liabilities and recognised as sales over the agreed contractual term.

Taxes. QSC recognises current income tax assets and liabilities for current and prior periods at the amount expected to be reimbursed by or paid to the tax authorities. To calculate this, QSC uses the tax rates and tax laws applicable to the relevant assessment period. Current income taxes relating to items recognised directly in equity are 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 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 that 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 and unused tax loss carryovers to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, tax loss carryovers not yet used 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 that at the time of the transaction affects neither the reported result for the period nor taxable profit or loss; and
- where the deferred tax asset relates to 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 tax asset to be utilised. Previously unrecognised deferred tax assets are also reassessed at each balance sheet date and 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 expected to apply to the year when the asset is realised or the liability settled based on tax rates and tax laws that have been enacted as of the balance sheet date. Future changes in tax rates have to be accounted for if enacted or substantively enacted by the end of the reporting period.
Deferred taxes in connection with items recognised directly in equity in other comprehensive income are likewise recognised directly in equity (through OCI) and not through 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 taxes on income at the same taxable entity and due to the same tax authority.

5 CHANGES TO ACCOUNTING POLICIES

New, currently valid requirements

The standards and interpretations listed below present the latest amendments to standards requiring mandatory application in financial years beginning on or after 1 January 2019.

- IFRS 16 Leases
- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments to IFRS 9 Financial Assets Including Prepayment Features with Negative Compensation
- Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures
- Amendments to IAS 19 Plan Amendment, Curtailment or Settlement
- Annual improvements to IFRS standards: 2015–2017 cycle (amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23)

IFRIC 23 clarifies application of the accounting policies set out in IAS 12 in cases where there is uncertainty as to the income tax treatment. For recognition and measurement purposes, companies are required to work with estimates and assumptions, e.g. when determining whether uncertainties should be considered independently or together with other uncertainties, whether reference should be made to the most likely amount or the expected value when treating uncertainties, and in assessing whether changes have arisen compared with prior periods. Detection risk is ignored when accounting for uncertainties. Items are recognised on the assumption that the tax authorities will examine the amounts reported and will have full knowledge of all relevant information.

With the exception of IFRS 16 Leases (Note 19), the standards do not have any material implications for the consolidated financial statements.

Future requirements and new standards not yet applied

The table below provides an overview of the latest amendments to IFRS requiring application in financial years beginning after 1 January 2020 for which premature application in financial years beginning on 1 January 2019 is permitted.
QSC has not made premature application of the new or amended standards when preparing these consolidated financial statements. The amended standards and interpretations are not expected to have any material implications for the consolidated financial statements.

Effective date	New or amended standards and interpretations
1 January 2020	Amendments to References to the Conceptual Framework
1 January 2020	Amendments to IFRS 3 Definition of a Business
1 January 2020	Amendments to IAS 1 and IAS 8 Definition of Material
1 January 2020	Amendments to IFRS 9, IAS 39 and IFRS 7 IBOR Reform
1 January 2021	IFRS 17 Insurance Contracts[1]
Outstanding[2]	Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

[1] In June 2019, the Board published an exposure draft Amendments to IFRS 17 and proposed that the effective date for IFRS 17 Insurance Contracts should be postponed by one year, meaning that it would require application by companies in financial years beginning on or after 1 January 2022. Premature application of IFRS 17 is only permitted with simultaneous application of IFRS 9 Financial Instruments.
[2] The effective date for this amendment has been postponed indefinitely.

6 CORRECTION OF ERRORS

Correction of revenues and cost of revenues. An internal review established that revenues not meeting the requirements for recognition as such had erroneously been stated in the Cloud segment. As a result of this error, the revenues and corresponding cost of revenues reported for the 2018 financial year were respectively € 3,457k and € 3,393k too high.
In accordance with IAS 8, QSC has retrospectively corrected this error made in the 2018 financial year and adjusted the comparative figures for the financial year ending on 31 December 2018. For the 2018 financial year as a whole, the error had a positive impact of € 64k on earnings, which led to a corresponding increase in group equity. The tables below provide further details:

Correction in consolidated balance sheet (excerpt) as of 31 December 2018

€ 000s	Originally reported	Correction	Adjusted amount
ASSETS			
Long-term assets	**166,634**	**-**	**166,634**
Short-term assets			
Trade receivables	56,057	(2,235)	53,822
Prepayments	5,657	53	5,710
Other current assets	55,247	-	55,247
Short-term assets	**116,961**	**(2,182)**	**114,779**
ASSETS	**283,595**	**(2,182)**	**281,413**
Shareholders' equity			
Accumulated deficit	(175,819)	(64)	(175,883)
Other equity	266,760	-	266,760
Equity attributable to owners of the parent company	**90,941**	**(64)**	**90,877**
Non-controlling interests	(780)	-	(780)
SHAREHOLDERS' EQUITY	**90,161**	**(64)**	**90,097**
Liabilities			
Long-term liabilities	**109,309**	**-**	**109,309**
Short-term liabilities			
Trade payables and other liabilities	58,042	(2,118)	55,924
Other current liabilities	26,083	-	26,083
Short-term liabilities	**84,125**	**(2,118)**	**82,007**
LIABILITIES	**193,434**	**(2,118)**	**191,316**

Correction in consolidated statement of income (excerpt) for 2018

€ 000s	Originally reported	Correction	Adjusted amount
Net revenues	**366,843**	**(3,457)**	**363,386**
Cost of revenues	(298,821)	3,393	(295,428)
Gross profit	**68,022**	**(64)**	**67,958**
Net income before income taxes	**4,109**	**(64)**	**4,045**
Income taxes	(833)	-	(833)
Net income	**3,276**	**(64)**	**3,212**
Attribution of net income			
Owners of the parent company	3,518	(64)	3,454
Non-controlling interests	(242)	-	(242)
Earnings per share in € (rounded up/down to nearest € cent)			
Earnings per share (basic) in €	0.03	0.00	0.03
Earnings per share (diluted) in €	0.03	0.00	0.03

Correction in consolidated statement of comprehensive income (excerpt) for 2018

€ 000s	Originally reported	Correction	Adjusted amount
Net income for the period	**3,276**	**(64)**	**3,212**
Total fair value changes (net of tax) recognised directly	750	-	750
Total comprehensive income for the period	**4,026**	**(64)**	**3,962**
Attribution of total comprehensive income			
Owners of the parent company	4,268	(64)	4,204
Non-controlling interests	(242)	-	(242)

Correction in consolidated statement of cash flows (excerpt) for 2018

€ 000s	Originally reported	Correction	Adjusted amount
Cash flow from operating activities			
Net income before income taxes	4,109	(64)	4,045
Changes in trade receivables	(3,767)	2,235	(1,532)
Changes in trade payables	9,832	(2,118)	7,714
Changes in other assets and liabilities	682	(53)	629
Further cash flows	23,269	-	23,269
Cash flow from operating activities	**34,125**	**-**	**34,125**

Notes to the Consolidated Income Statement

7 REVENUES

Revenues from hardware leases in the context of new multiple element arrangements amounted to € 1,085k in 2019 (2018: € 227k).
A breakdown of revenues by geographical regions and distribution channels is presented in the tables below. Furthermore, the revenues thereby broken down are reconciled with the segments described in Note 38.

€ 000s	Geographical region					
	Germany		Outside Germany		Total	
	2019	2018*	2019	2018	2019	2018*
Segments						
Telecommunications	99,073	184,202	4,462	16,709	103,535	200,911
Outsourcing	49,410	88,746	603	2,287	50,013	91,033
Consulting	39,819	36,486	2,578	1,908	42,397	38,394
Cloud	39,529	32,384	2,573	664	42,102	33,048
	227,831	**341,818**	**10,216**	**21,568**	**238,047**	**363,386**

€ 000s	Distribution channel					
	End customer		Reseller		Total	
	2019	2018*	2019	2018	2019	2018*
Segments						
Telecommunications	48,731	82,804	54,804	118,107	103,535	200,911
Outsourcing	50,013	91,033	-	-	50,013	91,033
Consulting	42,397	38,394	-	-	42,397	38,394
Cloud	42,102	33,048	-	-	42,102	33,048
	183,243	**245,279**	**54,804**	**118,107**	**238,047**	**363,386**

* Corrected (see Note 6).

QSC generally draws on the practical expedient provided in IFRS 15.121, which permits outstanding performance obligations for contracts with expected original terms of no longer than one year and revenues recognized in line with their invoicing to be exempted from the disclosure obligation.

8 COST OF REVENUES

Of total research and development expenses of € 3,625k (2018: € 7,910k), an amount of € 410k was capitalised as development expenses in the 2019 financial year (2018: € 2,009k).

€ 000s	2019	2018
Purchased services	85,926	159,260*
Building, operation and maintenance of infrastructure	25,494	43,315
Depreciation and amortisation	31,056	22,004
Personnel expenses	66,397	70,697
Non-cash share-based compensation	(55)	152
Cost of revenues	**208,818**	**295,428**

* Corrected (see Note 6).

9 SALES AND MARKETING EXPENSES

€ 000s	2019	2018
Personnel expenses	14,341	16,951
Commission payments	2,888	5,632
Other sales and marketing expenses	2,266	3,003
Allowances for bad debt and fair dealing payments	437	549
Advertising expenses	2,064	2,165
Depreciation and amortisation	781	1,299
Non-cash share-based compensation	10	79
Sales and marketing expenses	**22,787**	**29,678**

10 GENERAL AND ADMINISTRATIVE EXPENSES

€ 000s	2019	2018
Other general and administrative expenses	15,793	14,127
Personnel expenses	16,516	13,381
Depreciation and amortisation	6,355	3,284
Non-cash share-based compensation	58	101
General and administrative expenses	**38,722**	**30,893**

11 WRITE-DOWNS AND IMPAIRMENTS

Write-downs and impairments are allocated to individual corporate functions as follows:

€ 000s	2019	2018
Write-downs of cost of revenues	31,056	22,004
Write-downs of sales and marketing expenses	781	1,299
Write-downs of general and administrative expenses	6,355	3,284
Write-downs of other operating expenses	14,172	-
Write-downs and impairments	**52,364**	**26,587**

Of the increase in write-downs, an amount of € 19,939k relates to write-downs of the utilisation schedules requiring capitalisation from 1 January 2020.

12 OTHER OPERATING INCOME AND EXPENSES

€ 000s	2019	2018
Profit on sale of Plusnet companies	135,253	-
Sundry other operating income	3,623	1,682
Income from subsidised projects	164	453
Income from disposal of long-term assets	28	29
Other operating income	**139,068**	**2,164**

Sundry other operating income mainly includes income of € 2,819k from service contracts with former subsidiaries (2018: € 0k), income of € 395k in connection with value-added services (2018: € 873k) and non-period income of € 124k (2018: € 37k).

€ 000s	2019	2018
Disposal costs for Plusnet companies	3,262	-
Sundry other operating expenses	1,150	1,113
Losses from disposal of long-term assets	267	27
Write-down of goodwill	14,172	-
Other operating expenses	**18,851**	**1,140**

Other operating expenses mainly include a write-down of € 14,172k recognised on goodwill in the Cloud segment (further details can be found in Note 18).
Sundry other operating expenses mainly comprise expenses of € 414k in connection with value-added services (2018: € 974k), third-party services of € 361k recognised in connection with corresponding sundry other operating income (2018: € 0k) and non-period expenses of € 113k (2018: € 122k).

13 FINANCIAL RESULT

The financial expenses of € 6,108k (2018: € 4,504k) mainly comprise loan interest expenses and interest on interest rate hedges, which together amount to € 3,749k (2018: € 4,121k), as well as lease interest expenses of € 2,051k recognised in connection with the new IFRS 16 lease standard. The net interest charge on pension provisions amounts to € 94k (2018: € 90k). No borrowing costs directly attributable to qualifying assets were incurred.

14 INCOME FROM ASSOCIATES

QSC AG acquired 25.15 percent of the shares in aiXbrain GmbH on 7 November 2019. Founded on 7 June 2019, this Aachen-based company has as its object the provision of all kinds of IT services based on artificial intelligence methods and of development and advisory services in connection with or relating to IT services.
The table below presents the key financials of aiXbrain GmbH, as well as a reconciliation of these with the carrying amount recognised for QSC's investment in aiXbrain GmbH. The information presented in the table for the 2019 financial year includes the results of aiXbrain GmbH from the date of acquisition until 31 December 2019.

€ 000s	**2019**
Shareholding	**25.15%**
Long-term assets	4
Short-term assets	164
Long-term liabilities	-
Short-term liabilities	(13)
Net assets (100%)	**155**
Carrying amount of investment in associate	**39**
Revenues since acquisition date (100%)	8
Earnings since acquisition date (100%)	(63)
QSC's share of comprehensive income	**(16)**

The shareholding is held as a financial rather than a strategic investment. Earnings at aiXbrain GmbH are attributable to continuing operations. No other income or expenses were incurred. Further information can be found in Note 40.

15 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the consolidated net income attributable to ordinary shareholders in the parent company and the weighted average number of shares in circulation in the year under report.
A total of 124,172,487 shares were in circulation throughout the 2019 financial year.
The calculation of diluted earnings per share is based on the consolidated net income attributable to ordinary shareholders in the parent company and the weighted average number of shares in circulation in the year under report following adjustment for all dilutive effects of the convertible bonds issued in connection with stock option plans.

€ 000s	2019	2018
Consolidated net income attributable to shareholders in the parent company (basic)	73,619	3,454*
Share-based compensation in connection with subscribed convertible bonds	-	-
Consolidated net income attributable to shareholders in the parent company (diluted)	73,619	3,454*

* Corrected (see Note 6).

Shares issued	2019	2018
Weighted average number of shares issued (basic)	124,172,487	124,172,487
Effect of conversion of convertible bonds	-	-
Weighted average number of shares issued (diluted)	124,172,487	124,172,487

The conversion effects for convertible bonds resulting from stock option plans and the associated share-based compensation only account for those convertible bonds for which the conversion terms were met at the balance sheet date, even if the respective holding period prior to conversion had not yet expired.

16 PERSONNEL EXPENSES AND EMPLOYEES

€ 000s	2019	2018
Wages and salaries	85,131	87,468
Employer social security contributions (pension insurance)	5,606	6,693
Employer social security contributions (other)	6,183	6,455
Pension expenses	334	413
Non-cash share-based compensation	13	332
Personnel expenses	**97,267**	**101,361**

Wages and salaries include expenses of € 7,112k for the termination of employment contracts (2018: € 2,984k).
During the 2019 financial year, QSC had an average total of 1,091 employees (2018: 1,306). The following table presents the distribution of employees by key corporate function:

	2019	2018
Sales and marketing	145	200
Technology and consulting	836	987
Administration	101	110
Head office departments	9	9
Number of employees by corporate function (average)	**1,091**	**1,306**

Notes to the Consolidated Balance Sheet

17 PROPERTY, PLANT AND EQUIPMENT

€ 000s	Land and buildings	Network and technical equipment	Operational and business equipment	Total
Gross value at 1 Jan. 2018	**30,038**	**247,888**	**27,136**	**305,062**
Additions	-	9,091	368	9,459
Disposals	(417)	(235)	(91)	(743)
Reclassifications	-	(24)	24	-
Gross value at 31 Dec. 2018	**29,621**	**256,720**	**27,437**	**313,778**
Additions	11	7,575	620	8,206
Disposals	-	(580)	(93)	(673)
Disposals due to deconsolidation / Plusnet sale	-	(177,393)	(6,557)	(183,950)
Reclassifications	-	(170)	170	-
Gross value at 31 Dec. 2019	**29,632**	**86,152**	**21,577**	**137,361**
Accumulated depreciation and impairments at 1 Jan. 2018	**6,510**	**199,588**	**17,955**	**224,053**
Additions	820	14,704	1,972	17,496
Disposals	-	(182)	(91)	(273)
Reclassifications	-	-	-	-
Accumulated depreciation and impairments at 31 Dec. 2018	**7,330**	**214,110**	**19,836**	**241,276**
Additions	804	9,895	1,767	12,466
Disposals	-	(573)	(87)	(660)
Disposals due to deconsolidation / Plusnet sale	-	(161,090)	(6,470)	(167,560)
Accumulated depreciation and impairments at 31 Dec. 2019	**8,134**	**62,342**	**15,046**	**85,522**
Carrying amounts at 31 Dec. 2018	**22,291**	**42,610**	**7,601**	**72,502**
Carrying amounts at 31 Dec. 2019	**21,498**	**23,810**	**6,531**	**51,839**

In the 2019 financial year, capital of € 8,206k was expended on property, plant and equipment (2018: € 9,459k). As of 31 December 2019, the "Network and technical equipment" line item included assets under construction of € 352k (2018: € 381k). These related to the expansion of data centres.
In the income statement, QSC recognises depreciation and amortisation under cost of revenues, sales and marketing expenses and general and administrative expenses respectively.

18 GOODWILL

Goodwill amounted to € 18,365k as of 31 December 2019 (2018: € 55,568k). Goodwill amounting to € 23,031k was retired in connection with the disposal of Plusnet GmbH and its deconsolidation as of 30 June 2019. Of this, € 19,950k related to the Telecommunications segment and € 3,081k to the Cloud segment. The impairment test performed as of 31 December 2019 identified an impairment requirement of € 14,172k in the Cloud segment. The resultant impairment loss has been recognized under other operating expenses in the consolidated income statement.
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. Accordingly, segment reporting is aligned to the Company's product structure. This has resulted in the segments of Telecommunications, Outsourcing, Consulting and Cloud.
The groups of cash-generating units (CGUs) to which goodwill has been allocated correspond to the operating segments determined for the companies included in consolidation pursuant to IFRS 8.5. The operating segments represent the lowest level of reporting at the companies included in consolidation for which goodwill is systematically monitored.
Taking due account of the impairment requirement in the Cloud segment, the carrying amount of goodwill is allocated to the segments as follows:

€ 000s	**2019**	**2018**
Telecommunications	894	20,844
Consulting	10,409	10,409
Cloud	7,062	24,315
Carrying amount of goodwill	**18,365**	**55,568**

The goodwill allocated to the **Outsourcing segment**, amounting to € 10,622k, was written down in full in the 2016 financial year.

QSC determines the recoverable amount of the CGUs as their value in use and refers here to the cash flow forecasts from continued use of the CGUs 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 performance of individual business units and also takes due account of internal assumptions concerning the marketing opportunities for innovative applications, as well as of past experience.

Following the Plusnet sale, the **Telecommunications segment** comprises the Colocation business which, based on proprietary data centres, provides access to a secure and flexible IT infrastructure. The products and services offered in this business range from traditional products, such as data centre space rental to rack and cage management through to virtualised solutions at virtual data centres. The sustainable growth rate has been assumed at 1.0%. Rising revenues, together with an improving segment margin and simultaneous slight reduction in structural expenses, will produce a robust increase in EBITDA, and thus also in the EBITDA margin, in the years covered by the planning period.

The revenue growth generated in the **Consulting segment** in 2019 is expected to continue in the detailed planning period. Customers need to convert to S/4HANA and this will lead to substantial revenue growth in the years covered by the planning period. This revenue performance and the increasing deployment of internal rather than external staff will significantly increase EBITDA and the EBITDA margin. The sustainable growth rate for the Consulting segment has been stated at 0.5% (2018: 0.5%).

The especially strong revenue growth in the **Cloud segment**, comparable with the development in revenues for innovative new products and services, is largely attributable to the Cloud platform. However, the growth generated by migrating existing Outsourcing customers to the Cloud segment is steadily losing momentum. Another strong growth area involves activities at QSC's subsidiary Q-loud, which offers services for the Internet of Things (IoT) business field. In line with the revenue growth, EBITDA and the EBITDA margin are also forecast to show strong growth over the planning period. Consistent with revenue expectations, the sustainable growth rate for the Cloud segment has been stated at 1.0% (2018: 1.0%).
A value in use of € 44,192k was calculated for the Cloud segment. Compared with the planning assumptions referred to in the previous year, the current budget for this business unit assumes higher costs. Moreover, a higher volume of capital expenditure has also been assumed. These factors resulted in an impairment requirement of € 14,172k in this segment. The impairment loss has been allocated in full to goodwill and recognised under other operating expenses.

To discount the cash flows expected for the respective CGUs, the segment-specific weighted average costs of capital (WACC) were determined. Segment-specific beta factors were derived by reference to peer group data. Segment-specific pre-tax discount rates are as follows:

	2019	2018
Telecommunications	7.12%	8.64%
Consulting	9.36%	10.75%
Cloud	10.67%	12.06%

The discount rate is a pre-tax key figure. It has been based on the yield on government bonds issued by the government on relevant markets and denominated in the same currencies as the underlying cash flows. This discount rate is adjusted to account for a risk premium reflecting the higher overall risk involved in an equity investment and the specific risk profiles of individual CGUs.

Due to the disposal of Plusnet, reference has been made to a different group of peer group companies in the Telecommunications segment.

The values in use of the Telecommunications and Consulting CGUs exceeded the carrying amounts of the respective assets by the amounts presented in the following table:

€ 000s	2019	2018
Telecommunications	1,584	128,947
Consulting	3,675	13,323

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, gross profit, the capex ratio and the discount rate. Various scenario analyses were performed for the impairment test. An impairment requirement would arise in the CGUs if, all other factors being equal, revenues in the final planning year, and thus in perpetuity, were to fall short of the revenues assumed in the planning by the following amounts:

	2019	2018
Telecommunications	-0.7%	-15.7%
Consulting	-0.8%	-3.5%

Due to the impairment loss recognised for the Cloud segment, the recoverable amount was equivalent to the carrying amount. Accordingly, any unfavourable development in a significant assumption would lead to a further impairment.

19 LEASES

QSC as lessee

In its capacity as lessee, QSC leases data centre space, office space, car parking spaces, dark fibre lines and vehicles. Through to the disposal of the Plusnet companies as of 30 June 2019, the Company also leased subscriber lines, directional antennae, collocation space and IT equipment. Based on its assessment as to whether substantially all of the risks and rewards incidental to ownership of the underlying asset were transferred with the respective lease, QSC previously classified its leases as operating or finance leases. Pursuant to IFRS 16, the Company has recognised right-of-use assets and lease liabilities for most of these lease contracts, i.e. the leases are recognised in the balance sheet.
In transitioning those leases previously classified under IAS 17 as operating leases, QSC has measured lease liabilities at the present value of remaining lease payments, discounted using the Company's incremental borrowing rate as of 1 January 2019.
Right-of-use assets are initially measured in the amount of the respective lease liabilities, adjusted to account for any lease payments made in advance or deferred, and subsequently at amortised cost. Right-of-use assets are subject to straight-line depreciation over the term of the respective contract.
Upon the transition, QSC tested its right-of-use assets for impairment and concluded that there were no indications of impairment.
In applying IFRS 16 to those leases classified under IAS 17 as operating leases, QSC drew on a number of practical expedients. Specifically, the Company:

- Applied a single discount rate for a portfolio of similarly structured lease contracts (e.g. real estate contracts with similar remaining terms)
- Did not recognise any right-of-use assets or lease liabilities for those leases with terms ending within 12 months of the date of initial application
- Did not recognise any right-of-use assets or lease liabilities for those leases for which the underlying asset is of low value (e.g. IT equipment).

The terms of contracts valid as of 31 December 2019 are presented in the following table:

Type of contract	Term in years
Lease contracts for data centre space	1 to 6 years
Lease contracts for office space	1 to 6 years
Lease contracts for car parking spaces	1 to 6 years
Lease contracts for dark fibre lines	2 years
Lease contracts for cars	1 to 4 years

A number of lease contracts, mainly for real estate, include extension and termination options. In determining the terms of these contracts, due account is taken of all facts and circumstances offering an economic incentive to exercise extension options or not exercise termination options. QSC only accounts for amendments to the respective contractual terms due to the exercising or non-exercising of such options when these are reasonably certain to occur.

The Company estimates that the potential future lease payments resulting from exercising the extension options on significant lease contracts would result in an undiscounted lease liability of € 27.7 million.

QSC leased a number of data centre fittings that were classified under IAS 17 as finance leases. For these finance lease contracts, which expired in mid-2019, the carrying amounts of the right-of-use asset and the lease liability as of 1 January 2019 were recognised in the amounts of the carrying amounts of the leased item and the lease liability pursuant to IAS 17 directly prior to this date.

The opening values, additions, disposals and amounts of depreciation for the right-of-use assets underlying the respective classes are presented in the table on the following page:

€ 000s	Real estate	Technical equipment	Operational and business equipment	Total
Gross value at 1 Jan. 2019	**52,555**	**58,224**	**1,088**	**111,867**
Additions	4,587	6,624	211	11,422
Disposals	(2,733)	(4,529)	(26)	(7,288)
Disposals due to deconsolidation / Plusnet sale	(31,233)	(61,001)	(601)	(92,835)
Reclassifications	-	1,739	-	1,739
Gross value at 31 Dec. 2019	**23,176**	**1,057**	**672**	**24,905**
Accumulated depreciation and impairments at 1 Jan. 2019	-	-	-	-
Additions	6,857	12,697	385	19,939
Disposals	(85)	(8)	(4)	(97)
Disposals due to deconsolidation / Plusnet sale	(1,585)	(13,166)	(120)	(14,871)
Reclassifications	-	806	-	806
Accumulated depreciation and impairments at 31 Dec. 2019	**5,187**	**330**	**261**	**5,778**
Carrying amounts at 31 Dec. 2018	-	-	-	-
Carrying amounts at 31 Dec. 2019	**17,989**	**727**	**411**	**19,127**

The reclassifications within technical equipment were made between intangible assets (customer connections) and right-of-use assets.

Amounts recognised in the income statement in addition to depreciation:

€ 000s	2019
2019 – lease arrangements (IFRS 16)	
Interest expenses for lease liabilities	2,051
Interest income from subletting right-of-use assets in finance leases	9
Expenses for short-term leases	114
Expenses for low-value leases (excepting low-value leases with short terms)	98

€ 000s	2018
2018 – operating leases (IAS 17)	
Lease expenses	12,321

Amounts recognised in the statement of cash flows:

€ 000s	2019
Total outflow of cash for leases	**18,771**

In measuring its lease liabilities for operating leases, QSC discounted its lease payments as of 1 January 2019 using its incremental borrowing rate. Upon initial recognition, the weighted average incremental borrowing rate amounted to 3.53 percent.

€ 000s	1 Jan. 2019
Obligations in connection with operating leases at 31 December 2018,	
as disclosed pursuant to IAS 17 in consolidated financial statements	79,479
Liabilities in connection with operating leases at 31 December 2018,	
as disclosed pursuant to IAS 17 in consolidated financial statements – corrected*	126,687
Discounted using QSC's incremental borrowing rate at 1 January 2019	112,089
Liabilities under finance lease arrangements at 31 December 2018	76
Leases for which the underlying asset is of low value	
and for which the option of non-recognition has been exercised	(204)
Leases whose term expires within 12 months of initial application	
and for which the option of non-recognition has been exercised	(18)
Lease liabilities at 1 January 2019	**111,943**

* The disclosure of operating leases as of 31 December 2018 has been corrected, as the disclosures in the previous year did not include leased subscriber lines.

The terms of the lease liabilities are presented in the table in Note 43.

QSC as lessor

Operating leases. QSC agrees lease-like components with its customers, in this case mainly for data centre space rental. Here, the Company concludes part amortisation contracts without purchase options or price adjustment clauses. The lease contracts have terms of three to five years (and in some cases provide for extension options).
In 2019, lease income of € 26,315k was recognised under revenues (2018: € 28,776k).
The following table presents a maturity analysis for lease receivables and shows the undiscounted lease payments due to be received after the balance sheet date:

€ 000s	2019
Operating lease contracts	
Less than one year	23,910
One to two years	13,548
Two to three years	8,721
Three to four years	7,694
Four to five years	6,215
More than five years	24,322
Operating lease arrangements	**84,411**

Finance leases

QSC acts as lessor in some specialised multiple element arrangements and subleases. The following table presents a maturity analysis of the future minimum lease payments from finance leases:

€ 000s	2020	2021	2022	2023	2024	Total
Minimum lease payments receivable in future						
Lease payments	1,581	1,460	1,106	30	8	4,186
Discounting	(30)	(14)	(7)	(1)	-	(52)
Present values	**1,551**	**1,446**	**1,099**	**29**	**8**	**4,135**

In 2019, an amount of € 1,619k was recognised as lease payments (2018: € 2,488k).

20 OTHER INTANGIBLE ASSETS

€ 000s	Licenses	Acquired software	Internally generated software	Customer connections	Customer bases	Brands	Other	Total
Gross value								
at 1 Jan. 2018	**1,859**	**15,243**	**8,802**	**63,170**	**36,223**	**2,626**	**12,065**	**139,988**
Additions	89	2,559	497	4,915	-	100	5	8,165
Disposals	-	(34)	-	-	-	-	-	(34)
Reclassifications	-	-	-	-	-	-	-	-
Gross value								
at 31 Dec. 2018	**1,948**	**17,768**	**9,299**	**68,085**	**36,223**	**2,726**	**12,070**	**148,119**
Additions	71	1,655	17	2,087	-	-	-	3,830
Disposals	-	(266)	-	(2)	-	-	-	(268)
Reclassifications	-	(1,445)	1,445	(1,739)	-	-	-	(1,739)
Disposals due to								
deconsolidation /								
Plusnet sale	(1,934)	(10,448)	-	(68,431)	-	-	(706)	(81,519)
Gross value								
at 31 Dec. 2019	**85**	**7,264**	**10,761**	**-**	**36,223**	**2,726**	**11,364**	**68,423**
Accumulated amortisa-								
tion and impairments								
at 1 Jan. 2018	**1,270**	**12,694**	**8,669**	**57,915**	**20,258**	**2,426**	**11,407**	**114,639**
Additions	114	1,892	10	4,914	2,055	100	6	9,091
Disposals	-	(22)	-	-	-	-	-	(22)
Accumulated amortisa-								
tion and impairments								
at 31 Dec. 2018	**1,384**	**14,564**	**8,679**	**62,829**	**22,313**	**2,526**	**11,413**	**123,708**
Additions	61	849	741	1,977	2,056	100	3	5,787
Disposals	-	(249)	-	(808)	-	-	-	(1,056)
Disposals due to								
deconsolidation /								
Plusnet sale	(1,360)	(9,867)	-	(63,998)	-	-	(701)	(75,926)
Accumulated amortisa-								
tion and impairments								
at 31 Dec. 2019	**85**	**5,297**	**9,420**	**-**	**24,369**	**2,626**	**10,715**	**52,512**
Carrying amounts								
at 31 Dec. 2018	**564**	**3,204**	**620**	**5,256**	**13,910**	**200**	**657**	**24,411**
Carrying amounts								
at 31 Dec. 2019	**-**	**1,967**	**1,341**	**-**	**11,854**	**100**	**649**	**15,911**

The reclassifications of customer connections were made between intangible assets and right-of-use assets.

21 TRADE RECEIVABLES

€ 000s	2019	2018
Trade receivables		
Long-term trade receivables	-	1,953
Short-term trade receivables	31,034	53,822*
Trade receivables	**31,034**	**55,775**

* Corrected (see Note 6).

The multiple element arrangements previously recognised under trade receivables have been allocated for the first time to other assets (see Note 24)
Short-term trade receivables bear no interest and generally have maturities of 30 to 90 days. Receivables that are not more than 180 days past due mainly involve receivables due from major customers. In terms their historic recoverability, these receivables showed a very low default rate of less than 0.02% over the past five years. Unless the creditworthiness of the respective customer changes significantly in the first 180 days after performance of the respective service, based on historic empirical values and with due consideration of materiality factors QSC therefore does not recognise any allowance in this period. For these receivables, QSC recognises a provision for expected credit losses at the aforementioned rate of 0.02%. Receivables that are more than 180 days past due are considered on an individual case basis, i.e. all receivables more than 180 days past due are individually tested for impairment.
As of 31 December 2019, trade receivables amounting to € 213k were impaired (2018: € 3,689k). The individual allowances schedule and provision for expected credit losses developed as follows:

€ 000s	2019	2018
Allowance at 1 January	**3,689**	**3,196**
Added and expensed	427	859
Utilised	(129)	-
Reversed	(63)	(366)
Disposal due to deconsolidation/Plusnet sale	(3,711)	-
Allowance at 31 December	**213**	**3,689**

The allowance recognised for trade receivables as of 31 December 2019 is structured as follows:

€ 000s	Default rate (weighted average)	Gross carrying amount	Allowance	Impaired credit-worthiness
Receivables				
Expected credit loss	0.02%	31,006	(6)	no
Individual allowance	85.94%	241	(207)	yes
Total		**31,247**	**(213)**	**31,034**

In the 2019 financial year, QSC received payments of € 35k on retired receivables which, before being written down, had carrying amounts of € 68k.
The factoring agreement with NORD LB Luxemburg S.A. Covered Bond Bank was terminated as of 30 June 2019.

22 PREPAYMENTS

The long-term prepayments of € 1,401k (2018: € 3,353k) and short-term prepayments of € 3,525k (2018, corrected: € 5,710k) chiefly consist of prepayments for service and maintenance agreements.

23 INVENTORIES

Inventories totalled € 228k as of 31 December 2019 (2018: € 670k) and mainly comprised materials used in production and technical merchandise held for sale and amounting to € 206k (2018: € 612k) and consumables of € 22k (2018: € 23k).

24 OTHER ASSETS

Other short-term assets amount to € 12,610k (2018: € 959k) and mainly include receivables of € 8,795k due from Plusnet GmbH in connection with the profit transfer agreement concluded for the short financial year from 1 January 2019 to 30 June 2019 (2018: € 0k), receivables of € 1,698k in connection with finance lease contracts (2018: € 891k; previously reported under trade receivables), receivables of € 1,004k due from the tax authorities (2018: € 381k) and paid cash deposits of € 978k (2018: € 3k). The receivables due in connection with finance lease contracts include receivables of € 832k for multiple element arrangements (2018: € 891k) and receivables of € 738k for subleases (2018: € 0k).

Other long-term assets with remaining terms of more than one year amount to € 4,819k (2018: € 430k) and mainly comprise paid cash deposits of € 2,105k (2018: € 71k) and receivables in connection with finance lease contracts of € 2,455k (2018: € 1,640k; previously reported under trade receivables). The receivables due in connection with finance lease contracts include receivables of € 777k for multiple element arrangements (2018: € 1,640k) and receivables of € 1,507k for subleases (2018: € 0k).

Other assets include contract acquisition costs of € 287k (2018: € 410k); of these, € 164k are long-term (2018: € 287k) and € 123k short-term (2018: € 123k). These assets are written down over the terms of the underlying contracts.

25 CASH AND CASH EQUIVALENTS

Cash and cash equivalents amounted to € 66,031k at the 2019 balance sheet date (2018: € 53,618k) and consisted of cash at banks and cash on hand.

26 ISSUED CAPITAL

As in the previous year, issued capital at the Company amounted to € 124,172,487 and comprised 124,172,487 no-par shares.

In the 2019 financial year, a dividend of € 0.03 per share with dividend entitlement was distributed for the previous year (€ 3,725k).

27 CAPITAL RESERVE

The capital reserve amounted to € 144,132k as of 31 December 2019 (2018: € 144,119k). This amount also includes the deferred share-based compensation for the stock option plan. The year-on-year change is due to non-cash share-based compensation of € 13k.

28 AUTHORISED AND CONDITIONAL CAPITAL

Authorised capital. The Management Board is authorised by resolution of the Annual General 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 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 € 42,751,500 as of the balance sheet date. This was divided into Conditional Capital IV (€ 40,000,000), Conditional Capital VIII (€ 2,001,500) and Conditional Capital IX (€ 750,000).
Conditional Capitals 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) or to Management Board members, managing directors of affiliated companies, employees of QSC and affiliated companies (Conditional Capital VIII).
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 General 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% of issued capital during the term of the

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% of issued capital during the term of the respective authorisation.

29 OTHER RESERVES

The development in this item in the 2019 and 2018 financial years is presented in the consolidated statement of changes in equity.
Other reserves were structured as follows as of 31 December:

€ 000s	2019	2018
Other reserves		
Actuarial losses on pension plans	(3,186)	(1,943)
Change in fair value of cash flow hedge	-	(313)
Deferred taxes	1,039	725
Other reserves	**(2,147)**	**(1,531)**

30 OTHER FINANCIAL LIABILITIES

Due to the repayment of all banks loans in 2019, the other financial liabilities remaining as of the balance sheet date solely related to convertible bonds (see Note 39).

€ 000s	2019	2018
Long-term liabilities		
Secured bank loans	-	100,000
Convertible bonds	25	36
Long-term liabilities	**25**	**100,036**

€ 000s	2019	2018
Short-term liabilities		
Portion of secured bank loans maturing in short term	-	19,937
Portion of liabilities under finance lease arrangements maturing in short term	-	76
Short-term liabilities	**-**	**20,013**

Information about short-term liabilities under finance lease arrangements can be found in Note 19.

31 PENSION PROVISIONS

QSC operates defined benefit pension plans which are partially secured through reinsurance policies that are 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 workforce in previous years. The pension entitlements relate to defined benefits which depend primarily on the period of service with the Company and the relevant level of pensionable salary. These defined benefit plans expose QSC to various actuarial risks, including longevity and interest rate risks.
The pension provisions for defined benefit plans are measured using the projected unit credit method in accordance with the requirements of IAS 19 and takes future developments into account. The biometric calculations were based on the 2018 G biometric tables newly published in 2018 by Prof. Dr. Klaus Heubeck – Lizenz Heubeck-Richttafeln-GmbH, Cologne.
QSC recognises actuarial gains and losses directly through OCI. In 2019, the accumulated actuarial gains and losses amounted to € 2,147k and were recognised through OCI (2018: € 1,319k). Total actuarial losses after taxes came to € 876k in the 2019 financial year (2018: € 31k).

€ 000s	2019	2018
Present value of defined benefit obligation at 1 January	**7,452**	**7,674**
Deconsolidation	(110)	-
Interest cost	130	120
Actuarial losses (gains)	1,315	(73)
Due to changes in demographic assumptions	-	91
Due to changes in financial assumptions	1,263	(220)
Due to experience adjustments	52	55
Benefits paid	(364)	(268)
Present value of defined benefit obligation at 31 December	**8,423**	**7,452**
Fair value of plan assets at 1 January	**(1,907)**	**(1,749)**
Interest income	(36)	(30)
Income from plan assets excluding amounts included in net interest expenses and income	1	32
Amounts paid out	17	46
Company contributions to plan assets	(205)	(206)
Fair value of plan assets at 31 December	**(2,130)**	**(1,907)**
Pension provision at 31 December	**6,293**	**5,545**
Discount factor	0.54%	1.79%
Rate of compensation increase	2.00%	2.00%
Pension indexation	1.00%	1.00%

Expenses for plan assets excluding amounts included in interest income are reported under other comprehensive income.
The income and expenses recognised in the income statement for defined benefit plans are structured as follows:

€ 000s	2019	2018
Pension expenses		
Interest cost	130	120
Income from plan assets recognized through profit or loss	(36)	(30)
Pension expenses	**94**	**90**

Pension payments of € 260k and funding contributions to plan assets of € 205k are expected in 2020.
If the aforementioned material assumptions used to measure pension obligations as of the balance sheet date were to change by half a percentage point in each case, pension obligations would increase/decrease as follows:

€ 000s	Change in pension obligations	Pension obligations
Change in interest rate +0.5%	(639)	7,784
Change in interest rate -0.5%	720	9,143

As of 31 December 2019, the weighted average term of the defined benefit obligation came to 15.1 years (2018: 14.7 years).
Employer contributions to defined contribution plans amounted to € 5,606k in the 2019 financial year (2018: € 6,693k).

32 OTHER PROVISIONS AND TAX PROVISIONS

(a) Other provisions

€ 000s	Restructuring	Redundancy payments	Dismantling	Onerous contracts	Litigation risks	Other	Total
Balance at 1 January 2019	**-**	**2,505**	**2,922**	**-**	**15**	**135**	**5,577**
Added	4,565	1,363	-	190	1	-	6,119
Utilised	-	(1,379)	-	-	(2)	-	(1,381)
Reversed	-	(7)	-	-	-	-	(7)
Disposals due to deconsolidation/ Plusnet sale	-	(100)	(2,482)	-	(13)	(135)	(2,730)
Balance at 31 December 2019	**4,565**	**2,382**	**440**	**190**	**1**	**-**	**7,578**
Long-term	-	-	440	108	-	-	548
Short-term	4,565	2,382	-	82	1	-	7,030
Balance at 31 December 2019	**4,565**	**2,382**	**440**	**190**	**1**	**-**	**7,578**

Restructuring. During 2019, the Management Board decided to further optimise the Company's cost structures in its administrative departments and its Outsourcing segment. QSC has recognised a provision of € 4,565k to cover redundancy payments to employees. Work on implementing the restructuring measures in administrative departments already began in 2019. All of the restructuring measures are expected to be completed by the end of 2020.

Redundancy payments. Provisions of € 1,363k were capitalised in 2019 for redundancy payments to employees. These provisions will be utilised in 2020. The estimated costs are based on the terms of the relevant agreements.
As of the balance sheet date, the Company also still had obligations dating back to 2018 that will be utilised in 2020.

Dismantling. The dismantling obligation of € 440k (2018: € 2,922k) relates to a rented data centre for which the rental term expires on 30 April 2023.

Onerous contracts. These mainly relate to ancillary costs at a rented property where the object of the rental agreement can only be used to a diminished extent. The rental term of the onerous contracts expires as of 31 December 2022.

(b) Tax provisions

€ 000s	Corporate income tax and solidarity surcharge	Trade tax	Total
Balance at 1 January 2019	**758**	**873**	**1,631**
Added	27	27	54
Utilised	(623)	(564)	(1,187)
Reversed	(134)	(208)	(342)
Retired due to deconsolidation/ Plusnet sale	(1)	(101)	(102)
Balance at 31 December 2019	**27**	**27**	**54**

33 TRADE PAYABLES AND OTHER LIABILITIES

€ 000s	2019	2018
Long-term		
Trade payables	-	100
Other liabilities	-	354
Long-term	**-**	**454**

€ 000s	2019	2018*
Short-term		
Trade payables	10,350	44,457
Contract liabilities	488	-
Other liabilities	17,755	11,467
Short-term	**28,593**	**55,924**

* Corrected (see Note 6).

Other liabilities include QSC's profit transfer claims towards Plusnet GmbH for that company's short financial year from 1 January 2019 to 30 June 2019. Amounting to € 8,795k, these claims must, upon receipt, be transferred to the shareholder of Plusnet GmbH. Other liabilities also include personnel-related liabilities of € 7,357k (2018: € 6,643k).

34 DEFERRED INCOME

Consideration paid in advance for services that have not yet been performed or goods that have not yet been delivered is deferred on a time-apportioned basis over the term of the contract or over the period for which the customer relationship is expected to last.

Notes to the Consolidated Statement of Cash Flows

The statement of cash flows is divided into three sections: operating, investing and financing activities. The cash flow from operating activities has been calculated using the indirect method. As well as the repayment of liabilities due to banks, the cash flow from financing activities also for the first time includes outgoing payments for the repayment of lease liabilities. Interest income is recognised in the cash flow from operating activities, while interest payments are accounted for in the cash flow from financing activities. Tax payments are reported in their full amount in the cash flow from operating activities, as it is not possible to allocate these items to individual segments.

35 CASH FLOW FROM OPERATING ACTIVITIES

The cash flow from operating activities amounted to € -17,710k in the 2019 financial year and thus decreased by € 51,835k compared with the previous year.
This was essentially due to the year-on-year development in earnings before taxes on income following adjustment to exclude the profit generated from the sale of the Plusnet companies.

36 CASH FLOWS FROM INVESTING ACTIVITIES AND FINANCING ACTIVITIES

The cash flow from investing activities came to € 173,193k in the 2019 financial year (2018: € -17,701k). The improvement compared with the previous year was attributable to the sale of Plusnet GmbH.
The cash flow from financing activities amounted to € -143,070k in the 2019 financial year (2018: € -24,687k). The outflow of funds mainly resulted from loan repayments of € -142,000k (2018: € -81,412k).

€ 000s	1 Jan. 2019	Cash-effective changes	Non-cash-effective changes	Retired due to deconsolidation/ Plusnet sale	31 Dec. 2019
Financial liabilities					
Long-term loans	100,000	(100,000)	-	-	-
Short-term loans	19,000	(19,000)	-	-	-
Lease liabilities	111,943	(18,771)	7,075	(78,049)	22,198
Assets to secure long-term loans	(212)	-	212	-	-
Financial liabilities	**230,731**	**(137,771)**	**7,287**	**(78,049)**	**22,198**

Other Disclosures

37 SUBSIDIARIES

The consolidated financial statements include the following companies:

€ 000s	Shareholdings in %	Equity 31 Dec. 2019	Net income 2019
Subsidiary, headquarters, country			
(Disclosures as per HGB annual financial statements)			
IP Colocation GmbH, Nuremberg, Germany	100.00	3,341	419
Q-loud GmbH, Cologne, Germany	100.00	2,187	(3,148)

For all of its subsidiaries, the control exercised by QSC is attributable to its share of voting rights. Information about the sale and deconsolidation of Plusnet GmbH and its subsidiaries as of 30 June 2019 can be found in Note 2.

38 SEGMENT REPORTING

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

Cloud. The Cloud segment comprises Cloud Services and IoT Services. Cloud Services assist companies in gradually moving into the digital age. Customers can procure all key IT functions as turnkey cloud modules – from virtual IT workplaces to sophisticated business applications through to flexible IT resources. The IoT activities are pooled at Q-loud. This subsidiary offers the full range of services, software competence, hardware from sensors to gateways, and secure transmission and storage of the relevant data.

Outsourcing. The Outsourcing segment offers all services required for traditional company IT. Outsourcing services provided in the cloud are allocated to the Cloud segment. Outsourcing services also include managing basic IT and horizontal services, business-critical applications, stationary and mobile terminals, cutting-edge collaboration solutions and professional IT service management with 24/7 service.

Consulting. The Consulting segment advises companies on digitalising and optimising their business processes, with a key focus on SAP technologies. QSC has extensive experience in the fields of basic operations, application management, implementation, user support and maintenance, as well as in licence and lease models.
QSC supplements its range of consulting services with advice on Microsoft applications, such as Sharepoint, Skype for Business and Azure, as well as its own multi-cloud consulting.

Telecommunications (TC). The operation of broadband technologies and a proprietary nationwide network infrastructure traditionally accounted for a large share of our portfolio in the Telecommunications segment. This business was sold as of 30 June 2019. The remaining Colocation business, which is based on proprietary data centres, provides SMEs with access to a secure and flexible IT infrastructure. The offering comprises traditional products, such as the letting of data centre space, the management of racks and cages, and virtualised solutions offered via virtual data centres.

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

€ 000s	Telecom-munications	Outsourcing	Consulting	Cloud	Group
2019 financial year					
Net revenues	**103,535**	**50,013**	**42,397**	**42,102**	**238,047**
Cost of revenues	(67,489)	(37,479)	(39,259)	(33,589)	(177,816)
Gross profit	**36,046**	**12,534**	**3,138**	**8,513**	**60,231**
Sales and marketing expenses	(6,574)	(6,696)	(2,204)	(6,521)	(21,995)
Segment contribution	**29,472**	**5,838**	**934**	**1,992**	**38,236**
General and administrative expenses					(32,311)
Depreciation and amortisation (including non-cash share-based compensation)					(52,377)
Other operating income and expenses					134,389
Operating profit (EBIT)					**87,937**
Financial income					87
Financial expenses					(6,108)
Income from associates					(16)
Net income before income taxes					**81,900**
Income taxes					(8,357)
Net income					**73,543**

€ 000s	Telecom-munications	Outsourcing	Consulting	Cloud (adjusted)	Group
2018 financial year					
Net revenues	**200,911**	**91,033**	**38,394**	**33,048**	**363,386**
Cost of revenues	(147,204)	(73,866)	(31,528)	(20,674)	(273,272)
Gross profit	**53,707**	**17,167**	**6,866**	**12,374**	**90,114**
Sales and marketing expenses	(14,505)	(5,618)	(1,420)	(6,757)	(28,300)
Segment contribution	**39,202**	**11,549**	**5,446**	**5,617**	**61,814**
General and administrative expenses					(27,508)
Depreciation and amortisation (including non-cash share-based compensation)					(26,919)
Other operating income and expenses					1,024
Operating profit (EBIT)					**8,411**
Financial income					138
Financial expenses					(4,504)
Net income before income taxes					**4,045**
Income taxes					(833)
Net income					**3,212**

Revenues include € 8,428k generated with non-German EU customers (mainly UK [€ 2,917k], Netherlands [€ 1,895k] and Belgium [€ 1,171k]) and € 1,787k with non-EU customers (mainly Switzerland [€ 1,507k]). All other revenues were generated in Germany.

New segmentation from 1 January 2020. From the first quarter of 2020 onwards, the Colocation business will, together with the existing Cloud and Outsourcing segments, form the new "Cloud & IoT" segment. This way, we are taking due account of the amended management of the Company following the Plusnet sale, as well as of the fact that customers are increasingly combining services from these business fields. This segment will be joined by the "SAP" segment.

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 additionally required 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 2019, the SOP 2012 and SOP 2015 plans were active. Convertible bonds outstanding within the SOP 2006 plan could only be converted until May 2019. The SOP 2006 plan has thus been concluded.

Convertible bonds allocated within the SOP 2012 plan were eligible for subscription for the last time on 15 May 2017. Subscriptions within the SOP 2015 plan, which is solely available to Management Board members, are still possible until 26 May 2020. No new convertible bonds were allocated or subscribed in the 2019 financial year.

The conversion right provided for by the SOP 2012 and 2015 plans may only be exercised at the earliest after the expiry of a four-year waiting period and only if at least one of the following two conditions is met: the share price is at least 20% higher than the conversion price or the share has outperformed the TecDAX in relative terms since the subscription date.

No personnel expenses have been recognised pursuant to IFRS 2 for the convertible bonds resulting from the 2000, 2000A, 2001 and 2002 SOP plans, none of which is now utilisable.

No option values had to be calculated in the 2018 and 2019 financial years for the SOP 2012 and 2015 plans.

The distribution of the convertible bonds outstanding under the active plans as of 31 December 2019 and 31 December 2018 is as follows:

	Number of convertible bonds	Weighted average exercise price in €
Outstanding at 31 December 2017	**3,798,229**	**2.21**
Newly issued in 2018	-	-
Lapsed in 2018	(233,900)	2.29
Exercised in 2018	-	-
Outstanding at 31 December 2018	**3,564,329**	**2.20**
Newly issued in 2019	-	-
Lapsed in 2019	(1,062,829)	2.53
Exercised in 2019	-	-
Outstanding at 31 December 2019	**2,501,500**	**2.06**

The exercise prices of the 2,501,500 convertible bonds outstanding range from € 1.10 to € 4.59, while the remaining term for exercising them ranges from directly exercisable through to 14 May 2025 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 2025.
As of the balance sheet date on 31 December 2019, the agreed four-year lockup period had expired for a total of 1,450,800 of the outstanding convertible bonds; however, these bonds could not be exercised as the underlying terms had not been fully met. As a result, no stock options were directly exercisable as of the balance sheet date.
In the 2019 financial year, expenses of € 13k were incurred for non-cash share-based compensation (2018: € 332k).

40 RELATED PARTY TRANSACTIONS

Transactions with members of the management in key positions

I. Compensation of members of the management in key positions. The compensation of members of the management in key positions comprises:

€ 000s	2019	2018
Compensation of management members		
Short-term benefits	1,244	1,290
Post-employment benefits	-	-
Other long-term benefits	150	431
Termination benefits	550	4
Share-based compensation	30	61
Compensation of management members	**1,974**	**1,786**

Compensation of members of the management in key positions (members of the Management and Supervisory Boards) includes salaries, expense reimbursements, settlements, benefits in kind and expenses incurred for stock option plans.
Other long-term benefits relate to the claim to variable compensation resulting from the multi-year targets agreed for the Management Board.

II. Transactions with members of the management in key positions. The Management Board members active at the Company at the end of the 2019 financial year hold voting rights for 710,000 shares; one member of the Management Board (40,000 shares) left the Company as of 31 December 2019. Supervisory Board members have a total of 31,557,394 shares, corresponding to around 25.4% of voting rights.
In 2019, QSC maintained business relations with companies in which members of its own Management and Supervisory Boards act as shareholders. IAS 24 states that individuals or companies constitute related parties when one of the parties has the possibility of controlling or exercising significant influence over the other party. All contracts with these companies require Supervisory Board approval and are concluded on customary market terms.

Members of QSC's Management and Supervisory Boards are shareholders in the following companies:

€ 000s	Net revenues	Expenses	Payments received	Payments made
2019 financial year				
IN-telegence GmbH	134	81	97	91
Teleport Köln GmbH	6	1	8	1
QS Communication Verwaltungs Service GmbH	-	86	-	102
2018 financial year				
IN-telegence GmbH	179	136	235	160
Teleport Köln GmbH	13	1	16	2
QS Communication Verwaltungs Service GmbH	-	179	-	208

€ 000s	Receivables	Payables
31 December 2019		
IN-telegence GmbH	78	18
Teleport Köln GmbH	2	-
QS Communication Verwaltungs Service GmbH	-	16
31 December 2018		
IN-telegence GmbH	16	13
Teleport Köln GmbH	3	-
QS Communication Verwaltungs Service GmbH	-	16

IN-telegence GmbH is a provider of value-added services in the telecommunications industry and mainly drew on network services from a former subsidiary of QSC, which in turn drew on value-added services from IN-telegence. Teleport Köln GmbH supported a former subsidiary of QSC in installing end customer connections and also drew on telecommunications services from a former subsidiary. QS Communication Verwaltungs Service GmbH advises QSC in the field of product management for IoT and Industry 4.0 products.

Transactions with associates

QSC has made a commitment to aiXbrain GmbH to provide that company with a subordinated loan of up to € 120k. This loan will be disbursed, possibly in several tranches, if called on by the borrower. The subordinate loan has a fixed term until 30 November 2023. No amounts had been disbursed upon the preparation of these consolidated financial statements.
Furthermore, QSC has agreed options to acquire further shares in the company (call options), which are linked to the assumption of loan agreements, as well as a put option to sell shares in the company should call options previously have been exercised.

41 DEFERRED AND CURRENT TAXES

QSC used an aggregate tax rate of 32.61% to calculate deferred taxes (2018: 32.52%). The deferred tax assets and liabilities recognised as of the balance sheet relate to the following balance sheet line items and loss carryovers:

€ 000s	Assets	Liabilities	Assets	Liabilities	Decon-solidation	Consolidated income statement	
	2019	**2019**	**2018**	**2018**		**2019**	**2018**
Deferred tax assets and liabilities							
Intangible assets	-	5,292	1	6,177	-	885	392
Property, plant and equipment	1,195	6,196	1,324	1,144	751	(5,932)	343
Other assets	639	-	582	-	-	57	(15)
Other receivables	-	1,266	4,524	353	(1,313)	(4,124)	2,422
Inventories	-	-	-	-	-	-	(324)
Deferred income	-	-	-	215	55	160	11
Accrued pensions and other provisions	957	-	1,260	44	(596)	(81)	(408)
Change in market price of derivatives	-	-	218	-	-	(116)	39
Other liabilities	7,018	2	38	5,082	1,542	10,518	(1,417)
Total deferred taxes on temporary differences	**9,809**	**12,756**	**7,947**	**13,015**	**439**	**1,367**	**1,043**
Total deferred taxes on loss carryovers	**2,947**	**-**	**13,133**	**-**	**-**	**(10,186)**	**(37)**
Total deferred taxes before netting	**12,756**	**12,756**	**21,080**	**13,015**			
Netting	12,756	12,756	12,663	12,663			
Total deferred taxes	**-**	**-**	**8,417**	**352**			

The temporary differences in connection with interests in subsidiaries for which no deferred tax liabilities are recognised amounted to € 154k in the 2019 financial year (2018: € 8,705k). Pursuant to IAS 12.39, however, this liability has not been recognised as QSC controls the dividend policies of its subsidiaries and can control reversal of the temporary differences.
The following table presents the reconciliation of the expected income tax expenses to the actual income tax expenses. The expected income tax expenses are calculated by multiplying earnings before taxes by QSC's tax rate.

€ 000s	**2019**	**2018**
Reconciliation		
Net income before income taxes	**81,900**	**4,045***
Tax rate	32.61%	32.52%
Expected tax expenses	26,708	1,315
Tax effects of		
Changes in write-downs of deferred taxes recognised for loss carryovers	16,561	(14)
Impairment of goodwill	4,591	-
Non-deductible operating expenses	312	287
Tax-exempt income	(38,399)	-
Non-period income	(665)	(749)
Changes in tax rates	(21)	(32)
Other items	(730)	26
Reconciled tax expenses	**8,357**	**833**

* Corrected (see Note 6).

Reconciled tax expenses consist of an aggregate amount of € 462k recognised for current income from tax income relating to previous years and deferred tax expenses of € 8,819k (2018: deferred tax income of € 1,006k). In the 2019 financial year, tax income of € 438k was recognised directly in other reserves in connection with actuarial gains and losses (2018: tax expenses of € 11k), while tax expenses of € 106k were recognised directly in other reserves in connection with hedge transactions (2018: tax expenses of € 344k).
As of 31 December 2019, corporate income tax loss carryovers at QSC AG came to € 408 million (2018: € 362 million) while trade tax loss carryovers totalled € 393 million (2018: € 349 million). The loss carryovers recognised at Q-loud GmbH as of 31 December 2019 amounted to € 5,258k for corporate income tax purposes (2018: € 2,143k) and to € 5,251k for trade tax purposes (2018: € 2,143k).

No deferred taxes have been recognised for corporate income tax loss carryovers of € 404 million (2018: € 478 million) and trade tax loss carryovers of € 389 million (2018: € 464 million), both of which may be carried forward for unlimited periods, as it is unlikely that these items can be offset against positive taxable income.

42 LEGAL DISPUTES

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

43 OBJECTIVES AND METHODS USED IN FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT

In connection with its business activities, QSC is exposed to a number of financial risks that are intrinsically linked with entrepreneurial activity. QSC combats these risks with a comprehensive risk management system, which is an integral component 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 lays down the principles of the Company's financial policies annually and monitors these within the risk management system. Further information about risk management can be found in the Group Management Report.
Financial liabilities mainly comprise trade payables and lease liabilities. The main purpose of these financial liabilities is to finance the Company'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 2019 financial year.
The main risks to which QSC is exposed due to its use of financial instruments include credit risk and liquidity risks. Since no material transactions are executed in foreign currencies, there are no material foreign currency risks. There were no material risk clusters in the past financial year. The strategies and procedures used to manage these risks are presented below.

Credit risk. QSC is exposed to the risk of payment defaults on the part of its customers. The Company makes efforts to ensure that it only enters into business dealings with creditworthy customers and thus attempts to exclude this risk from the outset. To this end, creditworthiness checks are performed before the respective contract is concluded. Once business relations have been initiated, receivables balances are monitored to reduce potential default risks. Maximum default risks are limited to the carrying amounts of the receivables disclosed in Note 21. QSC expects non-impaired receivables to be collectible.

Liquidity risk. QSC monitors its risk of a liquidity shortfall with monthly liquidity planning. This accounts for the remaining terms of available financial assets and the expected cash flows from operating activities.
As of the respective balance sheet date, QSC's short-term and long-term financial liabilities had the following maturities. These disclosures are based on the expected undiscounted payments.

€ 000s	Carrying amount	Due by end of 2020	Due by end of 2021	Due by end of 2022	Due by end of 2023	Due by end of 2024	Due after 2024	Total
Lease liabilities	22,198	5,501	5,050	4,449	2,063	2,043	3,092	22,198
Trade payables	10,350	10,350	-	-	-	-	-	10,350
Contractual liabilities	488	488	-	-	-	-	-	488
Other short-term and								
long-term financial liabilities	8,958	8,933	-	7	4	7	7	8,958
At 31 December 2019	**41,994**	**25,272**	**5,050**	**4,456**	**2,067**	**2,050**	**3,099**	**41,994**

€ 000s	Carrying amount	Due by end of 2019	Due by end of 2020	Due by end of 2021	Due by end of 2022	Due by end of 2023	Due after 2023	Total
Liabilities under financing and								
finance lease arrangements	76	76	-	-	-	-	-	76
Trade payables*	44,557	44,457	100	-	-	-	-	44,557
Liabilities due to banks	119,937	22,236	2,132	100,818	-	-	-	125,186
Interest swaps, cash flow hedge*	354	-	-	-	-	-	-	-
Interest swaps, other	318	318	-	-	-	-	-	318
Other short-term and								
long-term financial liabilities	2,559	2,526	8	-	8	4	13	2,559
At 31 December 2018	**167,801**	**69,613**	**2,241**	**100,818**	**8**	**4**	**13**	**172,696**

* Corrected (see Note 6).

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 by reference to the following key figures: equity ratio and net liquidity. The equity ratio is calculated by dividing equity by total assets. Net liquidity corresponds to interest-bearing liabilities less cash and cash equivalents).

€ 000s	2019	2018
Capital management		
Lease liabilities*	-	(76)
Liabilities due to banks	-	(119,937)
Interest-bearing liabilities	**-**	**(120,013)**
Plus cash and cash equivalents	66,031	53,618
Net liquidity	**66,031**	**(66,395)**
Shareholders' equity	160,168	90,097**
Total assets	225,092	281,413**
Equity ratio	**71%**	**32%**

* In 2018 liabilities in connection with financing and finance lease arrangements.
Liabilities in connection with lease contracts do not form part of QSC's capital management.
** Corrected (see Note 6).

44 FINANCIAL INSTRUMENTS

Disclosures on the balance sheet. Given that the carrying amounts largely correspond to fair values, no separate disclosures have been made on the respective fair values.

€ 000s	Carrying amount	Amortised cost	Fair value – in equity	Fair value – hedging instruments	Fair value – through profit or loss
31 December 2019					
Assets not measured at fair value					
Cash and cash equivalents	66,031	x			
Receivables from finance leases	4,153	x			
Short-term trade receivables	31,034	x			
Liabilities not measured at fair value					
Trade payables and other liabilities	19,283	x			
Contract liabilities	488	x			
Lease liabilities	22,198	x			
Other financial liabilities	25	x			

€ 000s	Carrying amount	Amortised cost	Fair value – in equity	Fair value – hedging instruments	Fair value – through profit or loss
31 December 2018					
Assets not measured at fair value					
Cash and cash equivalents	53,618	x			
Long-term trade receivables	1,953	x			
Short-term trade receivables*	53,822		x		
Liabilities measured at fair value					
Interest swaps – hedge accounting	354			x	
Interest swaps – other	318				x
Liabilities not measured at fair value					
Trade payables and other liabilities*	47,080	x			
Other financial liabilities	120,048	x			

* Corrected (see Note 6).

Fair value disclosures for instruments with recurring measurement. At the end of each reporting period, QSC AG ascertains whether any reclassifications are required between the levels of the measurement hierarchy. No reclassifications were made in the reporting period from 1 January 2019 to 31 December 2019.
Until June 2019, certain short-term trade receivables were sold on an ongoing basis within a factoring agreement. As QSC no longer draws on factoring, the short-term trade receivables have been reclassified and are now included in the "amortised cost" measurement category. In the measurement of these items at "fair value through OCI" in the previous year, the fair value corresponded to the carrying amount. Current measurement at amortised cost has therefore not produced any material differences.

Disclosures on the consolidated income statement. The following interest income and expenses and the following net gains and losses on financial instruments are included in the consolidated income statement:

€ 000s	Interest income/interest expenses	Fair value change	Impairments	Payments received on retired receivables	Net result 2019	Net result 2018
Assets valued at amortised cost	41	-	(235)	35	**(159)**	(335)
Liabilities valued at amortised cost	(5,411)	-	-	-	**(5,411)**	(3,057)
Fair value – hedging instruments	(472)	-	-	-	**(472)**	(1,033)

€ 000s	Interest income/interest expenses	Fair value change	Impairments	Payments received on retired receivables	Net result 2018	Net result 2017
Assets valued at amortised cost	109	-	(493)	49	**(335)**	357
Liabilities valued at amortised cost	(3,057)	-	-	-	**(3,057)**	(2,673)
Fair value – hedging instruments	(1,009)	(24)	-	-	**(1,033)**	(1,231)
Fair value – through profit or loss	(96)	-	-	-	**(96)**	-

The net result recognised for hedge instruments in the 2019 financial year was attributable to an interest swap that was reversed upon the full repayment of the respective loan liabilities.

45 DECLARATION PURSUANT TO § 161 AKTG REGARDING CONFORMITY WITH THE GERMAN CORPORATE GOVERNANCE CODE

The declaration pursuant to § 161 of the German Stock Corporation Act (AktG) regarding QSC's conformity with the German Corporate Governance Code in the version dated 7 February 2017 has been submitted by the Management and Supervisory Boards and is permanently and publicly available on the Company's website. Future amendments to the rules relevant for conformity with the German Corporate Governance Code will be posted on QSC's website without delay.

46 AUDITOR'S FEES

The fee paid to KPMG AG Wirtschaftsprüfungsgesellschaft for the audit of financial statements refers above all to the audit of the annual and consolidated financial statements and the dependent company report of QSC AG, as well as to audits of the financial statements of subsidiaries. Other certification services relate to the auditing of the internal control system pursuant to ISAE 3402.

€ 000s	2019	2018
Auditor's fees		
Audit of financial statements	267	309
Other certification services	51	235
Other services	-	15
Auditor's fees	**318**	**559**

47 COMPENSATION OF THE MANAGEMENT AND SUPERVISORY BOARDS

Total Management Board compensation for the 2019 financial year came to € 929k, as against € 1,132k in the previous year. This comprises fixed compensation of € 600k (2018: € 600k), ancillary benefits of € 68k (2018: € 68k) and variable compensation of € 261k (2018: € 464k). 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 of former Management Board members totalled € 550k in the 2019 financial year (2018: € 4k).
The following table presents individualised information about the number of shares and convertible bonds held by members of the Management Board:

	Shares		Convertible bonds	
	31 Dec. 2019	31 Dec. 2018	31 Dec. 2019	31 Dec. 2018
Jürgen Hermann	670,000	600,000	150,000	350,000
Stefan A. Baustert	40,000[1]	40,000	200,000[1]	200,000

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

Jürgen Hermann purchased shares in the Company via the stock exchange in the 2019 calendar year (please also see the corresponding directors' dealings notifications made pursuant to Article 19 of the European Market Abuse Directive on QSC's website).
As in the previous year, the Supervisory Board received compensation totalling € 315k for its activity in the 2019 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 and an overview of the shares and convertible bonds held by Supervisory Board members.
The actuarial present value of provisions for vested claims to pensions for former Management Board members amounts to € 2,551k prior to the offsetting of asset values of € 1,910k for reinsurance policies.

48 RISKS

Risks are presented in detail in the Risk Report within the Group Management Report.

49 PROPOSED APPROPRIATION OF PROFIT

The Management and Supervisory Boards have decided to propose to the Annual General Meeting that a dividend of € 0.03 per share be paid to shareholders.

50 DIRECTORS AND OFFICERS

Management Board. The members of the Management Board in the 2019 financial year were as follows:

Management Board member	
Jürgen Hermann	Chief Executive Officer
Stefan A. Baustert	Chief Financial Officer (left QSC as of 1 January 2020)

Supervisory Board. The members of the Supervisory Board in the 2019 financial year were as follows:

Supervisory Board member	
Dr. Bernd Schlobohm	Businessman, Supervisory Board Chairman
Dr. Frank Zurlino	Managing Director at Horn & Company Performance & Restructuring GmbH, Düsseldorf, Germany, and Managing Director at neuland.digital GmbH, Düsseldorf, Germany, Deputy Chairman
Ina Schlie	Graduate in Economics
Gerd Eickers	Independent Telecommunications Consultant
Matthias Galler	Senior IT Consultant, Chairman of IT Works Council at QSC AG, Employee Representative
Cora Hödl (until 30 June 2019)	Head of Technology/Infrastructure & Voice at Plusnet GmbH, Employee Representative
Martina Altheim (from 1 July 2019)	Head of Corporate Social Responsibility at QSC AG, Employee Representative

Dr. Frank Zurlino is also a member of the Advisory Board at M2Beauté Cosmetics GmbH, Cologne, Germany.
Gerd Eickers is also Chairman of the Supervisory Board at Contentteam AG, Cologne, Germany.
Ina Schlie is also a member of the Advisory Board at Adolf Würth GmbH & Co. KG, Künzelsau, Germany.

51 EVENTS AFTER BALANCE SHEET DATE

On 30 January 2020, the World Health Organization (WHO) declared a public health emergency due to the growing spread of coronavirus. Since 11 March 2020, the WHO has classified the situation as a pandemic.
QSC is continually monitoring the further course of the pandemic and its effects on the Company's business performance. Based on the most recent developments, QSC sees the risk that, in the exceptional current circumstances, customers will postpone, scale back or even cancel IT and digitalisation projects that are not viewed as absolute priorities. This reduction in demand and the temporary impact of quarantine measures could adversely affect revenues and earnings in our two segments of "Cloud & IoT" and "SAP". Furthermore, financial difficulties on the part of our customers could increase receivable default risk.
The assessments and assumptions known to QSC for the current financial year are accounted for and described in the Outlook. Apart from these, no material negative effects are currently known of or calculable. The possibility of further adverse effects arising as the year progresses nevertheless cannot be excluded.
Other than this, no other events of material significance that would require report here have occurred since the end of the financial year.

Cologne, 25 March 2020

QSC AG
The Management Board

Jürgen Hermann

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, 25 March 2020

QSC AG
The Management Board

Jürgen Hermann

INDEPENDENT AUDITOR'S REPORT

To QSC AG, Cologne

Report on the Audit of the Consolidated Financial Statements and of the Group Management Report

Opinions

We have audited the consolidated financial statements of QSC AG, Cologne, and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2019, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from 1 January to 31 December 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of QSC AG, Cologne, for the financial year from 1 January to 31 December 2019. In accordance with German legal requirements, we have not audited the content of those components of the group management report specified in the "Other Information" section of our auditor's report.
The group management report contains cross-references that are not required by law and which are marked as unaudited. In accordance with German legal requirements, we have not audited the cross-references and the information to which the cross-references refer.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2019, and of its financial performance for the financial year from 1 January to 31 December 2019, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the group management report does not cover the content of those components of the group management report specified in the "Other Information" section of the auditor's report. The group management report contains cross-references that are not required by law and which are marked as unaudited. Our audit opinion does not extend to the cross-references and the information to which the cross-references refer.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Section 317 HGB and the EU Audit Regulation No 537/2014 (referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2)(f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Impairment testing of recognised goodwill

For the accounting policies applied, we refer to the disclosures made by the Company in the notes to the consolidated financial statements in note no. 4. The assumptions underlying the measurement are presented in the notes to the consolidated financial statements under note no. 19.

THE FINANCIAL STATEMENT RISK

Goodwill of EUR 18.4 million is recognised in the consolidated balance sheet of QSC AG. This corresponds to 8.2% of total assets.
Goodwill is tested for impairment annually at the level of the Telecommunications, Consulting and Cloud business segments. For this purpose, the carrying amount of the assets is compared with their recoverable amount for the respective business segment. If the carrying amount exceeds the recoverable amount, there is a need to recognise an impairment loss. For the impairment test, the Company determines the value in use. The reporting date for the impairment test is 31 December 2019.
Impairment testing of goodwill is complex and based on a range of assumptions that require judgement. These include the expected business and earnings performance of the business segments for the next three years, the assumed long-term growth rates and the discount rate used.
Following the sale of the key components of the Telecommunications business segment, corporate planning was fundamentally updated and revised in financial year 2019. In this regard, profit planning for the Cloud business segment was reduced compared to the prior year's planning. The reduction in expected future cash inflows of the Cloud business segment results in an impairment loss on goodwill in the amount of EUR 14.2 million. If the deterioration in earnings prospects is greater than expected or an increase in the discount rate occurs, further impairment losses will need to be recognised.
There is the risk for the financial statements that an impairment in the Telecommunications and Consulting business segments is not recognised, and that the impairment in the Cloud segment is not recognised in the amount required as at the reporting date. There is also the risk that the related disclosures in the notes are not appropriate.

OUR AUDIT APPROACH

With the involvement of our valuation experts, we assessed the appropriateness of the significant assumptions and calculation methods of the Company, among other things. For this purpose we discussed the expected business and earnings performance and the assumed long-term growth rates with those responsible for operational planning. As the impairment test at QSC was carried out by an external independent expert, we also confirmed the competence, professional skills and impartiality of the appointed external independent expert and obtained an understanding of the nature of their work.
We also reconciled this with the budget prepared by the Management Board and approved by the Supervisory Board.
We also confirmed the accuracy of the Company's previous forecasts by comparing the budgets of previous financial years with actual results and by analysing deviations. Since even minor changes to the discount rate can have a material impact on the results of impairment testing, we compared the assumptions and parameters used by the independent expert for the segment-specific discount rates, in particular the risk-free rate, the market risk premium and the beta factor, with our own assumptions and publicly available data.

Basing our assessment on the valuation model used by the client, we evaluated the methodical approach and computational accuracy. In addition, we also critically evaluated the assessment of the valuation model made by the independent expert and reconciled their results with our own. In order to take account of forecast uncertainty, we examined the impact of potential changes in material assumptions related to measurement on value in use (sensitivity analysis) by calculating alternative scenarios and comparing these with the values stated by the Company. The risk-oriented focus of our analysis was on the Cloud business segment, as changes in measurement assumptions considered reasonably possible would have resulted in a change in the impairment losses to be recognised for this segment.
The results of the calculation were evaluated overall by comparing the computationally derived value of equity, resulting from the sum of value in use less net financial liabilities, with the market capitalisation of the shares of QSC AG (as at 31 December 2019).
Finally, we assessed whether the disclosures in the notes regarding impairment testing of goodwill are appropriate. This also included an assessment of the appropriateness of disclosures in the notes according to IAS 36.134(f) on sensitivity in the event of a reasonably possible change in the key assumptions used for measurement.

OUR OBSERVATIONS

The calculation method used for the impairment testing of goodwill is appropriate and in line with the accounting policies to be applied.
The Company's assumptions and parameters used for measurement are within an acceptable range and are balanced as a whole.
The related disclosures in the notes are appropriate.

Revenue recognition on an accrual basis

For the accounting policies applied, we refer to the disclosures made by the Company in the notes to the consolidated financial statements in note no. 4.

THE FINANCIAL STATEMENT RISK

The Group's revenue amounted to EUR 238.0 million in financial year 2019.
QSC AG and its subsidiaries recognise revenue when (or as) they satisfy a performance obligation by transferring a promised good or service to a customer. An asset is considered transferred when (or as) the customer obtains control of that asset. In line with the transfer of control, revenue is to be recognised either at a point in time or over time in the amount to which QSC AG expects to be entitled.

Generally, QSC AG satisfies the performance obligation and recognises revenue over time if the criterion is met that the customer receives the benefit from the Group's services and simultaneously uses the service while it is performed.
Different contractual agreements, containing in part complex contractual provisions, are made with customers. As a result of these complex provisions and the judgements involved in assessing the time at which control in transferred to the customer, there is the risk for the financial statements that revenue is not recognised in the correct amount as at the reporting date.

OUR AUDIT APPROACH

Based on the understanding we gained of the process, we assessed the design, establishment and functionality of the internal controls identified, concerning in particular the correct revenue recognition cut-off.
As part of our audit, we assessed management's interpretation of the criteria for the recognition of revenue over time in compliance with the requirements of IFRS 15 and the applicable group-wide accounting policy.
For agreements selected on the basis of risk, we assessed the proper implementation of the accounting policy and the revenue recognition in accordance with underlying contractual agreements, as well as most significant instances of judgement such as the selection of the measure of progress and the estimate of the performance progress achieved.
Building upon the knowledge previously obtained, we assessed the proper determination of the respective progress towards complete satisfaction of a performance obligation as well as the balance sheet and income statement recognition.

OUR OBSERVATIONS

The approach of QSC AG to the recognition of revenue over time is appropriate. The assumptions underlying the accounting treatment are appropriate.

Other Information

Management and/or the Supervisory Board are/is responsible for the other information. The other information comprises the following components of the group management report, whose content was not audited:

- the corporate governance statement included in the group management report,
- the separate non-financial report, expected to be provided to us after the date of this auditor's report, which is referred to in the group management report, and

- information extraneous to the group management report and marked as unaudited.
- The remaining parts of the annual report, with the exception of the audited consolidated financial statements and the audited information in the group management report and our auditor's report.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.
In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report information audited for content or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of Management and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

Management is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, management is responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.
Furthermore, management is responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.
The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group’s position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor’s report that includes our opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor’s report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by management in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor at the annual general meeting on 29 May 2019. We were engaged by the Chairperson of the Accounting and Audit Committee of the Supervisory Board on 26 November 2019. We have been the group auditor of QSC AG, Cologne, without interruption since the financial year 2008.
We declare that the opinions expressed in this auditor's report are consistent with the additional report to the Audit Committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Charlotte Salzmann.

Cologne, 25 March 2020

KPMG AG
Wirtschaftsprüfungsgesellschaft

Salzmann	Gall
Wirtschaftsprüferin	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

CALENDAR

Quarterly Statement Q1 2020
11 May 2020

Annual General Meeting
20 May 2020

Quarterly Report Q2 2020
10 August 2020

Quarterly Statement Q3 2020
9 November 2020

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