QSC AG

Quarterly Report II/2007

Key data

All amounts in € million	01/04/-30/06/ 2007	01/04/-30/06/ 2006	01/01/-30/06/ 2007	01/01/-30/06/ 2006
Revenues	79.6	56.6	156.5	111.0
Gross profit	+29.1	+19.5	+56.9	+35.9
EBITDA	+10.9	+4.1	+19.8	+6.5
EBIT	+0.5	-2.7	+0.9	-5.8
Net profit (loss)	+0.5	-3.1	+1.5	-6.1
Earnings per share [1] (in €)	0.00	-0.03	+0.01	-0.05
Capital expenditures	18.7	11.7	29.3	19.0
Equity			165.2 [2]	160.6 [3]
Balance sheet total			305.8 [2]	299.9 [3]
Equity ratio (in percent)			54.0 [2]	53.6 [3]
Liquidity			93.1 [2]	108.9 [3]
Share price as of 30/06/ (in €)			4.80	4.34
Number of shares as of 30/06/			135,203,660	127,053,337
Market capitalization as of 30/06/			649.0	551.4
Employees as of 30/06/			735	662

[1] basic and diluted
[2] as of June 30, 2007
[3] as of December 31, 2006

Highlights

+ + + Strategic segment revenues advance + + +
During the past quarter, QSC increased its revenues by 41 percent to € 79.6 million. The percentage of total revenues generated by the company's strategic segments continued to rise, accounting for 84 percent in the past quarter, as opposed to 77 percent the year before.

+ + + Strong pace of growth in Wholesale/Reseller segment + + +
QSC posted its highest revenue growth rates in the Wholesale/Reseller segment, in particular in wholesale business: Revenues in this segment surged by 162 percent in the second quarter of 2007 to a total of € 27.8 million, as opposed to € 10.6 million for the comparable quarter the year before.

+ + + Voice over IP proving to be the winner + + +
Even more often than was still being anticipated at the outset of the year, enterprise customers, too, are benefiting from the advantages of IP technology for their voice communication. In contrast, the market is seeing an increasing pricing competition in conventional voice telephony. QSC had set the stage for responding to this change early on with its Next Generation Network.

+ + + New large accounts + + +
In the second quarter of 2007, QSC grew its revenues with new and existing large accounts by 16 percent year on year to € 17.7 million. The company's new customer wins in recent months have included Vorwerk subsidiary Hectas as well as retain chain Strauss Innovation.

+ + + EBITDA margin has already doubled to 14 percent + + +
The company's focus on high-margin enterprise business again resulted in a leveraged profitability increase in the second quarter of 2007. At € 10.9 million, QSC's EBITDA was up 166 percent over the previous year's level, with its EBITDA margin doubling to 14 percent, as opposed to 7 percent for the second quarter of 2006.

+ + + 1&1 a new wholesale partner + + +
The new wholesale agreement with 1&1 Internet AG saw QSC's partner base in this high-growth line of business continue to rise: With United Internet subsidiary 1&1, freenet and HanseNet, QSC now numbers the majority of Germany's large alternative DSL providers among its customers.

Letter to Our Shareholders

Dear Shareholders,

In view of the development of the Company's share prices in recent weeks, we are increasingly receiving inquiries from investors who want to know: "What is going on at QSC?". There are two answers to this question. QSC is currently suffering more strongly than other technology shares from the extremely nervous mood of market players. We are doing well, on the other hand, in our operating business, as shown by this quarterly report: During the past quarter, QSC grew its revenues by 41 percent to € 79.6 million in a more difficult market environment, while simultaneously boosting its EBITDA by 166 percent to € 10.9 million. This means that within the space of a year we have already doubled our EBITDA margin from 7 percent to 14 percent today.

We view this improvement, in particular, as a success, because the strike at Deutsche Telekom as well as increasing price competition in conventional voice telephony in the second quarter posed special burdens for our business. The strike has led to delays in connection with new connections and processes in all segments at QSC, as we require network unbundling services from the former monopolist. Moreover, the strike has also impeded our scheduled network expansion. We now assume that we will be able to conclude expansion of the network to nearly 2,000 central offices during the first quarter of 2008.

As a result of Voice over IP and flat rate offers, price competition in conventional voice telephony has increased significantly and sooner than had been expected at the outset of the year. Since QSC has also been active in this line of business since acquiring pure voice telephony provider Ventelo in 2002, this development has impeded our revenue growth with large accounts and business customers. However there are two reasons why these changes present a great opportunity for QSC over the medium term: First of all, we are already operating a nationwide IP-based Next Generation Network today, and are therefore able to be highly efficient in offering both Voice over IP as well as integrated voice and data services. And secondly, the current situation is sparking an increasing willingness on the part of enterprises to not just procure voice services from us, but to also move their telephone connection completely to an alternative provider like QSC. This direct access business is considerably more attractive to QSC than conventional telephony business: It enables higher margins to be earned, strengthens customer loyalty and at the same time makes it easier for us to sell further products and services over the existing broadband line.

Rising demand for direct access to the QSC network among enterprises

In the second quarter of 2007, we again successfully migrated enterprises to direct connections, thus further expanding business in our strategic segments. Overall, the share of total revenues of the Large Account, Business Customer and Wholesale/Reseller segments has risen to 84 percent in recent months, higher than ever before.

In the second half of 2007, QSC will sustain its high-margin growth in precisely these segments. We expect to see the highest growth rates in our wholesale business, after having been able to win a further strong market partner in early July, 1&1 Internet AG. We are planning on higher revenues from large accounts and business customers, as well, in spite of the price competition in voice telephony. QSC is benefiting here from rising demand for direct access among enterprises of every size. Moreover, we will be specifically expanding our offerings of value-add netcentric services over the course of the coming months.

QSC expects to see an especially high-growth fourth quarter 2007

All three strategic segments are benefiting from the ongoing expansion of our nationwide DSL network. We are already reaching considerably more enterprises and residential households with our broadband network infrastructure than we were even at the beginning of the year. The effects of both this network expansion as well as the marketing successes of our wholesale partners are becoming increasingly clear to see from quarter to quarter. Within the second half of 2007, we therefore expect to see an especially high-growth fourth quarter.

However QSC is currently not being appropriately valued on the capital market, in spite of the good development of our operating business, its growth potential and the opportunities offered by our Next Generation Network. On the contrary: The discussions surrounding subprime U.S. mortgage loans, in particular, triggered a reassessment of risks on the capital market, which also related to technology shares. And discussions about the potential consequences for the German market of Telefónica's investment in Telecom Italia and about the development of telecommunication providers without an own infrastructure have sparked further share price declines for QSC in recent months. Although these issues have only marginal impact on our operating business, they are nevertheless all negatively influencing the performance of our shares.

As shareholders and as the top management team, we are definitely not satisfied with the current share price level. However we are convinced that the good development of our operating business will lead to a new and higher valuation of QSC shares over the medium term. We are therefore continuing to focus on taking advantage of growth opportunities that present themselves. We will naturally be continuing our dialog with analysts and investors, because you, our shareholders, should always know what is going on at QSC.

Cologne, August 2007

Markus Metyas	Dr. Bernd Schlobohm Chief Executive Officer	Bernd Puschendorf

Interim Consolidated Report QII / 2007

GENERAL INDUSTRY CONDITIONS

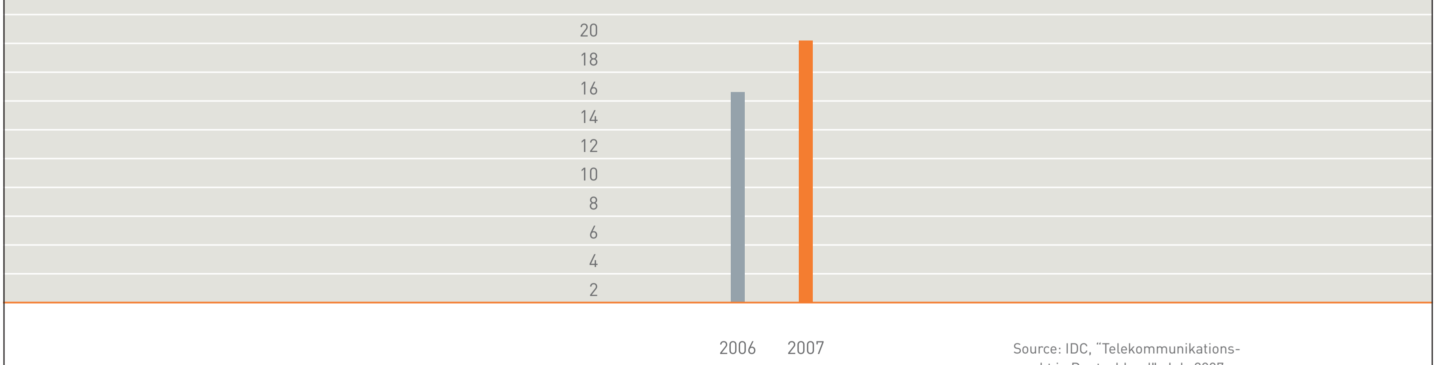
Robust economy + Although growth in Germany moderated slightly in the second quarter of 2007, economic analysts continue to expect gross domestic product to rise by some 2.5 percent for the full year. In addition to exports, domestic capital expenditures continue to fuel this positive development.

Moreover, the telecommunications industry additionally benefited from a further rise in the number of DSL connections, although the growth dynamic flagged temporarily during the second quarter of 2007, which was also precipitated by the strike at Deutsche Telekom. However market analysts continue to anticipate seeing the number of DSL connections rise by some four million for the year 2007, to a total of over 18 million.

Some four million additional DSL lines expected for 2007

The German Federal Network Agency's reduction in the non-recurring subscriber line access and line sharing fees in June 2007 led to modest cost relief among alternative telecommunication providers. In the majority of cases, this reduced the prices that Deutsche Telekom is now allowed to charge competitors for establishing, terminating and transferring connections by 10 to 20 percent.

Broadband Connections in Germany (in millions)



Source: IDC, "Telekommunikationsmarkt in Deutschland", July 2007

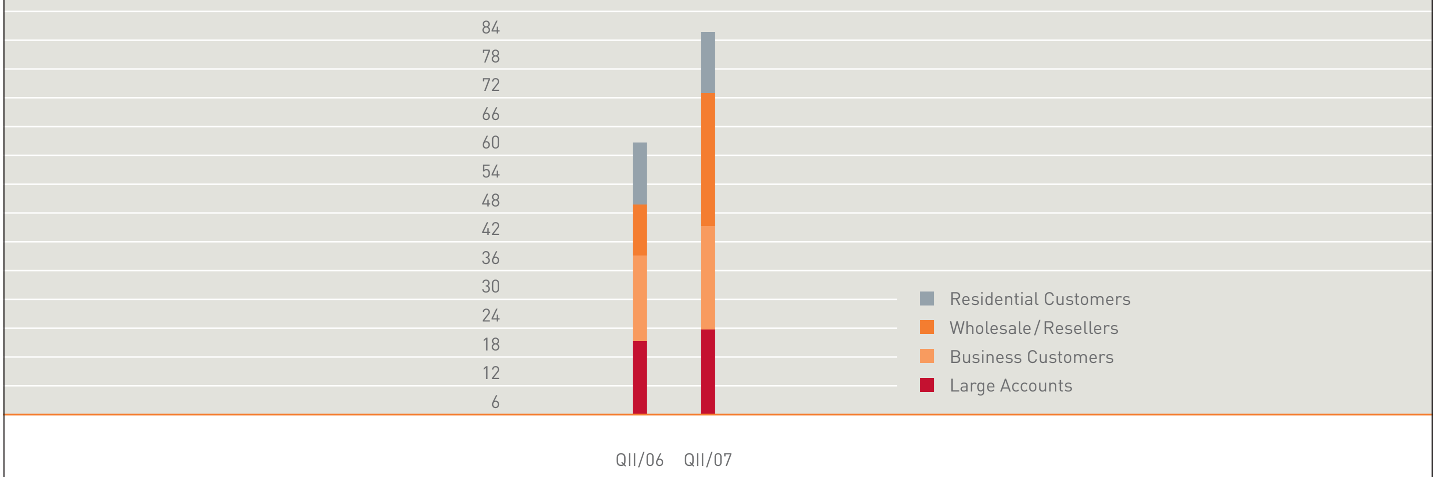
BUSINESS IN THE SECOND QUARTER

In the second quarter of 2007, QSC increases its revenues by 41 percent to € 79.6 million

Strategic segments now account for 84 percent of total revenues + QSC grew its revenues by 41 percent to € 79.6 million in the second quarter of 2007, as opposed to € 56.6 million for the comparable period the year before. The Company again improved its revenue quality; the percentage of total revenues accounted for by the strategic segments of Large Accounts, Business Customers and Wholesale/Resellers rose to 84 percent in the second quarter of 2007, as opposed to 77 percent for the comparable quarter the year before. QSC also grew its revenues by 41 percent to € 156.5 million in the first half of 2007, as opposed to € 111.0 million for the first six months of 2006.

Network expenses, which QSC records under cost of revenues, increased by 36 percent in the second quarter of 2007 to € 50.5 million, as opposed to € 37.1 million for the comparable quarter the year before. This stronger rise by comparison with preceding quarters stemmed primarily from both the Company's fast-growing wholesale business as well as its network expansion, as this results in operating expenses for fiber optic connections and central office maintenance, for example.

Revenue Mix (in € million)



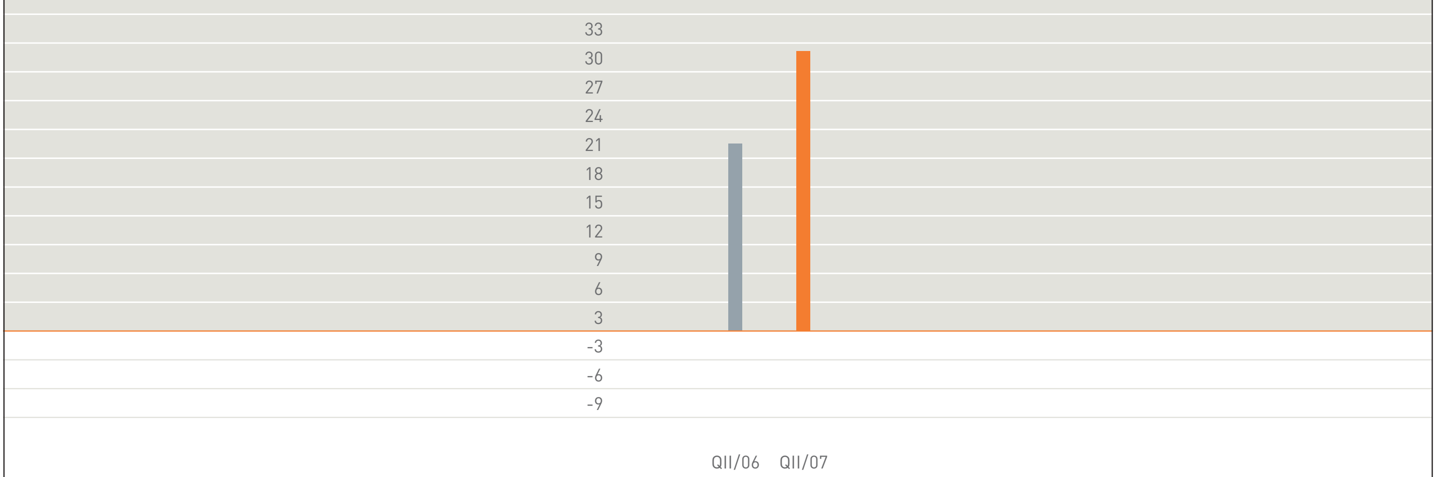
Nevertheless, QSC again grew is gross profit disproportionately in the second quarter of 2007: At € 29.1 million, gross profit was up 49 percent from the previous year's level of € 19.5 million, with gross margin reaching a new record high of 37 percent. During the first six months of the current fiscal year, QSC thus earned a gross profit of € 56.9 million, an increase of 58 percent over the previous year's level of € 35.9 million.

Gross margin is reaching a record high of 37 percent

Selling and marketing expenses of € 10.6 million remained virtually unchanged year on year in the second quarter of 2007. A growing percentage of these costs was attributable to commission payments to regional marketing partners with whom QSC collaborates, especially in the Business Customer segment. The second major block of costs consists of personnel expenses. The high efficiency of QSC's selling and marketing operations is underscored by the fact that the share of total revenues accounted for by selling and marketing expenses declined from 19 percent to 13 percent year on year.

High efficiency is also what characterizes QSC's administration. The reason, first and foremost, for the increase in general and administrative expenses to € 8.2 million from € 5.0 million in the second quarter of 2006 was the consolidation since June 2006 of subsidiary Broadnet, whose administration must continue to provide all functions of a publicly traded corporation until the merger becomes final.

Gross Profit (in € million)



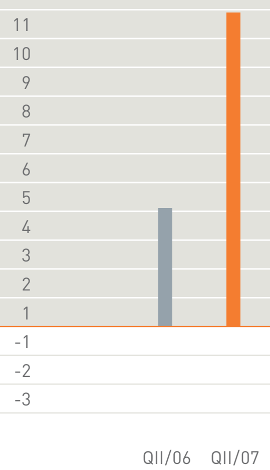
In the first half of 2007, QSC tripled its EBITDA to €19.8 million

EBITDA margin already stands at 14 percent + The Company's better revenue quality, coupled with moderately rising costs, again enabled QSC to post a significant rise in EBITDA in the second quarter of 2007: At € 10.9 million, it was up 166 percent year on year, from € 4.1 million for the corresponding quarter the year before. 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. In the second quarter of 2007, QSC's EBITDA margin doubled to 14 percent, as opposed to 7 percent for the corresponding quarter the year before; this strong rise underscores the scalability of the QSC business model. In fact, QSC tripled its EBITDA to € 19.8 million in the first half of 2007, as opposed to € 6.5 million for the first six months of 2006.

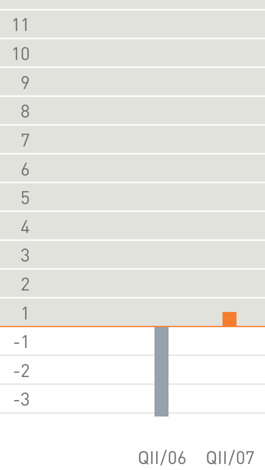
In the second quarter of 2007, depreciation expense rose by € 3.5 million to € 10.4 million, as opposed to € 6.9 million for the comparable period the year before. This rise was attributable to the continued expansion of the network and to the higher percentage of customer-related capital expenditures, such as for routers, which are quickly amortized.

In spite of higher depreciation expense, QSC again earned positive before- and after-tax income in the second quarter of 2007, and thus for the third time in a row. Earnings before interest and taxes (EBIT) improved to € 0.5 million, as opposed to € -2.7 million in the second quarter of 2006; consolidated net income, too, reached € 0.5 million, as opposed to a consolidated net loss of € -3.1 million the year before.

EBITDA (in € million)



Net Profit (Loss) (in € million)



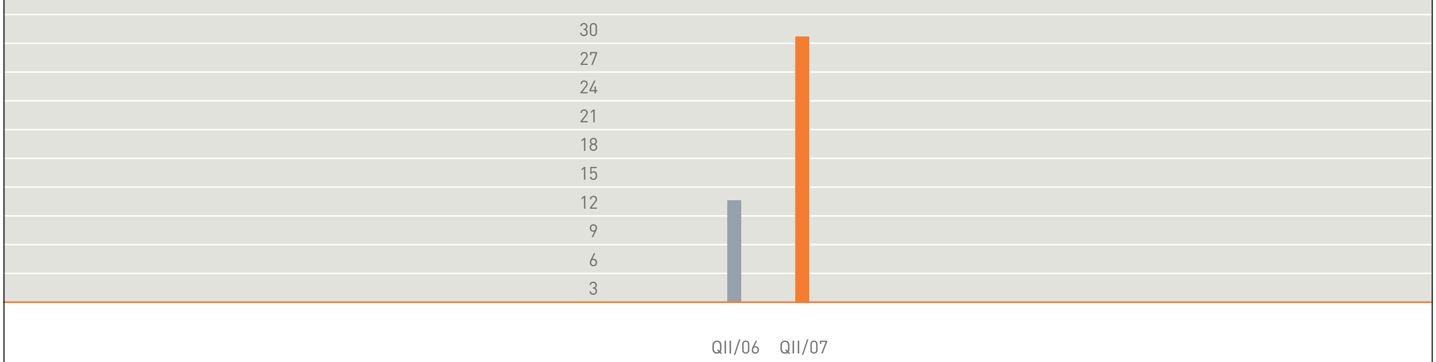
BUSINESS BY SEGMENT IN THE SECOND QUARTER

Wholesale/Reseller segment sees the strongest revenue growth + QSC grew its revenues in the Wholesale/Reseller segment by 162 percent in the second quarter of 2007 to € 27.8 million, as opposed to € 10.6 million for the comparable quarter the year before. The growth engine continues to be business with strong market partners like freenet and HanseNet, who are generating rising recurring revenues quarter after quarter. Growth in the second quarter of 2007 is all the more noteworthy as the German DSL market saw only relatively weak growth during this period. Market players expect to see rising demand again for the second half of 2007, with QSC's market position again being sustainably strengthened by the wholesale contract that was signed with 1&1 Internet AG in early July. In addition to wholesale business, QSC also saw its reseller business with internationally operating telecommunication providers like British Telecom and AT&T growing on a positive note.

In the second quarter of 2007, the segment EBITDA in QSC's highest-revenue segment advanced by 123 percent to € 12.5 million, as opposed to € 5.6 million for the corresponding period the year before. Segment EBITDA is calculated as the respective net revenues less all costs directly attributable to that segment. Due to the fast-growing percentage of total revenues attributable to wholesale business, the 45-percent margin in this segment was down from the previous year's level of 53 percent. This is because reseller business traditionally offers higher margins than wholesale business.

Wholesale business is strengthened again by the contract with 1&1

Revenues Wholesale/Resellers (in € million)



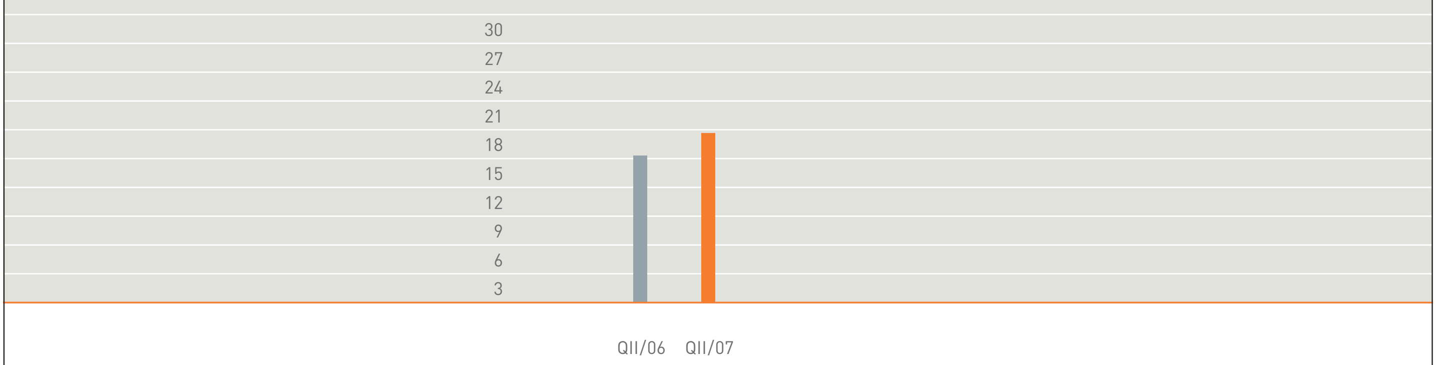
New large accounts for QSC + In its other two strategic segments, Large Accounts and Business Customers the Company felt the effects of both the consequences of the strike at Deutsche Telekom as well as increasing price competition in conventional voice telephony in the second quarter of 2007. In this line of business, QSC has been active primarily since acquiring voice telephony provider Ventelo in late 2002. Therefore, revenues in the Large Account segment rose only comparatively modestly by 16 percent to € 17.7 million, as opposed to € 15.3 million in the second quarter of 2006. QSC is hard at work migrating existing conventional telephony contracts to direct IP-based connections.

In its core business of managed services, QSC succeeded in broadening its percentage of the telecommunication budgets of multiple large accounts, extending existing contracts and additionally winning new customers. Since May 2007, for example, HECTAS Gebäudedienste Stiftung & Co. KG, a subsidiary of Vorwerk & Co. KG, has been using QSC infrastructure to network 51 locations throughout Europe. Moreover, the VPN also links the company's mobile staff and home office workers. The contract with HECTAS, as well as the contract to network 115 outlets of retailer Strauss Innovation, which was announced in early July, are good examples of QSC's successes with large accounts, in particular in connection with larger SMEs.

Margin with large accounts is higher than in any other segment

At € 10.1 million, segment EBITDA in the second quarter of 2007 was up 22 percent year on year from € 8.3 million for the corresponding quarter the year before. During the same period, margin rose from 54 to 57 percent and is now higher than in any other segment.

Revenues Large Accounts (in € million)

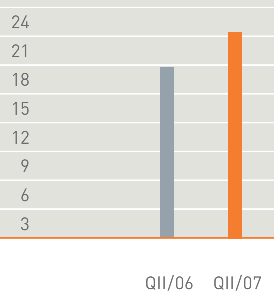


Business customers utilizing direct connections + Revenues in the Business Customer segment increased by 21 percent in the second quarter of 2007 to € 21.5 million, as opposed to € 17.8 million for the corresponding quarter the year before. Demand for direct connection to the QSC network posted encouraging growth rates. This rise stemmed first and foremost from the successes of the Company's marketing partners. QSC has a close-knit network of these partners throughout Germany, consisting predominantly of regional providers and providers who specialize in enterprise customers and have a direct line to local small and medium enterprises.
Totaling € 12.0 million, the segment EBITDA for business customers in the second quarter of 2007 was up 33 percent from the previous year's level of € 9.0 million. Thanks to successful migration to direct connections, the margin in this segment rose to 56 percent within a year, as opposed to 51 percent in the second quarter of 2006.

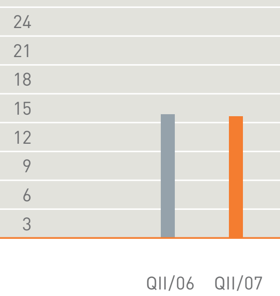
Larger number of direct connections leads to higher margin

Focusing on niches in the residential customer market + At € 12.7 million, revenues in the second quarter of 2007 with residential customers remained virtually unchanged from the year before. QSC continues to refrain from engaging unconditionally in the fierce price competition for voice and data services in this segment, but instead is concentrating on achieving a sufficient margin in connection with each and every product. However in view of the market situation, the margin here can not match its previous year's level. Additionally declining is open call-by-call business, which QSC employs to increase the utilization factor of its network during the evening and nighttime hours, in particular. Here, too, the inroads being made by Voice over IP and flat rates are reducing the attractiveness of conventional voice telephony.
These developments led to a declining segment EBITDA: At € 2.5 million in the second quarter of 2007, it was € 1.5 million lower than the year before, with the segment EBITDA margin standing at 20 percent.

Revenues Business Customers (in € million)



Revenues Residential Customers (in € million)



FINANCIAL POSITION AND NET ASSETS

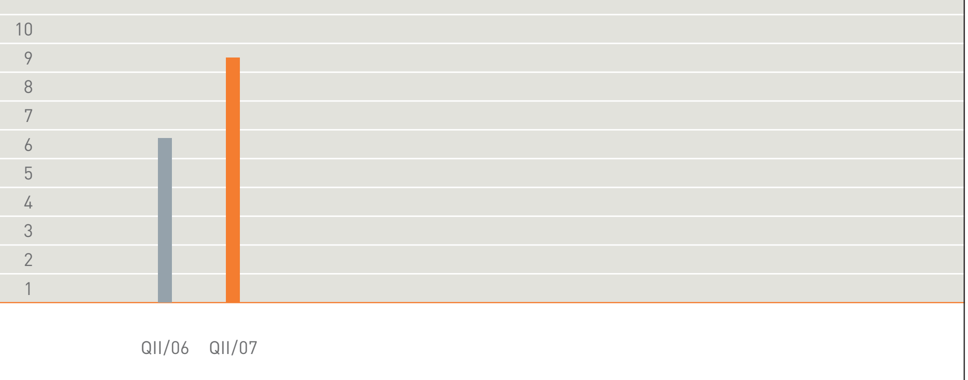
Rising cash flow from operating activities + In the second quarter of 2007, QSC earned a cash flow of € 8.5 million from operating activities, an increase of some 50 percent within the space of a year. This strong rise underscores the positive development of the operating business. Cash flow from investing activities amounted to a positive € 4.7 million, as a cash flow from purchases of property, plant and equipment as well as of intangible assets of € -13.3 million faces a cash flow from disposal of available-for-sale financial assets of € 18.0 million.

QSC disposes of liquid assets of € 93.1 million

Due to investing activities, customer-related capital expenditures as well as expenditures for network expansion, liquid assets declined to € 93.1 million, as opposed to € 108.9 million as of December 31, 2006. This line item includes the original cash contribution to Plusnet in the amount of € 50 million that was made by co-shareholder TELE2 in the autumn of 2006, which is serving to fully fund this network expansion.

QSC utilizes the instrument of financial leasing in order to finance some of its own capital expenditures. Compared to December 31, 2006, long-term debt under financial leasing contracts declined by € 1.2 million to € 14.8 million by June 30, 2007, while short-term debt was up moderately by € 0.8 million to € 14.2 million in the same period. The Company anticipates a similar level for this favorable form of financing in the coming quarters, as well. The financial statements for the period ended June 30, 2007, continue to record no long-term debt to financial institutions.

Cash flow from operating activities (in € million)



The soundness of the Company's financing is underscored by its equity ratio of 54 percent as of June 30, 2007. In this connection, QSC's capital stock rose moderately to € 135.2 million in the second quarter of 2007. On April 16, 2007, QSC acquired a further 209,000 Broadnet shares from institutional investors against issuance of 257,070 QSC shares. Plus the conversion of 49,177 convertible bonds to an equal number of QSC shares within the framework of employee stock option programs.

Higher capital expenditures + Capital expenditures rose to € 18.7 million in the second quarter of 2007, as opposed to € 11.7 million for the comparable quarter the year before. The good development of the Company's operating business led to a rise in capital expenditures for the connection of new customers. As a result of the strike at Deutsche Telekom, on the other hand, there were delays in the provision of network unbundling services – it is therefore anticipated that expansion of the network to nearly 2,000 central offices will not be able to be concluded until during the first quarter of 2008.

Rising number of new customers demands higher capital expenditures

BROADNET

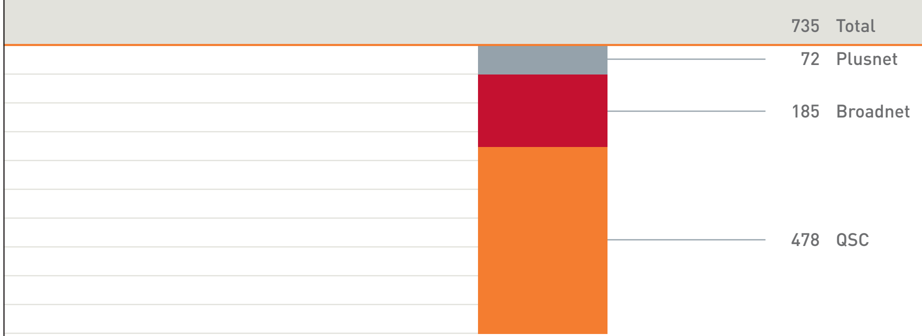
Merger approved by a sweeping majority + The annual shareholders meeting of QSC subsidiary Broadnet AG in Hamburg on May 23, 2007, approved this company's merger with QSC AG by a vast majority. During the subsequent weeks, Broadnet was served with a total of eight legal challenges to this move, with a court hearing scheduled for September 2007. QSC is hoping for a swift decision in this matter by the District Court of Hamburg in order to be able to utilize the synergy effects stemming from the merger.

HUMAN RESOURCES

With additional employees, QSC prepares for the expected growth in H2 of 2007

Customer-related operations expanded as planned + With a view to expected growth in the second half of 2007, QSC has, in particular, strengthened its order management and sales and marketing to enterprise customers in recent months. This increased the Company's workforce by 32 people over the previous quarter to a total of 735 employees. The majority of the new recruitment was attributable to QSC AG, which brought its workforce to a total of 478 people as of June 30, 2007. Network operating company Plusnet increased its workforce moderately by seven people to a total of 72 employees; subsidiary Broadnet AG was employing a workforce of 185 people as of June 30 of the current fiscal year.
QSC is also covering its demand for young professionals through in-house training. In the second quarter of 2007, eight trainees passed their final examinations as commercial office specialists, information technology specialists and systems electronics specialists; seven of these young people are now strengthening the QSC team. QSC will again be offering apprenticeships for commercial office specialists and information technology specialists for the new training year.

Workforce as of June 30, 2007



RISK REPORT

Voice over IP proving to be the winner + Even earlier than was still being anticipated at the outset of the year, price competition in conventional voice telephony has been increasing as a result of Voice over IP and flat rate offers. Although QSC had set the stage for responding to this change by expanding its IP-based Next Generation Network early on, it will still be necessary to incur temporary shortfalls in classical voice business. Medium-term, though, QSC expects to see new growth potential stemming from VoIP telephony as well as from direct connections of enterprise customers.

Thanks to the Next Generation Network, QSC can offer VoIP nationwide

Competitive behavior of Deutsche Telekom + Former monopolist Deutsche Telekom is fueling strong price competition in the German residential customer market, most recently through the introduction of its low-cost Congstar brand. As QSC sees it, however, this behavior is increasing the attractiveness of alternative network operators, and thus, in particular, wholesale business potential; this is because in this type of environment strong providers who do not possess their own infrastructure will only be able to earn sufficient margins with fully unbundled lines. In addition, QSC continues to bank on well-functioning regulation through the German Federal Network Agency and the EU Commission. As expected, the EU Commission initiated action for breach of the EU treaties during the first half of 2007 in order to continue to afford competitors access to Deutsche Telekom's new VDSL network in the future.

Over and above these issues, during the second 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 unaudited consolidated interim 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.

OUTLOOK

Revenues of more than € 350 million anticipated for 2007 + QSC expects to see strong revenue growth in the second half of 2007, especially in its wholesale business. Here, the Company was able to win a further partner to market ADSL2+ connections, 1&1 Internet AG, which had already begun marketing operations in the third quarter of 2007. Moreover, Plusnet partner TELE2 also began nationwide marketing of fully unbundled DSL lines in mid July. With a view to the very good business development, especially in the Wholesale/Reseller segment, and against the backdrop of pressure on prices in conventional voice telephony services as well as higher depreciation expense, QSC is reiterating its full year revenue forecast of more than € 350 million, its EBITDA target range of € 50 and € 60 million and further specifying its net income after taxes forecast to approximately € 15 million.

QSC expects strong and profitable growth beyond the year 2007

QSC expects to see a continuous strong and profitable growth beyond the year 2007. Beginning in 2008, QSC will be able to directly reach more than 70 percent of all enterprise customers in Germany with its nationwide network, as well as some 50 percent of all residential customers. The increased chance of being able to directly connect enterprise customers has three positive effects for QSC: Higher margins, greater customer loyalty, as well as the ability to sell additional services over existing lines. In this connection, the Company will begin offering further network-related services in the autumn of 2007. These include operation of internal voice and data networks, comprising connection and maintenance of end-user devices as well as broadening the opportunities offered by virtually networked telephone systems right through to a call manager for each individual workplace.

Interim Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

Euro amounts in thousands (T €)

	01/04/-30/06/ 2007	01/04/-30/06/ 2006	01/01/-30/06/ 2007	01/01/-30/06/ 2006
Net revenues	79,648	56,579	156,492	110,992
Cost of revenues	(50,510)	(37,057)	(99,596)	(75,090)
Gross Profit	29,138	19,522	56,896	35,902
Selling and marketing expenses	(10,614)	(10,529)	(21,769)	(19,506)
General and administrative expenses	(8,189)	(5,018)	(16,104)	(10,121)
Research and development expenses	(80)	(80)	(158)	(162)
Depreciation and non-cash share-based payments	(10,378)	(6,866)	(18,915)	(12,240)
Other operating income	649	233	1,465	372
Other operating expenses	(6)	(5)	(554)	(8)
Operating profit (loss)	520	(2,743)	861	(5,763)
Financial income	462	264	1,738	676
Financial expenses	(519)	(617)	(1,061)	(1,014)
Net profit (loss) before income taxes	463	(3,096)	1,538	(6,101)
Income taxes	-	-	-	-
Net profit (loss)	463	(3,096)	1,538	(6,101)
Attributable to:				
Equity holders of the parent	346	(3,104)	1,318	(6,109)
Minority interest	100	8	220	8
Earnings per share (basic and diluted) in €	0.00	(0.03)	0.01	(0.05)

CONSOLIDATED BALANCE SHEETS (unaudited)

Euro amounts in thousands (T €)

ASSETS	June 30, 2007	Dec. 31, 2006
Long-term assets		
Property, plant and equipment	68,222	61,489
Goodwill	49,019	47,450
Intangible assets	22,345	18,051
Other long-term financial assets	377	160
Deferred tax assets	6,403	6,403
Long-term assets	**146,366**	**133,553**
Short-term assets		
Trade receivables	54,499	52,778
Prepayments	4,633	1,099
Other receivables and short-term financial assets	7,212	3,566
Available-for-sale financial assets	40,197	62,927
Cash and short-term deposits	52,873	45,986
Short-term assets	**159,414**	**166,356**
TOTAL ASSETS	305,780	299,909

SHAREHOLDERS' EQUITY AND LIABILITIES	June 30, 2007	Dec. 31, 2006
Equity attributable to equity holders of the parent		
Capital stock	135,203	133,898
Capital surplus	560,031	557,961
Other capital reserves	(434)	(1,286)
Accumulated deficit	(532,379)	(533,697)
Equity attributable to equity holders of the parent	**162,421**	**156,876**
Minority interest	2,779	3,674
Total Shareholders' equity	**165,200**	**160,550**
Long-term liabilities		
Long-term liabilities of minority interest	50,549	49,860
Long-term portion of finance lease obligations	14,843	16,044
Convertible bonds	37	36
Accrued pensions	716	721
Deferred tax liability	5,649	5,084
Long-term liabilities	**71,794**	**71,745**
Short-term liabilities		
Trade payables	40,422	42,082
Short-term portion of finance lease obligations	14,213	13,443
Provisions	923	1,512
Deferred revenues	8,231	4,510
Other short-term liabilities	4,997	6,067
Short-term liabilities	**68,786**	**67,614**
Total liabilities	**140,580**	**139,359**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	305,780	299,909

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

Euro amounts in thousands (T €)

	01/01/- 30/06/ 2007	01/01/- 30/06/ 2006
Cash flow from operating activities		
Net profit (loss) before income taxes	1,538	(6,101)
Depreciation and amortization	18,301	12,093
Non-cash share-based payments	596	153
Loss from disposal of long-term assets	12	42
Changes in provisions	(594)	1,909
Changes in trade receivables	(1,721)	(6,044)
Changes in trade payables	(1,660)	4,014
Changes in other financial assets and liabilities	(4,746)	(10,330)
Cash flow from operating activities	**11,726**	**(4,264)**
Cash flow from investing activities		
Purchase of available-for-sale financial assets	(2,865)	(5,185)
Disposal of available-for-sale financial assets	25,823	11,831
Payments related to acquisitions	-	17,142
Purchases of intangible assets	(8,084)	(2,816)
Purchases of property, plant and equipment	(14,399)	(3,057)
Proceeds from disposal of assets	15	4
Cash flow from investing activities	**490**	**17,919**
Cash flow from financing activities		
Changes in convertible bonds	1	1
Assumption of minority interst liabilities	689	-
Proceeds from issuance of common stock	1,257	1,180
Repayments of finance lease	(7,276)	(4,864)
Cash flow from financing activities	**(5,329)**	**(3,683)**
Change in cash and short-term deposits	**6,887**	**9,972**
Cash and short-term deposits at January 1	45,986	30,313
Change in cash and short-term deposits at June 30	**52,873**	**40,285**
Interest paid	1,635	993
Interest received	2,067	620

CONSOLIDATED STATEMENTS OF DIRECTLY RECOGNIZED INCOME AND EXPENSE (unaudited)

Euro amounts in thousands (T €)

	01/01/-30/06/ 2007	01/01/-30/06/ 2006
Directly recognized in equity		
Available-for-sale financial assets		
change in fair value	1,429	(177)
realized gains (losses)	(12)	6
Tax effect, total	(565)	68
Directly recognized in equity	**852**	**(103)**
Net profit (loss)	1,538	(6,101)
Net profit (loss) and directly recognized income and expense	**2,390**	**(6,204)**
Attributable to:		
Equity holders of the parent	2,170	(6,212)
Minority interest	220	8

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				1,318	1,318
Change in fair value of available-for-sale financial assets			1,417		1,417
Deferred taxes on available-for-sale financial assets			(565)		(565)
Issuance of common stock by assets in kind	257	1,247			1,504
Conversion of convertible bonds	1,048	209			1,257
Non-cash share-based payments		614			614
Change in minority interest					-
Balance at June 30, 2007	**135,203**	**560,031**	**(434)**	**(532,379)**	**162,421**
Balance at January 1, 2006	**115,033**	**499,643**	**(1,357)**	**(528,281)**	**85,038**
Net loss				(6,109)	(6,109)
Change in fair value of available-for-sale financial assets			(170)		(170)
Deferred taxes on available-for-sale financial assets			68		68
Issuance of common stock by assets in kind	11,232	37,740			48,972
Conversion of convertible bonds	788	392			1,180
Non-cash share-based payments		147			147
Change in minority interest					-
Balance at June 30, 2006	**127,053**	**537,922**	**(1,459)**	**(534,390)**	**129,126**

Minority interest T €	Total Shareholders' Equity T €	
3,674	**160,550**	**Balance at January 1, 2007**
220	1,538	Net profit
	1,417	Change in fair value of available-for-sale financial assets
	(565)	Deferred taxes on available-for-sale financial assets
	1,504	Issuance of common stock by assets in kind
	1,257	Conversion of convertible bonds
	614	Non-cash share-based payments
(1,115)	(1,115)	Change in minority interest
2,779	**165,200**	**Balance at June 30, 2007**
-	**85,038**	**Balance at January 1, 2006**
8	(6,101)	Net loss
	(170)	Change in fair value of available-for-sale financial assets
	68	Deferred taxes on available-for-sale financial assets
	48,972	Issuance of common stock by assets in kind
	1,180	Conversion of convertible bonds
	147	Non-cash share-based payments
13,302	13,302	Change in minority interest
13,310	**142,436**	**Balance at June 30, 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 unaudited interim consolidated financial statements for the first three months ended June 30, 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 June 30, 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 June 30, 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. Only the percentage held of the shares of Broadnet has increased through an agreement signed on April 16, 2007, to acquire a further 209,000 Broadnet shares from institutional investors. QSC thus now holds 15,094,967 out of a total of 16,166,286 Broadnet shares, representing 93.4 percent of the capital stock of Broadnet.

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/Reseller 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/ - 30/06/2007 in T €	Segment Large accounts	Segment Business customers	Segment Wholesale/ Resellers	Segment Residential customers	Recon- ciliation	Consoli- dated
Net revenues	**36,408**	**42,152**	**51,286**	**26,646**	**-**	**156,492**
Directly allocated costs	(15,485)	(18,457)	(27,776)	(21,281)	-	(82,999)
Contribution margin	**20,923**	**23,695**	**23,510**	**5,365**	**-**	**73,493**
Not allocated costs	-	-	-	-	(53,717)	(53,717)
EBITDA	**20,923**	**23,695**	**23,510**	**5,365**	**(53,717)**	**19,776**
Depreciation and amortization	(1,210)	(1,326)	(2,042)	(1,871)	(11,852)	(18,301)
Non-cash share-based payments	-	-	-	-	(614)	(614)
Financial result	-	-	-	-	677	677
Net profit/(loss)	**19,713**	**22,369**	**21,468**	**3,494**	**(65,506)**	**1,538**
Long-term assets	4,859	5,462	7,256	6,412	281,791	305,780
Liabilities	5,698	6,398	7,659	7,532	113,293	140,580
Capital expenditures	2,341	2,569	3,274	2,952	18,192	29,328

01/01/ - 30/06/2006 in T €	Segment Large accounts	Segment Business customers	Segment Wholesale/ Resellers	Segment Residential customers	Recon- ciliation	Consoli- dated
Net revenues	**29,688**	**35,345**	**18,187**	**27,772**	**-**	**110,992**
Directly allocated costs	(13,530)	(16,962)	(8,249)	(20,667)	-	(59,408)
Contribution margin	**16,158**	**18,383**	**9,938**	**7,105**	**-**	**51,584**
Not allocated costs	-	-	-	-	(45,107)	(45,107)
EBITDA	**16,158**	**18,383**	**9,938**	**7,105**	**(45,107)**	**6,477**
Depreciation and amortization	(561)	(645)	(548)	(848)	(9,491)	(12,093)
Non-cash share-based payments	-	-	-	-	(147)	(147)
Financial result	-	-	-	-	(338)	(338)
Net profit/(loss)	**15,597**	**17,738**	**9,390**	**6,257**	**(55,083)**	**(6,101)**
Long-term assets	3,313	3,809	3,236	5,008	203,964	219,330
Liabilities	3,033	3,487	2,962	4,584	62,828	76,894
Capital expenditures	1,303	1,498	1,273	1,970	12,963	19,007

Directly allocated costs consist of those segment expenses that can be directly allocated to the respective segment on the basis of revenues. Not 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 Related party transactions

In the first half of 2007, QSC participated in transactions with companies affiliated with members of the management. According to IAS 24 related parties are individuals or companies with the possibility to influence or even control the other party. All contracts with these companies require the approval of the Supervisory Board and are made on the basis of arm's length principles.
IN-telegence GmbH & Co. KG provides value-added telecommunication services. Teleport Köln GmbH operates and maintains QSC's private broadcast exchange and in-house telephone systems. QS Communication Verwaltungs Service GmbH provides consultancy on the integration of Broadnet.

	Net revenues in T €	Expenses in T €	Cash received in T €	Cash paid in T €
01/01/-30/06/2007				
IN-telegence GmbH & Co. KG	28	(59)	28	(79)
Teleport Köln GmbH	2	58	2	54
QS Communication Verwaltungs Service GmbH	-	37	-	43
01/01/-30/06/2006				
IN-telegence GmbH & Co. KG	16	(97)	13	(85)
Teleport Köln GmbH	-	23	-	39
QS Communication Verwaltungs Service GmbH	-	95	-	54

	Trade accounts receivables in T €	Trade accounts payable in T €
At June 30, 2007		
IN-telegence GmbH & Co. KG	5	(7)
Teleport Köln GmbH	-	24
QS Communication Verwaltungs Service GmbH	-	-
At June 30, 2006		
IN-telegence GmbH & Co. KG	3	(32)
Teleport Köln GmbH	-	7
QS Communication Verwaltungs Service GmbH	-	75

6 Management Board

	Shares		Convertible bonds	
	30/06/2007	30/06/2006	30/06/2007	30/06/2006
Dr. Bernd Schlobohm	13,818,372	13,818,372	350,000	350,000
Markus Metyas	108,307	2,307	675,000	1,575,000
Bernd Puschendorf	348,397	3,000	125,000	1,025,000

7 Supervisory Board

	Shares		Convertible bonds	
	30/06/2007	30/06/2006	30/06/2007	30/06/2006
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	14,563	4,563	-	10,000

8 Subsequent events

There have been no reportable events or transactions since the close of the interim reporting period on June 30, 2007.

9 Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the interim management report of the group includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group for the remaining months of the financial year.

Cologne, August 2007

Dr. Bernd Schlobohm
Chief Executive Officer

Markus Metyas

Bernd Puschendorf

Calendar

Quaterly Report III/2007
November 19, 2007

Conferences / Events
September 5, 2007
Broadband & Media Forum 2007
Commerzbank, London

September 24, 2007
Alternative Telecom Conference
UBS, London

September 25, 2007
German Investment Conference 2007
HypoVereinsbank, Munich

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

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Further information at www.qsc.de