Quarterly Report I/2010

1st Quarter 2010

QSC AG

1st Quarter

Highlights

NT plus a new marketing partner
In February, QSC succeeded in winning a further leading distributor in the German telecommunications market, NT plus, as a partner. This will further strengthen the marketing channel for specialty retailers that was established in fiscal year 2009.

QSC announces guidance for 2010
On March 3, QSC announced its initial outlook for the current fiscal year. The Company anticipates that free cash flow will improve to more than € 22 million, along with further rises in revenues, EBITDA and net profit.

Mövenpick expands order
Since March, QSC has been supplying Mövenpick Hotels & Resorts with a complete package of solutions for its communication needs. QSC's performance includes linking the individual locations via an IP-VPN, as well as providing broadband Internet connections for guests.

Simple networking with the QSC-Company-VPN product
Since April, QSC has been making it even easier to custom network small and mid-size companies with a modular VPN solution. Sales of this highly professional and cost-effective solution are being handled by partners and resellers.

QSC AG

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Key Data

All amounts in € millions	01/01/–31/03/ 2010	01/01–31/03/ 2009
Revenues	105.9	107.6
Gross profit	37.6	36.5
EBITDA	19.6	19.5
Depreciation/amortization [1]	15.6	17.1
EBIT	3.9	2.5
Net profit	3.2	1.4
Earnings per share [2] (in €)	0.02	0.01
EBITDA margin (in percent)	18.5	18.1
EBIT margin (in percent)	3.7	2.3
Equity	163.0 [3]	159.7 [4]
Long-term liabilities	49.8 [3]	54.2 [4]
Short-term liabilities	93.7 [3]	97.3 [4]
Balance sheet total	306.5 [3]	311.3 [4]
Equity ratio (in percent)	53.2	51.3
Free cash flow	4.6	4.0
Net liquidity	5.3 [3]	0.7 [4]
Liquidity	41.0 [3]	41.3 [4]
Capital expenditures	7.3	11.5
Xetra share price as of 31/03/ (in €)	1.62	0.91
Number of shares as of 31/03/	136,998,137	136,998,137
Market capitalization as of 31/03/	221.9	124.7
Employees as of 31/03/	651	683

[1] including non-cash share-based payments

[2] basic and diluted

[3] as of March 31, 2010

[4] as of December 31, 2009

Mission » QSC is the leading medium-sized provider in the telecommunications market who creates sustainable value for medium-sized companies, cooperation partners and employees through highest quality and customer focus.

Dear Shareholders,

The CeBIT tradeshow in March was an impressive demonstration of the speed at which information technology and telecommunications are converging. This is opening up tremendous opportunities for well positioned telecommunications providers like QSC, as they are increasingly able to offer network-related IT services, thus enabling them to cover a larger share of the ICT budgets of their enterprise customers. This is precisely what we want to achieve in the coming years; as a mid-size company, ourselves, we are focusing on small and mid-size companies that are increasingly outsourcing ICT services. This is why the current fiscal year will be another year of change for QSC, driving its evolution from a network operator to a service provider.

QSC is generating higher revenues with innovative solutions

Consequently, this change is what characterized the course of business during the first quarter of 2010. Revenues in the classical lines of business of a network operator declined, while rising in the innovative lines of business of a solutions provider. We recorded total revenues of € 105.9 million, as opposed to € 107.6 million in what was an extremely strong first quarter of 2009.

At first glance, this decline might be disappointing to the one or the other. Yet there are a variety of reasons that prompted us to assess the development of business during the first three months of the current fiscal year in a positive light. In addition to our successful, step-by-step transformation into a service provider, three further developments are also contributing to this positive view:

1. **This change is strengthening our profitability** • While revenues declined by € 1.7 million by comparison with the same quarter the year before, net income rose by € 1.8 million to € 3.2 million. Gross profit, EBITDA and EBIT also advanced. Our focus on profitable revenues is clearly paying off.

2. **This change is going hand in hand with a stronger financial position** • During the first quarter of 2010, QSC generated a free cash flow of € 4.6 million. With an equity ratio that now stands at 53 percent and net liquidity increasing from quarter to quarter, QSC's finances are extremely sound and sustainable.

3. **This change is increasing QSC's acceptance as a service provider among small and mid-size customers** • We are currently working specifically to open up additional distribution channels at systems houses and specialty retailers.

Rising profitability, sound financing and systematic expansion of our sales and marketing competence give us the optimism that QSC will be able to successfully master this change, in spite of the sluggish economic recovery, while tapping into new growth opportunities. Thanks to our ability to be focused in addressing further SME customers, we will also be able to successively broaden our market with new services and thus benefit from the convergence of IT and TC. These factors are already contributing to QSC's expectations of seeing a further rise in revenues, EBITDA and net profit over 2009 during the current fiscal year, as well. During the first three months of 2010, QSC has already earned a net profit of € 3.2 million, representing some 60 percent of the Company's profit for the full 2009 fiscal year.

The Management Board Dr. Bernd Schlobohm // Jürgen Hermann // Joachim Trickl

Our central goal for 2010 is to sustainably strengthen our financial position; we are planning to increase free cash flow by more than 70 percent to more than € 22 million. This rising financial strength, coupled with higher profitability, will offer us greater latitude in driving QSC's change and thus broadening our position in forward-looking service business.

Cologne, May 2010

Dr. Bernd Schlobohm Chief Executive Officer	Jürgen Hermann	Joachim Trickl

QSC Share Performance

QSC shares drift laterally in first quarter of 2010 • After the recession had gradually been overcome last year, leading to a sharp, broad-based share price recovery, the capital market tended to develop on a more cautious note during the first quarter of fiscal year 2010, prompted by insecurity about the further course of the economy. Following temporary setbacks by comparison with the outset of the year, the DAX had again advanced by three percent by the end of March, while the TecDAX stagnated at its year-end 2009 level. In this environment, QSC shares underperformed the market somewhat and closed at € 1.62 on March 31, 2010, as opposed to € 1.70 as of December 31, 2009.

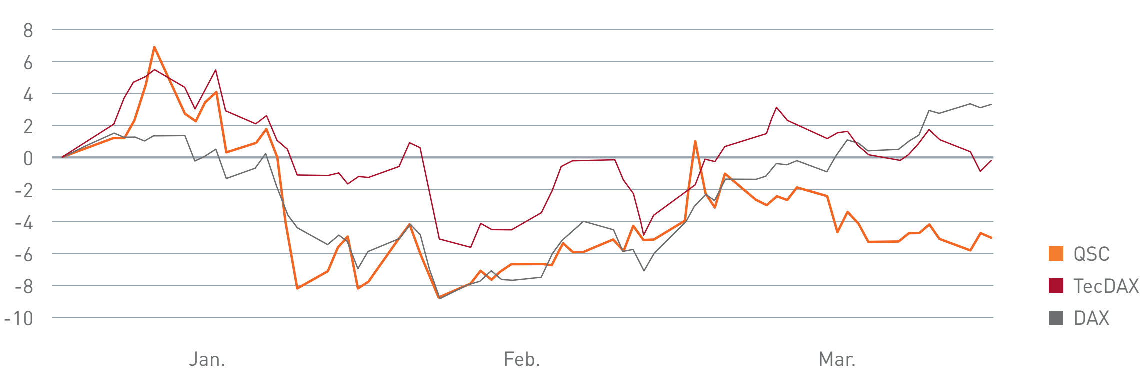
In March 2010, a relatively large block trade had absorbed demand for QSC shares on the part of institutional investors, thus preventing better performance. Following completion of the acquisition by Deutsche Bank, Luxembourg-based Sal. Oppenheim jr. & Cie. S.C.A. announced on March 19, 2010, that its percentage of voting rights had dropped below the reporting thresholds of five and three percent and now amounted to zero percent. QSC considers it a success that the block trade of 6.9 million shares was able to be accomplished without any major share price decreases.

In Q1 2010, a relatively large block trade impacted QSC shares

The keen interest in QSC shares on the part of both institutional and private investors during the first quarter of 2010 is documented by a trading volume of 426,000 shares per day, as opposed to 225,000 during the comparable period the year before. During this same period, the stock market trading volume tripled to € 44.3 million, as opposed to € 14.3 million the year before. QSC intensified its investor relations activities, especially after announcing its preliminary results for the 2009 fiscal year, and showcased the Company at events that included roadshows in Germany and the United Kingdom as well as capital market conferences in Paris and at the CeBIT tradeshow in Hanover.

Stable shareholder base • The number of QSC shareholders remained virtually unchanged during the first quarter of 2010. According to the Register of Shares, the Company had 30,860 shareholders on March 31 of the current fiscal year, as opposed to 31,046 at year-end 2009. QSC's largest shareholders continue to be its two founders, Dr. Bernd Schlobohm and Gerd Eickers, each holding 10.1 percent, as well as U.S.-based investment company Baker Capital, which holds 24.5 percent. The free float stood at 55.3 percent. According to the Register of Shares, 52.5 percent of these shares were attributable to institutional investors, 47.5 percent to private investors.

SHARE PRICE PERFORMANCE (indexed)



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GENERAL ECONOMIC CONDITIONS

Sluggish economic recovery • The long, hard winter, coupled with a noticeable sense of caution on the part of both residential and business customers, led to an extremely subdued economic development in the first quarter of 2010. Nevertheless, though, there was a further brightening of the mood in broad segments of the economy. The assessments voiced by entrepreneurs who were surveyed within the framework of the ifo Business Climate Index were up significantly from the previous year's levels.

Many other industries, too, were characterized by this discrepancy between real-world developments and mood. BITKOM presented its industry index in early March in connection with the CeBIT tradeshow; it shows that the mood of telecommunications and information technology providers has returned to where it had been prior to the outbreak of the global financial and economic crisis in the summer of 2008.

Telecommunications revenues, on the other hand, have been suffering from the sustained price war for standard products. This applies, in particular, to legacy voice telephony, where flat rate and Voice-over-IP offerings are displacing call-by-call and preselect offerings. DSL business with residential customers, in which QSC participates indirectly with its Wholesale ADSL2+ offerings, is increasingly being affected by price wars as well. Offers of less than 20 euros are increasing customer willingness to switch providers following the expiration of their typical two-year contracts. In contrast to many another supplier of upstream products, QSC is not getting involved with this price competition in an increasingly saturated market, preferring instead to pay attention to earning a sufficient contribution margin on each and every offer.

Addressable market doubles to nearly € 20 billion

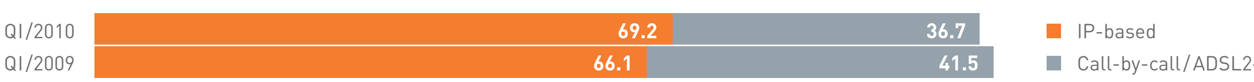
In the first quarter of 2010, the telecommunications industry saw both declining revenues for standard products as well as rising revenues with innovative IP-based products and services. At the same time, the increasing convergence of information technology and telecommunications solutions is opening up additional opportunities for the industry. QSC will be actively utilizing this convergence of IT and TC, thus doubling its addressable market for small and mid-size companies in Germany from € 9.8 billion today to nearly € 20 billion. However market research institute IDC anticipates that IT expenditures on the part of small and mid-size companies will not return to their pre-recession levels until 2011.

PROFITABILITY

Rigorous focus on high-margin revenues • Although revenues were down somewhat from the year before, QSC nevertheless achieved better results in the first quarter of 2010, thus growing its profitability as planned in a market environment that continues to be difficult. Revenues totaled € 105.9 million, as opposed to € 107.6 million in an extremely high-revenue first quarter of 2009; during the first quarter of 2010, EBITDA advanced to € 19.6 million, as opposed to € 19.5 million the year before, while net income rose to € 3.2 million from € 1.4 million the year before.

This development is based upon QSC's intentional focus on high-margin IP-based revenues and the resulting transformation process from a network operator to a service provider. As expected, revenues with the classical products of a network operator, such as call-by-call and ADSL2+, declined from € 41.5 million to € 36.7 million in the first quarter of 2010; revenues with innovative, IP-based services, on the other hand, increased from € 66.1 million to € 69.2 million during the same period. The success of this focus on forward-looking service business can be seen from a comparison with the fourth quarter of 2009, which shows that revenues rose from € 104.9 million to € 105.9 million.

REVENUE MIX (in € millions)



Gross margin improves to 36 percent • The growing share of higher-margin products and services in QSC's total revenues, coupled with ongoing optimization of network operating efficiency, led to a decline in network expenses, which are recorded under cost of revenues, to € 68.3 million in the first quarter of 2010, as opposed to € 71.1 million for the same quarter the year before. As a result, gross profit rose to € 37.6 million, as opposed to € 36.5 million the year before; gross margin increased to 36 percent from 34 percent for the first quarter of 2009.

GROSS PROFIT (in € millions)

Selling and marketing expenses rose to € 11.7 million in the first quarter of 2010, as opposed to € 10.3 million for the same quarter the year before, as one of the steps QSC had taken was to further broaden its indirect selling activities. The Company won a further leading distributor, NT Plus, to market its products. In order to be able to better address systems houses, QSC has entered into an exclusive partnership with Berlin-based SCC GmbH for its IP-Centrex and IP-VPN solutions.

QSC is broadening its selling activites with a view to systems houses

During the first quarter of 2010, general and administrative expenses amounted to € 6.8 million, as opposed to € 7.5 million for the corresponding quarter the year before; this line item accounted for six percent of total revenues, as opposed to seven percent in the first quarter of 2009.

EBITDA rose to € 19.6 million in the first quarter of 2010

EBITDA margin advances to 19 percent • Both the Company's focus on higher-margin revenues as well as strict cost discipline enabled EBITDA to rise to € 19.6 million in the first quarter of 2010, as opposed to € 19.5 million for the same quarter the year before. QSC defines EBITDA as earnings before interest, taxes, amortization of deferred non-cash share-based payments, as well as depreciation and amortization of fixed assets, intangible assets and goodwill. The EBITDA margin increased to 19 percent, as opposed to 18 percent for the same quarter one year earlier.

EBITDA (in € millions)

Depreciation expense declined on schedule in the first quarter of 2010; amounting to € 15.6 million, depreciation expense was down € 1.5 million from the corresponding period the year before. Depreciation expense in the current fiscal year will no longer include customer-related capital expenditures that were made in 2008, in particular, for connecting ADSL2+ customers.

EBIT margin doubles to four percent • Thanks to rising EBITDA and declining depreciation expense, QSC was able to significantly grow its operating profit, its EBIT, in the first quarter of 2010, with this metric improving to € 3.9 million, as opposed to € 2.5 million in the first quarter of 2009. The EBIT margin doubled to four percent, as opposed to two percent for the same quarter the year before.

EBIT (in € millions)

As a result of the further reduction in interest-bearing liabilities, the financial loss in the first quarter of 2010 amounted to € -0.4 million, as opposed to € -0.6 million for the corresponding period one year earlier. QSC thus earned € 3.5 million before income taxes, as opposed to € 1.8 million in the first quarter of 2009.

Taking into consideration income taxes in the amount of € -0.3 million, QSC earned net income of € 3.2 million in the first quarter of 2010, as opposed to € 1.4 million for the corresponding period the year before. The Company succeeded in boosting its net income by € 1.8 million on revenue declines of € 1.7 million – a clear indication of QSC's successful focus on higher-margin revenues and a sustained strengthening of its profitability.

NET PROFIT (in € millions)

PROFITABILITY BY SEGMENT

Managed Services feeling the pinch of the weak economy • Amounting to € 18.1 million, revenues in the Managed Services segment remained virtually unchanged by comparison with the preceding quarter and the first quarter of 2009. In its solutions business with small and mid-size companies, QSC is continuing to feel a hesitation to invest across all industries, along with sustained high price sensitivity on the customer side in connection with contract extensions – both results of the world's most serious post-war recession.

MANAGED SERVICES REVENUES (in € millions)

In spite of this, QSC systematically broadened its market position during the first quarter of 2010, and was able to win attractive new orders. Since March, for example, the Company has been assuring all of the communication needs of MP Gesellschaft für Hotel- und Restaurantbetriebe und -beteiligungen mbH, i.e. Mövenpick Hotels & Resorts in Germany. Under this contract, QSC is supplying both the solution for internal communication between locations as well as broadband Internet access for its guests on the basis of high-quality S.HDSL links.

Mövenpick Hotels' complete communication is being run by QSC

QSC's competence in the hospitality industry is underscored by a further order that it was able to report in April. Under this contract, DERAG Hotel & Living AG is now also going with an IP-VPN solution from QSC. These successes are strengthening the Company in its strategy of expanding market position in this line of business by specifically and directly addressing small and mid-size customers, enabling it to compensate for the consequences of the recession and to tap into new growth opportunities.

Optimization of processes paying off • In spite of stable revenues, EBITDA in the Managed Services segment advanced to € 4.6 million in the first quarter of 2010, as opposed to € 2.7 million for the same quarter the year before. Process optimization had already strengthened the Company's profitability in this segment during the course of the 2009 fiscal year. However non-recurring effects in this segment, characterized as it is by long-term contractual relationships, impacted QSC's growing profitability during the past quarter overly positively. As a result, EBIT increased to € 1.8 million, as opposed to € 0.1 million for the first quarter of 2009.

MANAGED SERVICES EBIT (in € millions)

The share of call-by-call revenues is down to 44 percent

Product revenues stabilize • In the first quarter of 2010, QSC recorded revenues of € 21.7 million in the Products segment, thus stabilizing them at the previous quarter's level; in the first quarter of 2009, revenues had still stood at € 24.8 million. The decrease was attributable to the sustained price war in legacy voice business. This drove down the percentage of segment revenues accounted for by call-by-call and preselect offerings to 44 percent in the first quarter of 2010, as opposed to 47 percent for the same quarter the year before.

PRODUCTS REVENUES (in € millions)

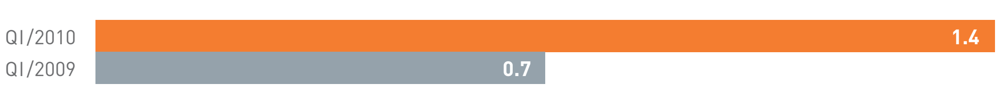
Given the price war, in 2010 QSC is continuing to focus on expanding its higher-margin revenues with IP-based products and services, and was able to utilize successes in these lines of business to compensate for losses in legacy voice telephony in the past three months.

During the current fiscal year, QSC is specifically broadening its selling activities with a view to small and mid-size companies. In February 2010, QSC strengthened its new marketing channel for specialty distributors, which it had established just the year before, through its partnership with NT Plus. Formed in 1990, this company numbers among the leading distributors and service providers for German specialty telecommunications retailers.
Since February, marketing for the IPfonie centraflex virtual telephone system has been supported by a partnership with Canada-based Aastra, one of the world's largest providers of communications solutions. Aastra telephones can now be combined with the innovative QSC solution, offering end customers added value by comparison with legacy voice systems.

Operating profit doubles in Products segment • While product revenues did decline by € 3.1 million by comparison with the year before, segment EBITDA slipped by only € 0.6 million to € 4.2 million. The Company's focus on higher-margin revenues has thus enabled a further rise in the EBITDA margin to 20 percent, as opposed to 19 percent in the first quarter of 2009. Since these higher-margin revenues are going hand in hand with a lower level of network utilization, depreciation expense, too, declined to € 2.9 million in the past quarter, as opposed to € 4.1 million for the corresponding period the year before. As a result, operating profit in the Products segment doubled to € 1.4 million from € 0.7 million in the first quarter of 2009; during this same period, the EBIT thus rose from 3 to 6 percent.

The EBITDA margin in the Products segment rises to 20 percent

PRODUCTS EBIT (in € millions)



Growing revenues with resellers of voice services • In the first quarter of 2010, the Wholesale/Reseller segment continued to benefit from the fact that QSC's Next Generation Network had been expanded early on; the Company utilizes this network as the foundation for offering high-quality yet cost-effective IP-based voice services. As a result of successes in Wholesale voice business, revenues in this segment rose to € 66.1 million, as opposed to € 64.3 million for the first quarter of 2009.

WHOLESALE / RESELLERS REVENUES (in € millions)

As planned, the share of ADSL2+ revenues declined to 41 percent

The positive development of reseller operations for voice services enabled QSC to more than compensate for the anticipated decline in revenues in ADSL2+ business. Within the space of a year, the percentage of revenues accounted for by this line of business declined to 41 percent, as opposed to 47 percent in the first quarter of 2009. The number of connected lines decreased to 575,200 in the first three months, as opposed to 588,800 at year-end 2009. There were essentially three reasons for the declining number of lines and the lower revenues that resulted from this: First, we are seeing saturation in DSL connections, especially in metropolitan areas where QSC is present with its own infrastructure. Second, price competition is heightening in this line of business, and QSC is not willing to forego a sufficient margin for the sake of further growth. And third, a growing number of potential DSL customers are also utilizing cable TV for their broadband Internet connections, especially in metropolitan areas.

Wholesale/Reseller segment the largest contributor to profitability • At € 10.8 million, as opposed to € 12.0 million for the same quarter the year before, the segment that generates the highest revenues again earned the highest segment EBITDA in the first quarter of 2010. This decline in EBITDA was attributable to higher selling and marketing expenses, as QSC is paying increasing commissions to its Wholesale voice business partners as a result of their success. Since both Wholesale voice and ADSL2+ business make strong use of QSC's infrastructure, this segment bears the greatest share of depreciation expense, which totaled € 10.0 million in the first quarter of 2010, as opposed to € 10.3 million for the same quarter the year before. Operating profit thus amounted to € 0.7 million, as opposed to € 1.7 million in the first quarter of 2009.

WHOLESALE / RESELLERS EBIT (in € millions)

FINANCIAL POSITION AND NET WORTH

Significant decline in cash flow from investing activities • In the first quarter of 2010, QSC earned € 11.7 million in cash flow from operating activities, as opposed to € 24.6 million in the first quarter of 2009, when the Company had to record temporarily higher trade accounts payable, first and foremost. At € -5.8 million, cash flow from investing activities in the first quarter of 2010 was down just as significantly from the previous year's level of € -16.4 million as cash flow from financing activities. During the first quarter of the current fiscal year, the latter declined by one half to € -6.1 million, as opposed to € -12.6 million for the same quarter one year earlier.

Positive free cash flow totals € 4.6 million • In spite of the annual advance payments to Deutsche Telekom (DTAG) that are due and payable at the outset of the year, QSC recorded a positive free cash flow – the difference between the change in liquid assets and interest-bearing liabilities – of € 4.6 million in the first quarter of 2010. In this connection, liquid assets, which include both cash and cash equivalents as well as available-for-sale financial assets, decreased by € 0.3 million to € 41.0 million on March 31, 2010, as opposed to € 41.3 million as of December 31, 2009. During the first quarter of 2010, QSC reduced its interest-bearing liabilities by € 4.8 million to € 35.7 million. Net liquidity, the difference between the two parameters, thus rose to € 5.3 million as of March 31, 2010, as opposed to € 0.7 million at the close of the fiscal year on December 31, 2009; by year end, QSC had entirely eliminated its net debts.

In the first quarter of 2010, net liquidity rose to € 5.3 million

in T €	31/03/2010	31/12/2009
Net liquidity		
Finance lease liabilities	(18,481)	(22,775)
Other short-term liabilities	(2,240)	(2,774)
Liabilities due to banks	(15,000)	(15,000)
Fixed rate debts	**(35,721)**	**(40,549)**
plus cash and short-term deposits	40,668	40,952
plus available-for-sale financial assets	331	330
Net liquidity	**5,278**	**733**

High equity ratio underscores sound financing • QSC continued to reduce its interest-bearing liabilities during the first quarter of 2010. Long-term debt declined to € 49.8 million as of March 31, 2010, as opposed to € 54.2 million at the close of the fiscal year on December 31, 2009. During this period, the long-term portion of finance lease obligations, alone, decreased to € 4.9 million from € 7.3 million the year before.

Short-term liabilities, too, declined to € 93.7 million, as opposed to € 97.3 million at year-end 2009. Here, too, QSC reduced its short-term interest-bearing liabilities under finance lease agreements; as of March 31, 2010, they amounted to only € 13.6 million, as opposed to € 15.5 million as of December 31, 2009.

While QSC further reduced its debts, the Company's net income raised its equity to € 163.0 million, as opposed to € 159.7 million as of December 31, 2009. As a result, the equity ratio improved to 53 percent, as opposed to 51 percent at year-end 2009.

EQUITY RATIO

QSC primarily investing in connecting new customers • Capital expenditures amounted to € 7.3 million in the first quarter of 2010, as opposed to € 11.5 million for the same quarter the year before. 67 percent of this total was attributable to customer-related investments, especially for connecting new customers, 25 percent were employed for maintenance and ongoing modernization of QSC's nationwide infrastructure, and 8 percent went to capital investments in office and other equipment.

CAPITAL EXPENDITURES (in € millions)

As a result of lower capital investments and scheduled depreciation, the value of long-term assets in the balance sheet declined to € 201.1 million as of March 31, 2010, as opposed to € 209.9 million on December 31, 2009. The value of short-term assets, on the other hand, rose to € 105.4 million during this same period, as opposed to € 101.4 million the year before. This resulted, in particular, from the accrual of annual advance payments for utilization of DTAG's infrastructure, which rose to € 7.9 million as of March 31, 2010, as opposed to € 2.5 million as of December 31, 2009.

Long-term assets are fully financed through long-term debt

Sound balance sheet structure • A rising equity ratio and declining debts, on the one hand, and the decreasing value of long-term assets as a result of depreciation, on the other, are improving QSC's balance sheet ratios from quarter to quarter. As of March 31, 2010, equity and long-term debt were financing 106 percent of long-term assets, while short-term debt amounted to only 89 percent of short-term assets.

WORKFORCE

Industrialized processes make for greater efficiency • As of March 31, 2010, QSC employed a workforce of 651 people, 13 fewer than at the close of the fiscal year on December 31, 2009. The industrialization of processes in such operations as order processing, which had been ongoing since 2008, is raising their efficiency from quarter to quarter and increasingly enabling QSC to no longer have to re-staff positions that have become vacant through attrition. On March 31, 2010, 54 percent of our employees were thus working in customer-related areas, 37 percent in technical operations, and only 9 percent in administration.

WORKFORCE STRUCTURE

RISK REPORT

No material change in risk position • In the first quarter of 2010, there were no material changes to the risks discussed in the 2009 Annual Report. As a result of the risks indicated therein, as well as other risks and incorrect assumptions, actual future results could vary materially from QSC's expectations. All statements contained in this unaudited Consolidated Interim Report that are not historical facts are forward-looking statements. They are based upon current expectations and projections of future events, and could therefore change over the course of time.

OUTLOOK REPORT

QSC's sights set on free cash flow of more than € 22 million • The course of business in the first quarter of 2010, as well as the sluggish pace of economic development, are strengthening QSC's commitment to the current-year strategy it had announced in early March of focusing on lines of business that offer a sufficiently high contribution margin, thus further strengthening the Company's financial position and profitability. QSC is therefore reiterating its guidance for the full fiscal year that it had first announced on March 3, 2010: The Company thus anticipates that its free cash flow will improve to more than € 22 million, as opposed to € 12.9 million in fiscal 2009, while simultaneously anticipating a further rise in revenues, EBITDA and net income. During the past fiscal year, the Company had earned an EBITDA of € 76.9 million and net income of € 5.5 million on revenues of € 420.5 million. QSC intends to sustain this profitable growth in 2011, with its transformation into a services provider likely to be opening up new potential for revenues and profitability, in particular. QSC is striving to pay its first dividend for the 2011 fiscal year.

For 2011, QSC is striving to pay its first dividend

FREE CASH FLOW (in € millions)

* planned

Weak economy • The spring expertise from Germany's leading economic research institutions on behalf of the German federal government is calling for economic growth of 1.5 percent for the current fiscal year and 1.4 percent for the next fiscal year. According to this expertise, growth in 2010 will be driven by exports, before domestic demand is expected to begin rising in 2011. In this kind of environment, enterprises are likely to be cautious about investing in new assets, and thus in new telecommunications solutions.

The demand for IP-based products and services is growing

As it did at the beginning of the year, QSC continues to expect to see a two-track development in the telecommunications market: Stiff price competition for standard products and in legacy voice telephony, in particular, as opposed to growing demand for IP-based products and services and the telecommunications solutions that build upon them.

Focusing on strengthening profitability • In 2010, QSC is focusing on improving the quality of its revenues and is giving priority to higher profitability over higher revenues. This applies with respect to all three segments, with the Products segment, in particular, and especially its call-by-call and preselect lines of business, as well as the Wholesale/Reseller segment, and especially its ADSL2+ business, being affected by stiff price competition.

Overall, QSC will sustain its transformation from a network operator to a solutions provider in fiscal 2010. In this connection, the positive effects that stem from driving solutions business will be weakened by declining revenues for standard products. Beginning in 2011, success in solutions business is expected to predominate, opening up further potential for profitable growth for QSC. In spite of this, QSC is also planning on rising revenues, EBITDA and net income in fiscal 2010.

Greater financial strength at the heart of the strategy • Given a market mood that continues to be weak, QSC is giving top priority in 2010 to strengthening its financial position. The Company is planning on a significant rise in free cash flow to more than € 22 million. This will go hand in hand with a higher level of cash from operating activities, moderate capital expenditures and a rising equity ratio. In 2010, QSC will be utilizing its free cash flow to build a higher liquidity reserve and to further reduce interest-bearing liabilities; medium-term, the Company's greater financial strength will also enable its owners to participate in the Company's success. Moreover, QSC does not preclude the possibility of smaller acquisitions.

Consolidated Interim Financial Statements

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

Euro amounts in thousands (T €)

	01/01/–31/03/ 2010	01/01/–31/03/ 2009
Net revenues	**105,906**	**107,606**
Cost of revenues	(68,291)	(71,067)
Gross profit	**37,615**	**36,539**
Selling and marketing expenses	(11,672)	(10,324)
General and administrative expenses	(6,832)	(7,527)
Depreciation and non-cash share-based payments	(15,633)	(17,054)
Other operating income	571	974
Other operating expenses	(102)	(127)
Operating profit	**3,947**	**2,481**
Financial income	119	277
Financial expenses	(533)	(925)
Net profit before income tax	**3,533**	**1,833**
Income tax	(322)	(476)
Net profit	3,211	1,357
Earnings per share (basic) in €	**0.02**	**0.01**
Earnings per share (diluted) in €	**0.02**	**0.01**

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

Euro amounts in thousands (T €)

	01/01/–31/03/ 2010	01/01/–31/03/ 2009
Cash flow from operating activities		
Net profit before income taxes	3,533	1,833
Depreciation and amortization	13,400	15,182
Non-cash share-based payments	18	7
Loss from disposal of long-term assets	342	864
Changes in provisions	(321)	(634)
Changes in trade receivables	1,355	4,198
Changes in trade payables	2,027	14,957
Changes in other financial assets and liabilities	(8,669)	(11,805)
Cash flow from operating activities	**11,685**	**24,602**
Cash flow from investing activities		
Purchase of intangible assets	(5,293)	(11,032)
Purchase of property, plant and equipment	(531)	(5,401)
Cash flow from investing activities	**(5,824)**	**(16,433)**
Cash flow from financing activities		
Repayment of liabilities to minority interest shareholders	(553)	(3,536)
Repayment of other short- and long-term liabilities	(534)	(1,879)
Repayment of finance lease	(5,058)	(7,177)
Cash flow from financing activities	**(6,145)**	**(12,592)**
Change in cash and short-term deposits	**(284)**	**(4,423)**
Change in cash and short-term deposits as of January 1	40,952	48,823
Cash and short-term deposits as of March 31	**40,668**	**44,400**
Interest paid	508	923
Interest received	119	275
Income tax paid	-	52

CONSOLIDATED BALANCE SHEET (unaudited)

Euro amounts in thousands (T €)

	Mar. 31, 2010	Dec. 31, 2009
ASSETS		
Long-term assets		
Property, plant and equipment	121,818	126,187
Goodwill	49,279	49,279
Other intangible assets	29,374	33,658
Other long-term financial assets	590	769
Long-term assets	**201,061**	**209,893**
Short-term assets		
Trade receivables	52,240	53,595
Prepayments	7,866	2,497
Inventories	2,005	2,372
Other short-term financial assets	2,295	1,671
Available-for-sale financial assets	331	330
Cash and short-term deposits	40,668	40,952
Short-term assets	**105,405**	**101,417**
TOTAL ASSETS	306,466	311,310

	Mar. 31, 2010	Dec. 31, 2009
SHAREHOLDERS' EQUITY AND LIABILITIES		
Shareholders' equity		
Capital stock	136,998	136,998
Capital surplus	563,758	563,687
Other reserves	(1,129)	(1,129)
Consolidated balance sheet loss	(536,633)	(539,844)
Shareholders' equity	**162,994**	**159,712**
Liabilities		
Long-term liabilities		
Long-term liabilities to minority shareholders	40,765	42,580
Long-term portion of finance lease obligations	4,925	7,272
Convertible bonds	24	24
Accrued pensions	738	741
Other long-term liabilities	-	576
Deferred tax liabilities	3,325	3,056
Long-term liabilities	**49,777**	**54,249**
Short-term liabilities		
Trade payables	42,773	40,982
Short-term portion of finance lease obligations	13,556	15,503
Liabilities due to banks	15,000	15,000
Provisions	1,718	2,037
Deferred revenues	11,724	13,785
Other short-term liabilities	8,924	10,042
Short-term liabilities	**93,695**	**97,349**
Liabilities	**143,472**	**151,598**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	306,466	311,310

CONSOLIDATED STATEMENTS OF SHAREHOLDERS´ EQUITY (unaudited)

Euro amounts in thousands (T €)

	Equity attributable to equity holders of the parent				
	Capital stock	Capital surplus	Other capital reserves	Consolidated balance sheet loss	Total share-holders' equity
Balance as of January 1, 2010	136,998	563,687	(1,129)	(539,844)	159,712
Total comprehensive income				3,211	3,211
Conversion of convertible bonds					
Non-cash share-based payments		71			71
Balance as of March 31, 2010	136,998	563,758	(1,129)	(536,633)	162,994
Balance as of January 1, 2009	136,998	563,197	(1,141)	(544,626)	154,428
Total comprehensive income				1,357	1,357
Conversion of convertible bonds					
Non-cash share-based payments		116			116
Balance as of March 31, 2009	136,998	563,313	(1,141)	(543,269)	155,901

CONSOLIDATED STATEMENTS OF DIRECTLY RECOGNIZED INCOME AND EXPENSES (unaudited)

Euro amounts in thousands (T €)

	01/01/ – 31/03/ 2010	01/01/ – 31/03/ 2009
Directly recognized in equity		
Actuarial gains on defined benefit pension plans	-	-
Apportionable to tax effect	-	-
Directly recognized in equity	-	-
Net profit	3,211	1,357
Net profit and recognized income and expenses	3,211	1,357

Notes to the Consolidated Interim Financial Statements

CORPORATE INFORMATION

QSC AG (QSC, the Company, or the Company) is a medium-sized service provider to the telecommunications industry with its own Next Generation Network (NGN). QSC offers a complete portfolio of high-quality broadband communication services with a particular focus on medium-sized companies. In addition to providing intelligent network-related voice and data services, QSC implements complete enterprise networks (IP-VPNs), including managed services. It provides high-performance DSL, Ethernet and wireless local loop connections of up to 800 Mbit/s. In the Wholesale line of business, QSC additionally supplies national and international carriers, ISPs, and strong marketing partners in the residential customer market with the necessary unbundled preliminary products.

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 unaudited Consolidated Interim Financial Statements of QSC AG and its subsidiaries (Consolidated Interim Financial Statements) have been prepared in accordance with the International Financial Reporting Standards (IFRS) and their interpretation by the International Financial Reporting Interpretations Committee (IFRIC) in accordance with International Accounting Standards (IAS) 34, "Interim Financial Reporting." The Consolidated Interim 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, 2009.

It is the opinion of the Management Board that the Consolidated Interim Financial Statements contain all adaptations that are necessary for a true and fair view of the assets, liabilities, financial position and profit or loss of the Group. The financial results presented in the Consolidated Interim Financial Statements for the period from January 1 through March 31, 2010, do not necessarily indicate the development of future results.

The accounting principles applied in preparing the Consolidated Interim Financial Statements correspond essentially to the accounting principles that had been applied in preparing the Consolidated Financial Statements for the 2009 fiscal year.

In fiscal year 2009, after the successful launch of the marketing of VoIP technology, management reviewed and adjusted the initially assumed useful lives for the necessary network components. For this reason, the useful life of network equipment and plant was extended from five to eight years. In accordance with IAS 8, the effect of a change in estimates shall be recognized in current and future periods. The following table provides the necessary details that are required according to IAS 8 in the case of changes in estimates, and shows the impact on the Group's net results for the corresponding periods.

in T €	01/01/ – 31/03/ 2010	01/01/ – 31/03/ 2009
Network equipment and plant	295	743
Impact of changes in estimates	**295**	**743**

The preparation of the Consolidated Interim Financial Statements in accordance with IFRS requires, to a certain extent, the use of judgments and estimates regarding recorded assets and liabilities, disclosures on potential trade receivables and payables, as well as presented income and expenses during the reporting period. Actual amounts may differ from those assumptions and estimates.
In comparison with the Consolidated Financial Statements as of December 31, 2009, there were no material changes in management's assumptions regarding the use of accounting principles.
The Consolidated Interim Financial Statements are rounded, except when otherwise indicated, to the nearest thousand (T €).

2 Basis of consolidation

The Consolidated Interim Financial Statements comprise the financial statements of QSC AG and its subsidiaries as of March 31, 2010. The number of subsidiaries included in the Consolidated Financial Statements has increased in comparison with December 31, 2009. Since January 15, 2010, tengo GmbH has been included as an additional subsidiary.

3 Segment reporting

In accordance with IFRS 8, the foundation of QSC's reportable segments is the internal organization used by management for making operating decisions and assessing performance. QSC structures its major lines of business into three business units.

The Managed Services segment embraces custom-tailored solutions for large and medium-sized enterprises. The spectrum of offerings includes, in particular, the configuration and operation of virtual private networks (IP-VPNs); in addition, QSC also provides a broad range of network-related services.

In the Products segment QSC summarizes its product business. QSC covers the needs of small and medium-sized enterprises concerning modern voice and data communication by predominantly standardized products and processes.

The Wholesale/Resellers segment includes business with Internet service providers and telecommunications providers without proprietary infrastructure. They are marketing QSC's DSL lines as well as voice telephony and value-added services under their own name and for their own account.

Management has stipulated EBIT (in accordance with IFRS) as the key steering parameter for the segments. Thus operating costs are fully attributed to their respective business units, and a complete calculation of profit or loss up to the operating results is made. Both the direct and indirect attribution of costs to the individual segments corresponds to the Company's internal reporting system and steering logic. With regard to assets and liabilities, there were also directly and indirectly attributable items. Assets and liabilities that are indirectly attributable are allocated according to financial viability based on contribution margins, except for deferred tax assets and liabilities.

in T €	Managed Services	Products	Wholesale / Resellers	Reconciliation	Consolidated
01/01/–31/03/2010					
Net revenues	**18,147**	**21,687**	**66,072**		**105,906**
Cost of revenues	(8,217)	(11,610)	(48,464)		(68,291)
Gross profit	**9,930**	**10,077**	**17,608**	**-**	**37,615**
Selling and marketing expenses	(3,067)	(3,433)	(5,172)		(11,672)
General and administrative expenses	(2,310)	(2,404)	(2,118)		(6,832)
Depreciation and amortization	(2,694)	(2,851)	(10,017)		(15,562)
Non-cash share-based payments	(29)	(20)	(22)		(71)
Other operating income	5	9	455		469
Operating profit	**1,835**	**1,378**	**734**	**-**	**3,947**
Assets	66,704	76,498	163,264	-	306,466
Liabilities	23,019	21,369	95,759	3,325	143,472
Capital expenditures	1,441	1,486	4,323	-	7,250

in T €	Managed Services	Products	Wholesale / Resellers	Reconciliation	Consolidated
01/01/–31/03/2009					
Net revenues	**18,466**	**24,834**	**64,306**		**107,606**
Cost of revenues	(10,413)	(13,845)	(46,809)		(71,067)
Gross profit	**8,053**	**10,989**	**17,497**	**-**	**36,539**
Selling and marketing expenses	(2,884)	(3,863)	(3,577)		(10,324)
General and administrative expenses	(2,684)	(2,582)	(2,261)		(7,527)
Depreciation and amortization	(2,601)	(4,058)	(10,279)		(16,938)
Non-cash share-based payments	(17)	(28)	(71)		(116)
Other operating income	244	232	371		847
Operating profit	**111**	**690**	**1,680**	**-**	**2,481**
Assets	72,163	97,893	174,829	-	344,885
Liabilities	28,765	34,964	123,163	2,092	188,984
Capital expenditures	1,764	2,340	7,431	-	11,535

4 Related party transactions

During the first three months of 2010, QSC participated in transactions with companies affiliated with members of management. According to IAS 24 related parties are individuals or companies that have the possibility of influencing or even controlling the other party. All contracts with these companies require approval of the Supervisory Board and are concluded under normal market conditions.

in T €	Net revenues	Expenses	Cash received	Cash paid
01/01/–31/03/2010				
IN-telegence GmbH & Co. KG	8	-	6	-
Teleport Köln GmbH	3	1	2	1
QS Communication Verwaltungs Service GmbH	-	37	-	65
01/01/–31/03/2009				
IN-telegence GmbH & Co. KG	-	38	160	24
Teleport Köln GmbH	4	29	2	33
QS Communication Verwaltungs Service GmbH	170	11	-	21

in T €	Trade receivables	Trade payables
As of March 31, 2010		
IN-telegence GmbH & Co. KG	3	-
Teleport Köln GmbH	2	-
QS Communication Verwaltungs Service GmbH	-	-
As of December 31, 2009		
IN-telegence GmbH & Co. KG	153	(2)
Teleport Köln GmbH	1	(3)
QS Communication Verwaltungs Service GmbH	-	(21)

IN-telegence GmbH & Co. KG provides value-added telecommunications services. Teleport Köln GmbH operates and maintains QSC's private branch exchange. QS Communication Verwaltungs Service GmbH provides consultancy on product management of voice products.

5 Litigation

In the first three months of 2010, there were no significant cases of litigation settled on which disclosures had been provided in the Consolidated Financial Statements for fiscal year 2009.

6 Management Board

	Shares		Convertible bonds	
	Mar. 31, 2010	Mar. 31, 2009	Mar. 31, 2010	Mar. 31, 2009
Dr. Bernd Schlobohm	13,818,372	13,818,372	350,000	350,000
Jürgen Hermann	145,000	145,000	47,000	47,000
Joachim Trickl	5,000	5,000	250,000	250,000

7 Supervisory Board

	Shares		Convertible bonds	
	Mar. 31, 2010	Mar. 31, 2009	Mar. 31, 2010	Mar. 31, 2009
John C. Baker	10,000	10,000	-	-
Herbert Brenke	187,820	187,820	-	-
Gerd Eickers	13,877,484	13,877,484	-	-
David Ruberg	14,563	14,563	-	-
Klaus-Theo Ernst *	500	500	3,258	3,258
Jörg Mügge *	4,000	-	6,000	6,000

* Employee representative

Cologne, May 2010

Dr. Bernd Schlobohm
Chief Executive Officer

Jürgen Hermann

Joachim Trickl

Calendar

Annual Shareholders Meeting
May 20, 2010

Quarterly Reports
August 9, 2010
November 8, 2010

Conferences / Events
May 21, 2010
German & Austrian Corporate Conference
Deutsche Bank, Frankfurt

November 22–24, 2010
German Equity Forum Fall 2010
Deutsche Börse, Frankfurt

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