Quarterly Report I/2007

Key data

All amounts in € million	01/01/-31/03/ 2007	01/01/-31/03/ 2006
Revenues	76.8	54.4
Gross profit	+27.8	+16.4
EBITDA	+8.9	+2.4
EBIT	+0.3	-3.0
Net income	+1.1	-3.0
Net profit (loss) per common share [1] (in €)	+0.01	-0.03
Equity	163.5 [2]	160.6 [3]
Balance sheet total	296.5 [2]	299.9 [3]
Equity ratio (in percent)	55.1 [2]	53.6 [3]
Capital expenditures	10.6	7.3
Liquidity	103.8 [2]	108.9 [3]
Share price as of 31/03/ (in €)	5.90	5.08
Number of shares as of 31/03/	134,897,413	115,504,133
Market capitalization as of 31/03/	795.9	586.8
Employees as of 31/03/	703	465

[1] basic and diluted
[2] as of March 31, 2007
[3] as of December 31, 2006

Highlights

+ + + Strong growth in profitability + + +
QSC earned an EBITDA of € 8.9 million in the first quarter of 2007, thus increasing its EBITDA by 271 percent year-on-year. Net income rose to € 1.1 million, as opposed to a loss of € -3.0 million in the first quarter of 2006.

+ + + Focus on high-margin growth + + +
The sharp rise in profitability stemmed from QSC's sustained focus on high-margin growth in its strategic segments: In the first quarter of 2007, these segments accounted for a strong 82 percent of total revenues, up from 73 percent for the same quarter the year before. Overall, the Company's revenues advanced by 41 percent to € 76.8 million in the first quarter of 2007, as apposed to € 54.4 million for the comparable quarter the year before.

+ + + Revenues triple in the Wholesale/Reseller segment + + +
During the first quarter of 2007, QSC recorded especially high revenue growth in the Wholesale/Reseller segment, particularly in its business with wholesale partners, who have strong brands. Revenues in this segment tripled year-on-year to € 23.5 million.

+ + + Around 1,500 central offices by the end of June + + +
Plusnet continued its network expansion in the first quarter of 2007. By as early as mid-year, QSC will possess a nationwide DSL network with around 1,500 central offices; expansion to nearly 2,000 central offices is planned by year-end. QSC will then be able to directly reach some 50 percent of all German households and some 70 percent of enterprise networking sites.

+ + + QSC shares again trading higher + + +
Rising 18 percent to € 5.90 at the end of March 2007, the trading price of QSC shares outpaced the relevant indices in the first quarter of 2007; during the same period, the TecDAX rose by 14 percent. This good performance went hand in hand with rising demand: The average trading volume for QSC shares rose by 30 percent over the first quarter of 2006, to 430,000 shares per day.

+ + + JPMorgan now publishing research + + +
Interest in QSC shares was also fueled by a further increase in the number of financial institutions that regularly publish research on QSC. U.S.-based JPMorgan published its first research on the Company during the quarter, bringing to a total of 17 the number of financial institutions that regularly follow QSC.

Letter to Our Shareholders

Dear Shareholders,

In the first quarter of 2007, QSC was able to seamlessly continue the previous year's positive development of business and sustain its high-margin growth. Gross profit advanced by 70 percent to € 27.8 million on revenue growth of 41 percent to € 76.8 million, while EBITDA nearly quadrupled to € 8.9 million.

These strong increases in profitability stemmed from our focus on high-margin growth. With every product and every project, we pay great attention to assure a sufficient contribution margin, and intentionally forego revenues that offer only very low margins. Moreover, we regularly scrutinize all of our existing products and projects with respect to their margins, just as we have done in recent months.

Focus on high-margin growth is paying off

Attractive margins are able to be achieved with enterprise customers, in particular, QSC's core business. In the first quarter of 2007, QSC earned an average margin of 53 percent in its three strategic segments; in other words, each euro in additional revenues costs QSC only 47 cents. This high-margin growth is being fueled first and foremost by the dynamic development in the Large Account and Wholesale/Reseller segments. In the business of networking large and medium-size enterprises, we have further strengthened our position as one of the leading players in this growth market. In doing so, we are steadily winning new customers and earning even greater loyalty on the part of existing customers; just during the initial months of the 2007 fiscal year, we were able to expand our share of the telecommunications budgets at various large accounts.

In the Wholesale/Reseller segment, QSC is benefiting from sustained high demand on the part of wholesale partners for ADSL2+ connections; recurring revenues in this line of business are increasing significantly from quarter to quarter. Moreover, in individual cases it is additionally possible to achieve non-recurring revenues; as a general rule, these result from customer requests with respect to individual services, such as measurement solutions or the connection of additional locations. The last time that QSC was able to record these kinds of non-recurring revenues was in the fourth quarter of 2006. Since there were also seasonal effects in the reseller business with voice carriers during that period, the fourth quarter saw an extremely strong rise in revenues overall. By comparison with that quarter, characterized as it was by special effects, revenues in the first three months of this year were six million euros lower; however gross profit rose by four million euros to € 27.8 million during the same period, with EBITDA remaining virtually unchanged. This dichotomy shows the success of our focus on high-margin growth.

And margins will strengthen even further during the current fiscal year through Plusnet's expansion of the network. By mid-year, we will already have connected some 1,500 central offices, and by year-end the DSL network will, as planned, include nearly 2,000 central offices, thus making it one of the largest alternative infrastructures in Germany.

This network expansion, coupled with the positive development of our operating business, contributed to the good performance of QSC shares during the first quarter of 2007, which saw the trading price of QSC shares rise by 18 percent to again outpace the TecDAX. In recent weeks, though, our shares were forced to relinquish some of these gains, possibly as an over-reaction to the minority interest in Telecom Italia that was taken by Spain-based telecommunication corporate Teléfonica.

QSC does not view this transaction as having any direct influence on the German telecommunications market. Moreover, in numerous discussions with analysts and investors we have additionally pointed out that just last January Telecom Italia subsidiary HanseNet expanded its partnership with QSC to include a further 100 cities. This contract will lead to a further growth spurt in wholesale business.

QSC anticipates an EBITDA of between € 50 and € 60 million

High-margin growth in both this line of business as well as in all of the Company's strategic segments should afford new trading price potential for QSC shares in the coming quarters. After getting off to a good start in the current fiscal year, we are convinced that we will be able to sustain our high-margin growth in the coming quarters and achieve our ambitious goals for the 2007 fiscal year: We anticipate an EBITDA of between € 50 and € 60 million as well as consolidated net income of between € 15 and € 25 million on revenues of more than € 350 million.

Cologne, May 2007

Markus Metyas

Dr. Bernd Schlobohm
Chief Executive Officer

Bernd Puschendorf

Interim Consolidated Report QI 2007

GENERAL INDUSTRY CONDITIONS

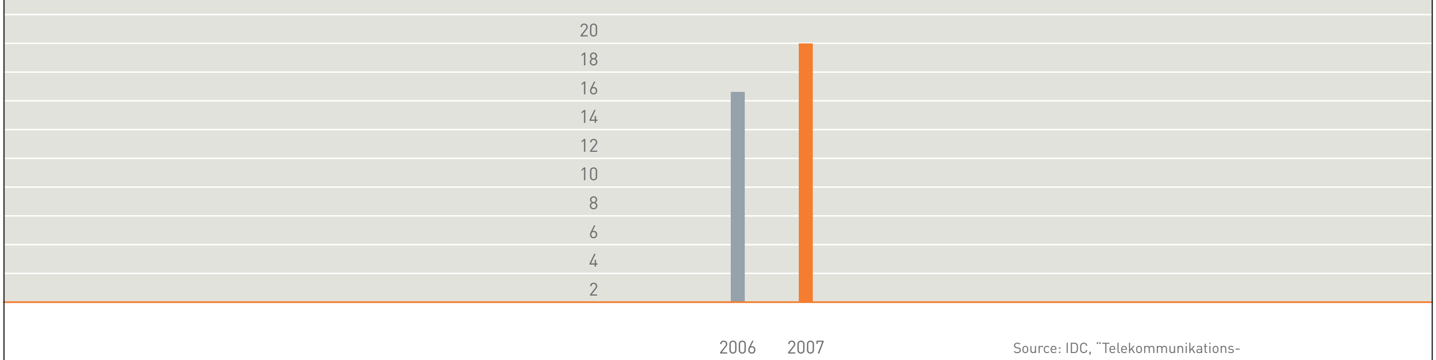
Germany sailing a growth course + In spite of the value added tax hike and a weaker U.S. business climate, the German economy is proving to be robust. The majority of research institutes are now predicting that the year 2007 will again see economic growth of well over two percent. Aside from exports, the growth engine is proving to be domestic demand on the part of enterprises. Benefiting especially from this high willingness to invest are telecommunication providers like QSC, who specialize in enterprise business.

Moreover, the telecommunications industry is additionally characterized by sustained high demand for DSL connections. Market research institute IDC expects the number of DSL connections to rise by some 3.5 million to 18.0 million by year-end. QSC will be participating in this increase, especially in its wholesale business.

Number of DSL connections in Germany is still rising significantly

Some relief for alternative telecommunication providers will be provided by the reduction in the price of unbundled subscriber line access to € 10.50 per month for the next two years that was mandated by the Federal Network Agency effective April 1, 2007; in the past, this price had been € 10.65. However even after this decision, QSC still sees room for reduction.

Broadband Connections in Germany (in millions)

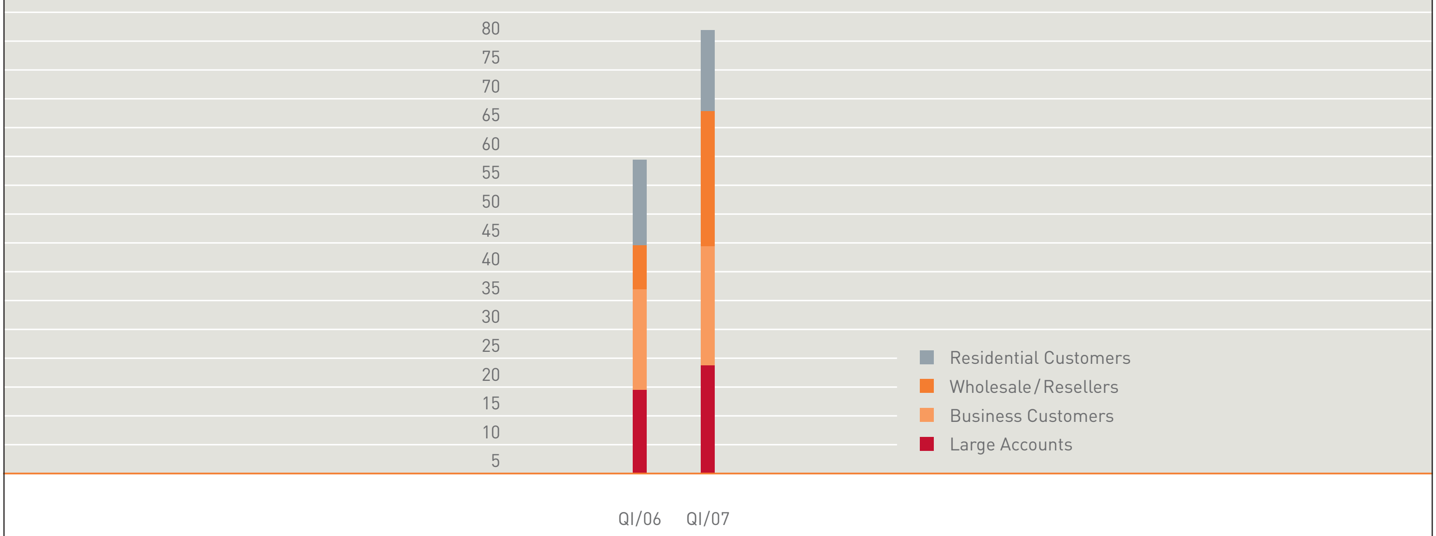


Source: IDC, "Telekommunikations-markt in Deutschland", April 2007

BUSINESS IN THE FIRST QUARTER

Strategic segments now account for 82 percent of total revenues + In the first quarter of 2007, QSC grew its revenues by 41 percent to € 76.8 million, as opposed to € 54.4 million for the comparable period the year before. In this connection, the Company again achieved disproportionately high revenue growth in its strategic segments. Consequently, the percentage of total revenues accounted for by the Large Account, Business Customer and Wholesale/Reseller segments totaled a strong 82 percent in the first quarter of 2007; in the first quarter of 2006, this figure had stood at 73 percent.

Revenue Mix (in € million)



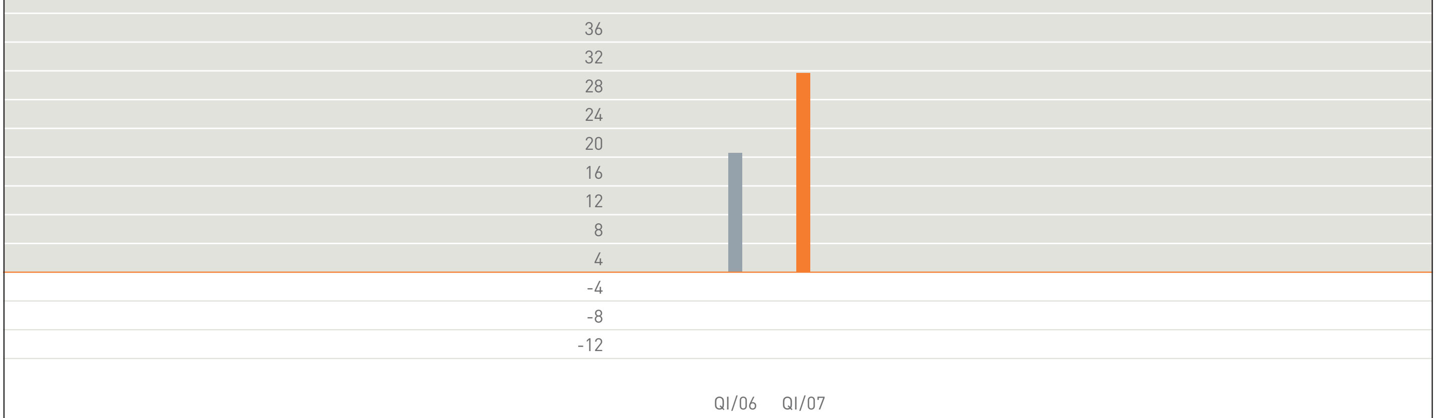
QSC's focus on high-margin growth with enterprise customers resulted in only a disproportionately low rise in network expenses – additional revenues with enterprise customers produce a considerably lower level of variable network expenses than in the residential customer market. Although revenues rose by € 22.4 million, this resulted in only an € 11.1 million rise in network expenses in the first quarter of 2007 to € 49.1 million, thus enabling the Company's strong growth in profitability to be continued. Gross profit advanced by 70 percent in the first quarter of 2007 to € 27.8 million, as opposed to € 16.4 million for the first three months of 2006. The Company's gross margin stood at 36 percent in the first quarter of 2007, as opposed to 30 percent for the comparable period the year before.

Gross margin advances to 36 percent in the first quarter

Selling and marketing expenses increased by 24 percent over the first quarter of 2006 to € 11.2 million, as opposed to € 9.0 million. The vast majority of these expenses were attributable to personnel costs as well as to commission payments to regional sales and marketing partners with whom QSC collaborates, especially in the Business Customer segment. The percentage of total revenues accounted for by selling and marketing expenses declined from 17 to 15 percent, which underscores the high efficiency of selling and marketing operations at QSC.

General and administrative expenses rose to € 7.9 million in the first quarter of 2007, as opposed to € 5.1 million for the first three months of the 2006 fiscal year; these expenses continue to account for a virtually unchanged 10 percent of total revenues. In addition, it should also be noted that QSC has been consolidating its publicly traded Broadnet subsidiary with a corresponding administration since June 2006.

Gross Profit (in € million)



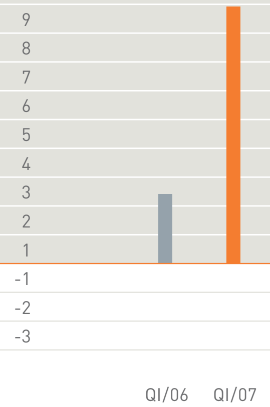
EBITDA surges again + QSC's better revenue quality, in particular, afforded a surge in EBITDA in the first quarter of 2007: The Company earned an EBITDA of € 8.9 million, as opposed to € 2.4 million for the first quarter of 2006. QSC defines EBITDA as earnings before interest, taxes, amortization of deferred non-cash share-based payments, as well as depreciation on property, plant and equipment and amortization of goodwill.

The rise in depreciation expense in the first quarter of 2007 to € 8.5 million, as opposed to € 5.4 million for the comparable period the year before, was also attributable to the expansion of the network by the Company's Plusnet subsidiary. Nevertheless, QSC was able to significantly improve its earnings before interest and taxes, its EBIT, which reached € 0.3 million, as opposed to € -3.0 million in the first quarter of 2006.

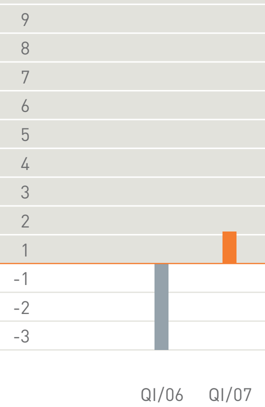
QSC generates net income of € 1.1 million

Due to significantly higher liquidity at the close of the period, QSC's financial result rose to € 0.7 million in the first quarter of 2007, as opposed to plus-minus zero for the same quarter the year before. This increased consolidated net income to € 1.1 million, as opposed to a consolidated net loss of € -3.0 million for the first quarter of 2006.

EBITDA (in € million)



Net Profit (Loss) (in € million)

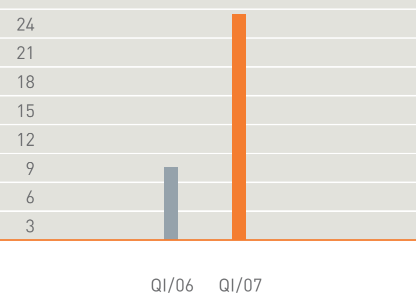


BUSINESS BY SEGMENT IN THE FIRST QUARTER

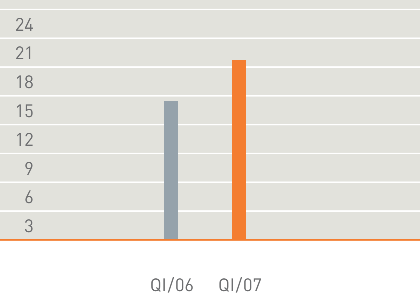
Revenues triple in the Wholesale/Reseller segment + With revenues of € 23.5 million, the Wholesale/Reseller segment outpaced revenues in the other segments in the first quarter of 2007; in the first quarter of 2006, revenues in this segment had stood at only 7.6 million. The ability to triple revenues within the space of only one year essentially stemmed from successful expansion of the Company's wholesale business. Strong wholesale partners like HanseNet and freenet, for example, are generating rising recurring revenues quarter after quarter. Moreover, on occasion there are also non-recurring revenues in wholesale business, stemming, for example, from advance payments for customer-specific network extensions or for the integration of additional services at the customer's request. These kinds of non-recurring revenues, coupled with a seasonal rise in business with voice carriers, had led to an unusually high rise in quarter-to-quarter revenues in the fourth quarter of 2006; around six million euros of this was attributable to seasonal and non-recurring effects. However there were no noteworthy effects of this kind in the first quarter of 2007. Fueled by this tripling of revenues, the Company's segment EBITDA in the Wholesale/Reseller segment advanced to € 11.0 million, as opposed to € 4.3 million in the first quarter of 2006. Segment EBITDA is calculated as the respective net revenues less all costs directly attributable to that segment. The segment margin stood at 47 percent in the first quarter of 2007. In fact, reseller business with telecommunication providers who do not possess their own nationwide infrastructure in Germany offers even higher margins than wholesale business.

Wholesale business is characterized by rising recurring revenues

Revenues Wholesale/Resellers (in € million)



Revenues Large Accounts (in € million)



Highest margins with large accounts + QSC achieved even higher margins in the Large Account and Business Customer segments. Totaling 58 percent in the first quarter of 2007, the Company earned its highest margin in the Large Account Segment; this margin had stood at only 54 percent for the first three months of the previous year. QSC grew its revenues in this segment by 30 percent to € 18.7 million and its segment EBITDA by a strong 40 percent to € 10.9 million. As in the previous quarters, QSC succeeded in both winning new customers in this segment, as well as in expanding its share of the telecommunications budgets of existing customers and in extending existing contracts. In this connection, QSC is benefiting from its Plusnet subsidiary's network expansion, which is enabling more and more enterprise networking sites to be connected directly to the QSC network.

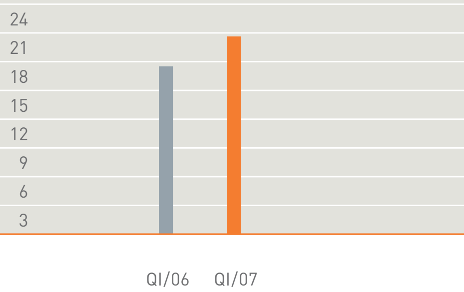
According to our strategy the growing number of direct connections also contributed to the higher margin of 57 percent with business customers, as opposed to 54 percent for the first three months of 2006; the Company is today able to migrate more and more preselect customers to direct customers, especially in connection with voice business with small and medium enterprises. With revenues rising to € 20.6 million, as opposed to € 17.5 million in the first quarter of 2006, segment EBITDA increased to € 11.7 million, as opposed to € 9.4 million for the comparable period the year before.

Focusing on high-margin growth also means that QSC is rigorously foregoing low-margin revenues with residential customers. As a result, revenues in the Residential Customer segment declined by € 0.8 million from the corresponding quarter the year before to € 14.0 million in the first quarter of 2007; at € 2.8 million, segment EBITDA was down € 0.3 million from the year before. The margin in this non-strategic segment amounted to 20 percent.

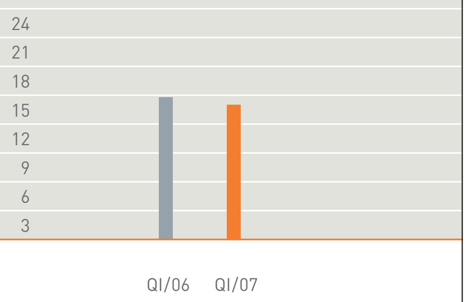
Average margin in the strategic segments amounts to 53 percent

QSC thus generated 82 percent of its total revenues in the three strategic segments of Large Accounts, Business Customers and Wholesale/Resellers in the first quarter of 2007, along with a strong 92 percent of its segment EBITDA. The average margin in the Company's strategic segments amounted to 53 percent.

Revenues Business Customers (in € million)



Revenues Residential Customers (in € million)



FINANCIAL POSITION AND NET ASSETS

Positive cash flow from operating activities + The positive development of the Company's operating business is also reflected in its cash flow statements for the first quarter of 2007. QSC earned a cash flow from operating activities of € 3.2 million in this period, thus increasing it by € 13.1 million within the space of a year. As a result of the network expansion, the cash flow from investing activities increased to € -4.3 million in the first quarter of 2007, as opposed to € -1.6 million for the first three months of the 2006 fiscal year.
This network expansion and the capital expenditures it involves resulted in a moderate decline in liquid assets to € 103.8 million in the balance sheet, as opposed to € 108.9 million as of December 31, 2006. This line item includes the cash contribution to Plusnet in the amount of € 50 million that was made by co-shareholder TELE2 in the autumn of 2006, which will fully fund this network expansion.

QSC possesses liquid assets in the amount of € 103.8 million

The interim financial statements for the period ended March 31, 2007, continue to record no long-term debt to financial institutions. The Company utilizes only finance lease, which is highly favorable by comparison with other forms of financing, to finance its investments in property, plant and equipment. Long-term debt under finance lease contracts declined by € 0.9 million on December 31, 2006, to € 15.1 million as of March 31, 2007, while during the same period short-term debt under finance lease contracts increased moderately by € 0.8 million to € 14.2 million.

Network expansion on schedule + In the first quarter of 2007, the focus of the Company's capital expenditures was on expansion of the network by subsidiary Plusnet; capital expenditures increased by € 3.3 million over the first quarter of 2006 to € 10.6 million. In addition to the connection of new central offices, this line item also includes customer-related upfront expenses for the connection of new enterprise customers.

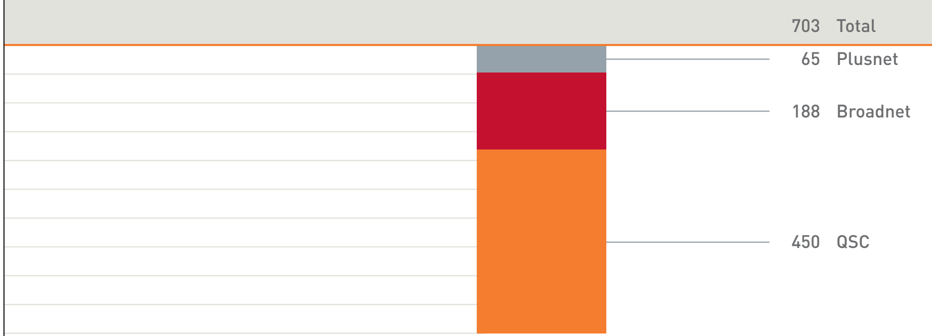
Rising equity ratio + In the first quarter of 2007, QSC's capital stock rose by € 1.0 million to € 134.9 million. This increase was attributable to the conversion of 999,727 convertible bonds to an equal number of QSC shares within the framework of employee stock option programs. In this connection, the vast majority of the conversions resulted from the threat of expiration of the 2001 stock option program. While the Annual Shareholders Meeting in May 2006 had resolved to extend this program for a further five years, lawsuits brought by individual shareholders have thus far prevented this resolution from coming into force. Given the resulting insecurity, most entitlees, including Management Board member Bernd Puschendorf, decided to exercise their conversion rights within the regular term. The increase in equity led to a slight increase in the equity ratio to 55 percent as opposed to 54 percent as of December 31, 2006.

Equity ratio up to 55 percent in the first quarter

HUMAN RESOURCES

Strong growth necessitates beefing up customer-related operations + During the first three months of the current fiscal year, QSC increased its workforce by nearly 30 people, and was employing a total of 703 people as of March 31, 2007. Parent corporation QSC AG accounted for the lion's share of the new recruitment. The Company had aligned itself early on to accommodate the strong demand anticipated in wholesale business, specifically expanding its customer and order management operations. Swift network expansion at subsidiary Plusnet necessitated that six people be added to the workforce, now bringing it a total of 65. QSC's largest subsidiary, Hamburg-based Broadnet AG, was employing 188 people as of March 31 of this year.

Workforce as of March 31, 2007



RISK REPORT

Risk position unchanged + During the first quarter of 2007, there were no material changes in the risks that were presented in the 2006 Annual Report. However as a result of the risks portrayed therein, as well as other risks or incorrect assumptions, actual future results could vary from QSC's expectations. All statements contained in this interim consolidated report that are not historical facts are therefore forward-looking statements. They are based upon current expectations and projections of future events, and could therefore change over the course of time.

SUBSEQUENT EVENTS

Broadnet exchange ratio announced + On April 2, 2007, subsequent to the close of the reporting period, the Supervisory Boards of QSC and Broadnet approved an agreement between the two companies relating to the merger of Broadnet into QSC and the exchange ratio of shares. Under the terms of the agreement, Broadnet shareholders will receive 12 QSC shares for 11 Broadnet shares. To determine the appropriate exchange ratio, the two companies have conducted company valuations with the assistance of IVA VALUATION & ADVISORY AG Wirtschaftsprüfungsgesellschaft, of Frankfurt/ Main. On April 2, 2007, the court-appointed joint merger auditor, PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft, of Frankfurt am Main, confirmed the adequacy of this exchange ratio.

QSC increases stake in Broadnet to 93.4 percent

On April 16, 2007, QSC signed an agreement to acquire 209,000 further Broadnet shares from institutional investors, representing 1.3 percent of Broadnet's capital stock. QSC now holds 93.4 percent of this subsidiary's shares.

OUTLOOK

Network expansion to nearly 2,000 central offices by year-end strengthens QSC

QSC reiterates forecast + QSC sustained its high-margin growth in the first quarter of 2007; given this background, the Company is reiterating its forecast for the full 2007 fiscal year, which was announced on February 28, 2007: QSC anticipates an EBITDA of between € 50 and € 60 million on revenues of more than € 350 million, as well as net income of between € 15 and 25 million. QSC expects to see the highest growth rates in business in the Large Account and Wholesale/Reseller segments, with wholesale business, in particular, expected to rise sharply in the coming quarters. QSC will conclude the expansion of its DSL network to nearly 2,000 central offices by year-end 2007; this expansion has already been fully financed through the contribution in cash to Plusnet made by co-shareholder TELE2. Overall, QSC anticipates capital expenditures of between € 60 and € 70 million for the 2007 fiscal year. This network expansion will strengthen QSC's competitive and margin positions in all of its strategic segments during the course of the year.

Interim Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

Euro amounts in thousands (T €)

	01/01/-31/03/ 2007	01/01/-31/03/ 2006
Net revenues	**76,844**	**54,413**
Cost of revenues	(49,086)	(38,033)
Gross Profit	**27,758**	**16,380**
Selling and marketing expenses	(11,155)	(8,977)
General and administrative expenses	(7,915)	(5,103)
Research and development expenses	(78)	(82)
Depreciation and non-cash share-based payments	(8,537)	(5,374)
Other operating income	816	139
Other operating expenses	(548)	(3)
Operating profit (loss)	**341**	**(3,020)**
Financial income	1,276	412
Financial expenses	(542)	(397)
Net profit (loss) before income taxes	**1,075**	**(3,005)**
Income taxes	-	-
Net profit (loss)	**1,075**	**(3,005)**
Attributable to:		
Equity holders of the parent	952	(3,005)
Minority interest	123	-
Earnings per share (basic and diluted) in €	**0.01**	**(0.03)**

CONSOLIDATED BALANCE SHEETS (unaudited)

Euro amounts in thousands (T €)

ASSETS	March 31, 2007	Dec. 31, 2006
Long-term assets		
Property, plant and equipment	61,555	61,489
Goodwill	47,493	47,450
Intangible assets	19,702	18,051
Other long-term financial assets	196	160
Deferred tax assets	6,403	6,403
Long-term assets	135,349	133,553
Short-term assets		
Trade receivables	51,406	52,778
Prepayments	4,213	1,099
Other receivables and short-term financial assets	1,740	3,566
Available-for-sale financial assets	59,115	62,927
Cash and short-term deposits	44,677	45,986
Short-term assets	161,151	166,356
TOTAL ASSETS	296,500	299,909

SHAREHOLDERS' EQUITY AND LIABILITIES	March 31, 2007	Dec. 31, 2006
Equity attributable to equity holders of the parent		
Capital stock	134,897	133,898
Capital surplus	558,410	557,961
Other capital reserves	(900)	(1,286)
Accumulated deficit	(532,745)	(533,697)
Equity attributable to equity holders of the parent	**159,662**	**156,876**
Minority interest	3,797	3,674
Total Shareholders' equity	**163,459**	**160,550**
Long-term liabilities		
Long-term liabilities of minority interest	49,964	49,860
Long-term portion of finance lease obligations	15,124	16,044
Convertible bonds	29	36
Accrued pensions	719	721
Deferred tax liability	5,341	5,084
Long-term liabilities	**71,177**	**71,745**
Short-term liabilities		
Trade payables	39,020	42,082
Short-term portion of finance lease obligations	14,223	13,443
Provisions	908	1,512
Deferred revenues	6,783	4,510
Other short-term liabilities	930	6,067
Short-term liabilities	**61,864**	**67,614**
Total liabilities	**133,041**	**139,359**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**296,500**	**299,909**

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

Euro amounts in thousands (T €)

	01/01/-31/03/ 2007	01/01/-31/03/ 2006
Cash flow from operating activities		
Net profit (loss) before income taxes	1,075	(3,005)
Depreciation and amortization	8,280	5,374
Non-cash share-based payments	250	(5)
Loss from disposal of long-term assets	5	46
Changes in provisions	(606)	227
Changes in trade receivables	1,372	(2,149)
Changes in trade payables	(3,006)	(1,472)
Changes in other financial assets and liabilities	(4,188)	(8,952)
Cash flow from operating activities	**3,182**	**(9,936)**
Cash flow from investing activities		
Purchase of available-for-sale financial assets	-	(2,185)
Disposal of available-for-sale financial assets	4,948	2,393
Payments related to acquisitions	-	(26)
Purchases of intangible assets	(3,358)	(1,185)
Purchases of property, plant and equipment	(5,854)	(627)
Proceeds from disposal of assets	10	-
Cash flow from investing activities	**(4,254)**	**(1,630)**
Cash flow from financing activities		
Changes in convertible bonds	(7)	(4)
Assumption of minority interst liabilities	104	-
Proceeds from issuance of common stock	1,191	735
Repayments of finance lease	(1,525)	(2,341)
Cash flow from financing activities	**(237)**	**(1,610)**
Change in cash and short-term deposits	**(1,309)**	**(13,176)**
Cash and short-term deposits at January 1	45,986	30,313
Change in cash and short-term deposits at March 31	**44,677**	**17,137**
Interest paid	485	380
Interest received	525	409

CONSOLIDATED STATEMENTS OF DIRECTLY RECOGNIZED INCOME AND EXPENSE (unaudited)

Euro amounts in thousands (T €)

	01/01/-31/03/ 2007	01/01/-31/03/ 2006
Directly recognized in equity		
Available-for-sale financial assets		
change in fair value	651	164
realized losses	(8)	(5)
Tax effect, total	(257)	(64)
Directly recognized in equity	**386**	**95**
Net profit (loss)	1,075	(3,005)
Net profit (loss) and directly recognized income and expense	**1,461**	**(2,910)**
Attributable to:		
Equity holders of the parent	1,338	(2,910)
Minority interest	123	-

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (unaudited)

Euro amounts in thousands (T €)

	Equity attributable to equity holders of the parent				
	Capital stock T €	Capital surplus T €	Other capital reserves T €	Accumulated deficit T €	Total T €
Balance at January 1, 2007	**133,898**	**557,961**	**(1,286)**	**(533,697)**	**156,876**
Net profit				952	952
Change in fair value of available-for-sale financial assets			643		643
Deferred taxes on available-for-sale financial assets			(257)		(257)
Conversion of convertible bonds	999	192			1,191
Non-cash share-based payments		257			257
Balance at March 31, 2007	**134,897**	**558,410**	**(900)**	**(532,745)**	**159,662**
Balance at January 1, 2006	**115,033**	**499,643**	**(1,357)**	**(528,281)**	**85,038**
Net loss				(3,005)	(3,005)
Change in fair value of available-for-sale financial assets			159		159
Deferred taxes on available-for-sale financial assets			(64)		(64)
Conversion of convertible bonds	471	243			714
Non-cash share-based payments		20			20
Balance at March 31, 2006	**115,504**	**499,906**	**(1,262)**	**(531,286)**	**82,862**

Minority interest T €	Total Share-holders' Equity T €	
3,674	160,550	Balance at January 1, 2007
123	1,075	Net profit
	643	Change in fair value of available-for-sale financial assets
	(257)	Deferred taxes on available-for-sale financial assets
	1,191	Conversion of convertible bonds
	257	Non-cash share-based payments
3,797	163,459	Balance at March 31, 2007
-	85,038	Balance at January 1, 2006
	(3,005)	Net loss
	159	Change in fair value of available-for-sale financial assets
	(64)	Deferred taxes on available-for-sale financial assets
	714	Conversion of convertible bonds
	20	Non-cash share-based payments
-	82,862	Balance at March 31, 2006

Notes to the Interim Consolidated Financial Statements

CORPORATE INFORMATION

QSC AG (QSC, the Company or the Group) is a nationwide telecommunication provider with its own DSL network that offers comprehensive broadband communication to business customers and residential customers: From leased lines in a variety of bandwidths to voice and data services to networking of enterprise locations (IP-VPN).
QSC is a stock corporation registered in the Federal Republic of Germany whose legal domicile is Mathias-Brüggen-Strasse 55, 50829 Cologne, Germany. The Company is carried on the Register of Companies of the Local Court of Cologne under Number HRB 28281. QSC has been listed on the Deutsche Börse Stock Exchange since April 19, 2000, and on the Prime Standard since the beginning of 2003 following the reorganization of the equity market. On March 22, 2004, QSC was added to the TecDAX index, which includes the 30 largest and most liquid technology issues in the Prime Standard.

BASIS OF PREPARATION

1 General principles

The interim consolidated financial statements for the first three months ended March 31, 2007, have been prepared in accordance with the International Financial Reporting Standards (IFRS), and the supplementary rules of § 315a (1) of the German Commercial Code (HGB). The consolidated financial statements have been prepared in accordance with the IFRS and International Accounting Standards (IAS) issued by the International Accounting Standards Board (IASB) as well as their interpretation by the International Financial Reporting Interpretations Committee (IFRIC) and by the Standing Interpretations Committee (SIC) that are required to be applied in the EU and which are mandatory at the balance sheet date.
The interim consolidated financial statements for the period from January 1 through March 31, 2007, have been prepared in accordance with IAS 34, "Interim Financial Reporting." The interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group´s annual consolidated financial statements as of December 31, 2006.

2 Basis of consolidation

The interim condensed consolidated financial statements comprise the financial statements of QSC AG and its subsidiaries for the period ended March 31, 2007. There has been no change in the number of companies included in the consolidation since the consolidated financial statements for the fiscal year ended December 31, 2006.

3 Changes in accounting policies

The accounting policies adopted in preparing these consolidated interim financial statements are fundamentally consistent with those employed in preparing the consolidated financial statements for the 2006 fiscal year. The adoption of new or revised standards or interpretations that have been in force since January 1, 2007, did not have any material effect on the net assets, financial position or results of operations of the Company.

4 Segment reporting

The source of QSC's reportable segments is according to the prescription of IAS 14 the internal organization used by the management for making operating decisions and assessing performance as. QSC is primarily operating in the customer segments Large Accounts, Business Customers, Wholesale/Resellers and Residential Customers.
The customer segment Large Accounts embraces customized solutions of voice and data communication for large and medium enterprises. In addition to the configuration and operation of IP-VPN networks, QSC also provides a broad range of network-related services.
In the Business Customer segment QSC summarizes its product business. QSC covers most of the needs of small and medium enterprises concerning modern voice and data communication by basically determined products and processes.
The Wholesale/Resellers segment includes the business with Internet service providers and telecommunication providers without proprietary infrastructure. They are marketing QSC's DSL lines as well as value-added services under their own name and for their own account.
In the Residential Customer segment the Company embraces the voice and data services for residential customers.

01/01/ - 31/03/2007 in T €	Segment Large accounts	Segment Business customers	Segment Wholesale/ Resellers	Segment Residential customers	Recon- ciliation	Consoli- dated
Net revenues	**18,733**	**20,637**	**23,519**	**13,955**	**-**	**76,844**
Directly allocated costs	(7,881)	(8,892)	(12,529)	(11,114)	-	(40,416)
Contribution margin	**10,852**	**11,745**	**10,990**	**2,841**	**-**	**36,428**
Not allocated costs	-	-	-	-	(27,550)	(27,550)
EBITDA	**10,852**	**11,745**	**10,990**	**2,841**	**(27,550)**	**8,878**
Depreciation and amortization	(331)	(497)	(290)	(621)	(6,541)	(8,280)
Non-cash share-based payments	-	-	-	-	(257)	(257)
Financial result	-	-	-	-	734	734
Net profit/(loss)	**10,521**	**11,248**	**10,700**	**2,220**	**(33,614)**	**1,075**
Long-term assets	8,360	20,303	12,540	18,512	236,785	296,500
Liabilities	2,779	3,218	4,534	4,095	118,415	133,041
Capital expenditures	816	942	659	722	7,457	10,596

01/01/ - 31/03/2006 in T €	Segment Groß- kunden	Segment Business customers	Segment Wholesale/ Resellers	Segment Residential customers	Recon- ciliation	Consoli- dated
Net revenues	**14,416**	**17,548**	**7,623**	**14,826**	**-**	**54,413**
Directly allocated costs	(6,596)	(8,129)	(3,329)	(11,685)	-	(29,739)
Contribution margin	**7,820**	**9,419**	**4,294**	**3,141**	**-**	**24,674**
Not allocated costs	-	-	-	-	(22,320)	(22,320)
EBITDA	**7,820**	**9,419**	**4,294**	**3,141**	**(22,320)**	**2,354**
Depreciation and amortization	(273)	(301)	(261)	(400)	(4,119)	(5,354)
Non-cash share-based payments	-	-	-	-	(20)	(20)
Financial result	-	-	-	-	15	15
Net profit/(loss)	**7,547**	**9,118**	**4,033**	**2,741**	**(26,444)**	**(3,005)**
Long-term assets	8,388	13,583	9,350	20,083	94,351	145,755
Liabilities	2,711	2,992	2,592	3,968	50,630	62,893
Capital expenditures	634	700	606	928	4,412	7,280

Directly attributable costs consist of those segment expenses that can be directly allocated to the respective segment on the basis of revenues. Non-attributable costs are not apportioned among the segments, because they are structural costs for which it is not possible to make a causal allocation. In particular, the vast majority of these costs consists of the costs of building, operating and maintaining the network; these costs do not rise steadily on the basis of the number of customers and the volumes of traffic transported. In addition, these unallocated costs also include personnel expenses, administrative expenses, as well as segment-independent general advertising expenses. No further subclassification of the primary segments into secondary segments (geographical segments) was made, as QSC's telecommunication services are predominantly offered on a national scale.

5 Management Board

	Shares		Convertible bonds	
	31/03/2007	31/03/2006	31/03/2007	31/03/2006
Dr. Bernd Schlobohm	13,818,372	13,818,372	350,000	50,000
Markus Metyas	179,807	2,307	675,000	1,525,000
Bernd Puschendorf	348,397	3,000	125,000	925,000

6 Supervisory Board

	Shares		Convertible bonds	
	31/03/2007	31/03/2006	31/03/2007	31/03/2006
John C. Baker	10,000	-	-	10,000
Herbert Brenke	187,820	187,820	10,000	10,000
Gerd Eickers	13,853,484	13,853,484	-	-
Ashley Leeds	9,130	9,130	10,000	10,000
Norbert Quinkert	3,846	3,846	-	-
David Ruberg	4,563	4,563	10,000	10,000

7 Subsequent events

On April 2, 2007, the Supervisory Boards of QSC and Broadnet has approved the determined exchange ratio of shares for the merger of Broadnet into QSC. Accordingly, Broadnet shareholders will receive 12 QSC shares for 11 Broadnet shares. At the same date, the adequacy of the exchange ratio had been approved by the court-appointed joint merger auditor, PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft, Frankfurt/Main.
On April 16, 2007, QSC signed an agreement to acquire 209,000 further Broadnet shares from institutional investors, representing 1.3 percent of Broadnet's capital stock. QSC now holds 93.4 percent of this subsidiary's shares.

Cologne, May 2007

Dr. Bernd Schlobohm
Chief Executive Officer

Markus Metyas

Bernd Puschendorf

Calendar

Annual Shareholders Meeting
June 5, 2007

Quartely Reports
August 29, 2007
November 19, 2007

Conference / Events
Juni 20, 2007
10th German Corporate Conference
Deutsche Bank, Frankfurt

September 25-27, 2007
German Investment Conference 2007
HypoVereinsbank, Munich

November 13, 2007
German Equity Forum Autumn 2007
Deutsche Börse, Frankfurt

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