QSC AG

Quarterly Report 2008 April May June

Key Data

All amounts in € million	01/04/-30/06/ 2008	01/04/-30/06/ 2007	01/01/-30/06/ 2008	01/01/-30/06/ 2007
Revenues	100.2	79.6	197.7	156.5
Gross profit	+30.9	+29.1	+62.1	+56.7
EBITDA	+14.2	+10.9	+25.6	+19.8
EBIT	-0.8	+0.5	-4.4	+0.9
Net profit (loss)	-1.5	+0.5	-5.6	+1.5
Earnings per share [1] (in €)	-0.01	0.00	-0.04	+0.01
Capital expenditures	19.7	18.7	48.3	29.3
Equity			149.9 [2]	154.5 [3]
Balance sheet total			374.3 [2]	371.9 [3]
Equity ratio (in percent)			40.0 [2]	41.5 [3]
Liquidity			63.0 [2]	79.4 [3]
Share price as of 30/06/ (in €)			2.03	4.80
Number of shares as of 30/06/			136,992,137	135,203,660
Market capitalization as of 30/06/			278.1	649.0
Employees as of 30/06/			733	735

[1] basic and diluted
[2] as of June 30, 2008
[3] as of December 31, 2007

Highlights

Quarterly revenues cross the € 100-million threshold • In the second quarter of 2008, QSC grew its revenues by 26 percent year on year to € 100.2 million, recording quarterly revenues of more than € 100 million for the first time in the Company's history.

Nearly 100,000 DSL lines in the second quarter • QSC connected 93,600 DSL lines in the second quarter of 2008, bringing the total number of lines in Germany to 467,100 as of June 30. QSC anticipates reaching the breakeven point for its DSL network at a total of some 550,000 lines. The network had been undergoing major expansion since early 2007, with the project being concluded in the second quarter of 2008. The Company now has 1,900 central offices nationwide.

EBITDA totals € 14.2 million • In the second quarter of 2008, QSC's EBITDA advanced by 30 percent year on year to € 14.2 million. The 25-percent rise in EBITDA over the first quarter of 2008 underscores the Company's rapidly rising profitability; the EBITDA margin rose by two percentage points to 14 percent within the space of a single quarter.

Guidance again raised • Given the very good development of its operative business, QSC has raised its guidance for the full 2008 fiscal year already for the second time this year with the announcement of the preliminary numbers on August 11, 2008: The Company now anticipates revenues of more than € 405 million and an EBITDA of more than € 60 million.

QSC shares suffering from capital market environment • The threat of recession in the United States and the financial market crisis burdened share prices worldwide. Even though the trading prices of QSC shares advanced by 20 percent in this environment during the second quarter of 2008, they clearly fell short of their previous year's level.

Letter to Our Shareholders

Dear Shareholders,

The second quarter of 2008 was a good quarter for our Company. For the first time in its history, QSC recorded quarterly revenues of more than € 100 million! At the same time, our EBITDA advanced to € 14.2 million and the EBITDA margin stood at 14 percent, improving by two percentage points within the space of a single quarter. This sharp rise in profitability in the face of a more difficult economic environment demonstrates the crucial advantage of the infrastructure-based QSC business model: Each additional customer improves network utilization and increases profitability. This applies all the more so now that the network expansion project has been concluded.

EBITDA margin improves by two percentage points to 14 percent

Our Wholesale business, first and foremost, will be providing swift utilization of the expanded network in the coming quarters, because our Wholesale partners are winning thousands of new customers each month. Overall, QSC connected 93,600 new DSL lines during the second quarter, bringing the total number of lines to 467,100. We anticipate reaching the breakeven point for the network, which had been undergoing major expansion since early 2007, at approximately 550,000 lines.

QSC concluded this network expansion project in the second quarter of 2008. The Company now has a nationwide DSL infrastructure of 1,900 central offices, enabling us to directly connect one half of all German households and two thirds of the enterprise customers that are of interest to QSC. This expanded network will now allow us to do an even better job of addressing our core target group, enterprise customers. A framework agreement with the Association of authorized dealers of BMW in Germany in June again shows the capabilities of our Company. In the future, we will be able to implement these kinds of projects even more often and increasingly offer network related services, Managed and Hosted Services, on the basis of our nationwide network.

While the Managed Services segment continues to grow, the Products segment is being burdened by continuing structural change and the rapid decline in prices in conventional voice business that is currently resulting from this. We view this development as confirming our decision early on to build an IP-capable Next Generation Network. In the coming quarters, one of our key tasks will be to migrate further voice customers to this modern network, where we can offer them high-quality services at attractive prices.

QSC raises its guidance for the full 2008 fiscal year for the second time

Overall, we view the development of our operative business in the first half of 2008 in a very positive light. This prompted us to raise our guidance for the full 2008 fiscal year for the second time in connection with the announcement of our preliminary numbers on August 11, 2008: QSC now anticipates revenues of more than € 405 million and an EBITDA of more than € 60 million. At the same time, the successful integration of Broadnet, the conclusion of the network expansion project and our strong and profitable growth, first and foremost, will serve as the foundation for returning QSC to profitability in the second half of 2008.

This return to the profitability zone demonstrates that QSC has overcome last year's period of weakness. And at this point, fellow shareholders, we would like to thank you for your trust in recent months and assure you that increasing the value of the company will have top priority for us in the coming quarters.

Cologne, August 2008

Dr. Bernd Schlobohm
Chief Executive Officer

Bernd Puschendorf

Markus Metyas

Interim Consolidated Report QII 2008

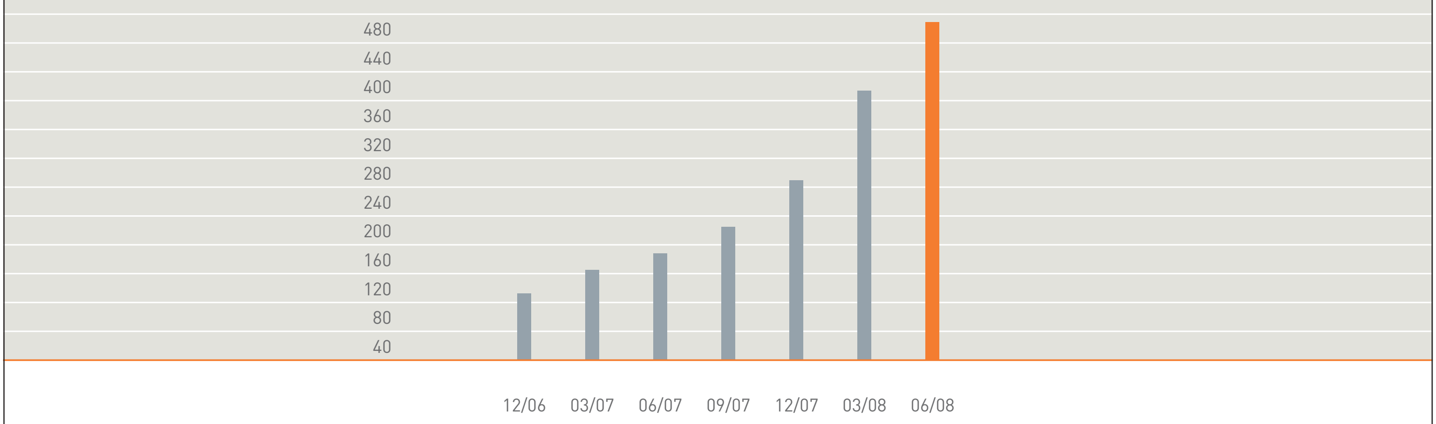
GENERAL ECONOMIC CONDITIONS

Economic growth weakens • The second quarter of 2008 saw increasing signs that economic growth in Germany was weakening. This could also impact willingness on the part of enterprises to make capital expenditures in the coming quarters. However, QSC had also remained on its growth course during the last recession in 2002/2003, and sees itself as being very well aligned in today's environment with its productivity-enhancing products and services on the basis of its cutting-edge infrastructure.

In the telecommunications market, there was sustained pressure on pricing in the market for conventional voice telephony, on the one hand, as well as strong demand for innovative services like Voice over IP and Managed Services, on the other. There was also a further rise in the total number of DSL connections in a market in which fewer new connections are traditionally made during the second and third quarters of a year than in the two other quarters.

Strong demand for innovative services like Managed Services

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



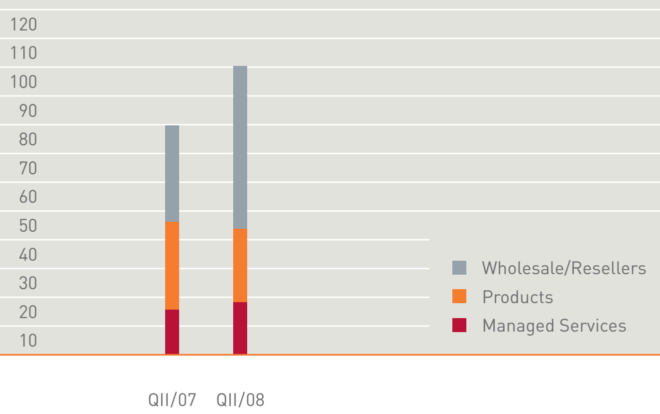
BUSINESS SITUATION

Quarterly revenues pass the € 100-million threshold • In spite of the weakening economy, QSC grew its revenues by 26 percent to € 100.2 million in the second quarter of 2008, as opposed to € 79.6 million for the same quarter the year before, recording quarterly revenues of more than € 100 million for the first time in the Company's history. QSC posted its strongest revenue growth in the Wholesale/Reseller segment, which benefited especially from the large number of new local loops that were provided: The Company connected 93,600 additional DSL lines during the second quarter of 2008, increasing the number of DSL lines by 25 percent within the space of a single quarter to a total of 467,100 lines. The large number of new DSL lines played a major role in enabling QSC to increase its revenues by 26 percent to € 197.7 million in the first half of 2008, as opposed to € 156.5 million for the first six months the year before.

Number of DSL lines rose by 25 percent to 467,100

Network expenses, which QSC records under cost of revenues, totaled € 69.3 million in the second quarter of 2008, as opposed to € 50.6 million for the same quarter the year before; € 0.1 million of this total was attributable to research and development. The rise in network expenses was essentially attributable to the network expansion project, under which QSC has increased the number of central offices by around 90 percent to a total of 1,900 since the beginning of 2007. The full structural costs for the expanded network were incurred for the first time in the second quarter of 2008 following the conclusion of this project. Moreover, the Company's rapidly growing customer base led to a rise in the variable cost of materials; this line item includes the recurring fees that QSC has to pay to Deutsche Telekom for using the local loops, as well as customer-specific leased lines and interconnection fees.

Revenue Mix (in € million)



Following the conclusion of the network expansion project, gross profit totaled € 30.9 million in the second quarter of 2008, as opposed to € 29.1 million for the same quarter the year before; gross margin stood at 31 percent.

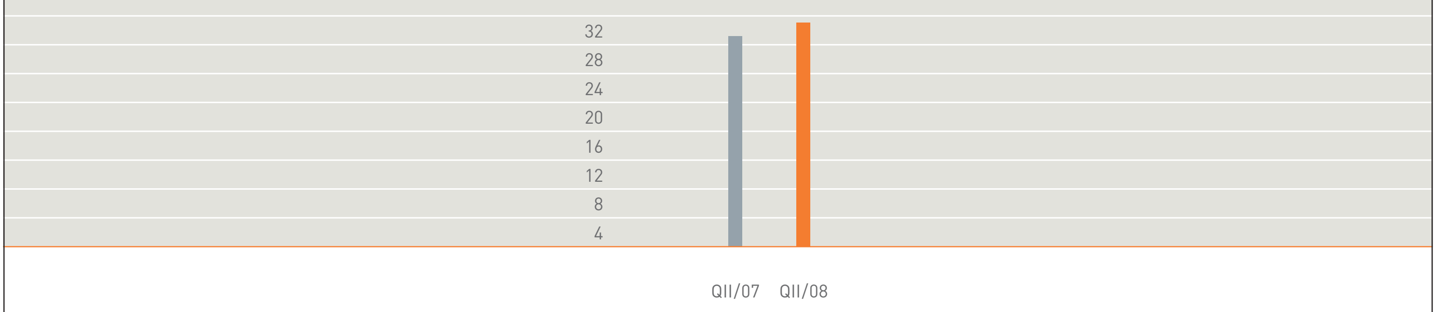
Structures optimized in Sales and Administration • Following the merger of Broadnet, QSC has optimized its Sales and Administration structures, and has achieved considerable synergy potential through consolidation of the QSC and Broadnet administrative operations at the Cologne location, as well as by consolidating sales offices, reducing the number of redundantly staffed positions and optimization of rental contracts as well as necessary square footage. In addition, the Company has been scrutinizing all cost items since the autumn of 2007 and swiftly taking advantage of cost-saving potential.

After Broadnet merger, QSC has achieved considerable synergy potential

At € 10.8 million in the second quarter of 2008, selling and marketing expenses therefore remained virtually unchanged from the second quarter of 2007, where this line item had totaled € 10.6 million – even though revenues advanced by some € 20 million during the same period. And in absolute numbers, in fact, general and administrative expenses declined to € 6.4 million, as opposed to € 8.2 million in the second quarter of 2007.

EBITDA margin stands at 14 percent • The strong rise in revenues and the achievement of synergies following the Broadnet merger led to a 30-percent rise in EBITDA to € 14.2 million in the second quarter of 2008, as opposed to € 10.9 million for the same quarter the year before. In the first half of 2008, QSC grew its EBITDA by 29 percent to € 25.6 million, as opposed to € 19.8 million for the first six months of the previous year. QSC defines the key steering parameter of EBITDA as earnings before interest, taxes, amortization of deferred non-cash share-based payments and depreciation on property, plant and equipment, as well as amortization of intangible assets and goodwill.

Gross Profit (in € million)



EBITDA rose by 25 percent over the first quarter of 2008, documenting QSC's growth and its ability to achieve synergies. Following an EBITDA margin of 12 percent in the first quarter of 2008, this metric stood already at 14 percent in the second quarter of 2008.

Since QSC still continues to use its first central offices even eight years after they were outfitted, the Company has decided, as agreed with its new auditor KPMG, which was elected at the Annual Shareholders Meeting on May 21, 2008, to depreciate the physical plant on these premises over ten years instead of eight beginning in 2008, thus appropriately reflecting the considerably longer service life of the physical plant. Moreover, QSC is adopting the comparable industry standard with this move. This same background has prompted the Company to increase the depreciation period for technical equipment at the central offices from five to eight years, thus reflecting the continued usage of QSC's first systems.

Nevertheless, there were two reasons why depreciation expense rose to € 15.0 million in the second quarter of 2008, as opposed to € 10.4 million for the comparable quarter the year before: First, the network expansion project resulted in corresponding capital expenditures during this period, thus producing new depreciation expense; second, strong customer growth is contributing to this increase, as QSC depreciates its capitalized customer connection costs within 24 months.

Net result improved by € 2.6 million over the 1st quarter of 2008

Return to the profitability zone • EBIT remained negative in the second quarter of 2008 at € -0.8 million, as opposed to € 0.5 million for the same quarter the year before, and the Company's after-tax net result amounted to a net loss of € -1.5 million, as opposed to net income of € 0.5 million in the second quarter of 2007. However the Company's net result has already improved by € 2.6 million over the first quarter of 2008, which means that its result amounted to a net loss of € -5.6 million in the first six months, as opposed to net income of € 1.5 million for the corresponding period the year before. QSC plans to return to the profitability zone and to record net income in the second half of the current fiscal year.

EBITDA (in € million)

BUSINESS BY SEGMENT

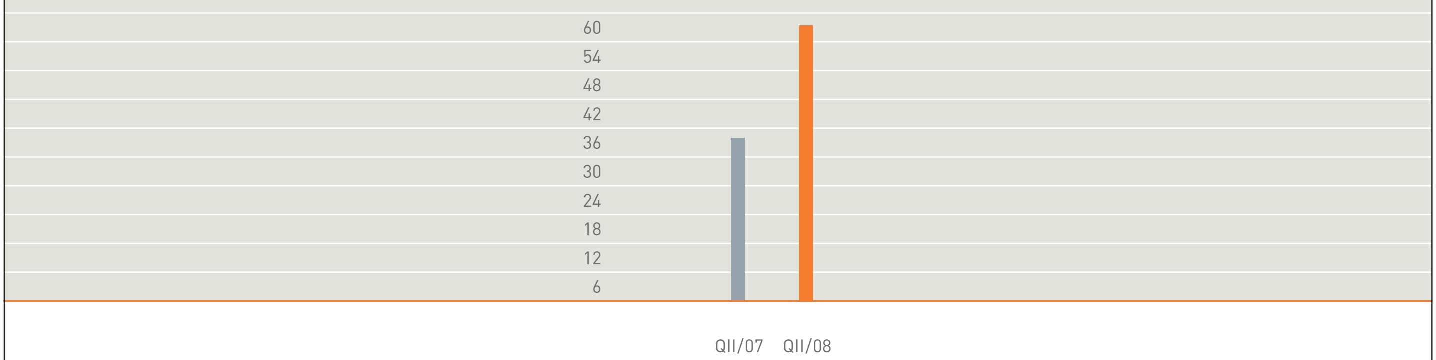
New segment reporting fine-tuned • Following the initial announcement early on of the Company's new segment reporting under IFRS 8 on May 15, 2008, QSC has now further refined its internal and external reporting; one of the steps in this connection was to again review the way all of its customers are allocated to the individual segments. In particular, product revenues with enterprise customers who are acting as resellers have been reclassified in this connection from the Products segment to the Wholesale/Reseller segment. This therefore resulted in the following adjusted revenues for the first quarter of 2008: In the Managed Services segment, QSC increased its revenues by 8 percent to € 17.9 million, as opposed to € 16.5 million for the corresponding quarter the year before; in the Wholesale/Reseller segment, revenues advanced by 84 percent to € 51.7 million, as opposed to € 28.1 million. Revenues in the Products segment declined by 13 percent to € 27.9 million, as opposed to € 32.2 million in the first quarter of 2007.

Wholesale the growth driver • Increasing by 69 percent to € 56.6 million, QSC's second-quarter revenues in the Wholesale/Reseller segment clearly outperformed the other segments. This development was again driven by Wholesale business which, in addition to connecting new customers, was increasingly benefiting from the migration of the Company's wholesale partners' T-DSL resale customers to fully unbundled DSL connections. And traditional Reseller business, as well, developed on a positive note: International telecommunications providers are utilizing QSC's expanded network and are now increasingly collaborating with QSC as the German partner in their networking projects.

Growing migration of T-DSL resale customers to QSC connections

As a result of this strong growth, there was a significant rise in segment EBITDA in the Company's Wholesale/Reseller business in the second quarter of 2008, which advanced by 86 percent to € 27.7 million. The segment EBITDA margin stood at 49 percent.

Revenues Wholesale/Resellers (in € million)



Rising demand for network-related services • Revenues in the Managed Services segment increased by 17 percent to € 18.3 million in the second quarter of 2008. In addition to unabated demand for IP-VPN solutions, the Company is also experiencing increased interest in Hosted Services. The VirtuOS ACD Software-as-a-Service solution is being used more and more frequently in call centers, for example.

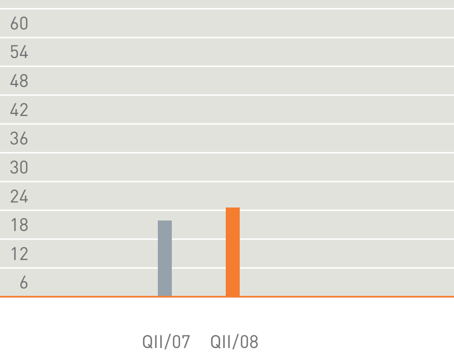
With the Association of authorized dealers of BMW in Germany, QSC succeeded in winning an attractive new customer for a framework agreement in the second quarter of 2008. In the future, QSC will be able to supply the 285 German BMW franchise dealers at some 700 locations with high-performance voice and data connections, assuring them fast and secure Internet links.

QSC recorded very attractive margin in Managed Services

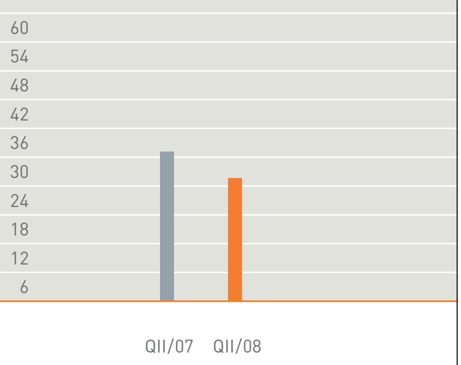
Totaling 57 percent, QSC again recorded its highest segment EBITDA margin in the field of Managed Services in the second quarter of 2008, where segment EBITDA rose by 17 percent over the second quarter of 2007 to € 10.5 million.

Products segment burdened by conventional voice telephony • The revenue decline in the Products segment continued in the second quarter, with QSC recording revenues of € 25.3 million, as opposed to € 30.6 million for the corresponding quarter the year before. This decline in revenues stemmed from the continuing structural change and the pressure on pricing in the market for conventional voice telephony resulting from this currently. While QSC had still been achieving 52 percent of its segment revenues here in the first quarter of 2008, the share of revenues attributable to this line of business declined to 46 percent in the second quarter. This revenue decline relates first and foremost to the residential customer business, in particular the call-by-call offering with which QSC uses underutilized network capacities.

Revenues Managed Services (in € million)



Revenues Products (in € million)



On the other hand, business with small companies, independent contractors and professionals developed on a satisfactory note – the number of customers with direct connections to the QSC network is rising. At the same time, revenues are rising with data products like Q-DSLmax as well as their combination with Voice over IP products, the QSC-Complete packages. The high quality of QSC products played a major role in enabling QSC to win an award in the "Best Business Customer ISP" category for the fourth time in June 2008 in a competition conducted by the German Internet Association (eco).

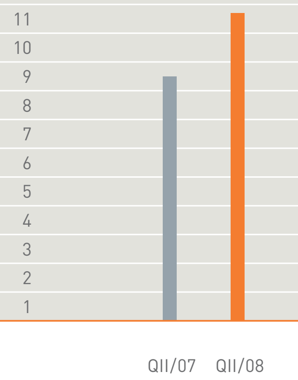
Number of direct connections to the QSC network is rising

The decline in revenues in this segment also led to a decline in segment EBITDA to € 11.5 million in the second quarter of 2008, as opposed to € 13.2 million for the same quarter the year before. During the same period, the segment EBITDA margin rose moderately to 45 percent, as QSC is increasingly generating higher-margin revenues with direct connections in this segment.

FINANCIAL POSITION AND NET ASSETS

Scheduled course of liquidity • Net cash provided by operating activities totaling € 10.7 million in the second quarter of 2008 stood in contrast to net cash used in investing activities in the amount of € 8.5 million and net cash used in financing activities in the amount of € 2.8 million.
Liquid assets, which QSC defines as cash and cash equivalents as well as available-for-sale financial assets, thus totaled € 63.0 million as of June 30, 2008, as opposed to € 68.8 million at March 31, 2008. This decline in liquidity will also continue in the coming quarters of 2008, as QSC had often been able to arrange very long payment terms in connection with the network expansion project and these trade accounts payable are now being reduced according to schedule. In doing so, the Company is employing the € 50-million contribution in cash from TELE2 as a co-shareholder in networking operating company Plusnet. The Company had already received this cash in the summer of 2006, which is serving to finance the network expansion project.

Operating Cash Flow (in € million)

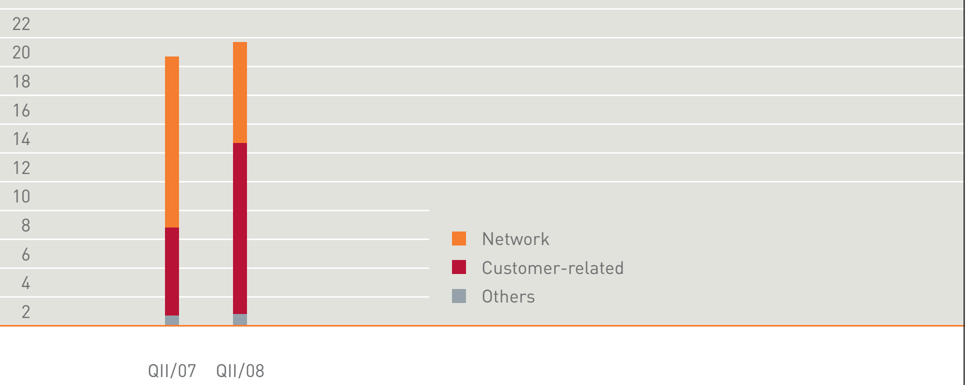


Overall, short-term liabilities rose moderately to € 131.0 million as of June 30, 2008, as opposed to € 126.3 million on December 31, 2007; however there has already been a significant decline of € 20.3 million by comparison with March 31, 2008. Long-term liabilities rose moderately to € 93.4 million, as opposed to € 91.2 million as of December 31, 2007. 61 percent, or € 56.6 million, of this total stemmed from the consolidation of the equity account of the minority shareholder of Plusnet and will not have to be repaid.

Nationwide DSL network with 1,900 central offices in more than 200 cities

Network expansion project concluded • In the second quarter of 2008, QSC concluded the network expansion project that had been launched in early 2007, and now has a nationwide DSL network with 1,900 central offices in more than 200 German cities with populations of more than 40,000. Overall, capital expenditures in the amount of € 19.7 million were recorded in the second quarter of 2008, as opposed to € 18.7 million for the corresponding quarter the year before; this metric had already declined by € 8.9 million compared to the first quarter of 2008. 36 percent of the capital expenditures in the second quarter of 2008 were attributable to the network, while other capital expenditures accounted for 4 percent. At 60 percent, the lion's share was attributable to customer-related capital expenditures. These essentially consist of capitalized provisioning expenditures for customer connections, as well as expenditures for end-user products like routers that are installed at the customer site. QSC swiftly invoiced around 90 percent of these capital expenditures to the respective customers, and defers the corresponding installation revenues over a period of 24 months.

Capital expenditures (in € million)



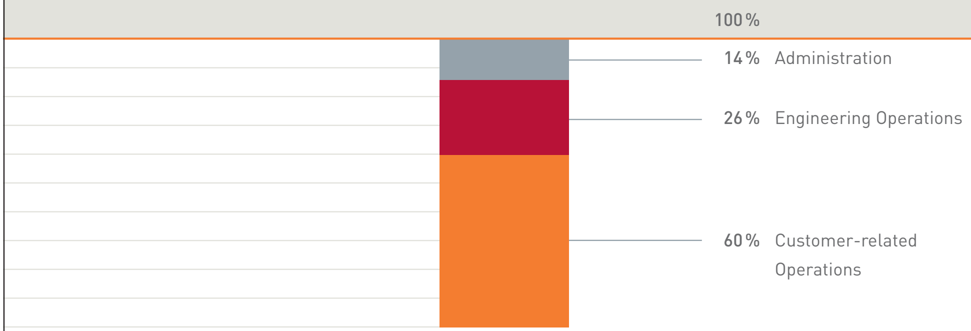
In the balance sheet, capitalized customer connections increased other intangible assets to € 40.5 million, as opposed to € 25.6 million as of December 31, 2007. Overall, long-term assets, which primarily consist of property, plant and equipment, thus rose to € 233.2 million, as opposed to € 215.3 million as of year-end 2007.
Subscribed capital rose moderately to € 137.0 million, as opposed to € 136.4 million as of December 31, 2007, as 632,822 convertible bonds have been converted to QSC shares within the framework of employee profit-sharing programs since the beginning of the year. Although the equity ratio increased by two percentage points to 40 percent by comparison with March 31, 2008, it still fell short of its year-end level of 42 percent. This resulted from the final capital expenditures for the network expansion project, which led to a rise in both short- and long-term liabilities.

HUMAN RESOURCES

Optimum workforce • As of June 30, 2008, QSC employed a workforce of 733 people, as opposed to 770 at the end of March and 820 at year-end 2007. This decline stemmed from the consolidation of the QSC and Broadnet administrative operations at the Cologne location, the reduction of redundantly staffed positions in other areas of the Company, as well, and from a review of QSC's manpower levels in all departments that was prompted in connection with the restructuring in the autumn of 2007. These measures, which are expected to reduce the manpower level to around 700 people by year-end, were concluded at mid-year 2008. With this workforce, QSC sees itself very well aligned for its anticipated growth in the current fiscal year and beyond.
During the second quarter of 2008, the focus of the QSC team was clearly on sales and marketing: 60 percent of the workforce was working in customer-related operations. Technical operations accounted for 26 percent, administrative operations for 14 percent. In this connection, network operating company Plusnet employed 79 people; the vast majority of the remaining workforce was employed by QSC AG.

60 percent of the workforce of QSC is working in customer-related operations

Workforce Structure (in percent)



RISK REPORT

No material changes in risk position • In the second quarter of 2008, there were no material changes in the risks that were presented in the 2007 Annual Report. However, as a result of the risks portrayed therein, as well as other risks or incorrect assumptions, actual future results could vary from QSC's expectations. All statements contained in this unaudited Interim Consolidated Report that are not historical facts are therefore forward-looking statements. They are based upon current expectations and projections of future events, and could therefore change over the course of time.

GUIDANCE AND OPPORTUNITIES

QSC anticipates revenues of more than € 405 million

Guidance raised for the full 2008 fiscal year • Given the very good course of business during the first half of 2008, in announcing its preliminary numbers on August 11, 2008, QSC again increased its guidance for the full 2008 fiscal year, which it had already raised on May 15, 2008. The Company now anticipates revenues of more than € 405 million and an EBITDA of more than € 60 million. The Company had previously been planning on revenues at the upper end of a € 385 to € 405 million range and an EBITDA at the upper end of a € 50 to € 60 million range. The Company is also aiming for a breakeven net result.

QSC anticipates recording its strongest revenue growth in the coming quarters in the Wholesale/Reseller segment. The Company expects to see revenues rise in the Managed Services segment, as well, while during the further course of the year the Products segment will still have to absorb the consequences of the pressure on pricing in conventional voice telephony. Given this backdrop, QSC is working hard to further drive the migration of these voice customers to its IP-based Next Generation Network, and is intentionally foregoing low-cost offerings for residential customers.

This higher revenue expectation is necessitating higher customer-related capital expenditures. QSC now anticipates capital expenditures of more than € 80 million for the full fiscal year, as opposed to € 60 to € 80 million thus far. More than 60 percent of these capital expenditures are expected to be customer-related capital expenditures, of which again around 90 percent are swiftly invoiced to the respective customers.

Interim Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

Euro amounts in thousands (T €)

	01/04/-30/06/ 2008	01/04/-30/06/ 2007	01/01/-30/06/ 2008	01/01/-30/06/ 2007
Net revenues	100,226	79,648	197,709	156,492
Cost of revenues	(69,327)	(50,590)	(135,598)	(99,754)
Gross profit	**30,899**	**29,058**	**62,111**	**56,738**
Selling and marketing expenses	(10,828)	(10,614)	(23,561)	(21,769)
General and administrative expenses	(6,353)	(8,189)	(13,630)	(16,104)
Depreciation and non-cash share-based payments	(14,967)	(10,378)	(30,012)	(18,915)
Other operating income	622	649	905	1,465
Other operating expenses	(181)	(6)	(228)	(554)
Operating profit (loss)	**(808)**	**520**	**(4,415)**	**861**
Financial income	463	462	1,115	1,738
Financial expenses	(1,013)	(519)	(2,063)	(1,061)
Net profit (loss) before income taxes	**(1,358)**	**463**	**(5,363)**	**1,538**
Income taxes	(105)	-	(249)	-
Net profit (loss)	**(1,463)**	**463**	**(5,612)**	**1,538**
Attributable to:				
Equity holders of the parent	(1,463)	346	(5,612)	1,318
Minority interest	-	100	-	220
Earnings per share (basic and diluted) in €	**(0.01)**	**0.00**	**(0.04)**	**0.01**

CONSOLIDATED BALANCE SHEETS (unaudited)

Euro amounts in thousands (T €)

ASSETS	June 30, 2008	Dec. 31, 2007
Long-term assets		
Property, plant and equipment	134,198	131,224
Goodwill	49,941	50,014
Other intangible assets	40,462	25,599
Other long-term financial assets	484	356
Deferred tax assets	8,099	8,099
Long-term assets	**233,184**	**215,292**
Short-term assets		
Trade receivables	58,133	64,944
Prepayments	7,038	3,420
Other short-term financial assets	13,016	8,877
Available-for-sale financial assets	13,759	5,276
Cash and short-term deposits	49,216	74,132
Short-term assets	**141,162**	**156,649**
TOTAL ASSETS	374,346	371,941

SHAREHOLDERS' EQUITY AND LIABILITIES	June 30, 2008	Dec. 31, 2007
Shareholders' equity		
Capital stock	136,991	136,358
Capital surplus	562,897	562,501
Other reserves	(288)	(289)
Accumulated deficit	(549,707)	(544,095)
Shareholders' equity	**149,893**	**154,475**
Long-term liabilities		
Long-term liabilities of other shareholders	56,621	56,898
Long-term portion of finance lease obligations	24,550	23,059
Convertible bonds	31	27
Accrued pensions	756	760
Other long-term liabilities	4,988	3,964
Deferred tax liability	6,486	6,461
Long-term liabilities	**93,432**	**91,169**
Short-term liabilities		
Trade payables	71,437	74,129
Short-term portion of finance lease obligations	21,992	20,360
Liabilities due to banks	2,984	5,000
Provisions	2,598	1,064
Deferred revenues	20,757	12,493
Other short-term liabilities	11,253	13,251
Short-term liabilities	**131,021**	**126,297**
Total liabilities	**224,453**	**217,466**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**374,346**	**371,941**

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

Euro amounts in thousands (T €)

	01/01/-30/06/ 2008	01/01/-30/06/ 2007
Cash flow from operating activities		
Net profit (loss) before income taxes	(5,612)	1,538
Depreciation and amortization	29,636	18,301
Non-cash share-based payments	381	596
Loss from disposal of long-term assets	102	12
Changes in provisions	1,530	(594)
Changes in trade receivables	6,811	(1,721)
Changes in trade payables	(2,692)	(1,660)
Changes in other financial assets and liabilities	(3,603)	(4,746)
Cash flow from operating activities	**26,553**	**11,726**
Cash flow from investing activities		
Purchase of available-for-sale financial assets	(9,992)	(2,865)
Disposal of available-for-sale financial assets	1,504	25,823
Purchases of intangible assets	(24,433)	(8,084)
Purchases of property, plant and equipment	(9,236)	(14,399)
Proceeds from disposal of assets	-	15
Cash flow from investing activities	**(42,157)**	**490**
Cash flow from financing activities		
Changes in convertible bonds	4	1
Assumption (Repayments) of minority interest liabilities	(277)	689
Proceeds from issuance of common stock	654	1,257
Assumption of other short and long-term liabilities	3,035	-
Repayments of loans granted	(2,016)	-
Repayments of finance lease	(10,712)	(7,276)
Cash flow from financing activities	**(9,312)**	**(5,329)**
Change in cash and short-term deposits	**(24,916)**	**6,887**
Cash and short-term deposits at January 1	74,132	45,986
Cash and short-term deposits at June 30	**49,216**	**52,873**
Interest paid	2,254	1,635
Interest received	1,348	2,067

CONSOLIDATED STATEMENTS OF DIRECTLY RECOGNIZED INCOME AND EXPENSES (unaudited)

Euro amounts in thousands (T €)

	01/01/-30/06/ 2008	01/01/-30/06/ 2007
Directly recognized in equity		
Changes in accrued pensions	-	-
Available-for-sale financial assets		
Change in fair value	-	1,429
Realized losses	-	(12)
Apportionable to tax effect	1	(565)
Directly recognized in equity	**1**	**852**
Net profit (loss)	(5,612)	1,538
Net profit (loss) and recognized income and expenses	**(5,611)**	**2,390**
Attributable to:		
Equity holders of the parent	(5,611)	2,170
Minority interest	-	220

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (unaudited)

Euro amounts in thousands (T €)

	Equity attributable to equity holders of the parent				
	Capital stock T €	Capital surplus T €	Other capital reserves T €	Accumulated deficit T €	Total T €
Balance at December 31, 2007	**136,358**	**562,501**	**(289)**	**(544,095)**	**154,475**
Net loss				(5,612)	(5,612)
Income and expense directly recognized in equity			1		1
Net loss and recognized income and expense					**(5,611)**
Conversion of convertible bonds	633	20			653
Non-cash share-based payments		376			376
Balance at June 30, 2008	**136,991**	**562,897**	**(288)**	**(549,707)**	**149,893**
Balance at December 31, 2006	**133,898**	**557,961**	**(1,286)**	**(533,697)**	**156,876**
Net profit				1,318	1,318
Income and expense directly recognized in equity			852		852
Net profit and recognized income and expense					**2,170**
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**

Minority interest T €	Total Share-holders' equity T €	
-	154,475	**Balance at December 31, 2007**
	(5,612)	Net loss
	1	Income and expense directly recognized in equity
	(5,611)	**Net loss and recognized income and expense**
	653	Conversion of convertible bonds
	376	Non-cash share-based payments
-	149,893	**Balance at June 30, 2008**
3,674	160,550	**Balance at December 31, 2006**
220	1,538	Net profit
	852	Income and expense directly recognized in equity
	2,390	**Net profit and recognized income and expense**
	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**

Notes to the Interim Consolidated Financial Statements

CORPORATE INFORMATION

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

BASIS OF PREPARATION

1 General principles

The unaudited interim consolidated financial statements for the first six months ended June 30, 2008, have been prepared in accordance with the International Financial Reporting Standards (IFRS), and the supplementary rules of § 315a (1) of the German Commercial Code (HGB). The consolidated financial statements have been prepared in accordance with the IFRS and International Accounting Standards (IAS) issued by the International Accounting Standards Board (IASB) as well as their interpretation by the International Financial Reporting Interpretations Committee (IFRIC) and by the Standing Interpretations Committee (SIC) that are required to be applied in the EU and which are mandatory at the balance sheet date.
The interim consolidated financial statements for the period from January 1 through June 30, 2008, have been prepared in accordance with IAS 34, "Interim Financial Reporting." The interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group´s annual consolidated financial statements as of December 31, 2007.

2 Basis of consolidation

The interim consolidated financial statements comprise the financial statements of QSC AG and its subsidiaries for the period ended June 30, 2008. There has been no change in the number of companies included in the consolidation since the consolidated financial statements for the fiscal year ended December 31, 2007.

3 Changes in accounting policies

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

4 Segment reporting

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

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

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

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

01/01/ - 30/06/2008 in T €	Business Unit Managed Services	 Products	 Wholesale/ Resellers	Total
Net revenues	36,151	53,226	108,332	197,709
Directly allocated costs	(15,240)	(29,338)	(55,034)	(99,612)
Contribution margin	20,911	23,888	53,298	98,097

01/01/ - 30/06/2007 in T €	Business Unit Managed Services	 Products	 Wholesale/ Resellers	Total
Net revenues	32,065	62,881	61,546	156,492
Directly allocated costs	(13,326)	(36,093)	(33,580)	(82,999)
Contribution margin	18,739	26,788	27,966	73,493

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

5 Management Board

	Shares		Convertible bonds	
	30/06/2008	30/06/2007	30/06/2008	30/06/2007
Dr. Bernd Schlobohm	13,818,372	13,818,372	350,000	350,000
Markus Metyas	233,652	108,307	175,000	675,000
Bernd Puschendorf	348,397	348,397	125,000	125,000

6 Supervisory Board

	Shares		Convertible bonds	
	30/06/2008	30/06/2007	30/06/2008	30/06/2007
John C. Baker	10,000	10,000	-	-
Herbert Brenke	187,820	187,820	10,000	10,000
Gerd Eickers	13,877,484	13,853,484	-	-
David Ruberg	14,563	14,563	-	-
Klaus-Theo Ernst *	500	500	3,258	3,258
Jörg Mügge *	-	-	6,000	6,000

* Employee representatives

7 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 2008

Dr. Bernd Schlobohm
Chief Executive Officer

Markus Metyas

Bernd Puschendorf

Calendar

Quarterly Report III/2008
November 19, 2008

Conferences / Events
August 26, 2008
8th German Technology & Telecoms Conference
Commerzbank, Frankfurt

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

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

September 23, 2008
German Investment Conference
UniCredit, Munich

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