Quarterly Report III / 2007

Key data

All amounts in € million	01/06/-30/09/ 2007	01/06/-30/09/ 2006	01/01/-30/09/ 2007	01/01/-30/09/ 2006
Revenues	83.2	68.4	239.6	179.4
Gross profit	+25.3	+22.4	+82.2	+58.3
EBITDA	+7.4	+5.2	+27.2	+11.7
EBIT	-5.3	-2.0	-4.4	-7.7
Net loss	-4.7	-2.0	-3.2	-8.1
Earnings per share [1] (in €)	-0.04	-0.02	-0.02	-0.07
Capital expenditures	34.5	7.4	63.9	26.4
Equity			160.7 [2]	160.6 [3]
Balance sheet total			315.1 [2]	299.9 [3]
Equity ratio (in percent)			51.0 [2]	53.6 [3]
Liquidity			80.7 [2]	108.9 [3]
Share price as of 30/09/ (in €)			3.72	4.66
Number of shares as of 30/09/			135,240,968	128,475,494
Market capitalization as of 30/09/			503.1	598.7
Employees as of 30/09/			774	673

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

Highlights

+ + + Better revenue quality + + +
In the third quarter of 2007, QSC grew its revenues by 22 percent to € 83.2 million. The share of total revenues accounted for by the three strategic segments of Large Accounts, Business Customers and Wholesale/Resellers rose to 87 percent, as opposed to 82 percent for the same quarter the year before.

+ + + High volume of orders + + +
QSC has increased the monthly level of new orders by some 60 percent since the beginning of the year. However delays in connection with its internal processes, in particular, and at the outset of collaboration with its strong wholesale partners, as well as bottlenecks in the provision of unbundled local loops by Deutsche Telekom, prevented this rising level of new orders from being translated directly into corresponding revenue growth.

+ + + New organizational structure + + +
To speed up its internal processes, QSC has decided to restructure its operations. The Company's organizational structure now reflects its strategic lines of business and its growth engines of Managed Services, Direct Access and Wholesale business; all three business units are fully responsible for their own processes and profitability, and report directly to the Management Board.

+ + + Slowdown in profitability growth + + +
EBITDA rose by 42 percent to € 7.4 million in the third quarter of 2007. While QSC continued its network expansion on schedule, thus necessitating that it shoulder greater network expenses, revenues lagged significantly behind expectations due to process-related delays as well as intensified price competition in conventional voice telephony.

+ + + High capital expenditures + + +
In the third quarter of 2007, QSC swiftly expanded its network, and now already has some 1,600 central offices. Consequently, capital expenditures of € 34.5 million were up significantly from the previous year's level of € 7.4 million.

+ + + Forecast lowered + + +
The weaker operational development in the third quarter of 2007 prompted QSC in late October to reduce its forecast for the current fiscal year: The Company now anticipates revenues of some € 325 million, an EBITDA of around € 35 million, as well as a marginally positive net income after taxes.

Letter to Our Shareholders

Dear Shareholders,

The third quarter of 2007 was disappointing. Although QSC did succeed in growing its revenues by 22 percent to € 83.2 million and its EBITDA by 42 percent to € 7.4 million, our expectations had been considerably higher. After having gained an overview of the preliminary results for the third quarter as well as the anticipated development of the fourth quarter of 2007, we therefore announced our preliminary results for the past quarter ahead of schedule on October 25, 2007, and lowered our forecast for the full fiscal year: QSC now anticipates revenues of approximately € 325 million, an EBITDA of around € 35 million, as well as a marginally positive net income after taxes.

The reasons for this reduction – in addition to intensified price competition in conventional telephony that had not been anticipated in this magnitude – were essentially process-related: QSC is presently unable to turn orders into revenues as quickly as had been planned. Yet QSC's monthly level of new orders is developing very positively, having risen by some 60 percent since the beginning of the year.

Level of new orders has risen by some 60 percent since the beginning of 2007

In recent months, process-related delays had a particular impact on the growth of the Company's wholesale business. On the one hand, there were delays here at the outset of collaboration with our wholesale partners as a result of the unavoidable need for highly complex integration of IT systems. On the other hand, there continued to be bottlenecks in the provision of preliminaries by Deutsche Telekom. These bottlenecks are also impairing our growth with large accounts and business customers.

Moreover, overly complex internal processes delayed growth in all three strategic segments: It simply took too long until we were able to connect a new customer and thus begin generating revenues. In October 2007, we therefore decided to thoroughly modify QSC's structure. The Company's organizational structure is now aligned to reflect its strategic lines of business of Managed Services, Direct Access and Wholesale; all three business units are fully responsible for their processes and profitability, and report directly to the Management Board. Delegating responsibility to the three business units will facilitate, amongst others, their ability to take their own specific environments in order management into consideration: While wholesale business requires a high level of automation due to the large number of seperate orders, business with large accounts necessitates custom-tailored, individual solutions. Shorter decision-making channels and clear responsibilities, particularly in order management, will play a key role in speeding up our processes.

From today's vantage point, we should have implemented this restructuring earlier. But in recent months, we were highly involved with three key projects that are of major significance for the further development of our Company: Network expansion through Plusnet, our joint-venture network operating company with TELE2, the merger of Broadnet, as well as the establishment of wholesale business for mass-market providers.

The merger with Broadnet went into effect on October 31, 2007

Today, all three of these projects are well on their way: The expansion of the network to nearly 2,000 central offices will be completed in the first quarter of 2008; the merger with Broadnet went into effect sooner than expected on October 31, 2007; and the contracts with all of today's strong wholesale partners have been signed, with QSC winning 1&1 Internet AG as its latest partner in July.

This now gives us more latitude to resolutely eliminate the internal causes of the delays and to return our Company to its customary high-margin growth. This optimism is strengthened by the fact that our systems have now been interlinked with all of our wholesale partners, the interfaces are running smoothly and the number of preliminaries that are being provided is also growing from month to month.

Near term, however, what remains for you, our shareholders, is justified disappointment about the development of business in the third quarter and our entirely unsatisfactory share price performance. Even though our shares have for months also been suffering from such external factors as skepticism toward the telecommunications sector as a result of price competition, the recent development of our share prices has stemmed first and foremost from the lowering of our forecast.

QSC has disappointed expectations, and now has to regain the confidence of the capital market. We are currently engaged in an intensive dialog with analysts and investors, in which we are explaining both what third parties have correctly been terming "growth pains" as well as the measures that we have initiated. Moreover, we intend to announce our forecast for the 2008 fiscal year earlier than usual in order to document the fact that QSC can and will continue to sustain its high-margin growth.

QSC to announce its forecast for fiscal 2008 earlier than usual

Because in spite of disappointment about the results for the third quarter of 2007, we should not forget: QSC is well positioned with its own DSL infrastructure, a Next Generation Network and its focus on enterprise customers. And we would be pleased if you, our shareholders, would continue to accompany us as we travel the road toward becoming a leading telecommunications provider for enterprise customers in Germany.

Cologne, November 2007

Markus Metyas

Dr. Bernd Schlobohm
Chief Executive Officer

Bernd Puschendorf

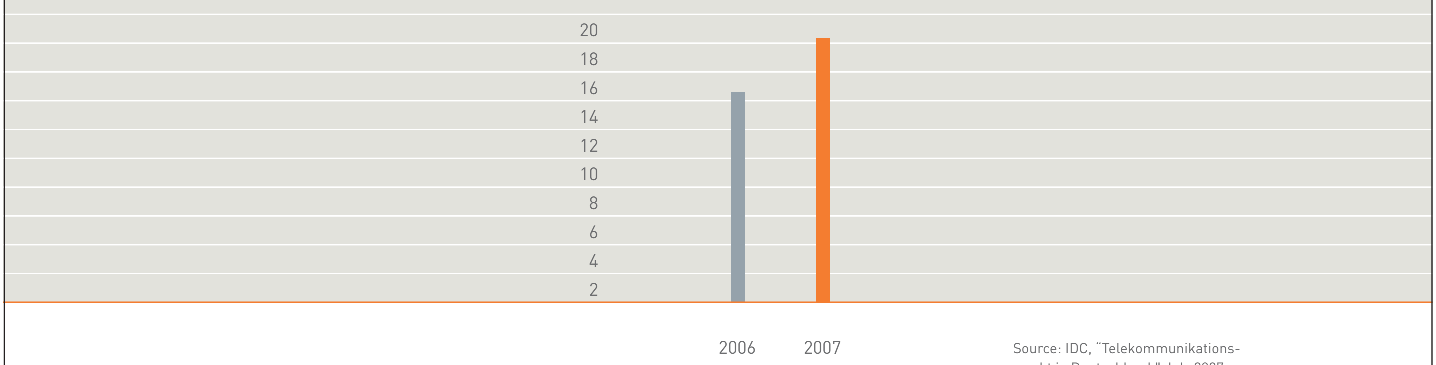
Interim Consolidated Report QIII / 2007

GENERAL INDUSTRY CONDITIONS

Intensified price competition + While the overall economic environment in Germany remained positive in the third quarter of 2007, the telecommunications industry was impacted, among other things, by intensified price competition in conventional voice telephony; fueled by flat-rate and Voice over IP offerings, prices per minute continued to decline. While QSC had readied itself for this change early on with its IP-capable Next Generation Network, it is nevertheless being forced to incur near-term shortfalls in its conventional voice telephony business.
DSL business continued to be the growth engine in the telecommunications industry in the third quarter of 2007; market researchers anticipate that the number of DSL connections in Germany will rise by some four million during the current fiscal year to over 18 million. However alternative telecommunication providers like QSC are currently experiencing bottlenecks in the provision of preliminaries in the form of unbundled local loops by Deutsche Telekom, which is delaying the connection of new customers and thus revenue generation.

Number of DSL connections in Germany will rise to over 18 million in 2007

Broadband Connections in Germany (in millions)



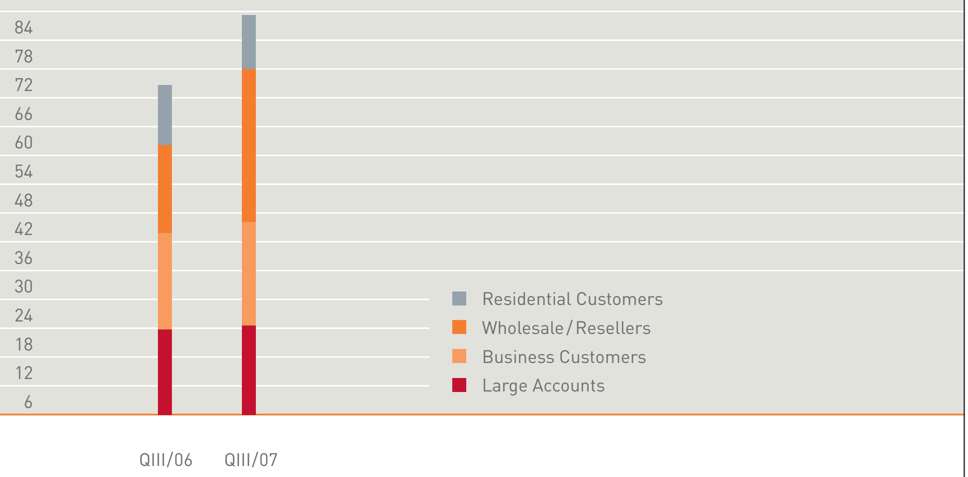
Source: IDC, "Telekommunikations-markt in Deutschland," July 2007

BUSINESS SITUATION

During the first nine months of 2007, revenues advanced by 34 percent

Strategic segments now account for 87 percent of total revenues + In the third quarter of 2007, QSC grew its revenues by 22 percent to € 83.2 million, as opposed to € 68.4 million for the same quarter the year before; during the first nine months of the fiscal year, revenues advanced by 34 percent to € 239.6 million, as opposed to € 179.4 million for the comparable quarter the year before.
In the third quarter of 2007, QSC was unable to translate its high monthly level of new orders – which has risen by some 60 percent since the beginning of the year – into revenues as quickly as had been planned. Contributing to this were both internal, process-related bottlenecks in connecting new customers as well as external delays in conjunction with the launch of collaboration with wholesale partners as well as in the provision of unbundled local loops by Deutsche Telekom, in particular.
Although intensified price competition in conventional voice telephony additionally burdened the Company's business with enterprise customers, the percentage of total revenues this business accounts for continued to rise: In the third quarter of 2007, QSC was already generating 87 percent of its total revenues in its three strategic segments of Large Accounts, Business Customers and Wholesale/Resellers, as opposed to 82 percent for the corresponding quarter the year before.

Revenue Mix (in € million)



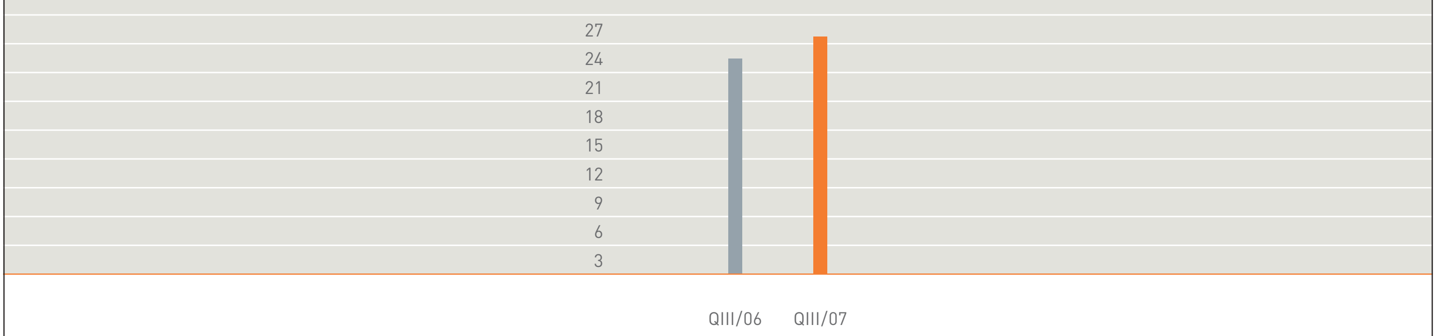
Network expenses, which QSC records under cost of revenues, rose by 26 percent in the third quarter of 2007 to € 57.8 million, as opposed to € 46.0 million for the same quarter the year before. This strong rise was attributable to the expansion of the network by nearly 10 percent in the third quarter, alone, and to the higher operating costs this involves, for instance, for both the fiber optic link as well as for central office maintenance. In addition, QSC swiftly increased its order processing staff in the third quarter of 2007 in order to overcome the bottlenecks, additionally strengthening the team with temporary employees and external consultants.

Higher network expenses due to the expansion of the network by nearly 10 percent

As a result of higher network expenses, gross profit rose by only 13 percent to € 25.3 million in the third quarter of 2007, as opposed to € 22.4 million the year before; at 30 percent, gross margin was down marginally from the previous year's level of 33 percent.

Selling and marketing expenses increased by 16 percent to € 12.1 million in the third quarter of 2007, as opposed to € 10.4 million for the same quarter the year before. However selling and marketing expenses continued to account for a constant 15 percent of total revenues. At € 6.6 million, the level of general administrative expenses remained almost unchanged from the third quarter of 2006, and their share of total revenues in fact declined to 8 percent, as opposed to 10 percent for the same quarter the year before.

Gross Profit (in € million)

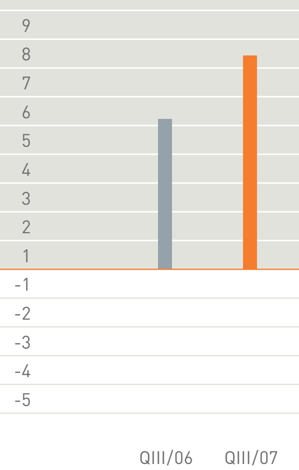


Depreciation expense reduces profitability + Weaker-than-planned revenue growth, on the one hand, as well as continued expansion of the network according to schedule, on the other, slowed the rise in EBITDA in the third quarter of 2007; EBITDA increased by 42 percent to € 7.4 million, as opposed to € 5.2 million for the corresponding quarter the year before. QSC defines EBITDA as earnings before interest, taxes, amortization of deferred non-cash share-based payments, as well as depreciation on property, plant and equipment, intangible assets and amortization of goodwill. At 9 percent, QSC's EBITDA margin was up only marginally from the previous year's level of 8 percent. During the first nine months of the current fiscal year, QSC succeeded in increasing its EBITDA by 132 percent to € 27.2 million, as opposed to € 11.7 million for the comparable period the year before.

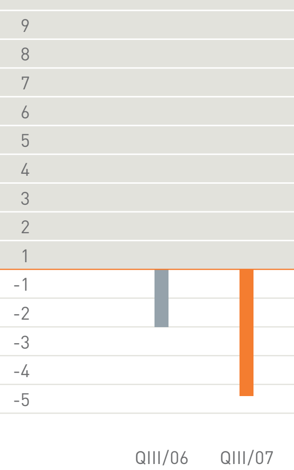
Network expansion leads to significantly higher depreciation expense

As a result of the progress made in expanding the network, depreciation expense in the third quarter of 2007 rose by 76 percent to € 12.7 million, as opposed to € 7.2 million for the same quarter the year before. The significantly higher depreciation expense stemming from expansion of the network and the disappointing course of business overall led to a before- and after-tax net loss in the third quarter of 2007. The earnings before interest and taxes stood at € -5.3 million as opposed to € -2.0 million for the third quarter of 2006, the net loss amounted to € -4.7 million as opposed to € -2.0 million for the same quarter the year before.

EBITDA (in € million)



Net Loss (in € million)



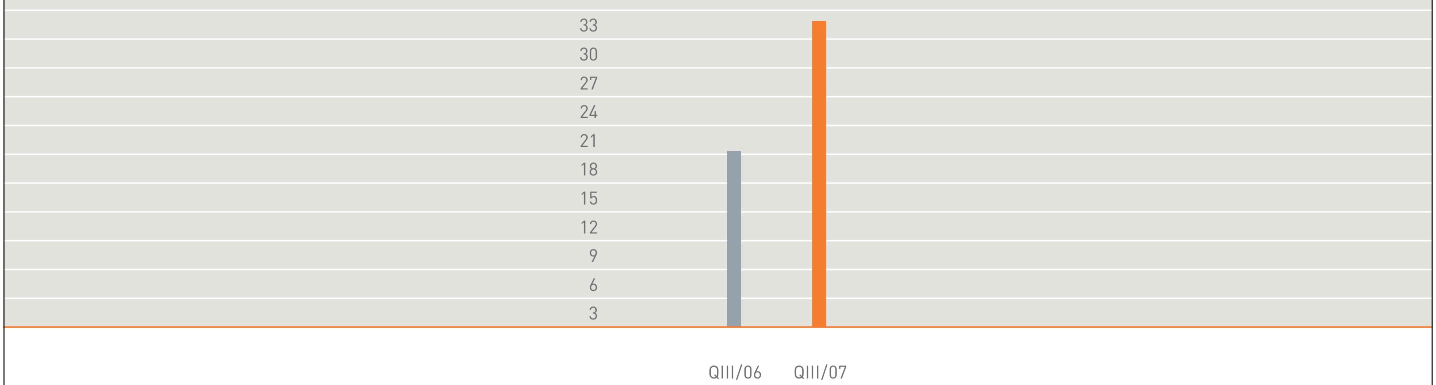
BUSINESS BY SEGMENT

Wholesale the growth engine + In the third quarter of 2007, QSC again posted its strongest revenue growth in the Wholesale/Reseller segment, and here in particular in its wholesale business, where revenues rose by 74 percent to € 31.8 million, as opposed to € 18.3 million for the same quarter the year before. However there were unanticipated delays and bottlenecks in the Company's collaboration with its strong wholesale partners as well as in the provision of unbundled local loops by Deutsche Telekom. The integration of IT systems, in particular, which is necessary in order to automate business processes in wholesale business, required more time and human resources than had been planned. Since mid October 2007, the interfaces with all of QSC's strong market partners have been working smoothly.

Interfaces with wholesale partners have been working smoothly since mid October

The segment EBITDA in QSC's highest-revenue segment rose by 65 percent in the third quarter of 2007 to € 15.7 million, as opposed to € 9.5 million the year before. Segment EBITDA is calculated as the respective net revenues less all costs directly attributable to that segment. Due to the continued strong growth in the share of total revenues attributable to wholesale business, the 49-percent margin in this segment was down from the previous year's level of 52 percent, because reseller business traditionally offers higher margins than wholesale business.

Revenues Wholesale / Resellers (in € million)

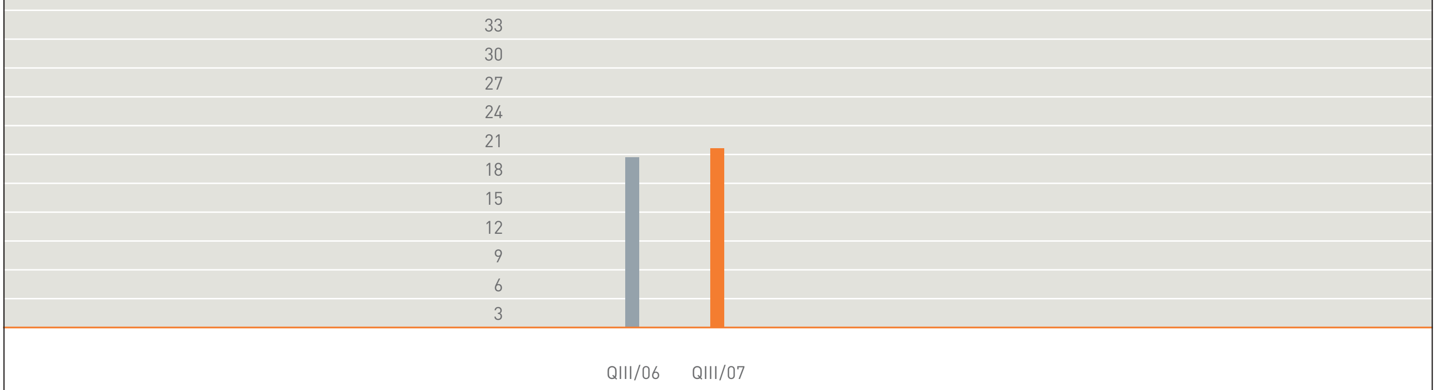


Next Generation Network paying off in connection with large accounts + In spite of sustained pressure on prices in conventional voice telephony, revenues in the Large Account segment advanced to € 18.6 million in the third quarter of 2007, as opposed to € 17.7 million for the comparable period the year before. QSC is active in voice telephony primarily as a result of its acquisition of pure voice telephony provider Ventelo in late 2002. The Company is hard at work migrating existing conventional voice telephony contracts to direct IP-based connections; near-term, however, the encouraging growth in the number of these direct connections will be unable to compensate for revenue shortfalls stemming from price competition in conventional voice telephony.

QSC's core business of Managed Services is posting satisfactory growth rates

The Company's core business of Managed Services, on the other hand, is posting satisfactory growth rates. In the third quarter of 2007, QSC was again able to win new customers, typically consisting of small and medium enterprises, extend the term of existing contracts and broaden its share of the telecommunication budgets of large accounts. However internal, process-related bottlenecks in conjunction with the connection of new customers did retard growth. The Company's new organizational structure, where the Managed Services Business Unit has direct responsibility for its processes and profitability, is expected to play a key role in swiftly overcoming these bottlenecks. In the third quarter of 2007, segment EBITDA decreased slightly to € 10.3 million, as opposed to € 10.5 million for the same quarter the year before. The EBITDA margin stood at 55 percent.

Revenues Large Accounts (in € million)

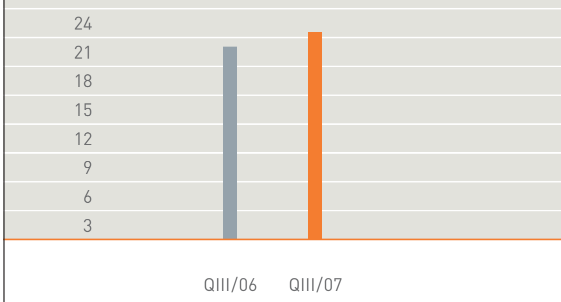


Business customers utilizing Voice over IP + Like the Large Account segment, growth in the Business Customer segment was retarded in the third quarter of 2007 by price competition in conventional voice telephony as well as internal, process-related bottlenecks: Revenues increased to € 21.6 million, as opposed to € 20.0 million for the third quarter of 2006. In this connection, the number of direct connections to the QSC network for small and medium enterprises continued to rise, with the Company's ability to provide Voice over IP coverage nationwide sparking keen interest. Totaling € 12.8 million, the segment EBITDA for business customers was up from the previous year's level of € 9.9 million; margin reached 59 percent.

Number of direct connections continues to rise

Residential customer price war + In QSC's non-strategic business with residential customers, revenues declined to € 11.2 million in the third quarter of 2007, as opposed to € 12.4 million the year before. QSC continues to embrace its strategy of not joining the stiff price competition for voice and data services in this segment, but instead rigorously concentrates on achieving a sufficient margin in connection with each and every product. The revenue decline additionally resulted from the waning attractiveness of classical call-by-call telephony business, as residential customers are increasingly utilizing flat-rate and Voice over IP offerings.
These developments again lead to a declining segment EBITDA in the third quarter of 2007: It totaled € 3.4 million, as opposed to € 3.7 million in the third quarter of 2006, with the corresponding margin amounting to 30 percent.

Revenues Business Customers (in € million)



Revenues Residential Customers (in € million)

FINANCIAL POSITION AND NET ASSETS

Expenditures surge in third quarter of 2007 + Following the strike at Deutsche Telekom, which had delayed expansion of the network in the second quarter of 2007, QSC was able to work down some of this backlog in the third quarter, expanding its network by nearly 10 percent within the space of this three-month period to some 1,600 central offices today: Consequently, capital expenditures rose to € 34.5 million, as opposed to € 7.4 million for the third quarter of 2006.

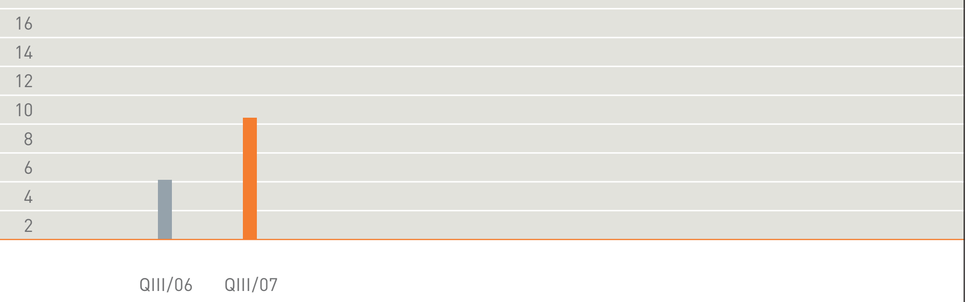
QSC has rigorously readied the entire network for the strong growth that is anticipated in the coming quarters, and is therefore equipping the individual central offices with an appropriate number of ports. Additional, unplanned capital expenditures were necessitated by the request of the Company's wholesale partners for measurement solutions to check the quality during the activation of the unbundled local loop. These measurement solutions make it easier to check line quality in the case of a malfunction.

QSC is upgrading its network to SHDSL standard

In parallel with this expansion, QSC is continuing the complete upgrade of its network to the SHDSL standard, an evolution of SDSL technology. This technology enables higher transmission quality for long copper wires. It is considerably more efficient to perform this upgrade, which had originally not been planned until next year, within the framework of the network expansion. QSC anticipates that this upgrade, along with expansion of the network to nearly 2,000 central offices, will be concluded by the first quarter of 2008. The Company will then enjoy direct access to around 50 percent of all German households as well as to some 70 percent of all relevant enterprise locations.

Rising operating cash flow + In the third quarter of 2007, QSC generated a cash flow of € 8.4 million from operating activities, as opposed to € 4.1 million for the corresponding quarter the year before. At the same time, the scheduled network expansion led to a cash burn, with the cash flow from investing activities therefore totaling € -28,6 million.

Cash Flow from Operating Activities (in € million)



Due to the higher level of capital expenditures, liquid assets declined to € 80.7 million as of September 30, 2007, as opposed to € 93.1 million at the end of the same quarter the year before. This line item includes the original capital contribution to Plusnet in the amount of € 50 million that was made by co-shareholder TELE2 in the autumn of 2006, which is serving to fully fund this network expansion.

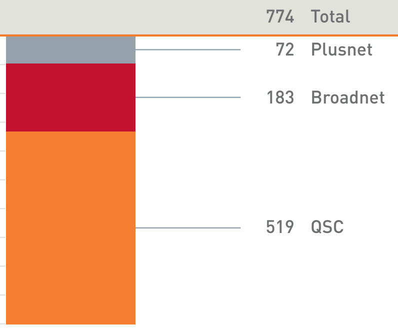
QSC utilizes the instrument of financial leasing in order to finance some of its own capital expenditures. Long-term debt under financial leasing contracts rose by € 3.0 million from its level on December 31, 2006, to € 19.0 million; during the same period, short-term debt declined by € 3.4 million to € 10.0 million. The soundness of the Company's financing is documented by its equity ratio of 51 percent as of September 30, 2007.

An equity ratio of 51 percent documents soundness of financing

HUMAN RESOURCES

Customer-related operations expanded + As of September 30, 2007, QSC employed a workforce of 774 people, 39 more than at midyear. Given the anticipated growth in the coming quarters, QSC has in recent months increased the size of its order processing and customer management staff, in particular. Most of the new recruits are employed by QSC AG, whose 519 employees as of September 30, 2007, accounted for the majority of the workforce in the QSC Group. As of the close of the quarter, network operating company Plusnet employed 72 people, Broadnet 183.

Workforce as of September 30, 2007



RISK REPORT

Risk position unchanged + In the third quarter of 2007, there were no material changes in the risks that had been presented in the 2006 Annual Report or in the 2007 Semiannual Report. However as a result of the risks portrayed therein, as well as other risks or incorrect assumptions, actual future results could vary from QSC's expectations. All statements contained in this unaudited consolidated interim report that are not historical facts are therefore forward-looking statements. They are based upon current expectations and projections of future events, and could therefore change over the course of time.

SUBSEQUENT EVENTS

Broadnet merger takes effect + Following the close of the reporting period, the merger of Broadnet AG with QSC AG went into force retroactively as of January 1, 2007, following entry of the merger in the Commercial Registers of Companies in Hamburg and Cologne on October 31, 2007. Broadnet AG is thus defunct; its former shareholders are now shareholders of QSC AG. It had first been necessary to settle the lawsuits that had been filed against the merger resolution of the Broadnet annual shareholders meeting in May 2007 out of court. The transaction was then concluded through the issuance of 1,090,210 new shares of QSC stock to the former Broadnet shareholders in exchange for their former Broadnet shares.

The merger of Broadnet will produce synergies

QSC anticipates that the merger will produce synergies in the low single-digit million range in the coming fiscal year, which will essentially be able to be achieved through the integration of the networks and optimization of administrative expenses. One face to the customer, consistent processes and the utilization of mutual value creation potential will lend additional dynamics to growth in the Managed Services, Direct Access and Wholesale strategic business units.

GUIDANCE AND OPPORTUNITIES

Guidance for 2007 reduced + Given weaker-than-anticipated operational development in the third quarter, as well as internal delays in connection with processes, QSC has reduced its forecast for the current fiscal year on October 25, 2007: The Company now anticipates revenues of about € 325 million for 2007 instead of the previously forecast € 350 million, an EBITDA of about € 35 million instead of the previous forecast of between € 50 and € 60 million, as well as a marginally positive net income after taxes instead of the previously forecast € 15 million. In the fourth quarter of 2007, profitability will additionally be impacted by non-recurring integration costs stemming from Broadnet's merger with QSC.

The strongly rising level of new orders provides a solid foundation for QSC to resume its high-margin growth in 2008 and beyond after overcoming the internal bottlenecks and delays. From the first quarter of 2008 onward, the Company will additionally be benefiting from the network expansion to nearly 2,000 central offices.

Interim Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

Euro amounts in thousands (T €)

	01/07/-30/09/ 2007	01/07/-30/09/ 2006	01/01/-30/09/ 2007	01/01/-30/09/ 2006
Net revenues	83,152	68,370	239,644	179,362
Cost of revenues	(57,816)	(45,964)	(157,412)	(121,054)
Gross Profit	25,336	22,406	82,232	58,308
Selling and marketing expenses	(12,079)	(10,446)	(33,848)	(29,952)
General and administrative expenses	(6,621)	(6,715)	(22,725)	(16,836)
Research and development expenses	(72)	(59)	(230)	(221)
Depreciation and non-cash share-based payments	(12,651)	(7,172)	(31,566)	(19,412)
Other operating income	882	61	2,347	433
Other operating expenses	(72)	(41)	(626)	(49)
Operating loss	(5,277)	(1,966)	(4,416)	(7,729)
Financial income	1,227	408	2,965	1,084
Financial expenses	(698)	(443)	(1,759)	(1,457)
Net loss before income taxes	(4,748)	(2,001)	(3,210)	(8,102)
Income taxes	-	-	-	-
Net loss	(4,748)	(2,001)	(3,210)	(8,102)
Attributable to:				
Equity holders of the parent	(4,929)	(1,949)	(3,611)	(8,037)
Minority interest	181	(52)	401	(65)
Earnings per share (basic and diluted) in €	(0.04)	(0.02)	(0.02)	(0.07)

CONSOLIDATED BALANCE SHEETS (unaudited)

Euro amounts in thousands (T €)

ASSETS	Sept. 30, 2007	Dec. 31, 2006
Long-term assets		
Property, plant and equipment	87,831	61,489
Goodwill	49,623	47,450
Intangible assets	23,149	18,051
Other long-term financial assets	368	160
Deferred tax assets	6,403	6,403
Long-term assets	**167,374**	**133,553**
Short-term assets		
Trade receivables	53,735	52,778
Prepayments	3,770	1,099
Other short-term financial assets	9,442	3,566
Available-for-sale financial assets	38,776	62,927
Cash and short-term deposits	41,954	45,986
Short-term assets	**147,677**	**166,356**
TOTAL ASSETS	315,051	299,909

SHAREHOLDERS' EQUITY AND LIABILITIES	Sept. 30, 2007	Dec. 31, 2006
Equity attributable to equity holders of the parent		
Capital stock	135,265	133,898
Capital surplus	560,253	557,961
Other capital reserves	(447)	(1,286)
Accumulated deficit	(537,308)	(533,697)
Equity attributable to equity holders of the parent	**157,763**	**156,876**
Minority interest	2,960	3,674
Total Shareholders' equity	**160,723**	**160,550**
Long-term liabilities		
Long-term liabilities of minority interest	51,962	49,860
Long-term portion of finance lease obligations	19,004	16,044
Other long-term liabilities	3,382	-
Convertible bonds	36	36
Accrued pensions	714	721
Deferred tax liability	5,752	5,084
Long-term liabilities	**80,850**	**71,745**
Short-term liabilities		
Trade payables	43,823	42,082
Short-term portion of finance lease obligations	9,970	13,443
Liabilities due to banks	2,825	-
Provisions	1,216	1,512
Deferred revenues	8,778	4,510
Other short-term liabilities	6,866	6,067
Short-term liabilities	**73,478**	**67,614**
Total liabilities	**154,328**	**139,359**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	315,051	299,909

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

Euro amounts in thousands (T €)

	01/01/- 30/09/ 2007	01/01/- 30/09/ 2006
Cash flow from operating activities		
Net loss before income taxes	(3,210)	(8,102)
Depreciation and amortization	30,752	19,057
Non-cash share-based payments	814	345
Loss from disposal of long-term assets	12	42
Changes in provisions	(303)	1,666
Changes in trade receivables	(957)	(9,174)
Changes in trade payables	1,742	(152)
Changes in other financial assets and liabilities	(8,761)	(3,853)
Cash flow from operating activities	**20,089**	**(171)**
Cash flow from investing activities		
Purchase of available-for-sale financial assets	(24,907)	(54,676)
Disposal of available-for-sale financial assets	50,950	16,828
Payments related to acquisitions	(524)	18,065
Purchases of intangible assets	(11,442)	(5,273)
Purchases of property, plant and equipment	(43,236)	(4,798)
Proceeds from disposal of assets	15	4
Cash flow from investing activities	**(29,144)**	**(29,850)**
Cash flow from financing activities		
Changes in convertible bonds	-	(13)
Assumption of minority interst liabilities	2,102	50,000
Assumption of other short and long-term liabilities	8,456	-
Disposal of loans granted	2,825	-
Proceeds from issuance of common stock	1,341	4,454
Repayments of finance lease	(9,701)	(7,184)
Cash flow from financing activities	**5,023**	**47,257**
Change in cash and short-term deposits	**(4,032)**	**17,236**
Cash and short-term deposits at January 1	45,986	30,313
Change in cash and short-term deposits at September 30	**41,954**	**47,549**
Interest paid	2,335	1,429
Interest received	3,056	719

CONSOLIDATED STATEMENTS OF DIRECTLY RECOGNIZED INCOME AND EXPENSE (unaudited)

Euro amounts in thousands (T €)

	01/01/-30/09/ 2007	01/01/-30/09/ 2006
Directly recognized in equity		
Available-for-sale financial assets		
change in fair value	1,382	(220)
realized gains	14	24
Tax effect, total	(557)	78
Directly recognized in equity	**839**	**(118)**
Net loss	(3,210)	(8,102)
Net loss and directly recognized income and expense	**(2,371)**	**(8,220)**
Attributable to:		
Equity holders of the parent	(2,772)	(8,155)
Minority interest	401	(65)

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (unaudited)

Euro amounts in thousands (T €)

	Equity attributable to equity holders of the parent				
	Capital stock T €	Capital surplus T €	Other capital reserves T €	Accumulated deficit T €	Total T €
Balance at January 1, 2007	133,898	557,961	(1,286)	(533,697)	156,876
Net loss				(3,611)	(3,611)
Change in fair value of available-for-sale financial assets			1,396		1,396
Deferred taxes on available-for-sale financial assets			(557)		(557)
Issuance of common stock by assets in kind	257	1,247			1,504
Conversion of convertible bonds	1,110	231			1,341
Non-cash share-based payments		814			814
Change in minority interest					
Balance at September 30, 2007	135,265	560,253	(447)	(537,308)	157,763
Balance at January 1, 2006	115,033	499,643	(1,357)	(528,281)	85,038
Net loss				(8,102)	(8,102)
Change in fair value of available-for-sale financial assets			(196)		(196)
Deferred taxes on available-for-sale financial assets			78		78
Issuance of common stock by assets in kind	11,232	37,740			48,972
Conversion of convertible bonds	2,210	1,062			3,272
Non-cash share-based payments		345			345
Change in minority interest					
Balance at September 30, 2006	128,475	538,790	(1,475)	(536,383)	129,407

Minority interest T €	Total Share-holders' Equity T €	
3,674	**160,550**	**Balance at January 1, 2007**
401	(3,210)	Net loss
	1,396	Change in fair value of available-for-sale financial assets
	(557)	Deferred taxes on available-for-sale financial assets
	1,504	Issuance of common stock by assets in kind
	1,341	Conversion of convertible bonds
	814	Non-cash share-based payments
(1,115)	(1,115)	Change in minority interest
2,960	**160,723**	**Balance at September 30, 2007**
-	**85,038**	**Balance at January 1, 2006**
	(8,102)	Net loss
	(196)	Change in fair value of available-for-sale financial assets
	78	Deferred taxes on available-for-sale financial assets
	48,972	Issuance of common stock by assets in kind
	3,272	Conversion of convertible bonds
	345	Non-cash share-based payments
13,308	13,308	Change in minority interest
13,308	**142,715**	**Balance at September 30, 2006**

Notes to the Interim Consolidated Financial Statements

CORPORATE INFORMATION

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

BASIS OF PREPARATION

1 General principles

The unaudited interim consolidated financial statements for the first nine months ended September 30, 2007, have been prepared in accordance with the International Financial Reporting Standards (IFRS), and the supplementary rules of § 315a (1) of the German Commercial Code (HGB). The consolidated financial statements have been prepared in accordance with the IFRS and International Accounting Standards (IAS) issued by the International Accounting Standards Board (IASB) as well as their interpretation by the International Financial Reporting Interpretations Committee (IFRIC) and by the Standing Interpretations Committee (SIC) that are required to be applied in the EU and which are mandatory at the balance sheet date.
The interim consolidated financial statements for the period from January 1 through September 30, 2007, have been prepared in accordance with IAS 34, "Interim Financial Reporting." The interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group´s annual consolidated financial statements as of December 31, 2006.

2 Basis of consolidation

The interim condensed consolidated financial statements comprise the financial statements of QSC AG and its subsidiaries for the period ended September 30, 2007. There has been no change in the number of companies included in the consolidation since the consolidated financial statements for the fiscal year ended December 31, 2006. Only the percentage held of the shares of Broadnet has increased through an agreement signed on April 16, 2007, to acquire a further 209,000 Broadnet shares from institutional investors. QSC thus now holds 15,094,967 out of a total of 16,166,286 Broadnet shares, representing 93.4 percent of the capital stock of Broadnet.

3 Changes in accounting policies

The accounting policies adopted in preparing these consolidated interim financial statements are fundamentally consistent with those employed in preparing the consolidated financial statements for the 2006 fiscal year. The adoption of new or revised standards or interpretations that have been in force since January 1, 2007, did not have any material effect on the net assets, financial position or results of operations of the Company.

4 Segment reporting

The source of QSC's reportable segments is according to the prescription of IAS 14 the internal organization used by the management for making operating decisions and assessing performance as. QSC is primarily operating in the customer segments Large Accounts, Business Customers, Wholesale/Resellers and Residential Customers.
The customer segment Large Accounts embraces customized solutions of voice and data communication for large and medium enterprises. In addition to the configuration and operation of IP-VPN networks, QSC also provides a broad range of network-related services.
In the Business Customer segment QSC summarizes its product business. QSC covers most of the needs of small and medium enterprises concerning modern voice and data communication by basically determined products and processes.
The Wholesale/Reseller segment includes the business with Internet service providers and telecommunication providers without proprietary infrastructure. They are marketing QSC's DSL lines as well as value-added services under their own name and for their own account.
In the Residential Customer segment the Company embraces the voice and data services for residential customers.

01/01/ - 30/09/2007 in T €	Segment Large accounts	Segment Business customers	Segment Wholesale/ Resellers	Segment Residential customers	Recon- ciliation	Consoli- dated
Net revenues	**55,028**	**63,713**	**83,038**	**37,865**	**-**	**239,644**
Directly allocated costs	(23,774)	(27,190)	(43,815)	(29,074)	-	-123,853
Contribution margin	**31,254**	**36,523**	**39,223**	**8,791**	**-**	**115,791**
Not allocated costs	-	-	-	-	(88,641)	-88,641
EBITDA	**31,254**	**36,523**	**39,223**	**8,791**	**(88,641)**	**27,150**
Depreciation and amortization	(1,513)	(1,613)	(2,656)	(2,193)	(22,777)	-30,752
Non-cash share-based payments	-	-	-	-	(814)	-814
Financial result	-	-	-	-	1,206	1,206
Net profit/(loss)	**29,741**	**34,910**	**36,567**	**6,598**	**(111,026)**	**-3,210**
Long-term assets	12,339	14,286	18,620	8,490	261,316	315,051
Liabilities	3,863	4,473	5,829	2,658	137,505	154,328
Capital expenditures	6,336	7,336	9,562	4,360	36,271	63,865

01/01/ - 30/09/2006 in T €	Segment Large accounts	Segment Business customers	Segment Wholesale/ Resellers	Segment Residential customers	Recon- ciliation	Consoli- dated
Net revenues	**47,351**	**55,392**	**36,495**	**40,124**	**-**	**179,362**
Directly allocated costs	(20,671)	(27,106)	(17,047)	(29,300)	-	(94,124)
Contribution margin	**26,680**	**28,286**	**19,448**	**10,824**	**-**	**85,238**
Not allocated costs	-	-	-	-	(73,555)	(73,555)
EBITDA	**26,680**	**28,286**	**19,448**	**10,824**	**(73,555)**	**11,683**
Depreciation and amortization	(1,402)	(956)	(1,225)	(2,423)	(13,061)	(19,067)
Non-cash share-based payments	-	-	-	-	(345)	(345)
Financial result	-	-	-	-	(373)	(373)
Net profit/(loss)	**25,278**	**27,330**	**18,223**	**8,401**	**(87,334)**	**(8,102)**
Long-term assets	5,329	12,807	7,552	11,396	229,766	266,850
Liabilities	3,045	3,563	2,347	2,580	112,600	124,135
Capital expenditures	2,599	3,040	2,003	2,202	16,569	26,413

Directly allocated costs consist of those segment expenses that can be directly allocated to the respective segment on the basis of revenues. Not attributable costs are not apportioned among the segments, because they are structural costs for which it is not possible to make a causal allocation. In particular, the vast majority of these costs consists of the costs of building, operating and maintaining the network; these costs do not rise steadily on the basis of the number of customers and the volumes of traffic transported.

In addition, these unallocated costs also include personnel expenses, administrative expenses, as well as segment-independent general advertising expenses. No further subclassification of the primary segments into secondary segments (geographical segments) was made, as QSC's telecommunication services are predominantly offered on a national scale.

5 Related party transactions

For the first nine months ended September 30, 2007, QSC participated in transactions with companies affiliated with members of the management. According to IAS 24 related parties are individuals or companies with the possibility to influence or even control the other party. All contracts with these companies require the approval of the Supervisory Board and are made on the basis of arm's length principles.
IN-telegence GmbH & Co. KG provides value-added telecommunication services. Teleport Köln GmbH operates and maintains QSC's private broadcast exchange and in-house telephone systems. QS Communication Verwaltungs Service GmbH provides consultancy on the integration of Broadnet.

	Net revenues in T €	Expenses in T €	Cash received in T €	Cash paid in T €
01/01/-30/09/2007				
IN-telegence GmbH & Co. KG	37	(69)	37	(91)
Teleport Köln GmbH	2	80	2	89
QS Communication Verwaltungs Service GmbH	-	76	-	117
01/01/-30/09/2006				
IN-telegence GmbH & Co. KG	18	(125)	1	(143)
Teleport Köln GmbH	8	37	14	36
QS Communication Verwaltungs Service GmbH	-	109	-	129

	Trade accounts receivables in T €	Trade accounts payable in T €
At September 30, 2007		
IN-telegence GmbH & Co. KG	-	(5)
Teleport Köln GmbH	-	15
QS Communication Verwaltungs Service GmbH	-	-
At September 30, 2006		
IN-telegence GmbH & Co. KG	10	(10)
Teleport Köln GmbH	-	12
QS Communication Verwaltungs Service GmbH	-	-

6 Management Board

	Shares		Convertible bonds	
	30/09/2007	30/09/2006	30/09/2007	30/09/2006
Dr. Bernd Schlobohm	13,818,372	13,818,372	350,000	350,000
Markus Metyas	112,307	329,807	675,000	675,000
Bernd Puschendorf	348,397	3,000	125,000	1,025,000

7 Supervisory Board

	Shares		Convertible bonds	
	30/09/2007	30/09/2006	30/09/2007	30/09/2006
John C. Baker	10,000	10,000	-	-
Herbert Brenke	187,820	187,820	10,000	10,000
Gerd Eickers	13,877,484	13,853,484	-	-
Ashley Leeds	9,130	9,130	10,000	10,000
Norbert Quinkert	3,846	3,846	-	-
David Ruberg	14,563	4,563	-	10,000

8 Subsequent events

Following the close of the reporting period, the merger of Broadnet AG with QSC AG went into force retroactively as of January 1, 2007, following entry of the merger in the Commercial Registers of Companies in Hamburg and Cologne on October 31, 2007. The transaction was effected through the issuance of 1,090,210 new shares of QSC stock to the former Broadnet shareholders in exchange for their former Broadnet shares.

Cologne, November 2007

Dr. Bernd Schlobohm
Chief Executive Officer

Markus Metyas

Bernd Puschendorf

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