QSC AG

Quarterly Report 2008 July August September

Key Data

All amounts in € million	01/07/-30/09/ 2008	01/07/-30/09/ 2007	01/01/-30/09/ 2008	01/01/-30/09/ 2007
Revenues	103.6	83.2	301.3	239.6
Gross profit	+33.3	+25.3	+95.5	+82.0
EBITDA	+18.3	+7.4	+43.9	+27.2
EBIT	+2.6	-5.3	-1.8	-4.4
Net profit (loss)	+2.1	-4.7	-3.5	-3.2
Earnings per share[1] (in €)	+0.02	-0.04	-0.03	-0.02
Capital expenditures	21.1	34.5	69.4	63.9
Equity			152.1[2]	154.5[3]
Balance sheet total			362.6[2]	371.9[3]
Equity ratio (in percent)			41.9[2]	41.5[3]
Liquidity			49.4[2]	79.4[3]
Share price as of 30/09/ (in €)			1.30	3.72
Number of shares as of 30/09/			136,994,137	135,240,968
Market capitalization as of 30/09/			178.1	503.1
Employees as of 30/09/			696	774

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

Highlights

Revenues up by 25 percent • In spite of the weaker economy, QSC grew its revenues by 25 percent year on year to € 103.6 million in the third quarter of 2008. QSC recorded especially strong rises in the Wholesale/Reseller segment, where revenues advanced by 57 percent to € 60.2 million.

EBITDA rises by 147 percent • The Company's EBITDA increased by 147 percent over the third quarter of 2007 to € 18.3 million. During this single quarter, the EBITDA margin rose by four percentage points and now stands at 18 percent.

After-tax net income of € 2.1 million • As planned, QSC crossed the profitability threshold in the third quarter of 2008 to earn after-tax net income of € 2.1 million; a net loss of € -4.7 million had still been incurred in the third quarter of 2007.

Significant decline in capital expenditures • Following the conclusion of the network expansion project in mid 2008, capital expenditures declined to € 21.1 million, as opposed to € 34.5 million for the third quarter of 2007. 68 percent of this total was attributable to customer-related capital expenses, with the largest part of them again being swiftly invoiced to customers.

Good operative development, sluggish share price performance • The good development of QSC's operative performance and the fact that the Company's guidance had been raised twice during the current fiscal year have thus far not been reflected in the trading prices of QSC shares. The Company's shares were unable to avoid the general decline in share prices resulting from the crisis on financial markets and the growing risk of recession.

Letter to Our Shareholders

Dear Shareholders,

Growing profitability: EBITDA and net income improved significantly

QSC has returned to the profitability zone in the third quarter of 2008: the after-tax net income improved by more than three million euros to € 2.1 million within a single quarter. The Company's growing profitability can also be seen in its EBITDA, which advanced to € 18.3 million in the third quarter of 2008, and was thus more than four million euros higher than the preceding quarter, and in fact well over twice as high as in the third quarter of 2007.

In addition to sustained revenue growth, the Company's rising profitability is attributable to two major factors: First, the scalability of the QSC business model can once again be seen following the conclusion of the network expansion project: On the basis of its own infrastructure, QSC can achieve additional revenues without the corresponding cost increases. Secondly, QSC is increasingly benefiting from the restructuring that was initiated in the autumn of 2007 and from the simultaneous achievement of synergies following the Broadnet merger. As a result, QSC today has a significantly more efficient cost and human resources structure, which can be expected to serve as the foundation for rising revenues without corresponding cost increases in the coming quarters, as well.

However this sustained rise in profitability, together with two increases in our guidance for the full fiscal year, are not resulting in the corresponding appreciation for you, our shareholders. On the contrary: QSC shares continue to be unable to avoid the general mood of negativity on the capital market stemming from the financial crisis and the threat of recession, and have continued to decline in value in recent months. Nor can the latest spike in trading prices stemming from the announcement of our preliminary results in early November change this situation to any significant extent. Yet we are confident that once they have overcome the current turbulences, capital markets will again begin valuing companies on the basis of their fundamentals – and at QSC these fundamentals, such as revenues, EBITDA and net profit, are improving from quarter to quarter.

Another factor that speaks in favor of QSC shares is the fact that our company is relatively well aligned for the economic downturn. Because our products and services increase the efficiency of organizations, and thus their productivity, and these selling points are taking on further significance in a difficult economic environment. This applies, in particular, to Managed Services business, which is currently posting double-digit growth rates. Modern Communication-as-a-Service solutions like our virtual, network-based IPfonie centraflex telephone system and our network-based VirtuOS ACD call management solution enhance the efficiency and flexibility of daily communication in organizations; only shortly after the start of marketing for VirtuOS ACD, more than ten customers, including VW subsidiary AutoVision, are already using this complex solution.

The Voice over IP offerings from QSC, as well as the combined IP-based Voice-Data products, are also increasing the productivity of smaller companies, and already number among the growth drivers in the Products segment today. At the same time, though, QSC is also being forced to cope with declining revenues in conventional Voice telephony. However for several quarters QSC has

been successfully migrating these customers to Voice over IP products, which generate higher contribution margins in spite of lower revenues. Nevertheless, QSC has already been able to moderately stabilize product revenues in the third quarter of 2008 by comparison with the preceding quarter.

By mid October, QSC had already connected 550,000 unbundled local loops

Business with Wholesale and Resale partners continues to develop on a positive note. By mid October, QSC had already connected 550,000 active, unbundled local loops, thus more than doubling their number since the beginning of the year. And we expect to see significant growth in this segment in the coming quarters, as well, especially in Wholesale business: On the one hand, our Wholesale partners are continuing to win tens of thousands of new DSL customers each quarter. On the other, their customer base still includes nearly three million DSL customers, for whom they have to utilize relatively costly upstream products from Deutsche Telekom and who they could migrate to the networks operated by providers of fully unbundled lines – such as QSC.

Given this backdrop, we view QSC as being relatively well equipped to handle a recession in Germany. Our company-wide cost discipline and our ability to swiftly achieve synergies following the Broadnet merger will enable QSC to continue to grow its profitability in the coming quarters as well. And we are convinced that after the current turbulences have been overcome, this rising profitability will also meet with renewed interest on the part of investors.

Cologne, November 2008

Dr. Bernd Schlobohm
Chief Executive Officer

Bernd Puschendorf

Markus Metyas

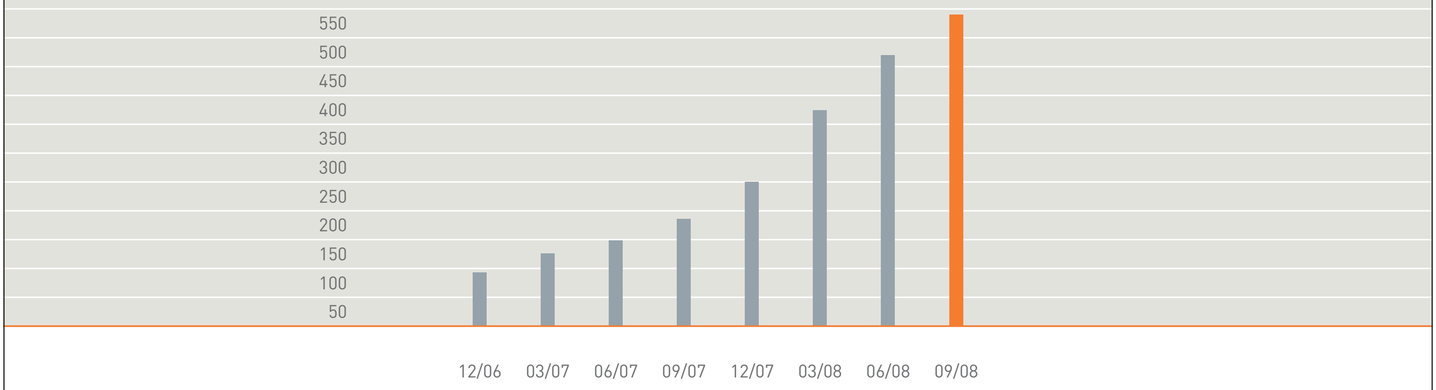
Interim Consolidated Report QIII 2008

GENERAL ECONOMIC CONDITIONS

Financial crisis reaches the real economy • The third quarter of 2008 in Germany was characterized by the heightening financial crisis. In its wake, the mood of the German economy continued to cloud – with the expectations being measured within the context of the ifo Business Climate Index reaching lows that had not been seen since the 2002/2003 recession. There are two reasons why QSC views itself as being relatively well equipped for a phase of economic weakness: First, the Company was able to sustain its growth during the past recession. And second, a sluggish economy might in fact foster demand on the part of enterprise customers for productivity-enhancing network-related services from QSC, as well as for cost-effective IP telephony.
The summer months saw a slowdown in the growth of the German residential DSL market as well, in which QSC is indirectly active as a supplier of upstream products for its Wholesale partners. Nevertheless, market researchers continue to anticipate some three million new connections during the current fiscal year, as well as more than two million in 2009. Moreover, QSC is also participating in the migration of its Wholesale partners' T-DSL resale customers to fully unbundled DSL connections. As of September 30, 2008, some 2.9 million of these lines, which are not included in the forecasts on new connections, were still connected via the Deutsche Telekom network.

Some three million new DSL connections during the current fiscal year

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



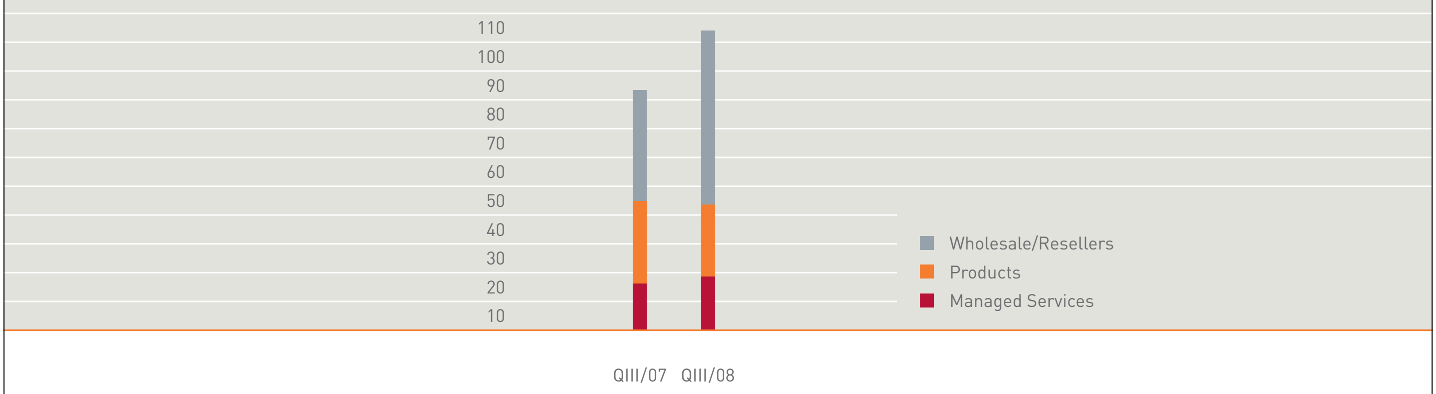
BUSINESS SITUATION

In the third quarter of 2008, revenues grew to € 103.6 million

Revenues advance by 25 percent • In spite of the weaker economy, QSC grew its revenues by 25 percent in the third quarter of 2008 to € 103.6 million, as opposed to € 83.2 million for the same quarter the year before. The Wholesale/Reseller segment developed on an especially good note, benefiting from the rising number of unbundled local loops: In the third quarter of 2008, QSC connected 71,100 additional DSL lines, thus raising the total to 538,200 lines. This strong local loop growth also played a major role in QSC's 26-percent revenue growth during the first nine months of the current fiscal year to € 301.3 million, as opposed to € 239.6 million for the comparable period the year before.

Network expenses, which QSC records under cost of revenues, totaled € 70.3 million in the third quarter of 2008, as opposed to € 57.9 million for the same quarter the year before; € 0.1 million of this total was attributable to research and development. The rise in network expenses essentially stemmed from the network expansion project, under which QSC increased the number of central offices by around 90 percent to 1,900 between early 2007 and mid 2008. At the same time, the Company's rapidly growing customer base led to a rise in the variable cost of materials; this line item includes the recurring fees that QSC has to pay to Deutsche Telekom for using the local loops, as well as customer-specific leased lines and Voice interconnection fees.

Revenue Mix (in € million)



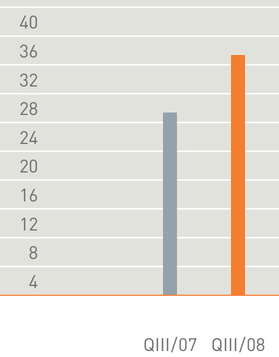
Gross profit rose to € 33.3 million in the third quarter of 2008, as opposed to € 25.3 million for the same quarter the year before; gross margin increased to 32 percent, as opposed to 30 percent for the corresponding period the year before.

Synergies swiftly achieved following the Broadnet merger • Registration of the Broadnet merger on October 31, 2007, has enabled QSC to rigorously achieve synergies throughout the organization. Both the two networks as well as the two administrative and sales organizations were consolidated in the ensuing months. At the same time, QSC has been scrutinizing all cost items and swiftly taking advantage of further cost-cutting potential.
As a result, QSC was able to reduce its selling and marketing expenses to € 10.8 million in the third quarter of 2008, as opposed to € 12.1 million for the corresponding quarter the year before. During the same period, general and administrative expenses declined to € 4.7 million, as opposed to € 6.6 million the year before.

Following the Broadnet merger, administrative and sales expenses decline

EBITDA up by 147 percent • The Company's strong revenue growth, the especially swift implementation of synergies following the Broadnet merger, as well as improved cost discipline boosted EBITDA by 147 percent in the third quarter of 2008 to € 18.3 million, as opposed to € 7.4 million for the same quarter the year before. QSC defines this steering parameter of EBITDA as earnings before interest, taxes, amortization of deferred non-cash share-based payments and depreciation of property, plant and equipment, as well as amortization of intangible assets and goodwill.

Gross Profit (in € million)

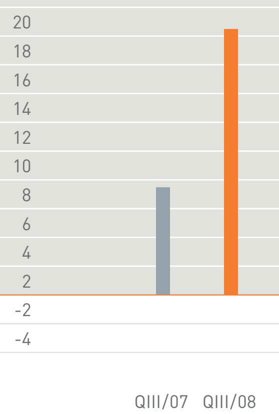


EBITDA margin rose by four percentage points to 18 percent

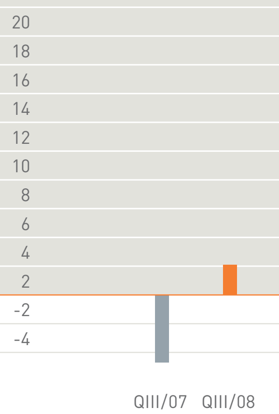
This rapid rise in profitability underscores the Company's positive development over the course of the year: In 2008, QSC was able to increase its EBITDA from € 11.4 million in the first quarter to € 14.2 million in the second and to € 18.3 million in the third quarter; during the same period, the EBITDA margin rose from 12 percent to 14 percent to 18 percent today. The Company thus earned an EBITDA of € 43.9 million in the first nine months of the current fiscal year, as opposed to € 27.2 million for the comparable period the year before.
As a result of both strong customer growth as well as the network expansion project that was concluded in mid 2008, depreciation expense rose to € 15.7 million, as opposed to € 12.7 for the same quarter the year before.

After-tax net income of € 2.1 million • As announced at the outset of the year, QSC is returning to the profitability zone during the current fiscal year: In the third quarter of 2008, the Company earned an EBIT of € 2.6 million, as opposed to € -5.3 million for the same quarter the year before, as well as after-tax net income of € 2.1 million, as opposed to a net loss of € -4.7 million in the third quarter of 2007. Earnings per share stood at € 0.02, as opposed to € -0.04 the year before.

EBITDA (in € million)



Net Income (in € million)



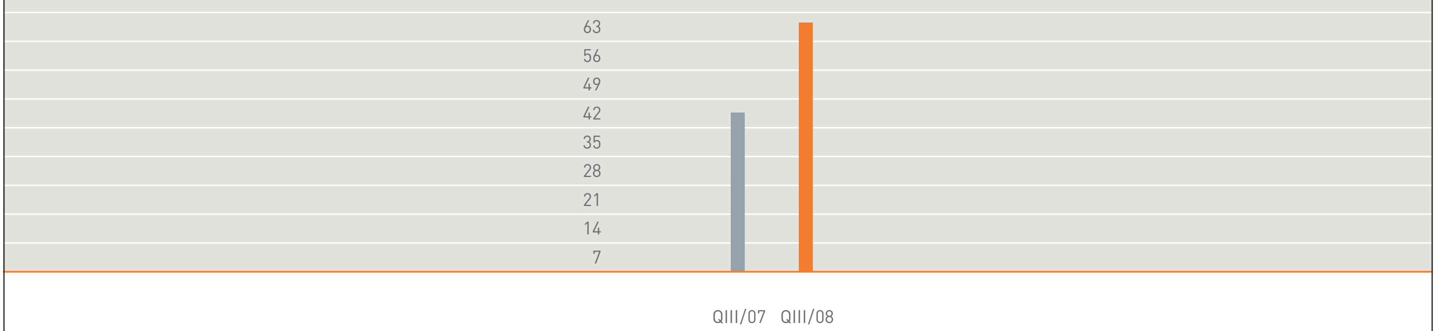
BUSINESS BY SEGMENT

Revenue growth with Wholesale and Resale partners • In the third quarter of 2008, QSC recorded its strongest revenue growth in the Wholesale/Reseller segment, where revenues advanced by 57 percent to € 60.2 million, as opposed to € 38.4 million for the same quarter the year before. Again developing on a positive note was the Company's Wholesale business which, in addition to connecting new DSL customers, has also been benefiting from the sustained migration of its Wholesale partners' T-DSL customers to fully unbundled DSL connections on the QSC network; Wholesale business now accounts for 50 percent of this segment's revenues. Following the conclusion of the network expansion project, demand on the part of international telecommunications providers like BT, Colt, Orange and Verizon for QSC's upstream products in traditional Reseller business has further grown.
As a result of this strong growth, the third quarter of 2008 saw a significant rise in segment EBITDA, which advanced by 58 percent to € 28.5 million, as opposed to € 18.0 million for the comparable period the year before. The segment EBITDA margin stood at 47 percent.

Growth among small and medium enterprises • Revenues in the Managed Services segment rose by 14 percent in the third quarter of 2008 to € 18.4 million, as opposed to € 16.1 million for the same quarter the year before. In addition to larger companies, small and medium enterprises, too, are now increasingly utilizing IP-VPN solutions and the network-related services that build upon them. At the same time, both new and existing customers are more and more frequently integrating IP telephony into these kinds of network solutions. Overall, 60 percent of the Company's new business now comes from the expansion of business relationships with existing customers who, on the one hand, are ordering additional services like IP telephony or network-based telephone systems. On the other hand, they are also increasing QSC's share of their telecommunication budgets, for example by placing orders for further locations within the framework of nationwide network solutions.

60 percent of the new business now comes from existing customers

Revenues Wholesale/Resellers (in € million)



Totaling 55 percent, QSC again recorded its highest segment EBITDA margin on Managed Services in the third quarter of 2008. Segment EBITDA increased by 9 percent over the third quarter of 2007 to € 10.1 million.

Moderate stabilization of product revenues • The third quarter of 2008 again saw revenues decline in the Products segment, with QSC recording revenues of € 25.1 million, as opposed to € 28.7 million for the corresponding quarter the year before; however moderate stabilization has already set in by comparison with the second quarter of 2008, where revenues amounted to € 25.3 million.

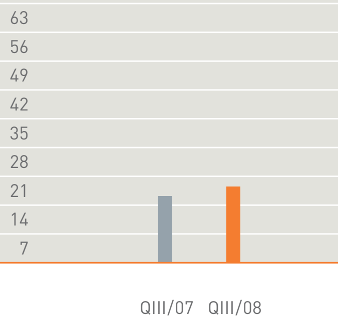
Steady growth of the number of customers with direct connections

This stabilization was primarily attributable to the successful development of business with small companies, independent contractors and professionals – the number of customers with direct connections to the QSC network is steadily rising. At the same time, revenues with data products like Q-DSLmax as well as their combination with Voice over IP products, the QSC-Complete packages, also rose. In early October, QSC again expanded its product portfolio and is now also offering Q-DSLmax with bandwidths of up to 10 or 20 Mbit/s. This makes the symmetrical DSL line a true alternative to a leased line.

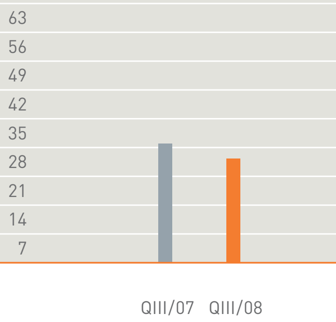
On the other hand, revenues for conventional Voice products declined further as a result of sustained stiff price competition. In the third quarter of 2008, QSC was generating 45 percent of segment revenues here; during the first half of 2008, these Voice products had still been accounting for 50 percent. This decline was also attributable to the migration of conventional Voice customers to Voice over IP products. By comparison, while QSC earns lower revenues on its IPfonie product family, the contribution margins are higher.

During the past quarter, this development contributed toward stabilizing EBITDA: At € 11.5 million, it was at the same level as in the preceding quarter. The segment EBITDA margin continued to rise moderately to 46 percent, as QSC is increasingly generating higher-margin revenues with direct connections.

Revenues Managed Services (in € million)



Revenues Products (in € million)



FINANCIAL POSITION AND NET ASSETS

In the third quarter, QSC realizes already an operating cash flow of € 19.2 million

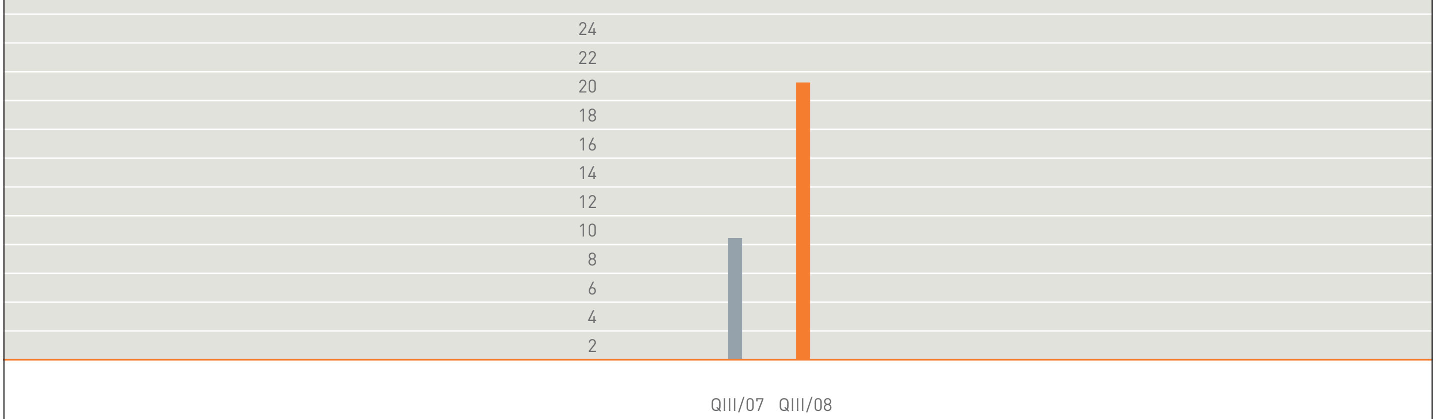
Rising operative net cash flow • In the third quarter of 2008, net cash provided by operating activities totaled € 19.2 million, by comparison with € 8.4 million for the same quarter the year before and € 10.7 million in the second quarter of 2008. This stood in contrast to net cash used in investing activities in the amount of € -6.3 million, following conclusion of the network expansion project, and net cash used in financing activities in the amount of € -14.5 million. Latter was essentially attributable to the repayment of finance lease liabilities.

Liquid assets, which QSC defines as cash and cash equivalents, as well as available-for-sale financial assets, totaled € 49.4 million as of September 30, 2008, as opposed to € 63.0 million at June 30, 2008; this was primarily attributable to the reduction in interest-bearing liabilities. In addition to liquid assets, QSC also has a € 50-million line of credit running through year-end 2011, of which it has thus far used only 13.3 million for guaranties. The Company therefore views itself as being well financed.

Rigorous reduction in interest-bearing liabilities • As a result of debt redemption, both short- and long-term liabilities as of September 30, 2008, were below their levels at December 31, 2007, in spite of significantly higher revenues. Short-term liabilities totaled € 125.3 million, as opposed to € 126.3 million at year-end, with trade accounts payable declining by € 11.2 million during this period to € 62.9 million. In contrast to year-end, QSC no longer had any short-term debt owed to financial institutions as of September 30, 2008.

Long-term liabilities stood at € 85.2 million as of September 30, 2008, as opposed to € 91.2 million at year-end; the reduction in long-term liabilities under finance lease agreements to € 20.6 million, as opposed to € 23.1 million at December 31, 2007, played a major role in this connection.

Operating Cash Flow (in € million)



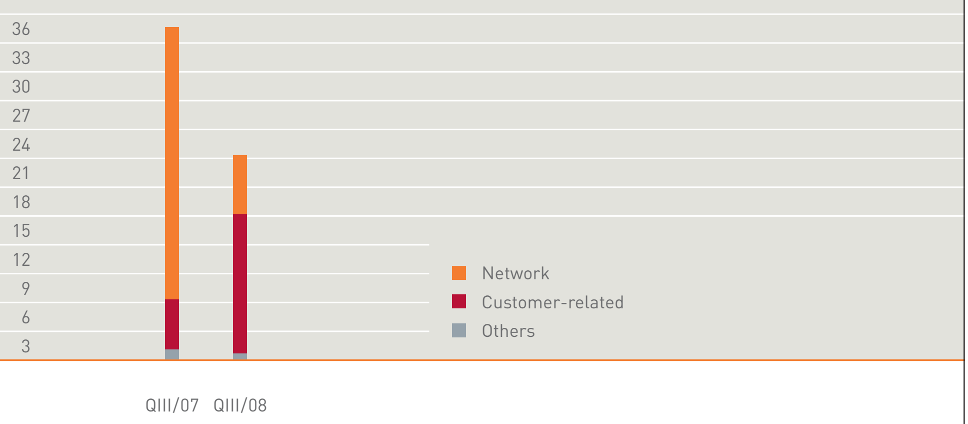
Subscribed capital increased to € 137.0 million, as opposed to € 136.4 million at December 31, 2007, as 634,822 convertible bonds have been converted to QSC shares within the framework of employee profit-sharing programs during the first nine months of the current fiscal year. The equity ratio rose by an additional two percentage points by comparison with June 30, 2008, to 42 percent, and thus again stands at the level recorded in the balance sheet for the year ended December 31, 2007. This sustained improvement stemmed from QSC's return to the profitability zone as well as from scheduled debt reduction.

Share of customer-related capital expenses is allready 68 percent

Significant decline in capital expenditures • Following the conclusion of the network expansion project, capital expenditures declined as planned to € 21.1 million in the third quarter of 2008, as opposed to € 34.5 million for the same quarter the year before. During the past quarter, customer-related capital expenses amounted to 68 percent of the total, with QSC swiftly invoicing the lion's share of these capital expenses to the respective customers and deferring the corresponding installation revenues over a period of 24 months.

The further growth in the customer base and the resulting capitalization of capital expenditures for customer connections increased other intangible assets to € 42.1 million in the balance sheet, as opposed to € 25.6 million as of December 31, 2007. Overall, long-term assets, consisting primarily of property, plant and equipment, thus increased to € 238.6 million, as opposed to € 215.3 million at year-end 2007.

Capital expenditures (in € million)



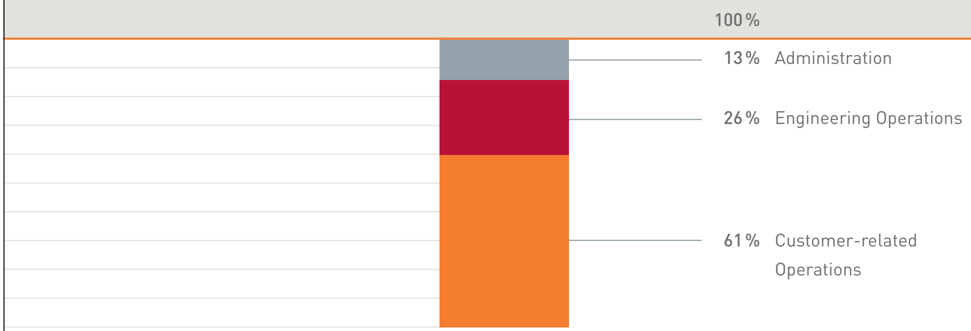
HUMAN RESOURCES

Broadnet integration and personnel structure review concluded • As of September 30, 2008, QSC employed a workforce of 696 people, as opposed to 733 at mid-year and 820 at year-end 2007. This decline stemmed primarily from the swift achievement of synergies following the Broadnet merger, including consolidation of the two administrative operations at the Cologne location and of the nationwide sales offices, as well as the reduction of redundantly staffed positions. Plus a review of QSC's manpower levels in all departments that was initiated in the autumn of 2007 in connection with the restructuring.

Following conclusion of the reduction in force, 61 percent of the workforce is now working in customer-related operations. Technical operations account for 26 percent, administrative operations for 13 percent. In this connection, network operating company Plusnet employs 73 people; the vast majority of the remaining workforce is employed by QSC AG.

Majority of the workforce is working in customer-related operations

Workforce Structure (in percent)



RISK REPORT

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

SUBSEQUENT EVENTS

On November 18, 2008, the Supervisory Board has appointed Joachim Trickl (49) to the Management Board of QSC AG. Taking effect as of February 1, 2009, he will be responsible for promoting operative and sales development of the three business units Managed Services, Products and Wholesale/Reseller. Trickl will succeed Bernd Puschendorf (58), who will still be available as an advisor from February 2009 forward, ensuring a smooth transition.

GUIDANCE AND OPPORTUNITIES

QSC expects significant higher revenues and earnings for 2008

Increased guidance for 2008 expressly reiterated • Given the very good development of business in the third quarter of 2008, QSC is expressly reiterating its guidance for the full 2008 fiscal year, which it had most recently raised on August 11, 2008: The Company thus anticipates revenues of more than € 405 million and an EBITDA of more than € 60 million. Moreover, QSC is also aiming for a break-even after-tax net result.

While QSC again anticipates revenue growth in the Wholesale/Reseller and Managed Services segments in the fourth quarter, revenues in the Products segment are expected to decline moderately from quarter to quarter. In this connection, the Company is continuing to drive the migration of Voice customers to its IP-based Next Generation Network in order to counter the pressure on pricing in conventional Voice telephony and to thus focus more on higher-margin products.

Interim Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

Euro amounts in thousands (T €)

	01/07/-30/09/ 2008	01/07/-30/09/ 2007	01/01/-30/09/ 2008	01/01/-30/09/ 2007
Net revenues	**103,635**	**83,152**	**301,344**	**239,644**
Cost of revenues	(70,291)	(57,888)	(205,889)	(157,642)
Gross profit	**33,344**	**25,264**	**95,455**	**82,002**
Selling and marketing expenses	(10,839)	(12,079)	(34,400)	(33,848)
General and administrative expenses	(4,724)	(6,621)	(18,354)	(22,725)
Depreciation and non-cash share-based payments	(15,708)	(12,651)	(45,720)	(31,566)
Other operating income	534	882	1,439	2,347
Other operating expenses	(40)	(72)	(268)	(626)
Operating profit (loss)	**2,567**	**(5,277)**	**(1,848)**	**(4,416)**
Financial income	585	1,227	1,700	2,965
Financial expenses	(994)	(698)	(3,057)	(1,759)
Net profit (loss) before income taxes	**2,158**	**(4,748)**	**(3,205)**	**(3,210)**
Income taxes	(83)	-	(332)	-
Net profit (loss)	**2,075**	**(4,748)**	**(3,537)**	**(3,210)**
Attributable to:				
Equity holders of the parent	2,075	(4,929)	(3,537)	(3,611)
Minority interest	-	181	-	401
Earnings per share (basic and diluted) in €	**0.02**	**(0.04)**	**(0.03)**	**(0.02)**

CONSOLIDATED BALANCE SHEETS (unaudited)

Euro amounts in thousands (T €)

ASSETS	Sept. 30, 2008	Dec. 31, 2007
Long-term assets		
Property, plant and equipment	137,776	131,224
Goodwill	49,890	50,014
Other intangible assets	42,118	25,599
Other long-term financial assets	762	356
Deferred tax assets	8,099	8,099
Long-term assets	**238,645**	**215,292**
Short-term assets		
Trade receivables	60,524	64,944
Prepayments	4,960	3,420
Other short-term financial assets	9,064	8,877
Available-for-sale financial assets	1,743	5,276
Cash and short-term deposits	47,643	74,132
Short-term assets	**123,934**	**156,649**
TOTAL ASSETS	362,579	371,941

SHAREHOLDERS' EQUITY AND LIABILITIES	Sept. 30, 2008	Dec. 31, 2007
Shareholders' equity		
Capital stock	136,993	136,358
Capital surplus	563,015	562,501
Other reserves	(288)	(289)
Accumulated deficit	(547,632)	(544,095)
Shareholders' equity	**152,088**	**154,475**
Long-term liabilities		
Long-term liabilities of other shareholders	53,800	56,898
Long-term portion of finance lease obligations	20,597	23,059
Convertible bonds	31	27
Accrued pensions	754	760
Other long-term liabilities	3,543	3,964
Deferred tax liability	6,474	6,461
Long-term liabilities	**85,199**	**91,169**
Short-term liabilities		
Trade payables	62,930	74,129
Short-term portion of finance lease obligations	21,556	20,360
Liabilities due to banks	-	5,000
Provisions	4,206	1,064
Deferred revenues	24,236	12,493
Other short-term liabilities	12,364	13,251
Short-term liabilities	**125,292**	**126,297**
Total liabilities	**210,491**	**217,466**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**362,579**	**371,941**

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

Euro amounts in thousands (T €)

	01/01/-30/09/ 2008	01/01/-30/09/ 2007
Cash flow from operating activities		
Net loss before income taxes	(3,537)	(3,210)
Depreciation and amortization	45,228	30,752
Non-cash share-based payments	497	814
Loss from disposal of long-term assets	152	12
Changes in provisions	3,136	(303)
Changes in trade receivables	4,420	(957)
Changes in trade payables	(11,198)	1,742
Changes in other financial assets and liabilities	7,080	(8,761)
Cash flow from operating activities	**45,778**	**20,089**
Cash flow from investing activities		
Purchase of available-for-sale financial assets	(25,117)	(24,907)
Disposal of available-for-sale financial assets	28,648	50,950
Payments related to acquisitions	-	(524)
Purchases of intangible assets	(32,310)	(11,442)
Purchases of property, plant and equipment	(19,685)	(43,236)
Proceeds from disposal of assets	-	15
Cash flow from investing activities	**(48,464)**	**(29,144)**
Cash flow from financing activities		
Changes in convertible bonds	4	-
Assumption (Repayments) of minority interest liabilities	(3,098)	2,102
Proceeds from issuance of common stock	657	1,341
Assumption of other short and long-term liabilities	1,220	8,456
Disposal (Repayments) of loans granted	(5,000)	2,825
Repayments of finance lease	(17,586)	(9,701)
Cash flow from financing activities	**(23,803)**	**5,023**
Change in cash and short-term deposits	**(26,489)**	**(4,032)**
Cash and short-term deposits at January 1	74,132	45,986
Cash and short-term deposits at September 30	**47,643**	**41,954**
Interest paid	3,349	2,335
Interest received	1,992	3,056

CONSOLIDATED STATEMENTS OF DIRECTLY RECOGNIZED INCOME AND EXPENSES (unaudited)

Euro amounts in thousands (T €)

	01/01/-30/09/ 2008	01/01/-30/09/ 2007
Directly recognized in equity		
Changes in accrued pensions	-	-
Available-for-sale financial assets		
Change in fair value	-	1,382
Realized losses	-	14
Apportionable to tax effect	1	(557)
Directly recognized in equity	**1**	**839**
Net loss	(3,537)	(3,210)
Net loss and recognized income and expenses	**(3,536)**	**(2,371)**
Attributable to:		
Equity holders of the parent	(3,536)	(2,772)
Minority interest	-	401

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (unaudited)

Euro amounts in thousands (T €)

	Equity attributable to equity holders of the parent				
	Capital stock T €	Capital surplus T €	Other capital reserves T €	Accumulated deficit T €	Total T €
Balance at December 31, 2007	136,358	562,501	(289)	(544,095)	154,475
Net loss				(3,537)	(3,537)
Income and expenses directly recognized in equity			1		1
Net loss and recognized income and expenses			1	(3,537)	(3,536)
Conversion of convertible bonds	635	22			657
Non-cash share-based payments		492			492
Balance at September 30, 2008	136,993	563,015	(288)	(547,632)	152,088
Balance at December 31, 2006	133,898	557,961	(1,286)	(533,697)	156,876
Net loss				(3,611)	(3,611)
Income and expenses directly recognized in equity			1,396		1,396
Net loss and recognized income and expenses			1,396	(3,611)	(2,215)
Deferred taxes on available-for-sale financials 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

Minority interest T €	Total Share-holders' equity T €	
-	154,475	**Balance at December 31, 2007**
	(3,537)	Net loss
	1	Income and expenses directly recognized in equity
	(3,536)	**Net loss and recognized income and expenses**
	657	Conversion of convertible bonds
	492	Non-cash share-based payments
-	152,088	**Balance at September 30, 2008**

3,674	160,550	**Balance at December 31, 2006**
401	(3,210)	Net loss
	1,396	Income and expenses directly recognized in equity
401	(1,814)	**Net loss and recognized income and expenses**
	(557)	Deferred taxes on available-for-sale financials 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**

Notes to the Interim Consolidated Financial Statements

CORPORATE INFORMATION

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

BASIS OF PREPARATION

1 General principles

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

2 Basis of consolidation

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

3 Changes in accounting policies

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

4 Segment reporting

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

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

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

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

01/01/ - 30/09/2008 in T €	Business Unit Managed Services	 Products	 Wholesale/ Resellers	Total
Net revenues	54,525	78,304	168,515	301,344
Directly allocated costs	23,563	42,954	86,727	153,244
Contribution margin	30,962	35,350	81,788	148,100

01/01/ - 30/09/2007 in T €	Business Unit Managed Services	 Products	 Wholesale/ Resellers	Total
Net revenues	48,206	91,537	99,901	239,644
Directly allocated costs	20,222	49,699	53,932	123,853
Contribution margin	27,984	41,838	45,969	115,791

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

5 Management Board

	Shares		Convertible bonds	
	30/09/2008	30/09/2007	30/09/2008	30/09/2007
Dr. Bernd Schlobohm	13,818,372	13,818,372	350,000	350,000
Markus Metyas	233,652	112,307	175,000	675,000
Bernd Puschendorf	348,397	348,397	125,000	125,000

6 Supervisory Board

	Shares		Convertible bonds	
	30/09/2008	30/09/2007	30/09/2008	30/09/2007
John C. Baker	10,000	10,000	-	-
Herbert Brenke	187,820	187,820	10,000	10,000
Gerd Eickers	13,877,484	13,853,484	-	-
David Ruberg	14,563	14,563	-	-
Klaus-Theo Ernst *	500	500	3,258	3,258
Jörg Mügge *	-	-	6,000	6,000

* Employee representatives

Cologne, November 2008

Dr. Bernd Schlobohm
Chief Executive Officer

Markus Metyas

Bernd Puschendorf

Calendar

Annual Shareholders Meeting
May 20, 2009

Conferences / Events
December 4, 2008
5th Annual MidCap Forum
Exane BNP Paribas, Paris

January 21, 2009
8th German Corporate Conference
Cheuvreux, Frankfurt

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