Quarterly Report II / 2009

2nd Quarter € + 2.6 million free cash flow + 34 % EBITDA to € 19.0 million equals an 18 % EBITDA margin € 1.1 million net profit financial strength and profitability **2009**

QSC AG

Key Data

All amounts in € million	01/04/-30/06/ 2009	01/04/-30/06/ 2008	01/01/-30/06/ 2009	01/01/-30/06/ 2008
Revenues	103.7	100.2	211.3	197.7
Gross profit	+35.7	+30.9	+72.2	+62.1
EBITDA	+19.0	+14.2	+38.5	+25.6
EBIT	+2.3	-0.8	+4.7	-4.4
Net profit (loss)	+1.1	-1.5	+2.5	-5.6
Earnings per share [1] (in €)	+0.01	-0.01	+0.02	-0.04
Free cash flow	+2.6	-9.0	+6.6	-19.2
Capital expenditures	12.9	19.7	24.4	48.3
Liquidity			44.0 [2]	49.2 [3]
Equity			157.1 [2]	154.4 [3]
Balance sheet total			338.2 [2]	353.2 [3]
Equity ratio (in percent)			46.5 [2]	43.7 [3]
Share price as of 30/06/ (in €)			1.45	2.03
Number of shares as of 30/06/			136,998,137	136,992,137
Market capitalization as of 30/06/			198.6	278.1
Employees as of 30/06/			665	733

[1] basic and diluted

[2] as of June 30, 2009

[3] as of December 31, 2008

Highlights

EBITDA margin stands at 18 percent
In an economic environment that continues to be extremely difficult, QSC grew its EBITDA by 34 percent to € 19.0 million in the second quarter of 2009, thus successfully sustaining its focus on high-margin revenues. The Company's EBITDA margin advanced from 14 percent in the second quarter of 2008 to 18 percent on a three-percent revenue rise to € 103.7 million.

Sustained net income
In the second quarter of 2009, QSC earned net income of € 1.1 million, as opposed to a net loss of € -1.5 million for the comparable quarter the year before. During the same period, EBIT improved to € 2.3 million, as opposed to € -0.8 million the year before.

Further reduction of net debts
During the past quarter, QSC earned a positive free cash flow of € 2.6 million, thus reducing its net debts to only € -5.6 million. The company plans to eliminate its net indebtedness nearly entirely by year end.

Guidance expressly reiterated
In spite of the recession, QSC was able to significantly increase its financial strength and profitability in the first half of 2009. Given this positive development, QSC is expressly reiterating the guidance it announced in February for the full 2009 fiscal year.

Networking some 1,250 hotspots
In June 2009, QSC won "The Cloud," Europe's largest independent hotspot operator, as a new customer. QSC will be networking some 1,250 WiFi hotspots in such locations as airports, hotels and office buildings.

Letter to Our Shareholders

Dear Shareholders,

Our Company continues to rigorously focus on high-margin revenues, thus enabling us to significantly strengthen its financial position and profitability, in spite of the extremely difficult economic environment. In the first half of 2009, QSC grew its EBITDA by 50 percent to € 38.5 million – with revenues rising by seven percent to € 211.3 million during the same period. In spite of the global recession, our Company has thus been able to increase its margin by five percentage points within the space of a year to 18 percent today. Moreover, QSC generated a positive free cash flow of € 6.6 million in the first half of 2009, thus reducing its net debts to only € -5.6 million. And we intend to eliminate this debt nearly entirely by year end. This means that, in contrast to most of the telecommunications industry, QSC will be nearly debt-free on balance when the coming recovery sets in.

Positive free cash flow of € 6.6 million in the first half of 2009

In terms of revenues, the second quarter of 2009 was somewhat more subdued by comparison with the previous two quarters. This was primarily attributable to the relatively high number of holidays and four-day weekends and the resulting weaker revenues with voice services. In addition, the persistent recession has delayed decision-making processes at enterprises and heightened their price sensitivity. On balance, though, QSC succeeded in again increasing its revenues moderately by three percent in the second quarter of 2009 and boosting its EBITDA significantly by 34 percent.

This positive development of business in the face of the world's most serious post-war recession is a success that is attributable to all of our people. With their willingness to achieve and their strict cost discipline, they are all contributing to our rising profitability. At the same time, we are rigorously utilizing the opportunities that are offered by modern telecommunications within our Company, increasingly substituting audio and video conferencing for business trips, and utilizing collaboration tools, i.e. software solutions for cross-locational teamwork. Other small and mid-size enterprises, too, could improve their cost positions with modern telecommunications, and it is precisely with this line of reasoning that QSC is scoring points in its core market of small and mid-size German enterprises during the current economic crisis.

QSC strengthens marketing partnerships for IPfonie centraflex

A good example of this is our IPfonie centraflex virtual telephone system, which won the IT Innovation Award in March 2009. This IP-Centrex solution provides central call management across multiple locations, thus resulting in greater productivity on the part of the individual employees. Over the course of the coming months, QSC will be strengthening its marketing partnerships for this forward-looking solution, and in July already certified more than 40 partners in this connection.

IPfonie centraflex is also a good example of our strategy of focusing on high-margin, forward-looking products and services. During the coming quarters, too, we will be focusing on improving the quality of our revenues and giving higher profitability priority over higher revenues. This will further increase our Company's financial strength and profitability.

Higher profitability has priority over higher revenues

Cologne, August 2009

Dr. Bernd Schlobohm
Chief Executive Officer

Jürgen Hermann

Joachim Trickl

The QSC Share Performance

Trading prices soar 59 percent in second quarter of 2009 • Following the setbacks at the outset of 2009, capital markets recovered across the board during the past quarter. This was in response to initial signs of a possible end to the global recession and that the financial crisis was being overcome. Consequently, the lead index on German stock exchanges, the DAX, rose by 18 percent in the second quarter, thus offsetting the losses it had suffered since the beginning of the year. And the TecDAX, in fact, advanced by 31 percent during the past quarter.
QSC shares developed on an even better note following their weak trading prices during previous quarters. The trading prices of QSC shares rose by 59 percent to € 1.45 in the second quarter of 2009, nearly doubling in price since their low for the year of € 0.75 on March 6, 2009. And this rise was sustained in July. During the first seven months, the trading prices of QSC shares have increased by a total of 53 percent to € 1.90, thus outpacing the TecDAX.

Significantly higher trading volumes during second quarter of 2009

This share price recovery went hand in hand with significantly higher trading volumes. During the second quarter of 2009, an average of 473,000 QSC shares were traded daily on German stock exchanges; in the first quarter of 2009, this metric had stood at only 225,000 shares. With this greater trading volume and higher market capitalization, QSC strengthened its position in the TecDAX, which consists of Germany's 30 largest and most liquid technology issues.

Stable shareholder structure • According to the Register of Shares, the number of QSC shareholders rose to 29,942 as of June 30, 2009, as opposed to 29,421 at the outset of the year. The largest shareholders continue to be the Company's two founders, Dr. Bernd Schlobohm and Gerd Eickers, each holding 10.1 percent, as well as the U.S.-based Baker Capital investment company, which holds 24.5 percent. Among the freefloat, the percentage of private investors rose moderately to 41 percent, as opposed to 39 percent at the beginning of the year; according to the Register of Shares, institutional investors held 59 percent of QSC's freefloat as of June 30, 2009. In this connection, in May 2009 the percentage of shares held by Deutsche Bank subsidiary DWS Investment GmbH declined below the 3-percent reporting threshold.

Share Price Performance
(indexed)

Interim Consolidated Report QII 2009

GENERAL CONDITIONS

Recession heightens price sensitivity • In the second quarter of 2009, the German economy continued to be characterized by the world's most serious post-war recession. However initial indicators did suggest that the economic situation could potentially stabilize or might even improve during the second half of 2009. At the same time, the recession heightened price sensitivity on the part of businesses and residential households.
Consequently, the second quarter of 2009 saw a continuation of stiff pricing competition in the telecommunications industry, first and foremost in connection with standard products; industry association BITKOM thus also anticipates that there will be a two-percent decline in revenues in the telecommunications industry during the current year. At the same time, though, QSC itself has benefited from the increased cost awareness on the part of small and mid-size customers, as they displayed rising interest in the employment of such innovative and cost-effective telecommunications solutions as Voice over IP or IP-Centrex telephone systems.

BUSINESS POSITION

Revenue growth in spite of recession • In view of the recession, QSC is focusing during the current fiscal year on strengthening its financial position and profitability, and is intentionally foregoing revenues that do not afford sufficient contribution margins. Nevertheless, the Company was able to grow its revenues by three percent to € 103.7 million in the second quarter of 2009, which was characterized by a relatively high number of holidays, as opposed to € 100.2 million for the same quarter the year before. During the first half of 2009, revenues improved by seven percent to € 211.3 million, in contrast to € 197.7 million for the comparable period a year ago.

Revenues
(in € million)

On rising revenues, QSC moderately reduced network expenses, which are recorded under cost of revenues, to € 68.0 million in the second quarter of 2009, as opposed to € 69.3 million for the comparable quarter the year before. These declining costs were attributable to QSC's successful focus on higher-margin products that involve relatively lower costs of materials, as well as to ongoing optimization of network expenses.

Network expenses decline in spite of rising revenues

Gross margin advances to 34 percent • Declining network expenses and rising revenues produced a significant improvement in gross profit in the second quarter of 2009, which rose by 16 percent to € 35.7 million, as opposed to € 30.9 million in the second quarter of 2008. Gross margin increased to 34 percent, as opposed to 31 percent for the comparable quarter the year before.

Gross Profit
(in € million)

At € 10.0 million, selling and marketing expenses in the second quarter of 2009 remained below the previous year's level of € 10.8 million thanks to strict cost discipline. However general and administrative expenses of € 7.7 million were up from their € 6.4-million level in the second quarter of 2008, although they remained more or less unchanged from the preceding quarters.

EBITDA margin advances to 18 percent in second quarter

EBITDA up by 34 percent • QSC's rigorous focus on higher-margin revenues and its strict cost discipline produced a significant, 34-percent improvement in EBITDA to € 19.0 million in the second quarter of 2009, in contrast to € 14.2 million for the same period last year. At 18 percent in the second quarter of 2009, the EBITDA margin increased by four percentage points year on year. In fact, EBITDA has risen by 50 percent to € 38.5 million in the first half of 2009, as opposed to € 25.6 million for the corresponding period 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.

EBITDA
(in € million)

Depreciation expense rose by 11 percent to € 16.7 million in the second quarter of 2009, as opposed to € 15.0 million for the same quarter a year ago. This was essentially attributable to strong customer growth in ADSL2+ business, especially during the first half of 2008. QSC capitalizes these connection costs and depreciates them over a period of two years.

Higher EBIT and net profit • In spite of higher depreciation expense, QSC was able to grow its operating profit after depreciation, its EBIT, to € 2.3 million in the second quarter of 2009, as opposed to € -0.8 million for the same quarter the year before. Declining financial income as a result of lower interest rate levels and a lower volume of monies to be invested were offset by declining financial expense, as QSC further reduced its interest-bearing liabilities during the second quarter of 2009. Earnings before income taxes thus stood at € 1.5 million, as opposed to € -1.4 million in the second quarter of 2008. Given income taxes in the amount of € -0.4 million, essentially for deferred taxes, which do not impact liquidity, QSC thus earned net income of € 1.1 million; the year before, a net loss in the amount of € -1.5 million had been incurred. Earnings per share stood at € 0.01, in contrast to € -0.01 in the second quarter of 2008.
A half-year comparison underscores QSC's growing profitability: In the first half of 2009, QSC earned net income of € 2.5 million; the year before, a net loss of € -5.6 million had been incurred.

QSC grows its EBIT to € 2.3 million in second quarter of 2009

Net Profit (Loss)
(in € million)

BUSINESS POSITION BY SEGMENT

Positive development in the Wholesale/Reseller segment • In the second quarter of 2009, revenues in the Wholesale/Reseller segment rose by 10 percent to € 62.3 million, as opposed to € 56.6 million for the comparable quarter the year before. QSC was able to connect 25,200 additional ADSL2+ lines in its Wholesale ADSL2+ business, thus raising the total to 592,600 lines. This higher net growth by comparison with the first quarter of 2009 stemmed from the success of the Company's new Wholesale partner congstar, as well as from a growing volume of new orders from existing large Wholesale partners. This increased the share of segment revenues accounted for by this line of business to 49 percent.

Wholesale / Resellers Revenues
(in € million)

Like overall voice business, on the other hand, Wholesale voice business, which had posted especially strong growth in the first quarter of 2009, developed on a weaker note during the second quarter. This was attributable, in particular, to the large number of holidays during this quarter. The third major line of business, Wholesale SHDSL business with Internet service providers and international carriers, was characterized by steady positive development.

EBITDA margin stands at 21 percent • The highest-revenue Wholesale/Reseller segment also generated the highest earnings contributions in the second quarter of 2009: Gross profit rose by 41 percent over the second quarter of 2008 to € 18.3 million, and EBITDA improved by 42 percent to € 13.2 million, with the EBITDA margin advancing by 16 percent to 21 percent. Moreover, QSC additionally achieved a positive segment EBIT in the amount of € 2.4 million; the year before, an EBIT loss of € -0.4 million had been incurred.

Wholesale / Resellers EBIT

(in € million)

Rigorous focus on high-margin products • In the Products segment, QSC generated revenues of € 22.7 million in the second quarter of 2009, as opposed to € 25.3 million the year before. This decline was essentially attributable to two factors: First, the higher number of holidays in this quarter than the year before impacted voice business, in particular conventional voice business. And second, QSC chose not to engage in the heightened price competition in this line of business stemming from the recession. This lowered the share of total revenues accounted for by conventional voice business to 45 percent in the second quarter of 2009.

Products Revenues

(in € million)

Broadened product portfolio under the Q-DSLmax brand name

Instead, during the past quarter QSC focused on marketing higher-margin products, first and foremost the Q-DSLmax data product, as well as its employment in combination with Voice over IP products, the QSC Complete packages. In this connection, in June the Company broadened its product portfolio of symmetric DSL links for business customers under the Q-DSLmax brand name. Enterprises can now choose between seven different bandwidths – ranging from 2,048 kbit/s to 20,000 kbit/s. For even higher bandwidths, QSC also utilizes faster SHDSL.bis, in addition to the proven SHDSL transfer technology, thus increasing the quality of these products.

Margins up significantly in spite of declining revenues • QSC's rigorous focus on high-margin products led to a significant improvement in the margin situation in the second quarter of 2009. In spite of the € 2.6-million decline in revenues, gross profit rose to € 10.0 million, in contrast to € 9.6 million for the comparable quarter the year before. Segment EBITDA, too, was also able to be improved: At € 3.9 million, it was up 34 percent from the previous year's level of € 2.9 million. During this same period, the EBITDA margin improved significantly to 17 percent, as opposed to 11 percent for the same quarter a year ago. At € 0.6 million, QSC additionally achieved a positive EBIT in the Products segment in the face of a difficult market environment; the year before, this metric had stood at € -0.3 million.

EBITDA rises by 34 percent in the Products segment

Products EBIT
(in € million)

Successes in new Managed Services business • Revenues in the Managed Services segment rose moderately to € 18.6 million in the second quarter of 2009, as opposed to € 18.3 million for the comparable quarter the year before. In this connection, the positive development of new business was offset by greater price sensitivity in connection with contract extensions as a result of the recession. In its new business, QSC benefited from the growing interest in cost-effective IP-VPN solutions, in particular on the part of small and mid-size customers. Moreover, in May 2009 QSC was able to very significantly broaden its contract with Allgemeine Rechtsschutz-Versicherungs-AG (ARAG): After having operated the complete voice communication for this prominent insurance company since 2006, the Company is now networking some 250 ARAG locations nationwide with an IP-VPN. With this move, QSC will be implementing all of this legal services insurance company's voice and data communication in the future.

Managed Services Revenues
(in € million)

QSC's competence in implementing these kinds of complex, nationwide networking solutions was also underscored by the contract signed with Europe's largest independent hotspot operator, The Cloud. QSC will be networking some 1,250 WiFi hotspots in such locations as hotels, airports, office buildings, chain stores, public facilities and city networks over an IP-VPN by the end of the current fiscal year.

Double-digit EBITDA margin • Since the Managed Services segment made greater use of the QSC network during the past quarter than the year before, gross profit declined to € 7.3 million, as opposed to € 8.4 million for the same quarter a year ago. However strict cost discipline nevertheless enabled a segment EBITDA of € 1.9 million to be achieved, virtually the same level as the € 2.0-million segment EBITDA for the second quarter of 2008; at 10 percent, the EBITDA margin remained in the double-digit range. Since this greater network utilization went hand in hand with higher depreciation expense, the segment EBIT of € -0.7 million was down slightly from the previous year's level of € -0.1 million.

Managed Services EBIT (in € million)

FINANCIAL POSITION AND NET WORTH

Operating cash flow advances by more than 50 percent

High operating cash flow influxes • As a result of the positive development of the Company's operative business in the second quarter of 2009, cash flow from operating activities advanced by 53 percent to € 16.4 million, as opposed to € 10.7 million for the comparable quarter the year before. This means that QSC has already generated an operating cash flow in the amount of € 37.7 million in the first half of 2009, as opposed to € 26.6 million for the same period the year before. During the first half of 2009, cash flow from investing activities declined to € -17.9 million, in contrast to € -42.2 million for the comparable period a year ago, when QSC had concluded its network expansion project. As a result of the sustained reduction of its debt under financial leasing operations, cash flow from financing activities amounted to € -24.9 million in the first half of the year, as opposed to € -9.3 million for the first six months of fiscal 2008.

Cash Flow from Operating Activities (in € million)

Sustained positive free cash flow • QSC's liquid assets, which in addition to cash and cash equivalents also include available-for-sale financial assets, thus totaled € 44.0 million as of June 30, 2009, as opposed to € 44.7 million as of March 31, 2009, and € 49.2 million as of December 31, 2008. At the same time, QSC has reduced its interest-bearing liabilities – which include, in particular, liabilities to financial institutions as well as debt under finance lease contracts – by € -11.7 million since the beginning of the year; in the second quarter of 2009, QSC reduced the volume of its interest-bearing securities by € -3.3 million. The Company thus recorded a positive free cash flow of € 2.6 million in the second quarter of 2009 and of € 6.6 million for the first half of the year, reducing its net indebtedness by the same amount. Net indebtedness amounted to € -5.6 million as of June 30, 2009, as opposed to € -12.2 million at the close of the 2008 fiscal year on December 31.

QSC significantly reduces interest-bearing liabilities

in T €	30/06/2009	31/12/2008
Capital management		
Finance lease liabilities	(29,589)	(37,533)
Other short-term liabilities	(4,988)	(8,778)
Bank debts	(15,000)	(15,000)
Fixed rate debts	**(49,577)**	**(61,311)**
plus cash and cash equivalents	43,678	48,823
plus available-for-sale financial assets	330	327
Net liquidity	**(5,569)**	**(12,161)**

Greater financial strength • QSC's balance sheet as of June 30, 2009, was characterized by the decline in net indebtedness coupled with growing financial strength. Long-term liabilities declined to € 63.2 million, as opposed to € 76.4 million as of December 31, 2008, the close of the fiscal year. In this connection, QSC succeeded in decreasing its long-term liabilities under finance lease contracts to € 11.9 million, as opposed to € 17.4 million at year-end 2008.

Short-term liabilities, too, decreased to € 117.9 million, as opposed to € 122.4 million at year-end 2008. In this connection, during the first six months of the current fiscal year QSC reduced both short-term financial leasing liabilities to € 17.7 million, as opposed to € 20.2 million the year before, as well as other short-term liabilities to € 6.3 million, as opposed to € 13.2 million the year before. As of June 30, 2009, these other short-term liabilities included interest-bearing liabilities in the amount of € 5.0 million; as of December 31, 2008, this metric had stood at € 8.8 million.

The net profit for the first six months also increased shareholders' equity to € 157.1 million, as opposed to € 154.4 million as of December 31, 2008. During this period, the equity ratio rose from 44 percent to 46 percent today.

Stable level of capital expenditures • Totaling € 12.9 million, capital expenditures in the second quarter of 2009 were up moderately from the preceding quarter's level of € 11.5 million. 67 percent of this total was attributable to customer-related investments, in particular to connecting a larger number of new customers than in the quarter before. 28 percent of capital expenses were employed for maintenance and ongoing modernization of the nationwide infrastructure.

Capital Expenditures
(in € million)

On the Assets side of the balance sheet, this lower level of investments, as well as scheduled depreciation, reduced the value of long-term assets to € 226.4 million as of June 30, 2009, in contrast to € 236.9 million at year-end 2008. In this connection, a growing number of assets are no longer subject to depreciation today, although they continue to be employed in the network.

HUMAN RESOURCES

QSC is strongly committed to training and education

Strong commitment to training and education • At the outset of the 2009 apprenticeship year on August 1, 16 young people began their training at QSC. The Company primarily trains information technology professionals in the fields of systems integration and applications development, along with business administrators for IT systems and office clerks. QSC views both its strong commitment to training and education as well as its trainee program for university graduates as representing a central element in assuring and fostering new blood. Overall, the Company employed a workforce of 665 people as of June 30; the moderate decline in the manpower level since the beginning of the year was due to natural attrition. 59 percent of the Company's employees were working in customer-related operations, 29 percent in engineering and technology activities, and 12 percent in administration.

Workforce Structure

RISK REPORT

No material changes in risk position • In the second quarter of 2009, there were no material changes in the risks presented in the 2008 Annual Report. Nevertheless, the risks presented therein, like other risks or incorrect assumptions, could mean that actual future results would vary 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

Guidance expressly reiterated • In spite of the recession, QSC was able to significantly increase its financial strength and profitability in the first half of 2009. Given this positive development, the Company is expressly reiterating the guidance it had announced in February for the full 2009 fiscal year. QSC thus anticipates a positive free cash flow of more than € 10 million and an EBITDA of between € 68 and € 78 million. This will go hand in hand with revenues of between € 420 and € 440 million, as well as a sustained net profit. In a market environment that is expected to remain difficult, QSC will continue to focus on improving the quality of its revenues, and will give higher profitability priority over higher revenues.

QSC increases financial strength and profitability significantly

Interim Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

Euro amounts in thousands (T €)

	01/04/-30/06/ 2009	01/04/-30/06/ 2008	01/01/-30/06/ 2009	01/01/-30/06/ 2008
Net revenues	103,688	100,226	211,294	197,709
Cost of revenues	(67,988)	(69,327)	(139,055)	(135,598)
Gross profit	**35,700**	**30,899**	**72,239**	**62,111**
Selling and marketing expenses	(9,963)	(10,828)	(20,287)	(23,561)
General and administrative expenses	(7,690)	(6,353)	(15,217)	(13,630)
Depreciation and non-cash share-based payments	(16,706)	(14,967)	(33,760)	(30,012)
Other operating income	943	622	1,917	905
Other operating expenses	(29)	(181)	(156)	(228)
Operating profit (loss)	**2,255**	**(808)**	**4,736**	**(4,415)**
Financial income	169	463	446	1,115
Financial expenses	(911)	(1,013)	(1,836)	(2,063)
Net profit (loss) before income taxes	**1,513**	**(1,358)**	**3,346**	**(5,363)**
Income taxes	(387)	(105)	(863)	(249)
Net profit (loss)	**1,126**	**(1,463)**	**2,483**	**(5,612)**
Earnings per share (basic) in €	0.01	(0.01)	0.02	(0.04)
Earnings per share (diluted) in €	0.01	(0.01)	0.02	(0.04)

CONSOLIDATED BALANCE SHEETS (unaudited)

Euro amounts in thousands (T €)

	June 30, 2009	Dec. 31, 2008
ASSETS		
Long-term assets		
Property, plant and equipment	134,634	141,028
Goodwill	50,014	50,014
Other intangible assets	40,848	45,008
Other long-term financial assets	895	828
Long-term assets	**226,391**	**236,878**
Short-term assets		
Trade receivables	55,585	57,880
Prepayments	6,067	3,051
Inventories	3,469	3,690
Other short-term financial assets	2,717	2,547
Available-for-sale financial assets	330	327
Cash and short-term deposits	43,678	48,823
Short-term assets	**111,846**	**116,318**
TOTAL ASSETS	338,237	353,196

	June 30, 2009	Dec. 31, 2008
SHAREHOLDERS' EQUITY AND LIABILITIES		
Shareholders' equity		
Capital stock	136,998	136,998
Capital surplus	563,430	563,197
Other reserves	(1,141)	(1,141)
Consolidated balance sheet loss	(542,143)	(544,626)
Shareholders' equity	**157,144**	**154,428**
Liabilities		
Long-term liabilities		
Long-term liabilities of other minority shareholders	46,229	53,790
Long-term portion of finance lease obligations	11,904	17,381
Convertible bonds	22	22
Accrued pensions	674	678
Other long-term liabilities	1,896	2,774
Deferred tax liabilities	2,428	1,735
Long-term liabilities	**63,153**	**76,380**
Short-term liabilities		
Trade payables	58,949	49,954
Short-term portion of finance lease obligations	17,685	20,152
Liabilities due to banks	15,000	15,000
Provisions	1,391	1,924
Deferred revenues	18,603	22,200
Other short-term liabilities	6,312	13,158
Short-term liabilities	**117,940**	**122,388**
Liabilities	181,093	198,768
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	338,237	353,196

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

Euro amounts in thousands (T €)

	01/01/-30/06/ 2009	01/01/-30/06/ 2008
Cash flow from operating activities		
Net profit (loss) before income taxes	3,346	(5,612)
Depreciation and amortization	33,527	29,636
Non-cash share-based payments	231	381
Loss from disposal of long-term assets	572	102
Changes in provisions	(708)	1,530
Changes in trade receivables	2,295	6,811
Changes in trade payables	8,995	(2,692)
Changes in other financial assets and liabilities	(10,561)	(3,603)
Cash flow from operating activities	**37,697**	**26,553**
Cash flow from investing activities		
Purchase of available-for-sale financial assets	-	(9,992)
Disposal of available-for-sale financial assets	-	1,504
Purchase of intangible assets	(13,012)	(24,433)
Purchase of property, plant and equipment	(4,897)	(9,236)
Cash flow from investing activities	**(17,909)**	**(42,157)**
Cash flow from financing activities		
Changes in convertible bonds	-	4
Repayment of liabilities due to minority interest shareholders	(7,561)	(277)
Proceeds from issuance of common stock	-	654
Assumption (Repayment) of other short- and long-term liabilities	(3,790)	3,035
Disposal of loans granted	-	(2,016)
Repayment of finance lease	(13,582)	(10,712)
Cash flow from financing activities	**(24,933)**	**(9,312)**
Change in cash and short-term deposits	**(5,145)**	**(24,916)**
Change in cash and short-term deposits at January 1	48,823	74,132
Cash and short-term deposits at June 30	**43,678**	**49,216**
Interest paid	1,845	2,254
Interest received	443	1,348

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (unaudited)

Euro amounts in thousands (T €)

	01/01/-30/06/ 2009	01/01/-30/06/ 2008
Comprehensive income (loss)	2,483	(5,612)
Other comprehensive income, net of taxes	-	1
Total comprehensive income (loss) [1]	2,483	(5,611)

[1] Attributable to equity holders of the parent

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 at January 1, 2009	136,998	563,197	(1,141)	(544,626)	154,428
Total comprehensive income				2,483	2,483
Non-cash share-based payments		233			233
Balance at June 30, 2009	**136,998**	**563,430**	**(1,141)**	**(542,143)**	**157,144**
Balance at January 1, 2008	136,358	562,501	(289)	(544,095)	154,475
Total comprehensive 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

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 communication to business 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 the 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 of QSC AG and its subsidiaries (interim consolidated 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 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, 2008. It is the opinion of the Management Board that the interim consolidated 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 interim consolidated financial statements for the period from January 1 through June 30, 2009, do not necessarily indicate the development of future results.
The accounting principles applied in preparing the interim consolidated statements correspond essentially to the accounting principles that had been used in preparing the Consolidated Financial Statements for the 2008 fiscal year. Following publication of the revised financial reporting pronouncement IAS 1, "Presentation of Financial Statements (revised)", the interim consolidated financial statements contain, for the first time, a separate single statement of comprehensive income. It allows the presentation of net profit and of all directly recognized changes in equity during the reporting period that do not result from owner transactions, where the owners are acting in their capacity as owners.

In fiscal year 2008, after having operated the core net for eight years, management performed an inspection of the initially assumed useful lives. It was determined that the actual useful lives are significantly longer than the initially assumed eight years for building improvements and the five years assumed for installed technology. For this reason, the useful lives of building improvements and of installed technology were extended from eight to ten and from five to eight years, respectively. According to IAS 8, the result of those revised assumptions is taken into consideration in the reporting period and subsequent periods. The following table provides the necessary details to be stated in the case of changes in estimates according to IAS 8, and shows the impact on the net results for the corresponding periods.

in T €	01/01/-30/06/ 2009	01/01/-30/06/ 2008
Network equipment and plant	5,151	4,640
Building improvements	329	539
Impact of changes in estimates	**5,480**	**5,179**

The preparation of the interim consolidated statements according to 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 to the Consolidated Financial Statements as of December 31, 2008, there were no material changes in management's assumptions regarding the use of accounting principles.
The interim consolidated financial statements are rounded, except when otherwise indicated, to the nearest thousand (T €).

2 Basis of consolidation

The consolidated financial statements comprise the financial statements of QSC AG and its subsidiaries as of June 30, 2009. There has been no change in the number of companies included in the consolidation since December 31, 2008.

3 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 restructuring 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 segment covers custom-tailored solutions for voice and data communication at major corporates and small and medium-size 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 is product business in the Products segment. 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 segment covers QSC's business with Internet service providers and network operators who do not possess their own infrastructure. They market DSL lines as well as voice and value-added services from QSC under their own name and for their own account.

in T €	Managed Services	Products	Wholesale / Resellers	Reconciliation	Consolidated
01/04/-30/06/2009					
Net revenues	18,609	22,740	62,339		103,688
Cost of revenues	(11,267)	(12,705)	(44,016)		(67,988)
Gross profit	7,342	10,035	18,323	-	35,700
Selling and marketing expenses	(2,880)	(3,882)	(3,201)		(9,963)
General and administrative expenses	(2,850)	(2,559)	(2,281)		(7,690)
Depreciation and amortization	(2,576)	(3,276)	(10,737)		(16,589)
Non-cash share-based payments	(18)	(23)	(76)		(117)
Other operating income	272	305	337		914
Operating profit (loss)	(710)	600	2,365	-	2,255
Assets	70,698	96,454	171,085	-	338,237
Liabilities	27,390	33,308	117,967	2,428	181,093
Capital expenditures	1,377	2,785	8,707	-	12,869

in T €	Managed Services	Products	Wholesale / Resellers	Reconciliation	Consolidated
01/04/-30/06/2008					
Net revenues	18,291	25,298	56,637		100,226
Cost of revenues	(9,921)	(15,742)	(43,664)		(69,327)
Gross profit	8,370	9,556	12,973	-	30,899
Selling and marketing expenses	(4,001)	(4,833)	(1,994)		(10,828)
General and administrative expenses	(2,530)	(1,988)	(1,835)		(6,353)
Depreciation and amortization	(2,043)	(3,184)	(9,567)		(14,794)
Non-cash share-based payments	(28)	(42)	(103)		(173)
Other operating income	147	146	148		441
Operating loss	(86)	(344)	(378)	-	(808)
Assets	79,387	106,078	188,881	-	374,346
Liabilities	35,971	45,280	136,685	6,517	224,453
Capital expenditures	2,648	3,493	13,522	-	19,663

in T €	Managed Services	Products	Wholesale/ Resellers	Reconciliation	Consolidated
01/01/-30/06/2009					
Net revenues	**37,075**	**47,574**	**126,645**		**211,294**
Cost of revenues	(21,680)	(26,550)	(90,825)		(139,055)
Gross profit	**15,395**	**21,024**	**35,820**	**-**	**72,239**
Selling and marketing expenses	(5,764)	(7,745)	(6,778)		(20,287)
General and administrative expenses	(5,534)	(5,141)	(4,542)		(15,217)
Depreciation and amortization	(5,177)	(7,334)	(21,016)		(33,527)
Non-cash share-based payments	(35)	(51)	(147)		(233)
Other operating income	516	537	708		1,761
Operating profit (loss)	**(599)**	**1,290**	**4,045**	**-**	**4,736**
Assets	70,698	96,454	171,085	-	338,237
Liabilities	27,390	33,308	117,967	2,428	181,093
Capital expenditures	3,141	5,125	16,138	-	24,404

in T €	Managed Services	Products	Wholesale/ Resellers	Reconciliation	Consolidated
01/01/-30/06/2008					
Net revenues	**36,151**	**53,226**	**108,332**		**197,709**
Cost of revenues	(19,560)	(32,642)	(83,396)		(135,598)
Gross profit	**16,591**	**20,584**	**24,936**	**-**	**62,111**
Selling and marketing expenses	(8,458)	(10,459)	(4,644)		(23,561)
General and administrative expenses	(5,398)	(4,303)	(3,929)		(13,630)
Depreciation and amortization	(4,135)	(6,976)	(18,525)		(29,636)
Non-cash share-based payments	(60)	(101)	(215)		(376)
Other operating income	226	225	226		677
Operating loss	**(1,234)**	**(1,030)**	**(2,151)**	**-**	**(4,415)**
Assets	79,387	106,078	188,881	-	374,346
Liabilities	35,971	45,280	136,685	6,517	224,453
Capital expenditures	6,105	7,965	34,206	-	48,276

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 (with the exception of deferred tax assets and liabilities) are allocated according to financial viability based on contribution margins.
As in the corresponding quarter the year before, no intersegment revenues were generated during the first half of the current fiscal year.

4 Related party transactions

During the first half of 2009, 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/-30/06/2009				
IN-telegence GmbH & Co. KG	366	81	417	96
Teleport Köln GmbH	6	49	7	65
QS Communication Verwaltungs				
Service GmbH	-	76	-	38
01/01/-30/06/2008				
IN-telegence GmbH & Co. KG	25	(20)	30	(26)
Teleport Köln GmbH	4	31	3	39
QS Communication Verwaltungs				
Service GmbH	12	64	14	80

in T €	Trade receivables	Trade payables
At June 30, 2009		
IN-telegence GmbH & Co. KG	94	-
Teleport Köln GmbH	2	-
QS Communication Verwaltungs Service GmbH	-	(61)
At December 31, 2008		
IN-telegence GmbH & Co. KG	75	-
Teleport Köln GmbH	1	(6)
QS Communication Verwaltungs Service GmbH	-	(9)

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 half of 2009, there were no significant cases of litigation settled on which disclosures had been provided in the Consolidated Financial Statements for fiscal year 2008.

6 Management Board

	Shares		Convertible bonds	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Dr. Bernd Schlobohm	13,818,372	13,818,372	350,000	350,000
Jürgen Hermann	145,000	89,840	47,000	47,000
Joachim Trickl	5,000	-	250,000	-

On November 18, 2008, the Supervisory Board appointed Joachim Trickl to QSC's Management Board effective February 1, 2009. He succeeds Bernd Puschendorf.
On March 31, 2009, the Supervisory Board appointed Jürgen Hermann to QSC's Management Board effective April 1, 2009. He succeeds Markus Metyas.

7 Supervisory Board

	Shares		Convertible bonds	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
John C. Baker	10,000	10,000	-	-
Herbert Brenke	187,820	187,820	-	10,000
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, August 2009

Dr. Bernd Schlobohm
Chief Executive Officer

Jürgen Hermann

Joachim Trickl

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 2009

Dr. Bernd Schlobohm Chief Executive Officer	Jürgen Hermann	Joachim Trickl

Calendar

Quarterly Report III/2009
November 12, 2009

Conferences/Events
August 25, 2009
9^{th} German Technology & Telecoms Conference
Commerzbank, Frankfurt

September 22, 2009
German Investment Conference
UniCredit, Munich

November 9–11, 2009
German Equity Forum Fall 2009
Deutsche Börse, Frankfurt

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