Quarterly Report II/2010

2nd Quarter 2010

QSC AG

2nd Quarter

Highlights

QSC boosts revenues and quadruples net income
QSC successfully sustained its transformation process in the second quarter of 2010, increasing its revenues to € 104.9 million, as opposed to € 103.7 million for the same quarter the year before; during this period, net income nearly quadrupled to € 4.3 million.

IP-based revenues grow by 12 percent
QSC's success in driving the transformation process in the second quarter of 2010 can be seen from the development of IP-based revenues, which rose by € 7.6 million, or 12 percent, to € 70.8 million. Now, QSC is already earning 67 percent of its total revenues with forward-looking IP products and services.

New applications for IPfonie centraflex
In May, QSC opened its prize-winning IP-based IPfonie centraflex telephone system for applications from third-party providers, thus enabling voice communication and IT applications to be linked on an even more individual basis. As the first step, the Company provided an interface for integrating the Salesforce CRM software.

Long-term network partnership with freenet
In June, QSC broadened its position of leadership in the market for Voice over IP-based voice telephony through a partnership with freenet that will initially run for a ten-year period. Beginning in December, QSC will be implementing what had until then been the narrowband voice traffic for Germany's largest network-independent telecommunications provider via the Company's own Next Generation Network.

Free cash flow guidance raised
Given its successes in the transformation process, QSC raised its guidance for the current fiscal year in connection with announcement of its semiannual numbers: The Company now anticipates a free cash flow of more than € 25 million, instead of the more than € 22 million that had previously been forecast. Moreover, the Company plans to grow its revenues and EBITDA and to triple net income to more than € 16 million.

QSC AG

Contents

Key Data

All amounts in € millions	01/04/–30/06/ 2010	01/04/–30/06/ 2009	01/01/–30/06/ 2010	01/01/–30/06/ 2009
Revenues	104.9	103.7	210.8	211.3
Gross profit	38.0	35.7	75.7	72.2
EBITDA	19.7	19.0	39.3	38.5
Depreciation/amortization [1]	14.6	16.7	30.2	33.8
EBIT	5.1	2.3	9.1	4.7
Net profit	4.3	1.1	7.5	2.5
Earnings per share [2] (in €)	0.03	0.01	0.05	0.02
EBITDA margin (in percent)	18.8	18.3	18.6	18.2
EBIT margin (in percent)	4.9	2.2	4.3	2.2
Capital expenditures	6.5	12.9	13.7	24.4
Free cash flow	7.6	2.6	12.1	6.6
Net liquidity			12.9 [3]	0.7 [4]
Liquidity			44.0 [3]	41.3 [4]
Equity			167.3 [3]	159.7 [4]
Long-term liabilities			46.9 [3]	54.2 [4]
Short-term liabilities			88.3 [3]	97.3 [4]
Balance sheet total			302.6 [3]	311.3 [4]
Equity ratio (in percent)			55.3	51.3
Xetra share price as of 30/06/ (in €)			1.34	1.45
Number of shares as of 30/06/			136,998,137	136,998,137
Market capitalization as of 30/06/			183.6	198.6
Employees as of 30/06/			633	665

[1] including non-cash share-based payments

[2] basic and diluted

[3] as of June 30, 2010

[4] as of December 31, 2009

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

Dear Shareholders,

The telecommunications industry in Germany finds itself in the midst of a fundamental transformation. Traditional lines of business, such as minute-based voice telephony or providing "naked" Internet connections, are losing significance, while innovative solutions like Voice over IP and the integration of network-related services on a Software-as-a-Service basis are meeting with steadily rising customer interest. The general rule is: Products and services that are based on the Internet Protocol (IP) are displacing offerings that are still based upon conventional technologies.

QSC is outstanding aligned for this transformation. We began upgrading our existing infrastructure into a Next Generation Network back in 2005, and now operate a nationwide, fully IP-based network. Building upon this foundation, our Company is now generating two-thirds of its total revenues with IP-based products and services – and this percentage is rising from quarter to quarter. This growth parameter, in addition to free cash flow, numbers among our Company's key steering parameters. And at virtually no other telecommunications provider is the percentage of revenues generated by these forward looking and yet higher-margin lines of business likely to be as high as at QSC.

Two-thirds of QSC's total revenues stems from IP-based products and services

This competitive edge played a crucial role in QSC's success during the second quarter of 2010: IP-based revenues grew by 12 percent to € 70.8 million. Overall, QSC increased its revenues from € 103.7 million to € 104.9 million, while at the same time seeing the significance of traditional lines of business decline as planned.

Two further metrics illustrate the attractiveness of growth in forward-looking IP-based lines of business: Net income nearly quadrupled to € 4.3 million; in the second quarter of 2009, it had amounted to only € 1.1 million. And free cash flow, the key parameter for our success in fiscal 2010, nearly tripled to € 7.6 million, as opposed to € 2.6 million the year before. Totaling € 12.1 million, QSC has after only two quarters already earned a free cash flow that is just about as high as that for the full 2009 fiscal year.

Given this backdrop, we are raising our expectations for the current fiscal year: We now anticipate a free cash flow of more than € 25 million for the full 2010 fiscal year, instead of our previous guidance of more than € 22 million. Moreover, we plan to grow our revenues and EBITDA and to triple net income to more than € 16 million.

In spite of the current transformation process, QSC is thus planning to increase all key metrics again in 2010. And with numerous initiatives, we are simultaneously highlighting QSC's profile as a service provider for small and mid-size customers, thus accelerating our Company's evolution from a network operator to a service provider: Among other things, the second quarter saw a broader and more flexible product portfolio and the opening of our IPfonie centraflex virtual

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

telephone system for third-party applications. The double-digit growth rates of our IP-based revenues show that QSC is on the right track with these initiatives. And they are simultaneously strengthening us in our conviction that QSC will number among the winners of the transformation in the telecommunications industry.

Cologne, August 2010

Dr. Bernd Schlobohm Chief Executive Officer	Jürgen Hermann	Joachim Trickl

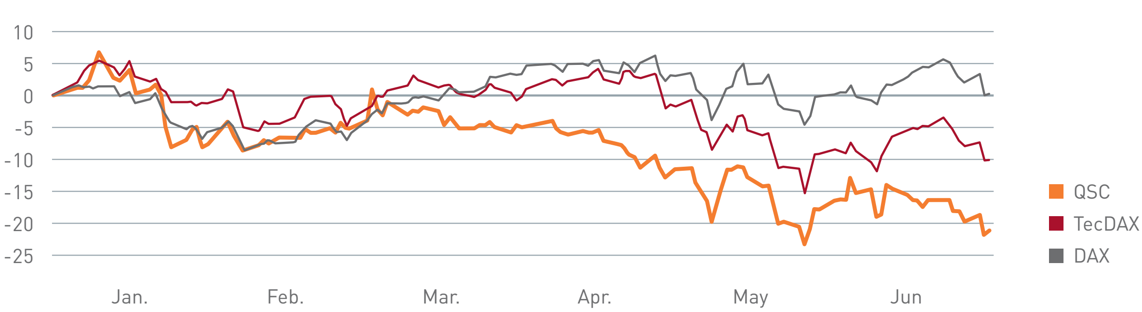
QSC Share Performance

Broad-based decline in trading prices • During the second quarter 2010, numerous investors were concerned about two factors, in particular: The discussions about the stability of the euro, as well as the sustainability of the economic recovery. This insecurity led to volatile performance of many equities, with the entire quarter seeing broad-based trading price losses. The DAX declined by three percent during the past quarter, the TecDAX by ten percent. QSC shares were unable to avoid this negative trend, and were forced to suffer a 17-percent trading price decline during the past quarter to close at € 1.34 on June 30, 2010, as opposed to € 1.62 on March 31, 2010.
Given the fact that the Company's financial position and profitability are rising from quarter to quarter, this share price performance is unsatisfactory, even though a good deal of it can be attributed to caution on the part of institutional investors, in particular, toward smaller technology issues that are presumably fraught with risk. However the trading price declines also stemmed from the fact that while many investors are keenly following the current transformation process, they have not yet decided to buy. In recent months, the Management Board has been showcasing QSC's advances thus far as it travels the path to becoming a service provider at roadshows in Frankfurt, London, Paris and Zurich.

Analysts reward successes in transformation process • As a result of this intensive investor relations work, analysts who regularly cover QSC are already rewarding the visible success of this process. After the Company's quarterly numbers were announced in May 2010, four analysts issued Buy recommendations, three further analysts viewed the shares as Holds, and only one analyst who published a study on QSC in 2010 has thus far made a Sell recommendation.
During the second quarter of 2010, the wait-and-see attitude on the part of institutional investors helped keep trading volumes, which averaged 309,000 per day, significantly below their level of 473,000 for the corresponding quarter one year earlier. At the same time, this caution led to a shift in the weightings of the shareholder structure in favor of private investors, with Family Offices increasingly investing in QSC as well. According to the Register of Shares, private investors held-one half of the free float as of June 30, 2010, with institutional investors accounting for the other half. Overall, the free float stood at 55.3 percent as of June 30, 2010, the same as in the preceding quarter. QSC's largest shareholders continue to be its 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.

Private investors hold one-half of QSC's free float

SHARE PRICE PERFORMANCE (indexed)



Consolidated Interim Report QII / 2010

GENERAL ECONOMIC ENVIRONMENT

Exports driving the economy • Following a weak first quarter of 2010, the German economy returned to its growth course in the second quarter of the year. Yet gross domestic product continues to lag behind the level it had held prior to the outbreak of the financial and economic crisis in the autumn of 2008. The upswing was driven essentially by the export successes of German companies, and additionally benefitted from the weaker euro. On the other hand, the domestic economy in Germany developed on a hesitant note. However corporate capital spending did rise again at the outset of the year, following five quarters of strong decreases.

What characterizes the German telecommunications market during the current fiscal year is the hesitant recovery of the domestic economy. Industry association BITKOM anticipates that the industry's total revenues in 2010 will decline by € 0.7 billion to € 63.0 billion. In addition to the general economic situation, one major reason for this also consists of the sustained price war that is raging in standard products. The price index for information transmission by comparison with the reference year 2005 as measured by the German Federal Office of Statistics is lower than in any other product group, with prices for telecommunications services decreasing by 12 percentage points during this period. This is affecting both conventional as well as mobile voice telephony, in particular, but increasingly DSL business with residential customers, as well.

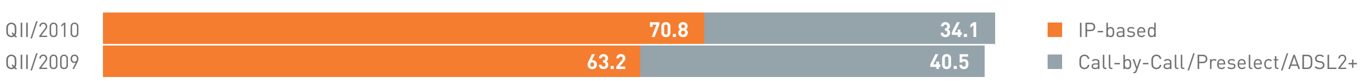
Revenues with Cloud Services anticipated to rise sharply

The price war in standard products is clouding the view of the telecommunications industry's successes in forward-looking, IP-based lines of business. The convergence of information technology and telecommunications, in particular, as well as an increasing shift of business processes to the Internet ("Cloud Computing") are opening up new growth potential for the industry. Market researcher Gartner Group assumes that worldwide Cloud Services revenues will advance by 16.6 percent to US$ 68.3 billion in 2010 and will more than double to nearly US$ 150 billion by 2014. Western Europe is the largest market for this, in addition to the United States. QSC's transformation into a service provider early on has put in place the prerequisites required for sharing in the growth of this market and further IP-based products and services.

BUSINESS DEVELOPMENT

Strong rise in IP-based revenues • In the second quarter of 2010, QSC increased its revenues to € 104.9 million, as opposed to € 103.7 million for the same quarter the year before, while at the same time successfully continuing its transformation process from a network operator to a service provider. During the past quarter, revenues with the classical products that are offered by a network operator, such as Call by Call and ADSL2+, declined by € 6.4 million to € 34.1 million, while revenues with IP-based products and services rose by € 7.6 million to € 70.8 million.

REVENUE MIX (in € millions)



This means that QSC was already generating 67 percent of its total sales in forward-looking lines of business in the second quarter of 2010; the year before, this metric had stood at 61 percent. QSC generates these IP-based revenues with companies of every size. Focusing direct marketing activities on some 8,300 larger mid-size enterprises in Germany is paying off in this connection, as is QSC's expansion of its partner marketing operations in order to be able to better address smaller companies. Thanks to this focused marketing strategy, QSC was able to win Schwalbach-based Hyundai Corporation Europe GmbH as a customer in June 2010, for example. The IPfonie centraflex virtual telephone system, too, is being employed at this European hub of the Hyundai Corporation within the framework of an entire telecommunications solution.

QSC opens IPfonie centraflex for third-party providers • This network-independent telephone system is meeting with a positive response on the part of both larger mid-size enterprises as well as small businesses. This prompted QSC to broaden the functionalities of this system in the second quarter of 2010, and to open it in May for applications from third-party providers. As a first step, the Company created a free interface to the CRM software from Salesforce. This enables staffers to view all relevant information about their caller on screen right at the beginning of the call. With a view to the needs of smaller operations, QSC made its DSL product portfolio more flexible during the past quarter, lowering individual prices by up to one third in this connection. The larger product portfolio now enables QSC's local marketing partners to do an even better job of catering to the individual needs of their customers and is expected to strengthen product business. Since June, QSC has also been offering its totally revamped product portfolio to resellers and Internet service providers in the form of a Wholesale portfolio. The Company is thus rigorously continuing its strategy of modularizing its products and services, which allows one and the same product to be marketed through various channels

Long-term network partnership with freenet • QSC's IP-based products and services build upon the Company's own Next Generation Network (NGN). In June, the efficiency and performance of this network convinced freenet Cityline GmbH, a member of the freenet Group, to enter into a long-term network partnership, which will run for an initial term of ten years. Under the terms of this partnership, QSC will assume freenet's narrowband network and integrate it into the NGN by December 2010. QSC will then be able to implement the total existing volume of traffic from freenet's fixed network with its own infrastructure, thus generating additional revenues.

freenet's narrowband network to be integrated into the NGN by December

While the NGN, and thus its importance as a platform for third-party services, is taking on greater significance, the importance of the DSL network, and here in particular the weight of ADSL2+ business, is being relativized. The number of connected lines declined to 555,600 in the second quarter of 2010, as opposed to 575,200 as of March 31, 2010. There are essentially three reasons for this decrease in the number of lines: First, price competition is heightening in this line of business and QSC is not willing to forego earning a sufficient margin merely to win additional revenues. Second, saturation is setting in for DSL connections, especially in metropolitan areas where QSC is present with its own infrastructure. And third, a growing number of potential DSL customers are also using cable TV for their broadband Internet connections, especially in metropolitan areas.

PROFITABILITY

€ 2.3-million rise in gross profit to € 38.0 million

Gross margin improves to 36 percent • The rise in revenues to € 104.9 million in the second quarter of 2010 stemmed from QSC's successes in its business with higher-margin IP-based products and services during the second quarter of 2010. This, in turn, led to a decline in network expenses during the past quarter to € 66.9 million, as opposed to € 68.0 million for the same quarter the year before; network expenses are recorded under cost of revenues. As a result, gross profit rose to € 38.0 million, as opposed to € 35.7 million one year earlier; gross margin improved to 36 percent, as opposed to 34 percent for the second quarter of 2009.

GROSS PROFIT (in € millions)

Selling and marketing expenses increased modestly to € 10.9 million in the second quarter of 2010, as opposed to € 10.0 million for the same quarter the year before. During the past fiscal year, QSC had further expanded its indirect marketing activities, in particular, and now uses a variety of channels to specifically address potential customers with a modular portfolio of products and services. General and administrative expenses amounted to € 7.3 million in the second quarter of 2010, as opposed to € 7.7 million for the corresponding period one year earlier.

EBITDA advances to € 19.7 million • As a result of its focus on higher-margin IP-based revenues, as well as sustained strict cost discipline throughout the entire organization, EBITDA rose to € 19.7 million in the second quarter of 2010, as opposed to € 19.0 million for the same quarter the year before. QSC defines EBITDA as earnings before interest, taxes, amortization of deferred non-cash share-based payments, as well as depreciation and amortization of fixed assets, intangible assets and goodwill. The EBITDA margin rose to 19 percent, as opposed to 18 percent for the same quarter one year earlier.

EBITDA (in € millions)

Further decline in depreciation expense to € 14.6 million

Depreciation expense declined on schedule in the second quarter of 2010 to € 14.6 million, down € 2.1 million from its level of € 16.7 million for the same period the year before. Customer-related capital expenditures for connecting ADSL2+ customers in 2008, in particular, are no longer being depreciated during the current fiscal year.

EBIT margin rises to 5 percent • In the second quarter of 2010, rising EBITDA and declining depreciation more than doubled operating profit, with EBIT increasing to € 5.1 million, as opposed to € 2.3 million for the same quarter one year earlier. The EBIT margin improved to 5 percent, as opposed to 2 percent for the same quarter the year before.

EBIT (in € millions)

The Company's financial loss stood at € -0.5 million in the second quarter of 2010, as opposed to € -0.7 million for the corresponding period the year before. QSC's earnings before income taxes thus totaled € 4.6 million, as opposed to € 1.5 million for the second quarter of 2009.

Earnings per share triple to € 0.03

Net income nearly quadruples • Taking into consideration income taxes in the amount of € -0.3 million, QSC earned net income of € 4.3 million in the second quarter of 2010, as opposed to € 1.1 million for the corresponding period one year earlier. Earnings per share rose to € 0.03, as opposed to € 0.01 for the same quarter last year. After two quarters, QSC has earned net income of € 7.5 million, thus already surpassing the total of € 5.5 million for the full 2009 fiscal year.

NET PROFIT (in € millions)

PROFITABILITY BY SEGMENT

EBITDA margin for Managed Services rises to 24 percent • At € 18.5 million, Managed Services revenues in the second quarter of 2010 remained stable year on year, while rising € 0.4 million by comparison with the first quarter of 2010. In its solutions business with mid-size enterprises, QSC continues to see a hesitation to invest that cuts across all sectors and is only gradually easing in the wake of the most serious recession of the post-war period. In this kind of environment, it is especially worthwhile to counter this development by specifically addressing larger mid-size enterprises through QSC's direct marketing operation.

MANAGED SERVICES REVENUES (in € millions)

In the second quarter of 2010, the Company's focus on higher-margin revenues with small and mid-size enterprises, along with sustained cost discipline, led to a significant improvement in profitability: The Managed Services segment succeeded in more than doubling its segment EBITDA to € 4.4 million, as opposed to € 1.9 million for the same quarter the year before; the corresponding margin rose to 24 percent, as opposed to 10 percent for the second quarter of 2009.

At the same time, this segment earned an EBIT of € 1.8 million, and thus an EBIT margin of 10 percent; the year before, an operating loss of € -0.7 million had been incurred in the second quarter.

MANAGED SERVICES EBIT (in € millions)

IP-based products accounting for a rising share of revenues • In the second quarter of 2010, QSC generated revenues of € 21.1 million in the Products segment, as opposed to € 22.7 million for the second quarter of 2009. In this connection, declining revenues for conventional voice telephony were offset by rising revenues with IP-based products. The share of segment revenues accounted for by Call by Call and Preselect revenues decreased to 43 percent in the second quarter of 2010, as opposed to 45 percent for the same quarter one year earlier.

PRODUCTS REVENUES (in € millions)

While product revenues declined by € 1.6 million, segment EBITDA improved moderately to € 4.3 million, as opposed to € 3.9 million in the second quarter of 2009. Focusing on higher-margin revenues enabled the EBITDA margin to further rise to 20 percent, as opposed to 17 percent for the second quarter of 2009. At € 1.5 million, there was a significant improvement in the Company's operating profit, which was more than twice as high as in the second quarter of 2009, when it had amounted to € 0.6 million; during this same period, the EBIT margin rose from 3 percent to 7 percent.

EBIT margin in Products segment rises to 7 percent

PRODUCTS EBIT (in € millions)

NGN enables growing revenues in Wholesale voice business

Wholesale/Reseller segment sailing a growth course • In the second quarter of 2010, the Wholesale/Reseller segment benefited from the building of a Next Generation Network early on, which enables QSC to offer high quality yet cost-effective IP-based voice services. Fueled by successes in Wholesale voice business, revenues in this segment rose to € 65.3 million, as opposed to € 62.3 million in the second quarter of 2009. The positive development of retail operations for voice services enabled QSC to more than compensate for revenue decreases in ADSL2+ business. Within the space of a year, the share of revenues accounted for by this line of business declined to 39 percent, as opposed to 49 percent for the second quarter of 2009.

WHOLESALE / RESELLERS REVENUES (in € millions)

Totaling € 11.0 million, as opposed to € 13.2 million for the same quarter the year before, this highest-revenue segment also earned the highest segment EBITDA in the second quarter of 2010. The decline was essentially attributable to higher selling and marketing expenses, as successes in its Wholesale voice business means that QSC is paying higher commissions to its partners in this line of business. Since both Wholesale voice as well as ADSL2+ business make strong use of QSC's infrastructure, this segment bears the brunt of total depreciation expense, which amounted to € 9.1 million in the second quarter of 2010, as opposed to € 10.7 million for the same quarter one year earlier. Operating profit thus amounted to € 1.9 million, as opposed to € 2.4 million in the second quarter of 2009.

WHOLESALE / RESELLERS EBIT (in € millions)

FINANCIAL POSITION AND NET WORTH

Considerably lower cash flow used in investing and financing operations • In the second quarter of 2010, QSC earned a cash flow of € 13.6 million from operating activities, as opposed to € 15.2 million for the same quarter the year before. This metric reached a total of € 25.3 million for the first half of fiscal 2010, as opposed to € 39.8 million for the corresponding period the year before; in 2009, the Company had temporarily recorded considerably higher liabilities and depreciation expense. At € -11.2 million, cash flow from investing activities was also down significantly from the previous year's level of € -24.1 million, as was cash flow from financing activities, which QSC succeeded in slashing nearly in half from € -20.9 million for the same period one year earlier to € -11.4 million.

Positive free cash flow totals € 7.6 million • In the second quarter of 2010, QSC significantly grew its free cash flow – the difference between the change in liquid assets and interest-bearing liabilities – to € 7.6 million, as opposed to € 2.6 million for the same quarter one year earlier and € 4.6 million for the first quarter of 2010. During the first six months of the current fiscal year, the Company has nearly doubled its free cash flow to € 12.1 million, as opposed to € 6.6 million for the first half of 2009.

Liquid assets, which in addition to cash and cash equivalents also include available-for-sale assets, rose by € 2.7 million to € 44.0 million as of June 30, 2010, as opposed to € 41.3 million as of December 31, 2009. During the same period, QSC reduced its interest-bearing liabilities by € 9.4 million to € 31.1 million. Net liquidity, the difference between these two metrics, increased to € 12.9 million as of June 30, 2010, as opposed to € 0.7 million at the close of the fiscal year on December 31, 2009.

Net liquidity advances to € 12.9 million as of June 30, 2010

in T €	30/06/2010	31/12/2009
Net liquidity		
Finance lease liabilities	(14,451)	(22,775)
Other short-term liabilities	(1,695)	(2,774)
Liabilities due to banks	(15,000)	(15,000)
Fixed rate debts	**(31,146)**	**(40,549)**
plus cash and short-term deposits	43,689	40,952
plus available-for-sale financial assets	331	330
Net liquidity	**12,874**	**733**

Debt reduction and net profit strengthen financial position • The increase in net liquidity went hand in hand with a reduction in interest-bearing liabilities in the second quarter of 2010. Overall, long-term debt decreased to € 46.9 million as of June 30, 2010, as opposed to € 54.2 million at the close of the fiscal year on December 31, 2009. Liabilities under finance leasing agreements, alone, declined to € 3.6 million during this period, as opposed to € 7.3 million one year earlier. Short-term liabilities, as well, declined to € 88.3 million, as opposed to € 97.3 million at year-end 2009. Here, too, QSC reduced its interest-bearing short-term liabilities under finance leasing agreements, in particular; as of June 30, 2010, they amounted to only € 10.9 million, as opposed to € 15.5 million at the close of the fiscal year on December 31, 2009.

Debt under finance leasing operations reduced by 30 percent

While debt was further reduced, QSC's net profit increased equity capital to € 167.3 million, as opposed to € 159.7 million as of December 31, 2009. As a result, the equity ratio improved to 55 percent, as opposed to 51 percent at year-end 2009.

EQUITY RATIO

Low level of ongoing capital expenditures • During the first half of 2010, capital expenditures totaled € 13.7 million, as opposed to € 24.4 million for the corresponding period one year earlier. 69 percent of this total was accounted for by customer-related investments, especially for connecting new customers; 23 percent went toward maintenance and ongoing modernization of the Company's nationwide infrastructure; and 8 percent was for investments in office equipment and furniture.

Due to the low level of capital expenditures and scheduled depreciation, the value of long-term assets in the balance sheet decreased to € 192.8 million as of June 30, 2010 from € 209.9 million as of December 31, 2009. On the other hand, the value of short-term assets increased to € 109.7 million during this same period, as opposed to € 101.4 million the year before. On the one hand, this stemmed from the deferral of annual advance payments for utilizing Deutsche Telekom's infrastructure; the balance sheet recorded these advance payments at € 5.8 million as of June 30, 2010, as opposed to € 2.5 million as of December 31, 2009. On the other hand, the € 2.7-million rise in liquid assets to € 44.0 million contributed to the increase in short-term assets.

CAPITAL EXPENDITURES (in € millions)

Sound balance sheet structure • A rising equity ratio and declining indebtedness, on the one hand, and a decreasing level of long-term assets as a result of depreciation, on the other, are significantly improving QSC's balance sheet ratios from quarter to quarter. As of June 30, 2010, 111 percent of long-term assets were being financed by equity capital and long-term liabilities; on December 31, 2009, this ratio had stood at 102 percent. Short-term liabilities accounted for merely 80 percent of short-term assets on June 30, 2010; as of December 31, 2009, this metric had still stood at 96 percent.

HUMAN RESOURCES

Per capita productivity rises • As of June 30, 2010, QSC employed a workforce of 633 people, 18 fewer than on March 31, 2010. In particular, the industrialization of departmental processes and order processing that had been initiated in 2008 has significantly improved the efficiency of these operations, which means that a lower number of employees will be able to generate higher revenues during the current fiscal year. Per capita revenues rose to € 166,000 in the second quarter of 2010, as opposed to € 156,000 for the same period one year earlier; per capita productivity has thus increased by 6 percent within the space of a year.

QSC's workforce numbers 633 people on June 30, 2010

QSC views its people as its most important asset. This is why the Company has instituted numerous measures in recent months in order to further improve employee satisfaction. These included the introduction of a variable salary element for all employees and the definition of consistent career paths as professionals or executives. In addition, a logbook presented all employees with the opportunities offered by a company old-age pension plan as well as the ability to structure their own working hours, including partial utilization of a home office. These measures met with positive response on the part of the workforce and will contribute to the hoped-for strengthening of employee loyalty.

PER CAPITA PRODUCTIVITY (in T €)

Strong commitment to training • As of August 1, 2010, QSC was employing a total of 40 trainees. This represents a trainee ratio of six percent. The Company trains information technology specialists, administrative clerks and IT systems clerks.

RISK REPORT

No material change in risk position • In the second quarter of 2010, there were no material changes in the risks presented in the 2009 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 Interim Consolidated Report that are not historical facts are forward-looking statements. They are based upon current expectations and projections of future events, and could therefore change over the course of time.

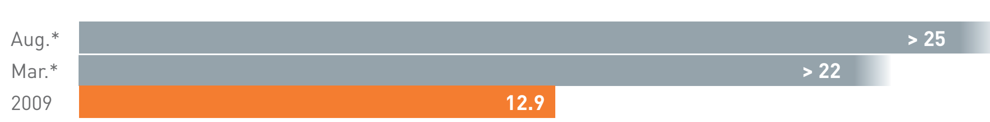
OUTLOOK REPORT

QSC plans to triple net income • Given its successes in the transformation process, QSC is raising its guidance for the current fiscal year: The Company now anticipates a free cash flow of more than € 25 million, instead of more than € 22 million; in 2009, QSC earned a free cash flow of € 12.9 million. In addition, the Company plans to grow its revenues and EBITDA and to triple net income to more than € 16 million, as opposed to € 5.5 million in fiscal 2009. During the past fiscal year, QSC earned an EBITDA of € 76.9 million on revenues of € 420.5 million.

QSC plans to distribute its first dividend for the 2011 fiscal year

QSC plans to continue this profitable growth in 2011, with the Company's evolution into a service provider expected to open up new potential for revenues and profitability, in particular. The Company is also striving to pay its first dividend for the 2011 fiscal year.

FREE CASH FLOW (in € millions)



NET PROFIT (in € millions)

* planned for fiscal year 2010

Sustainability of recovery not assured • Following the significant improvement in the economy in the spring of 2010, there are increasing signs that this will not develop into a sustained upswing in every case. In July 2010, for example, ZEW's economic expectations were unexpectedly sharply clouded, and are now again lower than the historical average. However assessments of the current situation then improved again. This brightening of the market mood is coming primarily from rising exports, while Germany's domestic economy continues to develop on a lackluster note.
The telecommunications market will continue its two-track course of development in 2010, with sustained price competition for standard products being offset by rising revenues with IP-based products and services.

Disproportionate growth of IP-based revenues • With its NGN and its focus on small and midsize customers, QSC is very well aligned for the transformation of the telecommunications market. The Company is generating rising IP-based revenues from quarter to quarter, enabling it to more than compensate for declining conventional revenues. In connection with this transformation process, the Company is paying attention to improving the quality of its revenues in general and giving higher profitability priority over higher revenues. This applies to all three segments, with stiff price competition impacting the Products segment, in particular, and here the Call by Call and Preselect lines of business, as well as the Wholesale/Reseller segment, and here ADSL2+ business.

Higher profitability has priority over higher revenues

The Company is additionally strengthening its profitability through strict cost discipline throughout the entire organization. The high cost awareness of all employees, as well as the rising share of revenues accounted for by higher-margin IP-based products and services, are serving as the two major factors in QSC's plans to grow its revenues and EBITDA and to triple net income to more than € 16 million in fiscal 2010, in spite of the ongoing transformation process.

Free cash flow scheduled to double in fiscal 2010 • Given its positive development, especially in the second quarter of 2010, QSC is now planning for a free cash flow of more than € 25 million for the full 2010 fiscal year, thus doubling this key metric within the space of a year. This will go hand in hand with a high level of cash generated by operating activities, moderate capital expenses and a rising equity ratio. QSC will utilize its free cash flow in 2010 to build a higher liquidity reserve and to further reduce interest-bearing liabilities; moreover, QSC's stronger financial position will also enable the planned payment of a dividend for the 2011 fiscal year. Nor does QSC preclude the possibility of smaller acquisitions.

Consolidated Interim Financial Statements

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

Euro amounts in thousands (T €)

	01/04/–30/06/ 2010	01/04/–30/06/ 2009	01/04/–30/06/ 2010	01/04/–30/06/ 2009
Net revenues	104,923	103,688	210,829	211,294
Cost of revenues	(66,881)	(67,988)	(135,172)	(139,055)
Gross profit	**38,042**	**35,700**	**75,657**	**72,239**
Selling and marketing expenses	(10,911)	(9,963)	(22,583)	(20,287)
General and administrative expenses	(7,335)	(7,690)	(14,167)	(15,217)
Depreciation and non-cash share-based payments	(14,603)	(16,706)	(30,236)	(33,760)
Other operating income	77	943	648	1,917
Other operating expenses	(142)	(29)	(244)	(156)
Operating profit	**5,128**	**2,255**	**9,075**	**4,736**
Financial income	29	169	148	446
Financial expenses	(533)	(911)	(1,066)	(1,836)
Net profit before income tax	**4,624**	**1,513**	**8,157**	**3,346**
Income tax	(339)	(387)	(661)	(863)
Net profit	4,285	1,126	7,496	2,483
Earnings per share (basic) in €	0.03	0.01	0.05	0.02
Earnings per share (diluted) in €	0.03	0.01	0.05	0.02

CONSOLIDATED BALANCE SHEET (unaudited)

Euro amounts in thousands (T €)

	Jun 30, 2010	Dec. 31, 2009
ASSETS		
Long-term assets		
Property, plant and equipment	117,067	126,187
Goodwill	49,279	49,279
Other intangible assets	25,944	33,658
Other long-term financial assets	554	769
Long-term assets	**192,844**	**209,893**
Short-term assets		
Trade receivables	54,657	53,595
Prepayments	5,841	2,497
Inventories	1,666	2,372
Other short-term financial assets	3,531	1,671
Available-for-sale financial assets	331	330
Cash and short-term deposits	43,689	40,952
Short-term assets	**109,715**	**101,417**
TOTAL ASSETS	**302,559**	**311,310**

	Jun 30, 2010	Dec. 31, 2009
SHAREHOLDERS' EQUITY AND LIABILITIES		
Shareholders' equity		
Capital stock	136,998	136,998
Capital surplus	563,808	563,687
Other reserves	(1,129)	(1,129)
Consolidated balance sheet loss	(532,348)	(539,844)
Shareholders' equity	**167,329**	**159,712**
Liabilities		
Long-term liabilities		
Long-term liabilities to minority shareholders	38,954	42,580
Long-term portion of finance lease obligations	3,598	7,272
Convertible bonds	24	24
Accrued pensions	736	741
Other long-term liabilities	-	576
Deferred tax liabilities	3,594	3,056
Long-term liabilities	**46,906**	**54,249**
Short-term liabilities		
Trade payables	40,244	40,982
Short-term portion of finance lease obligations	10,853	15,503
Liabilities due to banks	15,000	15,000
Provisions	4,350	2,037
Deferred revenues	10,039	13,785
Other short-term liabilities	7,838	10,042
Short-term liabilities	**88,324**	**97,349**
Liabilities	**135,230**	**151,598**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	302,559	311,310

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

Euro amounts in thousands (T €)

	01/01/ – 30/06/ 2010	01/01/ – 30/06/ 2009
Cash flow from operating activities		
Net profit before income taxes	8,157	3,346
Depreciation and amortization	25,763	29,552
Non-cash share-based payments	(9)	99
Loss from disposal of long-term assets	586	1,430
Changes in provisions	2,181	(538)
Changes in trade receivables	(1,062)	2,294
Changes in trade payables	(610)	14,222
Changes in other financial assets and liabilities	(9,731)	(10,561)
Cash flow from operating activities	**25,275**	**39,844**
Cash flow from investing activities		
Purchase of intangible assets	(9,242)	(18,288)
Purchase of property, plant and equipment	(1,928)	(5,794)
Cash flow from investing activities	**(11,170)**	**(24,082)**
Cash flow from financing activities		
Repayment of liabilities to minority interest shareholders	(553)	(3,536)
Repayment of other short- and long-term liabilities	(1,079)	(3,790)
Repayment of finance lease	(9,736)	(13,581)
Cash flow from financing activities	**(11,368)**	**(20,907)**
Change in cash and short-term deposits	**2,737**	**(5,145)**
Change in cash and short-term deposits as of January 1	40,952	48,823
Cash and short-term deposits as of June 30	**43,689**	**43,678**
Interest paid	1,023	1,845
Interest received	142	443
Income tax paid	93	167

CONSOLIDATED STATEMENTS OF SHAREHOLDERS´ EQUITY (unaudited)

Euro amounts in thousands (T €)

	Equity attributable to equity holders of the parent				
	Capital stock	Capital surplus	Other capital reserves	Consolidated balance sheet loss	Total share-holders´ equity
Balance as of January 1, 2010	136,998	563,687	(1,129)	(539,844)	159,712
Total comprehensive income				7,496	7,496
Non-cash share-based payments		121			121
Balance as of June 30, 2010	136,998	563,808	(1,129)	(532,348)	167,329
Balance as of 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 as of June 30, 2009	136,998	563,430	(1,141)	(542,143)	157,144

CONSOLIDATED STATEMENTS OF DIRECTLY RECOGNIZED INCOME AND EXPENSES (unaudited)

Euro amounts in thousands (T €)

	01/01/–30/06/ 2010	01/01/–30/06/ 2009
Net profit and recognized income and expenses	7,496	2,483

Notes to the Consolidated Interim Financial Statements

CORPORATE INFORMATION

QSC AG (QSC, the Company, or the Company) is a medium-sized service provider to the telecommunications industry with its own Next Generation Network (NGN). QSC offers a complete portfolio of high-quality broadband communication services with a particular focus on medium-sized companies. In addition to providing intelligent network-related voice and data services, QSC implements complete enterprise networks (IP-VPNs), including managed services. It provides high-performance DSL, Ethernet and wireless local loop connections of up to 800 Mbit/s. In the Wholesale line of business, QSC additionally supplies national and international carriers, ISPs, and strong marketing partners in the residential customer market with the necessary unbundled preliminary products.
QSC is a stock corporation registered in the Federal Republic of Germany whose legal domicile is Mathias-Brüggen-Strasse 55, 50829 Cologne, Germany. The Company is carried on the Register of Companies of the Local Court of Cologne under Number HRB 28281. QSC has been listed on the Deutsche Börse Stock Exchange since April 19, 2000, and on the Prime Standard since the beginning of 2003 following the reorganization of the equity market. On March 22, 2004, QSC was added to the TecDAX index, which includes the 30 largest and most liquid technology issues in the Prime Standard.

BASIS OF PREPARATION

1 General principles

The unaudited Consolidated Interim Financial Statements of QSC AG and its subsidiaries (Consolidated Interim Financial Statements) have been prepared in accordance with the International Financial Reporting Standards (IFRS) and their interpretation by the International Financial Reporting Interpretations Committee (IFRIC) in accordance with International Accounting Standards (IAS) 34, "Interim Financial Reporting." The Consolidated Interim Financial Statements do not include all the information and disclosures required in the Annual Financial Statements, and should be read in conjunction with the Group's Annual Consolidated Financial Statements as of December 31, 2009.
It is the opinion of the Management Board that the Consolidated Interim Financial Statements contain all adaptations that are necessary for a true and fair view of the assets, liabilities, financial position and profit or loss of the Group. The financial results presented in the Consolidated Interim Financial Statements for the period from January 1 through June 30, 2010, do not necessarily indicate the development of future results.
The accounting principles applied in preparing the Consolidated Interim Financial Statements correspond essentially to the accounting principles that had been applied in preparing the Consolidated Financial Statements for the 2009 fiscal year.

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

in T €	01/01/ – 30/06/ 2010	01/01/ – 30/06/ 2009
Network equipment and plant	559	1,378
Impact of changes in estimates	**559**	**1,378**

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

2 Basis of consolidation

The Consolidated Interim Financial Statements comprise the financial statements of QSC AG and its subsidiaries as of June 30, 2010. The number of subsidiaries included in the Consolidated Financial Statements has increased in comparison with December 31, 2009. Since January 15, 2010, tengo GmbH has been included as an additional subsidiary.

3 Segment reporting

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

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

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

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

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

in T €	Managed Services	Products	Wholesale / Resellers	Reconciliation	Consolidated
01/04/ – 30/06/2010					
Net revenues	**18,501**	**21,092**	**65,330**		**104,923**
Cost of revenues	(8,367)	(11,262)	(47,252)		(66,881)
Gross profit	**10,134**	**9,830**	18,078	-	**38,042**
Selling and marketing expenses	(3,176)	(2,993)	(4,742)		(10,911)
General and administrative expenses	(2,528)	(2,534)	(2,273)		(7,335)
Depreciation and amortization	(2,640)	(2,768)	(9,145)		(14,553)
Non-cash share-based payments	(20)	(15)	(15)		(50)
Other operating income	(20)	(21)	(24)		(65)
Operating profit	**1,750**	**1,499**	**1,879**	-	**5,128**
Assets	66,822	77,200	158,537	-	302,559
Liabilities	17,469	23,034	91,133	3,594	135,230
Capital expenditures	1,574	1,587	3,329	-	6,490

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
01/01/ – 30/06/2010					
Net revenues	**36,648**	**42,779**	**131,402**		**210,829**
Cost of revenues	(16,584)	(22,872)	(95,716)		(135,172)
Gross profit	**20,064**	**19,907**	**35,686**	**-**	**75,657**
Selling and marketing expenses	(6,243)	(6,426)	(9,914)		(22,583)
General and administrative expenses	(4,838)	(4,938)	(4,391)		(14,167)
Depreciation and amortization	(5,334)	(5,619)	(19,162)		(30,115)
Non-cash share-based payments	(49)	(35)	(37)		(121)
Other operating income	(15)	(12)	431		404
Operating profit	**3,585**	**2,877**	**2,613**	**-**	**9,075**
Assets	66,822	77,200	158,537	-	302,559
Liabilities	17,469	23,034	91,133	3,594	135,230
Capital expenditures	3,015	3,073	7,652	-	13,740

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

4 Related party transactions

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

in T €	Net revenues	Expenses	Cash received	Cash paid
01/01/ – 30/06/2010				
IN-telegence GmbH & Co. KG	361	30	458	35
Teleport Köln GmbH	7	2	8	5
QS Communication Verwaltungs Service GmbH	-	84	-	116
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

in T €	Trade receivables	Trade payables
As of June 30, 2010		
IN-telegence GmbH & Co. KG	125	3
Teleport Köln GmbH	3	3
QS Communication Verwaltungs Service GmbH	-	5
As of December 31, 2009		
IN-telegence GmbH & Co. KG	153	(2)
Teleport Köln GmbH	1	(3)
QS Communication Verwaltungs Service GmbH	-	(21)

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

5 Litigation

In the litigation between Deutsche Telekom AG and Ventelo GmbH relating to overpayments, an out-of-court settlement was reached between the parties in May 2010. This did not have any material influence on consolidated net worth and profitability during the first half of the fiscal year.

6 Management Board

	Shares		Convertible bonds	
	Jun 30, 2010	Jun 30, 2009	Jun 30, 2010	Jun 30, 2009
Dr. Bernd Schlobohm	13,818,372	13,818,372	300,000	350,000
Jürgen Hermann	145,000	145,000	47,000	47,000
Joachim Trickl	5,000	5,000	250,000	250,000

7 Supervisory Board

	Shares		Convertible bonds	
	Jun 30, 2010	Jun 30, 2009	Jun 30, 2010	Jun 30, 2009
John C. Baker	10,000	10,000	-	-
Herbert Brenke	187,820	187,820	-	-
Gerd Eickers	13,877,484	13,877,484	-	-
David Ruberg	14,563	14,563	-	-
Klaus-Theo Ernst*	500	500	-	3,258
Jörg Mügge*	4,000	-	6,000	6,000

*Employee representative

Cologne, August 2010

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 2010

Dr. Bernd Schlobohm
Chief Executive Officer

Jürgen Hermann

Joachim Trickl

Calendar

Annual Shareholders Meeting
May 19, 2011

Quarterly Report III/2010
November 8, 2010

Conferences / Events
September 8, 2010
WestLB TMT Day, London

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

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This translation is provided as a convenience only.
Please note that the German-language original of
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Further information at www.qsc.de