QSC AG

Quarterly Report 2008 January February March

Key Data

All amounts in € million	01/01/-31/03/ 2008	01/01/-31/03/ 2007
Revenues	97.5	76.8
Gross profit	+31.2	+27.7
EBITDA	+11.4	+8.9
EBIT	-3.6	+0.3
Net profit (loss)	-4.1	+1.1
Net profit (loss) per share[1] (in €)	-0.03	+0.01
Equity	150.6 [2]	154.5 [3]
Balance sheet total	393.4 [2]	371.9 [3]
Equity ratio (in percent)	38.3 [2]	41.5 [3]
Capital expenditures	28.6	10.6
Liquidity	68.8 [2]	79.4 [3]
Share price as of 31/03/ (in €)	1.69	5.90
Number of shares as of 31/03/	136,392,132	134,897,413
Market capitalization as of 31/03/	230.5	795.9
Employees as of 31/03/	770	703

[1] basic and diluted
[2] as of March 31, 2008
[3] as of December 31, 2007

Highlights

Nearly double the number of local loops • During the first quarter of 2008, QSC connected 124,700 local loops (subscriber lines), nearly twice as many as in the preceding quarter. This continued the successes made since year-end 2007 in gradually overcoming the bottlenecks in connecting new customers over the last mile.

Revenues advance by 27 percent • QSC grew its revenues by 27 percent to € 97.5 million in the first quarter of 2008, as opposed to € 76.8 million for the same quarter the year before. The Company posted its strongest revenue growth in the Wholesale/Reseller segment, which benefited in particular from the strong rise in the number of local loops.

New segmentation reflects new organizational structure • In the first quarter of 2008, QSC realigned its segmentation to the three segments of Managed Services, Products and Wholesale/ Resellers, so that its accounting, too, now reflects the organizational structure that has been in place since the autumn of 2007.

EBITDA rises by 28 percent • QSC recorded an EBITDA of € 11.4 million in the first quarter of 2008, representing growth of 28 percent over the first quarter of 2007. In fact, the increase amounted to 46 percent relative to the fourth quarter of 2007, underscoring QSC's swift return to strong and profitable growth.

Trading prices recover in April 2008 • Following the very weak development of trading prices in a turbulent stock market environment in the first quarter of 2008, QSC shares were able to recover a major portion of these losses in April; with this development, the stock market is rewarding initial indications of very good business development in the first quarter of 2008. In February 2008, UK-based New Street Research published its first research on QSC, which means that a total of 19 analysts are now regularly following the Company.

Letter to Our Shareholders

Dear Shareholders,

QSC got off to a very good start in fiscal year 2008: Revenues rose by 27 percent in comparison with the first quarter of 2007 to € 97.5 million, while the Company's EBITDA advanced by 28 percent to € 11.4 million. Gradually overcoming the local loop bottlenecks was one of the main reasons for this. During the first quarter of 2008, QSC had already connected 124,700 unbundled local loops, nearly twice as many as in the fourth quarter of 2007 – thus enabling the Company to swiftly transform the further growth of new orders into revenues. During the first four months of the year, in fact, QSC had already connected 164,800 local loops, more than in the entire 2007 fiscal year.

Until April 2008, QSC had already connected 164,800 local loops

QSC shares are now also benefiting from this return to the Company's customary strong and profitable growth. In a difficult stock market environment, the trading prices of our shares in the first quarter of 2008 had seen considerably higher losses than other technology shares. However after initial indications of very good business development in the first quarter had been published, QSC shares were able to recover a major portion of their losses, trading at € 2.60 on April 30, 2008. This means that they have outpaced the TecDAX index since the beginning of the year. However this is no reason for us to rest on our laurels, because the current development of business is opening up prospects for considerable appreciation potential.

In this connection, gradually overcoming the local loop bottlenecks is not the only reason for our optimism. In addition, multiple new growth markets are currently taking shape in QSC's core business with enterprise customers: Enterprises are increasingly migrating their conventional voice telephony to Voice over IP, using the kind of modern networks that QSC provides in the form of its Next Generation Network (NGN). At the same time, the decades-old separation between data and voice networks at enterprises is giving way to consistent IP-based networks. With its NGN, QSC is perfectly positioned for this development toward what is called Unified Communications. And, finally, at the network level this move toward Unified Communications is going hand in hand with increased demand for additional network-related services.

Another reason for optimism is the fact that the network expansion project that was commenced in early 2007 has since been largely concluded, as QSC can now connect significantly more customers directly to its network. Moreover, thanks to the strong rise in the number of local loops, we can more swiftly utilize the larger network to thus enable the break-even point of some 550,000 lines for the significantly larger network to be swiftly surpassed, followed by a further rise in profitability.

With this capital investment project largely concluded, QSC can optimally cover its target market and is now focusing on customer-related capital expenditures. Although QSC does incur preliminary expenses in this connection, to acquire end-user devices like routers, for example, or to pay the installation fees for new lines over the last mile, QSC swiftly invoices the majority of these capital expenditures to the respective customers.

Given this environment, we are convinced that QSC will see strong and profitable growth in its core business with enterprise customers during the current fiscal year and beyond. With the reorganization in the autumn of 2007, we have also put in place the necessary internal structures for this purpose. Following the weaker development of business in 2007, QSC's custom-tailored Managed Services business, in particular, will be able to benefit in the current fiscal year from the resulting gains in decision-making latitude and flexibility. Beginning in the first quarter of 2008 we have also realigned our segment reporting to reflect the new organizational structure. In the future, QSC will be reporting on its progress in the three segments of Managed Services, Products and Wholesale/Resellers.

QSC is very well aligned for its anticipated growth

Internally, this reorganization and the consolidation of the QSC and Broadnet administrative organizations at the Cologne location have led to a moderate decline in personnel. The integration and the corresponding adjustment of the manpower level will be largely concluded by mid-year. With the structures that will then have been established, QSC will be very well aligned for its anticipated growth. And this growth, fellow shareholders, will also meet with a further growth in interest on the part of the capital markets!

Cologne, May 2008

Dr. Bernd Schlobohm
Chief Executive Officer

Bernd Puschendorf

Markus Metyas

Interim Consolidated Report QI 2008

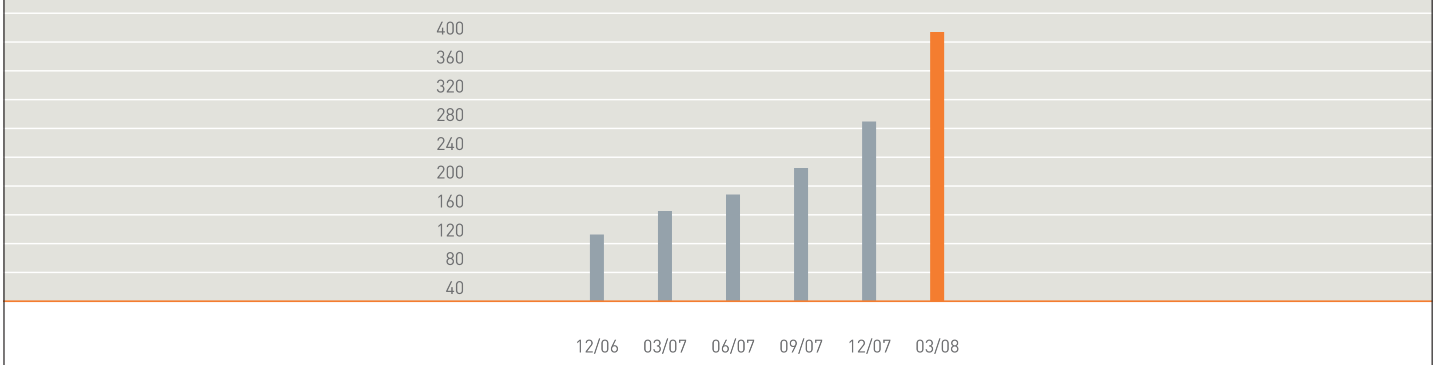
GENERAL ECONOMIC CONDITIONS

Growth in Germany weakens • During the course of the first quarter of 2008, there were increasing signs that economic growth in Germany was weakening as a result of the worldwide crisis on financial markets and the threat that the United States will slip into recession during the further course of the year. In spite of that, however, continued strong exports as well as a stable domestic economy in the first months of the current fiscal year led to an increase in German gross domestic product.

In the telecommunications market, DSL business again proved to be a key growth driver, while conventional voice business continued to be characterized by sustained price pressure. To no small degree, the CeBIT tradeshow in Hanover in March 2008 highlighted the growth opportunities that will be available to broadband providers in the coming years in connection with enterprise customer business: Issues like Telco 2.0, Software as a Service and Unified Communications met with keen interest – and this is precisely where QSC positioned itself early on.

DSL business proves to be a key growth driver in the telco market

Unbundled Local Loops (ULL) by QSC (in thousands)



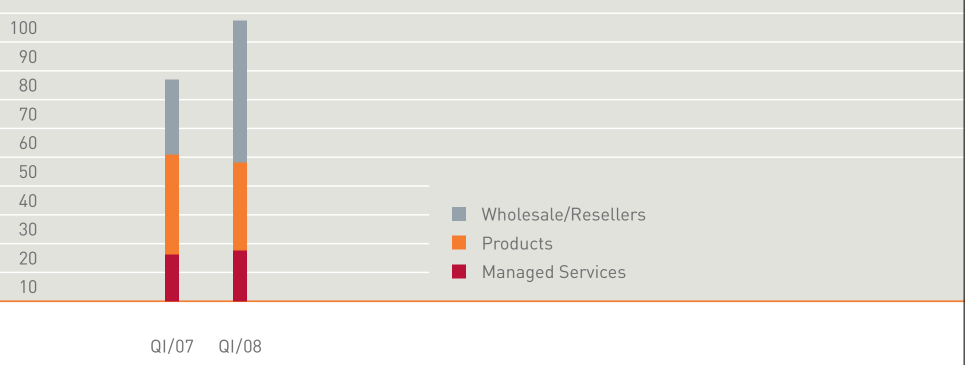
BUSINESS SITUATION

Revenues up sharply • In the first quarter of 2008, QSC grew its revenues by 27 percent to € 97.5 million, as opposed to € 76.8 million for the corresponding quarter the year before. The Company again posted its strongest revenue growth in its Wholesale business, where the gradual elimination of bottlenecks in the provision of local loops (subscriber lines) by Deutsche Telekom was especially noticeable. QSC received 124,700 local loops in the first quarter of 2008, nearly twice as many as in the fourth quarter of 2007.

Network expenses, which QSC records under cost of revenues, totaled € 66.3 million in the first quarter of 2008, as opposed to € 49.2 million for the corresponding quarter the year before; € 0.1 million of this total was attributable to research and development. This rise in network expenses stemmed first and foremost from the network expansion project, which has led to an 80-percent increase in the number of central offices connected since the beginning of 2007 to nearly 1,800. Moreover, the strong rise in the customer base is resulting in a corresponding increase in the variable cost of materials, which is also recorded under network expenses. This includes, in particular, the recurring fees that QSC has to pay to Deutsche Telekom for use of the local loops, as well as customer-specific leased lines and interconnection fees. Nevertheless, QSC succeeded in further increasing its gross profit in the first quarter of 2008: This metric improved to € 31.2 million, as opposed to € 27.7 million in the first quarter of 2007; gross margin stood at 32 percent.

Gross profit improves to € 31.2 million in the first quarter of 2008

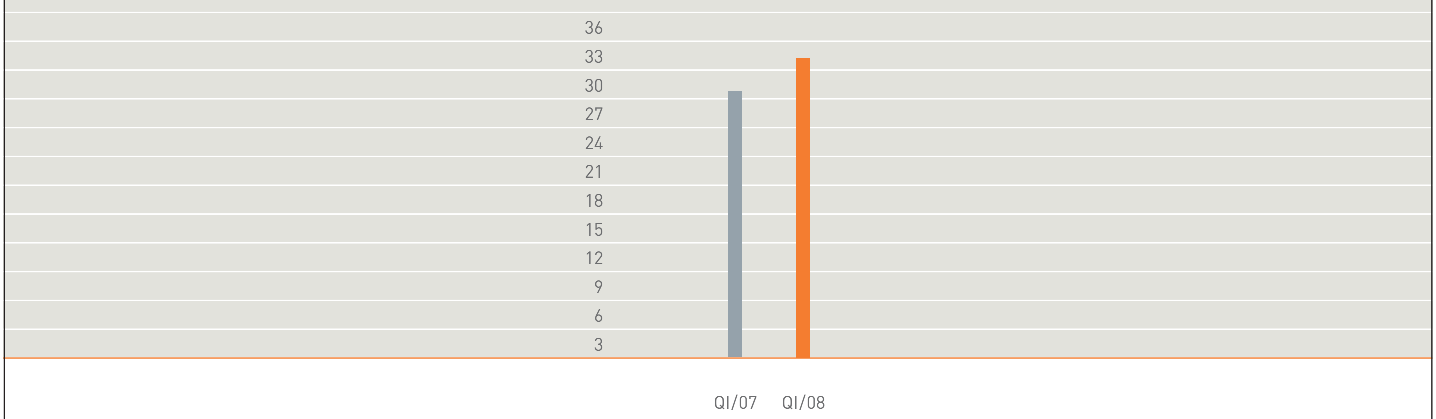
Revenue Mix (in € million)



Highly efficient selling and administrative operations • Although revenues rose by € 20.7 million, selling and marketing expenses increased by only € 1.5 million to € 12.7 million in the first quarter of 2008. This means that QSC was able to reduce the percentage of total revenues attributable to selling and marketing expenses from 15 percent in the first quarter of 2007 to 13 percent for the past quarter. The percentage decline in general and administrative expenses was even more significant: In the first quarter of 2008, these expenses accounted for only 7 percent of total revenues, as opposed to 10 percent for the same quarter the year before; in absolute numbers, administrative expenses declined by 8 percent to € 7.3 million, as opposed to € 7.9 million in the first quarter of 2007. In the case of general and administrative expenses, QSC is increasingly benefiting from the consolidation of the Broadnet and QSC administrative operations at the Cologne location following the merger in October 2007. The Company can now also utilize synergies stemming from the merger in its other operations and gradually achieve the corresponding cost advantages.

Administrative expenses decline after the merger with Broadnet

Gross Profit (in € million)



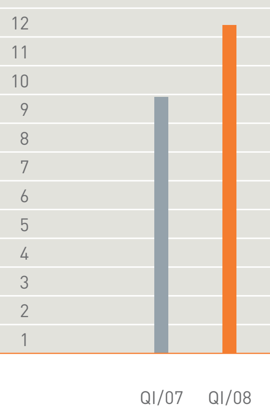
EBITDA advances sharply • The strong rise in revenues and the achievement of synergies following the merger of Broadnet and QSC led to a 28-percent increase in EBITDA in the first quarter of 2008 to € 11.4 million, as opposed to € 8.9 million for the corresponding quarter the year before. QSC defines the key steering parameter of EBITDA as earnings before interest, taxes, amortization of deferred non-cash share-based payments, as well as depreciation on property, plant and equipment, intangible assets and amortization of goodwill.

EBITDA margin rises to 12 percent in the first quarter of 2008

In fact, EBITDA rose by 46 percent relative to the fourth quarter of 2007, underscoring QSC's swift return to its customary strong and profitable growth. In the first quarter of 2008, QSC was thus already earning an EBITDA margin of 12 percent, as opposed to 8 percent for the corresponding quarter the year before.

Both the network expansion project as well as capitalization of customer connection expenditures increased depreciation expense to € 15.0 million in the first quarter of 2008, as opposed to € 8.5 million for the same quarter the year before. EBIT thus amounted to € -3.6 million, as opposed to € 0.3 million in the first quarter of 2007. The net loss for the past quarter stood at € -4.1 million, as opposed to net income of € 1.1 million in the first quarter of 2007.

EBITDA (in € million)



BUSINESS BY SEGMENT

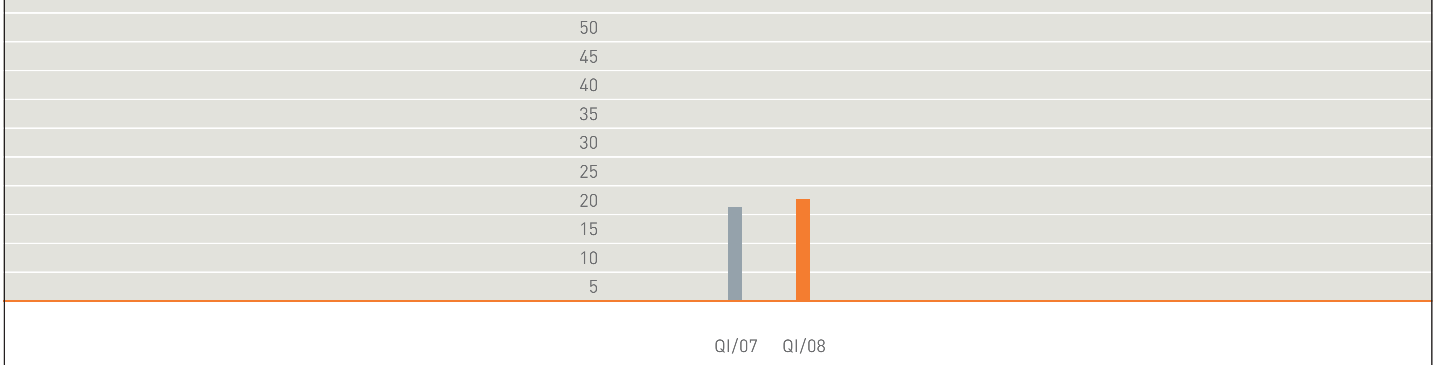
New segment reporting reflects new organizational structure • Since the first quarter of 2008, QSC has realigned its segment reporting to the three segments of Managed Services, Products and Wholesale/Resellers. With this move, the Company's accounting now reflects the new organizational structure that has been in place since the autumn of 2007, while also swiftly implementing IFRS 8 ahead of time. The Wholesale/Reseller segment now covers all business relationships with resellers, such as strong wholesale partners, international carriers and Internet service providers. The Products segment covers standardized business with voice and data products for business and residential customers, the Managed Services segment includes custom-tailored solutions business for enterprise customers.

In the Managed Services segment, QSC increased revenues by 9 percent to € 17.6 million. Like all of the segments, this segment, too, suffered from the local loop bottlenecks in 2007, and in the coming quarters will further benefit from the elimination of these bottlenecks. Moreover, the reorganization in the autumn of 2007 and the stronger bundling of competencies in the individual segments that this involved will especially benefit custom-tailored solutions business, which is why QSC anticipates significant revenue growth in this high-margin segment in the coming quarters. In the first quarter of 2008, the segment EBITDA margin stood at 60 percent, as opposed to 59 percent the year before, with QSC increasing segment EBITDA to € 10.5 million, as opposed to € 9.6 million for the same quarter the year before.

QSC earns a margin of 60 percent with Managed Services

On the other hand, revenues in the Products segment declined by 12 percent to € 30.5 million in the first quarter of 2008. This decline was essentially attributable to the sustained price war in the market for conventional voice telephony, where QSC is currently still generating 47 percent of revenues in this segment. Since QSC continues to strive to earn a sufficient margin in connection

Revenues Managed Services (in € million)

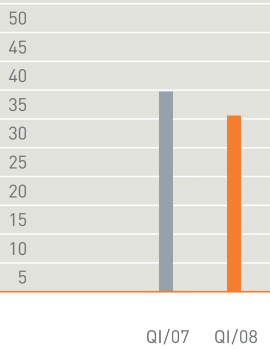


with each and every proposal, revenues with residential customers, alone, declined by 14 percent in this segment to € 12.0 million, while revenues with business customers declined by 11 percent to € 18.5 million. During the course of the year, QSC will continue to migrate enterprise customers of every size to direct connections to the QSC network, thus reducing the percentage of total revenues attributable to conventional voice business. Moreover, demand is rising on the part of small businesses, SMEs, professionals and freelancers for the QSC complete packages, a combination of data products like Q-DSLmax with Voice over IP products.
The inclusion of low-margin residential customer business in the Products segment reduced the reported EBITDA margin as expected. However thanks to the growing number of enterprise customers that were directly connected in the first quarter of 2008, it nevertheless amounted to 44 percent. In this connection, QSC earned an absolute segment EBITDA of € 13.3 million, as opposed to € 14.6 million for the first quarter of 2007.
In the first quarter of 2008, QSC recorded its strongest revenue growth in the Wholesale/Reseller segment, where revenues advanced by 90 percent to € 49.3 million, as opposed to the same period the year before. A key driver here was business with branded wholesale partners, which was able to be very strongly expanded due to the gradual elimination of the local loop bottlenecks. So in the first quarter of 2008, QSC continued to be able to be significantly faster in transforming the rising level of new orders into corresponding revenues, while gradually working down the existing order backlog. And in the first quarter of 2008, the Company also recorded positive business development in classical reseller business with international carriers.

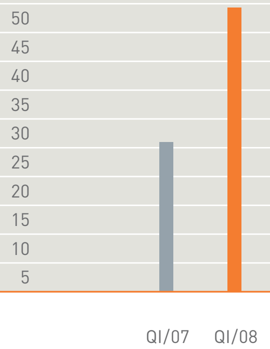
Wholesale/Reseller segment EBITDA rises to € 24.5 million

Paralleling revenues, QSC was also able to significantly increase segment EBITDA in the first quarter of 2008: It amounted to € 24.5 million, as opposed to € 12.1 million for the same quarter the year before, while the EBITDA margin stood at 50 percent.

Revenues Products (in € million)



Revenues Wholesale/Resellers (in € million)



FINANCIAL POSITION AND NET ASSETS

Strong operating cash flow • The very good development of operating business in the first quarter of 2008 also manifested itself in the development of cash flow from operating activities: In the first quarter of 2008, QSC increased this metric to € 15.8 million, as opposed to € 3.2 million in the first quarter of 2007. This high cash flow from operating activities stood in contrast to cash flow from investing activities in the amount of € -33.7 million in the first quarter of 2008, as opposed to € -4.3 million in the corresponding quarter the year before, stemming predominantly from the largely concluded network expansion project as well as from customer-related capital expenditures. Cash flow from financing activities in the amount of € -6.5 million, as opposed to € -0.2 million the year before, was attributable first and foremost to the redemption of finance lease liabilities in the amount of € 4.9 million.

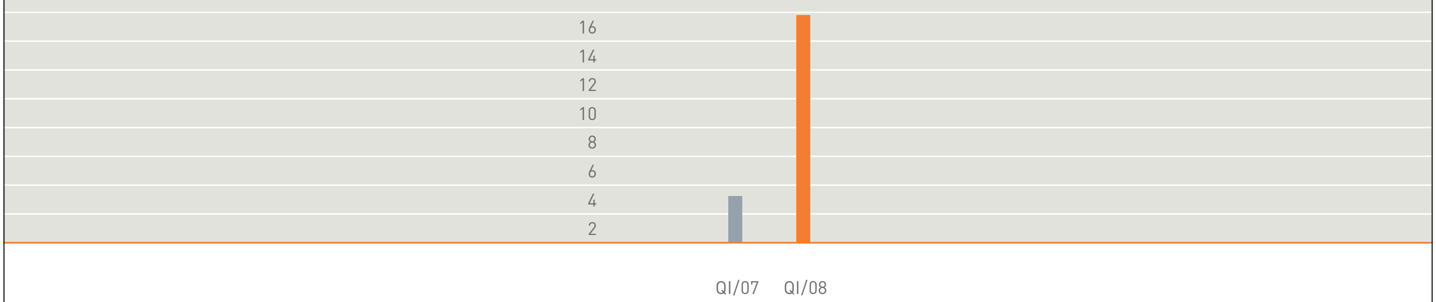
QSC quintuples cash flow from operating activities within the space of a year

As of March 31, 2008, liquid assets, which QSC defines as cash and cash equivalents as well as available-for-sale financial assets, thus totaled € 68.8 million, as opposed to € 79.4 million on December 31, 2007.

QSC's sound financing is underscored by the fact that its long-term liabilities remained virtually unchanged in comparison with the level on December 31, 2007, amounting to € 91.5 million as opposed to € 91.2 million. There was a moderate increase in long-term liabilities under finance lease contracts to € 24.0 million, as opposed to € 23.1 million; during the same period, other long-term liabilities declined to € 2.4 million, as opposed to € 4.0 million. 63 percent of long-term liabilities in the amount of € 57.7 million, by the way, stemmed from the consolidation of network operating company Plusnet and do not need to be repaid.

Short-term liabilities under finance lease contracts increased moderately to € 22.9 million, as opposed to € 20.4 million, while QSC reduced liabilities due to banks to € 3.9 million, as opposed to € 5.0 million at year-end 2007.

Operating Cash Flow (in € million)



90 percent of customer-related capital expenditures are paid by customers

Majority of capital expenditures customer-driven • In the first quarter of 2008, capital expenditures totaled € 28.6 million, as opposed to € 10.6 million during the first three months of fiscal year 2007. Nearly 60 percent of these capital expenditures were attributable to customer-related capital expenditures – in fiscal year 2007, their share of total capital expenditures had stood at 44 percent. These are essentially capitalized provisioning expenses for customer connections as well as expenses for end-user products like routers that are installed at the customer site. In this connection, the fact that the number of local loops nearly doubled within the space of a single quarter led to an above-budget rise in customer-related capital expenditures in the first quarter of 2008. However QSC swiftly invoiced some 90 percent of these capital expenditures to the respective customers, and deferred the corresponding installation revenues over a period of 24 months.

Some 40 percent of total capital expenditures, on the other hand, were structure-related: On the one hand, these were capital expenditures within the framework of the network expansion project, as well as ongoing capital investments in QSC's nationwide infrastructure, on the other. Following the conclusion of the network expansion project, QSC anticipates that the percentage of customer-related capital expenditures will continue to rise.

In particular, capital investments in both property, plant and equipment as well as in customer connections increased long-term assets to € 229.0 million in the balance sheet, as opposed to € 215.3 million as of December 31, 2007. In this connection, the value of property, plant and equipment rose to € 134.1 million, as opposed to € 131.2 million at year-end, while the value of other intangible assets, which records customer connections, increased to € 36.2 million, as opposed to € 25.6 million.

Both the capital stock of € 136.4 million as well as the capital surplus in the amount of € 562.7 million remained virtually unchanged in the first quarter of 2008, as only relatively few convertible bonds were converted within the framework of employee profit-sharing programs. The equity ratio declined to 38 percent as of March 31, 2008, as opposed to 42 percent at year-end, as both the strong rise in revenues as well as capital expenditures went hand in hand with a corresponding increase in short-term liabilities to € 151.3 million, as opposed to € 126.3 million on December 31, 2007.

HUMAN RESOURCES

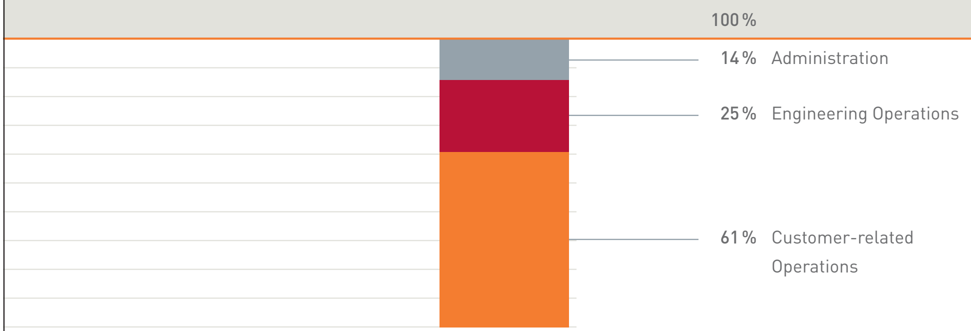
Sharper focus in the QSC team • As of March 31, 2008, QSC employed a workforce of 770 people, as opposed to 820 at year-end 2007. This decline stemmed from the consolidation of the QSC and Broadnet administrative operations at the Cologne location, from the elimination of doubly-staffed jobs in other corporate operations, as well as from a review of QSC's manpower levels in all departments that was sparked in connection with the reorganization in the autumn of 2007. In this connection, the QSC team is focusing even more strongly on customer-related operations; on March 31, 2008, 61 percent of the workforce were active in these operations, 25 percent were assuring smooth network operation, and only 14 percent of all employees were working in administration. The vast majority of the workforce is employed by QSC AG, while 80 specialists work for network operating company Plusnet.

61 percent are active in customer-related operations

RISK REPORT

No material change in risk position • In the first quarter of 2008, there were no material changes in the risks that had been presented in the 2007 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 unaudited 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.

Workforce Structure (in percent)



GUIDANCE AND OPPORTUNITIES

Higher number of local loops leads to higher revenue and EBITDA expectations

Higher growth expectation for 2008 • Given its very good start to the 2008 fiscal year and the gradual overcoming of bottlenecks in connection with local loops, QSC anticipates that both revenues and EBITDA for the full 2008 fiscal year will be at the upper end of the guidance that it had announced on February 14, 2008: At that time, the Company had planned revenues of between € 385 and € 405 million and an EBITDA of between € 50 and € 60 million. In spite of the further rise in depreciation expense, the Company is additionally striving for a break-even after-tax net result.

QSC again anticipates that its strongest revenue growth in the coming quarters will come from the Wholesale/Reseller segment, although the two other segments of Managed Services and Products are also expected to advance during the further course of the year. This growth, as well as the sustained attainment of synergies following the merger of Broadnet and QSC, will enable profitability to be further improved in the coming quarters.

Interim Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

Euro amounts in thousands (T €)

	01/01/-31/03/ 2008	01/01/-31/03/ 2007
Net revenues	**97,483**	**76,844**
Cost of revenues	(66,271)	(49,164)
Gross profit	**31,212**	**27,680**
Selling and marketing expenses	(12,733)	(11,155)
General and administrative expenses	(7,277)	(7,915)
Depreciation and non-cash share-based payments	(15,045)	(8,537)
Other operating income	283	816
Other operating expenses	(47)	(548)
Operating profit (loss)	**(3,607)**	**341**
Financial income	652	1,276
Financial expenses	(1,050)	(542)
Net profit (loss) before income taxes	**(4,005)**	**1,075**
Income taxes	(144)	-
Net profit (loss)	**(4,149)**	**1,075**
Attributable to:		
Equity holders of the parent	(4,149)	952
Minority interest	-	123
Earnings per share (basic and diluted) in €	**(0.03)**	**0.01**

CONSOLIDATED BALANCE SHEETS (unaudited)

Euro amounts in thousands (T €)

ASSETS	March 31, 2008	Dec. 31, 2007
Long-term assets		
Property, plant and equipment	134,130	131,224
Goodwill	50,020	50,014
Other intangible assets	36,169	25,599
Other long-term financial assets	590	356
Deferred tax assets	8,099	8,099
Long-term assets	**229,008**	**215,292**
Short-term assets		
Trade receivables	70,916	64,944
Prepayments	9,088	3,420
Other short-term financial assets	15,547	8,877
Available-for-sale financial assets	19,103	5,276
Cash and short-term deposits	49,728	74,132
Short-term assets	**164,382**	**156,649**
TOTAL ASSETS	393,390	371,941

SHAREHOLDERS' EQUITY AND LIABILITIES	March 31, 2008	Dec. 31, 2007
Shareholders' Equity		
Capital stock	136,392	136,358
Capital surplus	562,703	562,501
Other reserves	(289)	(289)
Accumulated deficit	(548,244)	(544,095)
Total Shareholders' equity	**150,562**	**154,475**
Long-term liabilities		
Long-term liabilities of other shareholders	57,748	56,898
Long-term portion of finance lease obligations	24,017	23,059
Convertible bonds	30	27
Accrued pensions	758	760
Other long-term liabilities	2,436	3,964
Deferred tax liability	6,503	6,461
Long-term liabilities	**91,492**	**91,169**
Short-term liabilities		
Trade payables	91,981	74,129
Short-term portion of finance lease obligations	22,932	20,360
Liabilities due to banks	3,909	5,000
Provisions	2,240	1,064
Deferred revenues	19,705	12,493
Other short-term liabilities	10,569	13,251
Short-term liabilities	**151,336**	**126,297**
Total liabilities	**242,828**	**217,466**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**393,390**	**371,941**

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

Euro amounts in thousands (T €)

	01/01/-31/03/ 2008	01/01/-31/03/ 2007
Cash flow from operating activities		
Net profit (loss) before income taxes	(4,149)	1,075
Depreciation and amortization	14,843	8,280
Non-cash share-based payments	192	250
Loss from disposal of long-term assets	-	5
Changes in provisions	1,174	(606)
Changes in trade receivables	(5,972)	1,372
Changes in trade payables	17,852	(3,006)
Changes in other financial assets and liabilities	(8,125)	(4,188)
Cash flow from operating activities	**15,815**	**3,182**
Cash flow from investing activities		
Purchase of available-for-sale financial assets	(14,996)	-
Disposal of available-for-sale financial assets	1,178	4,948
Purchases of intangible assets	(14,441)	(3,358)
Purchases of property, plant and equipment	(5,413)	(5,854)
Proceeds from disposal of assets	-	10
Cash flow from investing activities	**(33,672)**	**(4,254)**
Cash flow from financing activities		
Changes in convertible bonds	3	(7)
Assumption of minority interest liabilities	850	104
Proceeds from issuance of common stock	34	1,191
Assumption of other short and long-term liabilities	(1,430)	-
Repayments of loans granted	(1,091)	-
Repayments of finance lease	(4,913)	(1,525)
Cash flow from financing activities	**(6,547)**	**(237)**
Change in cash and short-term deposits	**(24,404)**	**(1,309)**
Cash and short-term deposits at January 1	74,132	45,986
Cash and short-term deposits at March 31	**49,728**	**44,677**
Interest paid	1,050	485
Interest received	652	525

CONSOLIDATED STATEMENTS OF DIRECTLY RECOGNIZED INCOME AND EXPENSE (unaudited)

Euro amounts in thousands (T €)

	01/01/-31/03/ 2008	01/01/-31/03/ 2007
Directly recognized in equity		
Changes in accrued pensions	-	-
Available-for-sale financial assets		
change in fair value	-	643
realized losses	-	-
Apportionable to tax effect	-	(257)
Directly recognized in equity	**-**	**386**
Net profit (loss)	(4,149)	1,075
Net profit (loss) and recognized income and expenses	**(4,149)**	**1,461**
Attributable to:		
Equity holders of the parent	(4,149)	1,338
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 December 31, 2007	136,358	562,501	(289)	(544,095)	154,475
Net loss				(4,149)	(4,149)
Conversion of convertible bonds	34	1			35
Non-cash share-based payments		201			201
Balance at March 31, 2008	136,392	562,703	(289)	(548,244)	150,562
Balance at December 31, 2006	133,898	557,961	(1,286)	(533,697)	156,876
Net profit				952	952
Income and expenses directly recognized in equity			386		386
Net profit and recognized income and expenses					1,338
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

Minority interest T €	Total Shareholders' Equity T €	
-	154,475	**Balance at December 31, 2007**
	(4,149)	Net loss
	35	Conversion of convertible bonds
	201	Non-cash share-based payments
-	150,562	**Balance at March 31, 2008**
3,674	160,550	**Balance at December 31, 2006**
123	1,075	Net profit
	386	Income and expenses directly recognized in equity
	1,461	**Net profit and recognized income and expenses**
	1,191	Conversion of convertible bonds
	257	Non-cash share-based payments
3,797	163,459	**Balance at March 31, 2007**

Notes to the Interim Consolidated Financial Statements

CORPORATE INFORMATION

QSC AG (QSC, the Company or the Group) is a nationwide telecommunications provider with its own DSL network that offers comprehensive broadband communications to business customers and residential customers: From leased lines in a variety of bandwidths to voice and data services to networking of enterprise locations.
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 shares in the Prime Standard.

BASIS OF PREPARATION

1 General principles

The unaudited interim consolidated financial statements for the first three months ended March 31, 2008, 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, 2008, 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, 2007.

2 Basis of consolidation

The interim consolidated financial statements comprise the financial statements of QSC AG and its subsidiaries for the period ended March 31, 2008. 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, 2007.

3 Changes in accounting policies

The accounting policies adopted in preparing these interim consolidated financial statements are fundamentally consistent with those employed in preparing the consolidated financial statements for the 2007 fiscal year. The adoption of new or revised standards or interpretations that have been in force since January 1, 2008, did not have any material effect on the net assets, financial position or results of operations of the Company.

4 Segment reporting

The basis for the definition of the segments is the internal organizational structure of the Company, upon which corporate management bases its business decisions and performance assessments. QSC conducted an extensive reorganization in the fourth quarter of 2007, consolidating its major lines of business into three business units. This also resulted in a change in the segment reporting effective January 1, 2008, with the comparison numbers from the previous year being correspondingly adjusted.

The Managed Services Business Unit covers custom-tailored solutions for voice and data communications at major corporates and small and medium enterprises. This includes, in particular, building and operating virtual private networks (IP-VPN), as well as a broad portfolio of network-related services.

QSC consolidates its product business in the Products Business Unit. The needs of smaller businesses, professionals, independent contractors and residential customers for modern voice and data communication are fully satisfied by means of predominantly standardized products and processes.

The Wholesale/Reseller Business Unit covers QSC's business with Internet service providers and network operators who do not possess an infrastructure of their own. They market DSL lines and value added services from QSC under their own name and for their own account.

	Business Unit			
01/01/ - 31/03/2008 in T €	Managed Services	Products	Wholesale/ Resellers	Total
Net revenues	**17,628**	**30,544**	**49,311**	**97,483**
Directly allocated costs	7,119	17,228	24,783	49,130
Contribution margin	**10,509**	**13,316**	**24,528**	**48,353**

	Business Unit			
01/01/ - 31/03/2007 in T €	Managed Services	Products	Wholesale/ Resellers	Total
Net revenues	**16,229**	**34,693**	**25,922**	**76,844**
Directly allocated costs	6,604	20,085	13,845	40,534
Contribution margin	**9,625**	**14,608**	**12,077**	**36,310**

Directly allocated costs consist of those segment expenses that can be directly allocated to the respective segment on the basis of revenues.

5 Management Board

	Shares		Convertible bonds	
	31/03/2008	31/03/2007	31/03/2008	31/03/2007
Dr. Bernd Schlobohm	13,818,372	13,818,372	350,000	350,000
Markus Metyas	116,307	179,807	675,000	675,000
Bernd Puschendorf	348,397	348,397	125,000	125,000

6 Supervisory Board

	Shares		Convertible bonds	
	31/03/2008	31/03/2007	31/03/2008	31/03/2007
John C. Baker	10,000	10,000	-	-
Herbert Brenke	187,820	187,820	10,000	10,000
Gerd Eickers	13,877,484	13,853,484	-	-
Ashley Leeds	9,130	9,130	10,000	10,000
Norbert Quinkert	3,846	3,846	-	-
David Ruberg	14,563	4,563	-	10,000

Cologne, May 2008

Dr. Bernd Schlobohm
Chief Executive Officer

Markus Metyas

Bernd Puschendorf

Calendar

Annual Shareholders Meeting
May 21, 2008

Quarterly Reports
August 20, 2008
November 19, 2008

Conferences / Events
June 5, 2008
11th German Corporate Conference
Deutsche Bank, Frankfurt

August 28, 2008
German Telco & Media Day
WestLB, Frankfurt

September 11-12, 2008
Best of Germany Conference
UBS, New York

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