



HALF-YEAR FINANCIAL REPORT

as of 30 June 2020

SECURE.
INNOVATIVE.
AT YOUR SIDE.

QSC AG

The most important key figures

€ million	01/01/ – 31/03/ 2020	01/04/ – 30/06/ 2020
Revenues	34.1	34.5
Cloud & IoT	23.3	24.0
SAP	10.8	10.5
EBITDA	(1.1)	(0.8)
Depreciation and amortisation ^{1,2}	4.2	4.2
EBIT	(5.3)	(5.0)
Net income (loss)	(5.5)	(5.1)
Earnings per share ³ (in €)	(0.04)	(0.04)
Capital expenditure ⁴	0.8	1.7
Free cash flow	(4.1)	(3.5)
Net liquidity	61.9 ⁵	54.7 ⁶
Shareholders' equity	154.7 ⁵	146.1 ⁶
Equity ratio (in %)	71.0	73.1
Xetra closing price (in €)	1.00 ⁵	1.35 ⁶
Number of shares	124,172,487 ⁵	124,397,487 ⁶
Market capitalisation	124.2 ⁵	167.9 ⁶
Number of employees	860 ⁵	867 ⁶

¹ Including non-cash share-based compensation.

² Including depreciation of right-of-use assets (IFRS 16).

³ Diluted and basic.

⁴ Not accounting for IFRS 16.

⁵ As of 31 March 2020.

⁶ As of 30 June 2020.

"OUR REVENUES CONTINUE TO GROW EVEN IN THE WORST RECESSION IN OUR COUNTRY'S HISTORY. OUR CRISIS-PROOF BUSINESS MODEL HAS PROVEN ITS WORTH EVEN IN THIS EXCEPTIONAL SITUATION OF HISTORIC PROPORTIONS."

Jürgen Hermann, CEO

QSC continues to grow from quarter to quarter

Revenues rise to € 34.5 million. QSC increased its revenues for the fourth successive quarter. Despite the lockdown, revenues grew to € 34.5 million in the second quarter of 2020.

QSC maintains its growth course. For the 2020 financial year as a whole, QSC still expects to increase its revenues by at least 13% to more than € 143 million. Strong new orders of € 69.7 million in the first half of 2020 and the high share of recurring revenues provide a strong base for this growth.

QSC to become "q.beyond" from end of September. As well as approving the distribution of a dividend of 3 cents per share once again, the Annual General Meeting held for the first time on a virtual basis in May 2020 approved the change in our name. The new name "q.beyond" stands for our new growth era.



■ Revenues in € million

* QSC revenues excluding Plusnet

GROUP INTERIM MANAGEMENT REPORT

Business Performance

QSC continues to grow from quarter to quarter. Revenues grew to € 34.5 million in the second quarter of 2020, up from € 34.1 million in the first three months of 2020. We thus maintained our growth course, and that despite the negative impact of the coronavirus crisis on the economic situation in Germany. This is due in particular to our crisis-proof business model with its high share of recurring revenues. Not only that, digitalisation is an ever more significant factor for German SME players and acceptance levels are rising accordingly. Our focus on key digitalisation technologies, namely Cloud, SAP and IoT, and concentration on the three sectors of retail, manufacturing and energy are consistent with this development.

Further rise in new orders. This positive trend is also documented by our strong new order figure which, at € 36.0 million in the second quarter of 2020, was higher than at any time since we sold the telecommunications business as of 30 June 2019. This growth was driven by the sale of innovative services to new and existing customers, as well as by the extension of existing contracts. The unprecedented lockdown led to increased demand for our digital workplace solutions. Furthermore, in this exceptional situation companies pressed ahead with migrating their IT to the cloud.

Cloud & IoT business with double-digit growth. Revenues in the Cloud & IoT segment rose year-on-year by 13% to € 24.0 million in the second quarter of 2020. This segment benefited in particular from increased demand for Cloud Services. Here, we have seen greater demand for integrated services based on all digitalisation-related technologies. Alongside the planned uniform brand presence, that was the main reason for the merger of our IoT subsidiary Q-loud GmbH into QSC as of 30 June 2020.

One good example of integrated services is the new "Edgizer" platform for manufacturers. This enables SME companies to rapidly and comprehensively network all of their plant and machinery, and that on a risk-free basis. The package covers the entire development setup, including proof of concept, the edge gateway located directly on the machine as a micro data centre, secure channel and connectivity, cloud layers with IoT hubs and managed cloud through to artificial intelligence.

Jump in revenues in SAP business. Revenues in the SAP segment even surged year-on-year by 18% to € 10.5 million in the second quarter of 2020. This successful performance was driven in particular by migration projects to the new S/4HANA software generation. During lockdown, our broad-based expertise in the SAP business also paid off. SAP operations and application management continued to run smoothly on a remote basis, while the restrictions on contact made it more difficult to advise customers on location.

New growth opportunities with strong partners. Cooperating with strategic partners forms one key pillar of the “2020plus” growth strategy. In April 2020, we launched our cooperation with TeamViewer, the world’s leading provider of secure remote access and remote control solutions. The aim here is to enable mechanical engineering companies and plant operators to enter the next generation of remote maintenance on a problem-free basis. An all-in-one solution for the “Industrial Internet of Things” (IIoT) was presented at the end of June already. The IIoT starter kit enables existing machines to be rapidly and uncomplicatedly equipped with digital sensors and then conveniently monitored and controlled via dashboards.

Another important strategic partner we now have is Advantech, the world’s leading provider of smart IoT systems and embedded platforms. Together, we provide SME players with a complete package of fully integrated hardware and software components for as-a-service business models. Advantech’s hardware is used in a very wide variety of application scenarios, such as retail shop solutions and industrial production plants. With its expertise in cloud and IoT, QSC provides edge technology for the platform and devices. This innovative solution is already being used by the first industrial and retail companies.

Business Framework

Economic recovery from second half of year. Gross domestic product showed the sharpest drop in the history of the Federal Republic of Germany in the second quarter of 2020. The lockdown resulting from the coronavirus pandemic brought large areas of the economy to a halt in spring 2020. The measures taken to gradually lift the lockdown have now improved confidence levels in the German economy. The highly respected ifo business confidence index rose more sharply than ever before in June 2020, albeit from a low level. This indicates an economic recovery in the second half of the year.

The IT sector has also witnessed a return of confidence. Having plummeted in spring 2020, the sector-specific “Bitkom-ifo-Digitalindex” regained positive territory in June. Market observers all agree that the current exceptional circumstances will create new opportunities for the sector in the medium term. Companies will accelerate their digitalisation, as the lockdown has sustainably changed expectations among customers and employees alike. These are now relying even more clearly on digital distribution channels and home offices.

Three out of four companies now use cloud. The cloud is a core aspect of any successful digitalisation strategy. According to the latest KPMG Cloud Monitor, three quarters of German companies with more than 20 employees now use cloud computing. Of those surveyed, 37% already classified the interoperability of solutions offered by various cloud providers as a must when selecting providers. QSC acted early to prepare for this customer expectation and in many cases already combines offerings from various cloud providers for its customers.

Earnings Performance

Gross profit of € 5.4 million in second quarter of 2020. Based on revenues of € 34.5 million, the cost of revenues amounted to € 29.1 million in the second quarter of 2020, leading to gross profit of € 5.4 million. In the first six months of this year, our Company generated revenues of € 68.6 million and gross profit of € 10.9 million. In what follows as well, the comments on the income statement will focus on the key figures for the current financial year. Comparison with the previous year's figures would render any understanding of the current operating business performance more difficult, as the telecommunications business still accounted for more than half of revenues and expenses in the previous year. This business, which was pooled at the Plusnet subsidiary, was sold as of 30 June 2019 for a price of € 229 million (equity value).

EBITDA approaches break-even. Sales and marketing expenses totalled € 2.9 million in the second quarter of 2020, while general and administrative expenses amounted to € 3.9 million. Including the other operating result of € 0.7 million, this led to EBITDA of € -0.8 million in the second quarter of 2020, compared with € -1.1 million in the first quarter of this financial year. QSC plans to generate sustainably positive EBITDA from the fourth quarter of 2020 onwards. As in the first quarter of 2020, depreciation and amortisation amounted to € 4.2 million in the second quarter of 2020, with an amount of € 1.2 million being attributable in each quarter to the depreciation of IFRS 16 lease liabilities. Due to higher revenues, operating earnings (EBIT) improved to € -5.0 million in the second quarter of 2020, up from € -5.3 million in the previous quarter. Consolidated net income stood at € -5.1 million, as against € -5.5 million in the first quarter of 2020. At the end of the first six months, this key figure amounted to € -10.6 million and was thus on budget. In the first half of 2019, the successful sale of Plusnet had resulted in one-off consolidated net income of € 105.8 million.

Earnings Performance by Segment

Cloud & IoT with profitable growth. Based on revenues of € 24.0 million, the Cloud & IoT segment generated a segment contribution of € 1.0 million in the second quarter of 2020, equivalent to a year-on-year improvement of € 3.2 million in this key figure. The € 1.0 million reduction compared with the segment contribution in the first quarter of 2020 was due in particular to a higher volume of advance payments for individual projects. When considering the development in the segment contribution, also for the second segment of SAP, it should be noted that we are continually investing in our future growth. As well as the recruitment of further specialists, investments in the Cloud & IoT segment particularly relate to work on innovations, such as most recently the Edgizer.

“SAP” segment with significant increase in segment contribution. With revenues of € 10.5 million, the SAP business generated a segment contribution of € 1.5 million in the second quarter of 2020. This was significantly ahead of the figures for the previous year’s quarter (Q2 2019: € 0.4 million) and the previous quarter (Q1 2020: € 0.2 million). This growth is related to the lock-down in spring 2020, which reduced travel costs and led to lower expenses for external specialists.

Financial and Net Asset Position

Net liquidity of € 54.7 million. Since selling Plusnet, our Company has been debt free and financed its activities from liquid funds. As of 30 June 2020, we had net liquidity of € 54.7 million, as against € 61.9 million as of 31 March 2020. At QSC, the change in net liquidity/debt traditionally corresponds to the free cash flow, although this figure is adjusted in advance to eliminate non-operating factors such as acquisitions and dividend distributions. In the second quarter of 2020, our Company used € 3.7 million to distribute a dividend of 3 cents per share. This resulted in a free cash flow of € -3.5 million for the second quarter of 2020.

Moderate capital expenditure in first half of 2020. Excluding IFRS 16 effects, capital expenditure amounted to € 1.7 million in the second quarter of 2020 and stood at a moderate € 2.5 million for the first half of 2020. This expenditure predominantly involved replacement and extension investments at our data centres.

Given the moderate volume of capital expenditure and the effects of depreciation and amortisation, the long-term assets stated in the consolidated balance sheet as of 30 June 2020 decreased to € 104.0 million, compared with € 111.7 million as of 31 December 2019. Short-term assets fell to € 95.7 million, as against € 113.4 million at the end of 2019. This reduction was due above all to the change in liquid funds and the settlement of receivables by the former subsidiary Plusnet. These were previously recognised under other short-term assets.

Equity ratio rises to 73%. QSC’s equity amounted to € 146.1 million as of 30 June 2020, compared with € 160.2 million as of 31 December 2019. This development was due to the consolidated net loss, as well as to the dividend distribution recognised in this line item. Irrespective of this, the equity ratio rose to 73% as of the balance sheet date, up from 71% at the end of 2019. Long-term liabilities, chiefly comprising IFRS 16 liabilities, fell to € 20.6 million as of 30 June 2020, as against € 23.6 million at the balance sheet date at the end of 2019. Short-term liabilities decreased from € 41.4 million as of 31 December 2019 to € 33.1 million as of 30 June 2020. This was mainly due to the reduction in trade payables and other liabilities by € 7.0 million to € 21.6 million as of 30 June 2020.

Employees

Stable employee totals. QSC slightly increased the size of its workforce in the second quarter of 2020 and had total of 867 employees as of 30 June 2020, up from 860 employees as of 31 March 2020. With the takeover of Incloud (cf. "Events after Balance Sheet Date"), we will now gain more than 60 experts and thus clearly and visibly boost our software competence in a market in which development experts are in short supply. Not only that, Incloud has close links to the University of Applied Sciences in Darmstadt and is thus able to attract and retain new talent at an early stage.

Events after Balance Sheet Date

QSC boosts software and development competence with takeover. Our Company took over 100% of the shares in Incloud Engineering GmbH, Darmstadt, as of 31 July 2020. This software engineering specialist, which develops cloud and web solutions, mobile apps and IoT products, has in recent years established itself as a rapidly growing IT service provider. Its customers include the chemical and pharmaceuticals group Merck, which is also based in Darmstadt, the equipment manufacturer Stihl and the lighting specialist Trilux.

Incloud's frontend, software and development competence perfectly complements our own platform, cloud and sales expertise. More than 60 experts at Incloud will boost QSC's team, particularly when it comes to developing sector solutions and integrating these into modern cloud architectures. Incloud stands to benefit from our established sales and user support structures, as well as from our cutting-edge cloud infrastructure.

Opportunity and Risk Report

No material change in opportunity and risk situation. The first half of 2020 did not witness any material changes in the opportunities and risks presented in the 2019 Annual Report. The information provided on our business performance and in our outlook specify aspects of the "Impact of the Coronavirus Pandemic" section of the Annual Report in greater detail. Just like other risks or erroneous assumptions, however, all of the risks listed there could lead future actual earnings to deviate from QSC's expectations. Unless they constitute historic facts, all disclosures in this unaudited group interim report represent forward-looking statements. They are based on current expectations and forecasts concerning future events and may therefore change over time.

Outlook

QSC plans double-digit revenue growth even during recession. Given our business performance in the first half of 2020, which was consistent with expectations, we can affirm the full-year outlook for 2020. We still expect revenues to grow by at least 13% to more than € 143 million. We expect economic activity to normalise from the third quarter onwards. Our strong new order figure of € 69.7 million in the first half of 2020 and the further growth we generated in the second quarter of 2020 give us reason to have confidence in our outlook, as does the fact that more than 75% of our revenues are of a recurring, platform-based nature.

In the second half of 2020, we will be consistently working on further implementing our “2020plus” growth strategy. QSC is investing in its future growth, developing new digital services and recruiting IT specialists. Our Company has therefore budgeted for EBITDA of up to € -5 million and free cash flow of up to € -16 million. QSC will generate sustainably positive EBITDA once again from the fourth quarter of 2020 onwards.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Income (unaudited)

Euro amounts in thousands (€ 000s)

	01/04/ – 30/06/ 2020	01/04/ – 30/06/ 2019	01/01/ – 30/06/ 2020	01/01/ – 30/06/ 2019
Net revenues	34,457	85,194	68,565	172,589
Cost of revenues	(29,104)	(62,194)	(57,677)	(119,932)
Gross profit	5,353	23,000	10,888	52,657
Sales and marketing expenses	(2,865)	(8,450)	(6,188)	(15,667)
General and administrative expenses	(3,938)	(16,763)	(7,711)	(23,131)
Depreciation and amortisation (including non-cash share-based compensation)	(4,226)	(14,459)	(8,402)	(29,017)
Other operating income	745	135,866	1,360	136,179
Other operating expenses	(74)	(3,707)	(254)	(4,190)
Operating profit (EBIT)	(5,005)	115,487	(10,307)	116,831
Financial income	10	14	22	22
Financial expenses	(95)	(3,957)	(210)	(5,810)
Income from associates	(1)	-	(23)	-
Net income (loss) before income taxes	(5,091)	111,544	(10,518)	111,043
Income taxes	-	(5,445)	(42)	(5,249)
Net income (loss)	(5,091)	106,099	(10,560)	105,794
Attribution of net income				
Owners of the parent company	(5,091)	106,143	(10,560)	105,870
Non-controlling interests	-	(44)	-	(76)
Earnings per share (basic) in €	(0.04)	0.85	(0.08)	0.85
Earnings per share (diluted) in €	(0.04)	0.85	(0.08)	0.85

Consolidated Statement of Comprehensive Income (unaudited)

Euro amounts in thousands (€ 000s)

	01/04/ – 30/06/ 2020	01/04/ – 30/06/ 2019	01/01/ – 30/06/ 2020	01/01/ – 30/06/ 2019
Net income (loss) for the period	(5,091)	106,099	(10,560)	105,794
Other comprehensive income (loss)				
Line items that are not reclassified in the income statement				
Actuarial gains (losses) from defined benefit pension plans	-	-	-	-
Tax effect	-	-	-	-
Line items that are not reclassified in the income statement	-	-	-	-
Line items that were or might subsequently be reclassified in the income statement				
Fair value measurement of cash flow hedge	-	291	-	313
Tax effect	-	(94)	-	(101)
Line items that were or might subsequently be reclassified in the income statement	-	197	-	212
Total fair value changes (net of tax) recognised directly	-	197	-	212
Total comprehensive income (loss) for the period	(5,091)	106,296	(10,560)	106,006
Attribution of total comprehensive income (loss)				
Owners of the parent company	(5,091)	106,340	(10,560)	106,082
Non-controlling interests	-	(44)	-	(76)

Consolidated Balance Sheet

Euro amounts in thousands (€ 000s)

	30/06/2020 (unaudited)	31/12/2019 (audited)
ASSETS		
Long-term assets		
Property, plant and equipment	28,938	30,341
Land and buildings	21,100	21,498
Goodwill	18,365	18,365
Right-of-use assets	17,018	19,127
Other intangible assets	14,204	15,911
Financial assets recognised at equity	180	202
Prepayments	1,542	1,401
Other long-term assets	2,690	4,819
Long-term assets	104,037	111,664
Short-term assets		
Trade receivables	33,077	31,034
Prepayments	3,379	3,525
Inventories	268	228
Other short-term assets	4,267	12,610
Cash and cash equivalents	54,724	66,031
Short-term assets	95,715	113,428
TOTAL ASSETS	199,752	225,092

	30/06/2020 (unaudited)	31/12/2019 (audited)
SHAREHOLDERS' EQUITY AND LIABILITIES		
Shareholders' equity		
Issued capital	124,397	124,172
Capital surplus	144,117	144,132
Other capital reserves	(2,147)	(2,147)
Accumulated deficit	(120,274)	(105,989)
Shareholders' equity	146,093	160,168
Liabilities		
Long-term liabilities		
Lease liabilities	14,039	16,698
Other financial liabilities	22	25
Accrued pensions	6,068	6,293
Other provisions	440	548
Long-term liabilities	20,569	23,564
Short-term liabilities		
Trade payables and other liabilities	21,561	28,593
Lease liabilities	5,389	5,501
Other provisions	5,223	7,030
Accrued taxes	54	54
Deferred income	863	182
Short-term liabilities	33,090	41,360
Liabilities	53,659	64,924
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	199,752	225,092

Consolidated Statement of Changes in Equity (unaudited)

Euro amounts in thousands (€ 000s)

	Equity attributable to equity holders of QSC AG			
	Issued capital	Capital surplus	Other capital reserves	
			Actuarial losses	Cash flow hedge reserve
Balance as of 1 January 2020	124,172	144,132	(2,147)	-
Net income (loss) for the period	-	-	-	-
Total comprehensive income (loss)	-	-	-	-
Conversion of convertible bonds	225	23	-	-
Dividends paid	-	-	-	-
Non-cash share-based compensation	-	(38)	-	-
Balance as of 30 June 2020	124,397	144,117	(2,147)	-
Balance as of 1 January 2019	124,172	144,119	(1,319)	(212)
Net income (loss) for the period	-	-	-	-
Other comprehensive income for the period, net of tax	-	-	-	212
Total comprehensive income (loss)	-	-	-	212
Change in scope of consolidation	-	-	48	-
Dividends paid	-	-	-	-
Non-cash share-based compensation	-	147	-	-
Balance as of 30 June 2019	124,172	144,266	(1,271)	-

Accumulated deficit	Total	Non-controlling interests	Total equity	
(105,989)	160,168	-	160,168	Balance as of 1 January 2020
(10,560)	(10,560)	-	(10,560)	Net income (loss) for the period
(10,560)	(10,560)	-	(10,560)	Total comprehensive income (loss)
-	248	-	248	Conversion of convertible bonds
(3,725)	(3,725)	-	(3,725)	Dividends paid
-	(38)	-	(38)	Non-cash share-based compensation
(120,274)	146,093	-	146,093	Balance as of 30 June 2020
(175,883)	90,877	(780)	90,097	Balance as of 1 January 2019
105,870	105,870	(76)	105,794	Net income (loss) for the period
-	212	-	212	Other comprehensive income for the period, net of tax
105,870	106,082	(76)	106,006	Total comprehensive income (loss)
-	48	856	904	Change in scope of consolidation
(3,725)	(3,725)	-	(3,725)	Dividends paid
-	147	-	147	Non-cash share-based compensation
(73,738)	193,429	-	193,429	Balance as of 30 June 2019

Consolidated Statement of Cash Flows (unaudited)

Euro amounts in thousands (€ 000s)

	01/01/ – 30/06/ 2020	01/01/ – 30/06/ 2019
Cash flow from operating activities		
Net income (loss) before income taxes	(10,518)	111,043
Depreciation and amortisation of long-term assets	5,989	12,080
Depreciation of right-of-use assets (IFRS 16)	2,451	16,789
Other non-cash income and expenses	529	425
Profit from sale of subsidiaries	-	(135,253)
Loss on disposals of assets	38	237
Income tax paid	(326)	(1,298)
Income tax received	11	61
Interest received	3	8
Interest paid in connection with leases (IFRS 16)	(208)	(1,910)
Net financial expenses	188	5,788
Income from associates	23	-
Changes in provisions	(2,140)	1,764
Changes in trade receivables	(2,611)	7,416
Changes in trade payables	2,546	(28,838)
Changes in other assets and liabilities	1,333	4,689
Cash flow from operating activities	(2,692)	(6,999)
Cash flow from investing activities		
Purchase of intangible assets	(147)	(3,794)
Purchase of property, plant and equipment	(2,190)	(6,436)
Proceeds from sale of a subsidiary, less liquid funds thereby disposed of	-	185,813
Cash flow from investing activities	(2,337)	175,583
Cash flow from financing activities		
Dividends paid	(3,725)	(3,725)
Repayment of convertible bonds	(3)	(4)
Proceeds from loan to former subsidiary	-	3,430
Proceeds from issuance of common stock	248	-
Taking up of loans	-	23,000
Repayment of loans	-	(142,000)
Interest paid	(3)	(4,672)
Payments for redemption of lease liabilities	(2,795)	(16,310)
Cash flow from financing activities	(6,278)	(140,281)
Change in cash and cash equivalents	(11,307)	28,303
Cash and cash equivalents as of 1 January	66,031	53,618
Cash and cash equivalents as of 30 June	54,724	81,921

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

These condensed interim consolidated financial statements of QSC AG and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS), to the extent that these have been adopted by the EU, and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), taking due account of International Accounting Standard (IAS) 34 Interim Financial Reporting. The interim consolidated financial statements do not include all notes and disclosures required of full year-end financial statements and should therefore be read in conjunction with the consolidated financial statements as of 31 December 2019.

Based on the Management Board's assessment, the interim consolidated financial statements contain all adjustments necessary to provide a true and fair view of the Group's net assets, financial and earnings position. The results for the reporting period ending on 30 June 2020 do not necessarily provide an indication of the future development in results.

The accounting policies applied in preparing these interim consolidated financial statements are basically consistent with those applied in the consolidated financial statements for the 2019 financial year.

Income tax expenses for the interim reporting period have been calculated using the effective tax rate expected for the financial year as a whole. Taxes relating to exceptional items are accounted for in the quarter in which the underlying items materialise.

The amendments to IFRS requiring mandatory application from the 2020 financial year onwards have not had any implications for the interim consolidated financial statements as of 30 June 2020.

The preparation of interim financial statements in accordance with IFRS requires a certain degree of reference to estimates and judgements affecting the assets and liabilities as recognised and the disclosures made concerning contingent assets and liabilities as of the reporting date. The amounts actually arising may deviate from such estimates.

There have been no material changes in the Management Board's assessments concerning the application of accounting policies compared with the consolidated financial statements as of 31 December 2019.

Unless otherwise stated, all amounts are rounded up or down to the nearest thousand euro amount (€ 000s).

These condensed interim consolidated financial statements, including the interim group management report, have neither been audited pursuant to § 317 of the German Commercial Code (HGB) nor subject to any audit review by any suitably qualified person. The interim consolidated financial statements and interim group management report were approved for publication by the Management Board on 3 August 2020.

2 SCOPE OF CONSOLIDATION AND AMENDMENTS UNDER COMPANY LAW

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

By company agreement dated 29 April 2020, QSC AG founded SIA Q.BEYOND, a subsidiary located in Riga, Latvia, and furnished this with share capital of € 2.8k.

Based on the merger agreement dated 25 May 2020, Q-loud GmbH, Cologne, was merged by way of acceptance into QSC AG, Cologne. The merger became effective upon being entered in the Commercial Register on 30 June 2020.

3 FINANCIAL INSTRUMENTS

Disclosures on the balance sheet. No separate disclosures are provided for the respective fair values as the carrying amounts largely correspond to fair values.

€ 000s	Carrying amount	Amortised cost	Fair value – in equity	Fair value – hedging instruments	Fair value – through profit or loss
30 June 2020					
Assets not measured at fair value					
Cash and cash equivalents	54,724	x			
Receivables from finance leases	3,079	x			
Short-term trade receivables	33,077	x			
Liabilities not measured at fair value					
Trade payables and other liabilities	13,424	x			
Contract liabilities	722	x			
Lease liabilities	19,428	x			
Other financial liabilities	22	x			
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			

Disclosures on fair values measured on a recurring basis. At the end of the reporting period, QSC AG determines whether any reclassifications between the measurement hierarchy levels are necessary. No reclassifications were made in the period under report from 1 January 2020 to 30 June 2020.

4 REVENUES

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

€ 000s	Geographical region					
	Germany		Outside Germany		Total	
	01/01/ – 30/06/ 2020	01/01/ – 30/06/ 2019	01/01/ – 30/06/ 2020	01/01/ – 30/06/ 2019	01/01/ – 30/06/ 2020	01/01/ – 30/06/ 2019
Segments						
Cloud & IT	45,223	41,936	2,047	2,343	47,270	44,279
SAP	20,536	16,692	759	1,001	21,295	17,693
Divested business*	-	106,392	-	4,225	-	110,617
	65,759	165,020	2,806	7,569	68,565	172,589

* As of 30 June 2019.

€ 000s	01/01/ – 30/06/ 2020	01/01/ – 30/06/ 2019
Sector		
Retail	27,475	28,911
Manufacturing	13,660	13,993
Energy	4,877	7,452
Other	22,553	122,233
	68,565	172,589

	01/01/ – 30/06/ 2020	01/01/ – 30/06/ 2019
Sector		
Retail	40.1%	16.8%
Manufacturing	19.9%	8.1%
Energy	7.1%	4.3%
Other	32.9%	70.8%
	100.0%	100.0%

5 SEGMENT REPORTING

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

Cloud & IoT. This segment pools all IT services that assist companies in gradually transitioning to the digital age and also includes a broad portfolio of IoT services. Customers are increasingly combining IoT and IT services. All major IT functions can be procured as turnkey cloud modules or as individual outsourcing services. These range from virtual IT workplaces and business applications to flexible IT resources through to comprehensive communications and network services. They are supplemented by colocation services involving the provision of data centre capacities. The IoT business also covers the whole spectrum of services, including software competence, hardware from sensors through to gateways, and secure data transmission and storage.

SAP. The "SAP" segment involves the provision of consulting services to companies to assist them in digitalising and optimising their business processes based on SAP technologies and the operation of corresponding applications. QSC is an SAP full-service provider and has extensive experience in basis operations, application management, implementation, user support and maintenance, as well as in licensing and rental models.

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 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	Cloud & IoT	SAP	Consolidated Group
01/04/ – 30/06/2020			
Net revenues	23,988	10,469	34,457
Cost of revenues	(21,060)	(8,044)	(29,104)
Gross profit	2,928	2,425	5,353
Sales and marketing expenses	(1,918)	(947)	(2,865)
Segment contribution	1,010	1,478	2,488
General and administrative expenses			(3,938)
Depreciation and amortisation (including non-cash share-based compensation)			(4,226)
Other operating income and expenses			671
Operating profit (EBIT)			(5,005)
Financial income			10
Financial expenses			(95)
Income from associates			(1)
Net income (loss) before income taxes			(5,091)
Income taxes			-
Net income (loss)			(5,091)

€ 000s	Cloud & IoT	SAP	Divested business*	Consolidated Group
01/04/ – 30/06/2019				
Net revenues	21,200	8,878	55,116	85,194
Cost of revenues	(19,734)	(8,178)	(34,282)	(62,194)
Gross profit	1,466	700	20,834	23,000
Sales and marketing expenses	(3,655)	(314)	(4,481)	(8,450)
Segment contribution	(2,189)	386	16,353	14,550
General and administrative expenses				(16,763)
Depreciation and amortisation (including non-cash share-based compensation)				(14,459)
Other operating income and expenses				132,159
Operating profit (EBIT)				115,487
Financial income				14
Financial expenses				(3,957)
Net income (loss) before income taxes				111,544
Income taxes				(5,445)
Net income (loss)				106,099

* As of 30 June 2019.

€ 000s	Cloud & IoT	SAP	Consolidated Group
01/01/ – 30/06/2020			
Net revenues	47,270	21,295	68,565
Cost of revenues	(40,155)	(17,522)	(57,677)
Gross profit	7,115	3,773	10,888
Sales and marketing expenses	(4,056)	(2,132)	(6,188)
Segment contribution	3,059	1,641	4,700
General and administrative expenses			(7,711)
Depreciation and amortisation (including non-cash share-based compensation)			(8,402)
Other operating income and expenses			1,106
Operating profit (EBIT)			(10,307)
Financial income			22
Financial expenses			(210)
Income from associates			(23)
Net income (loss) before income taxes			(10,518)
Income taxes			(42)
Net income (loss)			(10,560)

In the first half of the financial year 2020, the "Cloud & IoT" and "SAP" segments included two customers who accounted for 14.6% and 13.9% of total revenues respectively.

€ 000s	Cloud & IoT	SAP	Divested business*	Consolidated Group
01/01/ – 30/06/2019				
Net revenues	44,279	17,693	110,617	172,589
Cost of revenues	(36,840)	(15,571)	(67,521)	(119,932)
Gross profit	7,439	2,122	43,096	52,657
Sales and marketing expenses	(6,069)	(694)	(8,904)	(15,667)
Segment contribution	1,370	1,428	34,192	36,990
General and administrative expenses				(23,131)
Depreciation and amortisation (including non-cash share-based compensation)				(29,017)
Other operating income and expenses				131,989
Operating profit (EBIT)				116,831
Financial income				22
Financial expenses				(5,810)
Net income (loss) before income taxes				111,043
Income taxes				(5,249)
Net income (loss)				105,794

* As of 30 June 2019.

6 CASH FLOW FROM FINANCING ACTIVITIES

Lease liabilities developed as follows:

€ 000s	
Lease liabilities at 1 January 2020	22,198
Cash-effective changes	(2,795)
Non-cash-effective changes	25
Leases liabilities at 30 June 2020	19,428

7 ISSUED CAPITAL AND CAPITAL RESERVE

Issued capital amounted to € 124,397,487 as of 30 June 2020. In June 2020, former members of the Management Board exercised conversion rights resulting from stock option plans and converted 225,000 convertible bonds into shares.

The number of ordinary shares and volume of issued capital changed as follows:

	Ordinary no-par shares	€
Balance at 1 January 2020	124,172,487	124,172,487
Addition due to issue of ordinary no-par shares	225,000	225,000
Balance at 30 June 2020	124,397,487	124,397,487

The change in the capital reserve since the previous reporting date was due on the one hand to the exercising of convertible bonds amounting to € 22,500 and on the other to non-cash share-based compensation.

8 DIVIDENDS PAID

The Annual General Meeting of QSC AG held on 20 May 2020 approved the distribution of a dividend of € 0.03 per share with dividend entitlement. The dividend payment of € 3,725,174.61 was distributed by the depositary banks on 26 May 2020.

9 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.

10 TRANSACTIONS WITH RELATED PARTIES

In the first six months of the 2020 financial year, QSC maintained business relationships with companies whose shareholders include members of the Company's management and its Supervisory Board. Persons and companies count as related parties pursuant to IAS 24 when one party has the possibility of exercising control or significant influence over the other party. All contracts with these companies require approval by the Supervisory Board and are agreed on customary market terms.

No material changes arose in this respect in the period until 30 June 2020. We therefore refer to the disclosures made in the notes to the consolidated financial statements as of 31 December 2019.

11 MANAGEMENT BOARD

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

	Shares		Conversion rights	
	30/06/2020	30/06/2019	30/06/2020	30/06/2019
Jürgen Hermann	1,000,000	670,000	150,000	150,000
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.

12 SUPERVISORY BOARD

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

	Shares		Conversion rights	
	30/06/2020	30/06/2019	30/06/2020	30/06/2019
Dr. Bernd Schlobohm, Chairman	15,769,910	15,769,910	-	-
Dr. Frank Zurlino, Deputy Chairman	10,000	10,000	-	-
Gerd Eickers	15,777,484	15,777,484	-	-
Ina Schlie	50,000	-	-	-
Matthias Galler ¹	-	-	2,700	2,700
Martina Altheim ¹ (since 1 July 2019)	-	-	1,900	-
Cora Hödl ¹ (until 30 June 2019)	-	-	-	4,100 ²

¹ Employee representative.

² Holdings at the time of retirement from the Supervisory Board.

13 EVENTS AFTER BALANCE SHEET DATE

By purchase agreement dated 21 July 2020, QSC AG acquired all of the shares in Incloud Engineering GmbH. The transfer of shares was executed on 31 July 2020. As this transaction occurred after the end of the period under report, it did not have any implications for QSC's assets, liabilities, financial position and profit or loss presented in this Half-Year Financial Report.

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

Cologne, August 2020

QSC AG
The Management Board



Jürgen Hermann

CALENDAR

Quarterly Statement
9 November 2020

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This translation is provided as a convenience only.
Please note that the German-language original of
this Half-Year Financial Report is definitive.

For further information: www.qsc.de