Quarterly Report III/2010

3rd Quarter 2010

QSC AG

3rd Quarter

Highlights

Double-digit growth in IP-based revenues
During the third quarter of 2010, QSC grew its revenues with IP-based products and services by 13 percent to € 73.1 million. Their share of the company's total revenues in the amount of € 105.6 million advanced to 69 percent, as opposed to 62 percent in the third quarter of 2009 – a visible manifestation of the successful transformation process.

Net income rises to € 5.8 million
QSC earned net income of € 5.8 million during the past quarter, thus nearly tripling this figure within the space of a year; net income had stood at € 2.1 million for the same quarter the year before.

Launch of Germany's first nationwide Open Access platform
In August, QSC launched Germany's first nationwide network, process and services hub for providers of Internet connections offering fiber optic speed as well as for those who want to use these services. Initial partners are 1&1 Internet as well as Leipzig-based HL komm, which is already operating a fiber optic infrastructure that extends right into the buildings.

ElectronicPartner's systems houses now marketing QSC products
Step by step, QSC is expanding its sales and marketing strength in the mid-size enterprise sector. The company's newest distribution partner is comTeam, ElectronicPartner's ICT systems house network that will be marketing innovative Voice/Data products from QSC like IPfonie centraflex.

QSC shares up 25 percent
Following an extended period of hesitation, in the third quarter of 2010 the capital market rewarded QSC's successful transformation process, with trading prices advancing by 25 percent to € 1.67 within the space of three months.

QSC AG

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Key Data

All amounts in € millions	01/07/–30/09/ 2010	01/07/–30/09/ 2009	01/01/–30/09/ 2010	01/01/–30/09/ 2009
Revenues	105.6	104.4	316.4	315.7
Gross profit	36.3	35.3	111.9	107.5
EBITDA	20.3	19.2	59.6	57.7
Depreciation/amortization [1]	13.8	16.1	44.0	49.8
EBIT	6.5	3.1	15.6	7.9
Net profit	5.8	2.1	13.2	4.6
Earnings per share [2] (in €)	0.04	0.02	0.10	0.03
EBITDA margin (in percent)	19.2	18.4	18.8	18.3
EBIT margin (in percent)	6.2	3.0	4.9	2.5
Capital expenditures	8.2	10.3	21.9	34.7
Free cash flow	8.5	2.6	20.6	9.2
Net liquidity			21.4 [3]	0.7 [4]
Liquidity			48.5 [3]	41.3 [4]
Equity			173.1 [3]	159.7 [4]
Long-term liabilities			45.0 [3]	54.2 [4]
Short-term liabilities			82.7 [3]	97.3 [4]
Balance sheet total			300.9 [3]	311.3 [4]
Equity ratio (in percent)			57.5	51.3
Xetra share price as of 30/09/ (in €)			1.67	1.82
Number of shares as of 30/09/			136,998,137	136,998,137
Market capitalization as of 30/09/			228.8	249.3
Employees as of 30/09/			619	660

[1] including non-cash share-based payments

[2] basic and diluted

[3] as of September 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,

At € 5.8 million, QSC earned net income during the past quarter that was higher than it had been for the entire 2009 fiscal year. No other figure does such a good job of illustrating the tremendous advances our Company has made in growing its profitability. This is based, first and foremost, upon QSC's focus on high-margin IP-based revenues, and thus on its ongoing transformation process from a network operator to a service provider. QSC was already generating 69 percent of its revenues with IP-based products and services in the third quarter of 2010 compared to 62 percent during the same quarter one year earlier. Within the space of a single year, we have thus been able to increase these promising, forward-looking revenues by 13 percent to € 73.1 million.

QSC is generating 69 % of its revenues from IP-based products and services

Moreover, this rising net income additionally stems from declining depreciation expense. Following the conclusion of the capital investment phase, the attractiveness of our business model is becoming ever clearer to see. And we are also planning on making capital expenditures only for replacement and modernization purposes in the coming years, which means that depreciation expense will further decline. As a service provider, QSC will instead primarily be intelligently utilizing and bundling existing and new infrastructures.

The potential that is offered by this strategy can be seen in Germany's first nationwide Open Access platform, which we debuted in late August. Numerous municipal and regional utilities and other operators in Germany are currently in the process of building a fiber optic infrastructure that extends right into the buildings. Our Open Access platform enables them to better utilize these networks from the very beginning, thus allowing them to more swiftly amortize their investments in what is called Next Generation Access (NGA). The platform was designed as a network, process and services hub for providers and users and enables inter-regional Internet service providers to offer bandwidths of up to 100 megabits per second in a city, for example. This is precisely what 1&1 Internet will be doing in Leipzig beginning in early 2011, where regional provider HL komm offers its fiber optic lines. Since our analyses indicate that far more than 50 further municipalities are already building or want to build NGA infrastructures, an attractive market is opening up here long term for QSC as a nationwide platform operator. At the same time, this also enables us to offer even higher bandwidths to our business customers.

Such new services as the Open Access platform and Managed Outsourcing, which we had already debuted in June with freenet as the first customer, are milestones along QSC's road to becoming a service provider. And as we travel this road, we are continuously improving our existing portfolio of IP-based products and services. In early October, we presented the latest generation of our network-based IPfonie centraflex telephony solution, which met with keen interest on the part of SME customers. They especially appreciated the expanded offering of interfaces with address and customer databases.

What is especially positive for you, our fellow shareholders, is that after a lengthy period of hesitation, the capital markets, too, are now rewarding these positive developments. The trading price of our shares rose by 25 percent to € 1.67 during the past quarter. Our plans to further

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

strengthen our profitability and financial position, as well as to continue our successful transformation process, are likely to increase the attractiveness of our shares in the months to come. Our net income of € 13.2 million, or € 0.10 per share, during the first nine months underscores QSC's potential for profitability.

Cologne, November 2010

Dr. Bernd Schlobohm Chief Executive Officer	Jürgen Hermann	Joachim Trickl

QSC Share Performance

Share price up 25 percent • Following an extended period of hesitation, in the third quarter of 2010 the capital market rewarded QSC's successful transformation process and the resulting growth in its financial strength and profitability: During the past quarter, trading prices rose by 25 percent to close at € 1.67 on September 30, 2010. In particular, this rise was set in motion following the announcement of the Company's semiannual numbers, which documented its sustained positive development.

With this upswing, QSC shares significantly outperformed the major indices: The DAX advanced by 4 percent in the third quarter of 2010, while the TecDAX gained 6 percent. At the same time, QSC shares were able to compensate for a major portion of the share price losses they had incurred during the first six months of the current fiscal year. Closing at € 1.67 on September 30, 2010, trading prices were merely three cents lower than the previous year's end-of-quarter price of € 1.70. With this moderate 2-percent decline, QSC shares still outperformed the TecDAX in the first nine months of 2010, which lost 4 percent during the same period.

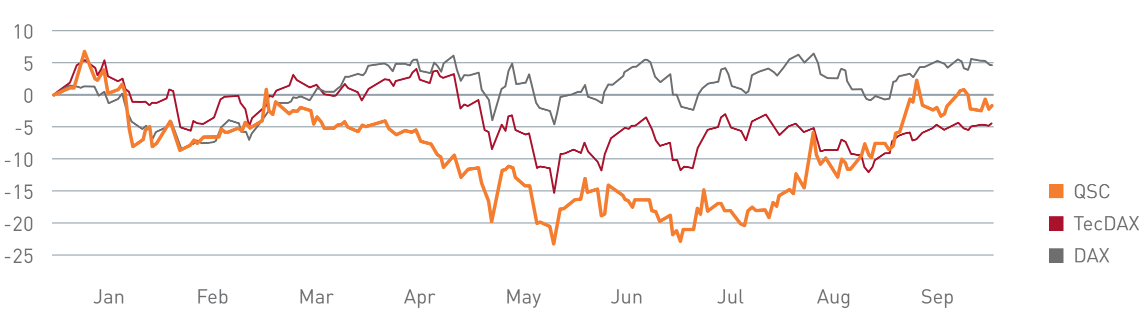
QSC shares outperformed the TecDAX during the first nine months of 2010

The rise in share prices in the third quarter of 2010 was accompanied by livelier trading. Average daily trading volumes for QSC shares increased to 334,000, as opposed to 309,000 for the previous quarter, with trading volume rising to € 34.4 million, as opposed to € 28.0 million in the second quarter of 2010.

Buy recommendations predominate • QSC's successful transformation process, as well as its rising financial strength and profitability, have lead to a growing number of positive analyst expectations for higher trading prices. Following publication of the Company's semiannual numbers, five institutions have Buy recommendations in place, four are advising Holds and only one bank has a Sell recommendation.

Based upon the positive assessments of many analysts, numerous talks were conducted with institutional investors during the summer months. The Management Board showcased QSC's transformation into a service provider at roadshows and conferences in Frankfurt, Hamburg, London, Luxembourg, Paris and Zurich, as well as in various individual talks. As a result of these Investor Relations activities, the Company has succeeded in gradually overcoming hesitation on the part of many institutional investors, with their share of the free float rising to 51 percent in recent months. Overall, the free float continued to amount to 55.3 percent of equity capital as of September 30, 2010. 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.

SHARE PRICE PERFORMANCE (indexed)



Consolidated Interim Report QIII / 2010

GENERAL ECONOMIC ENVIRONMENT

Economy recovering from global economic and financial crisis • The autumn reports from the German economic research institutes are forecasting that gross domestic product will grow by 3.5 percent in Germany in 2010. This means that the economy will already be compensating for a goodly share of the previous year's 5.0 percent economic slump. However many economists expect to see economic growth flatten again, with the economic research institutes anticipating that gross domestic product will rise by 2.0 percent in 2011.

GDP DEVELOPMENT IN GERMANY

Aside from the country's traditionally strong exports, the economic upswing is additionally being underpinned by corporate capital expenditures, although this metric continues to lag significantly behind its level prior to the outbreak of the global financial and economic crisis in 2008. Telecommunications providers like QSC that focus on business customers are also benefiting from this gradual renewal of willingness to invest.
However the development of the overall telecommunications (TC) market will continue to be characterized by stiff competition, especially in the residential customer sector. Against this backdrop, the market study submitted in early October by industry association VATM anticipates that TC revenues in Germany will decline to € 61.0 billion during the current year, as opposed to € 61.8 billion in 2009. Fixed-line business with voice and data services, alone, will have to absorb a € 1.2-billion decline in revenues to € 33.0 billion.

The move toward all-in-one connections is being sustained

41 percent more Voice over IP connections • A further breakdown of revenues shows that the move toward all-in-one connections is being sustained in 2010 and that the importance of offerings like Call-by-Call and Preselect is declining. A growing number of these connections are based upon Voice over IP technology – the VATM calculates that their number will rise by 41 percent to 5.2 million in 2010.

VOIP-BASED ALL-IN-ONE CONNECTIONS IN GERMANY (in millions)

The market is increasingly seeing saturation in broadband connections. In 2010, their number is likely to rise by merely 1.8 million to 26.9 million, with alternative methods of connection, such as cable TV or fiber optics, winning more new customers than Deutsche Telekom or its competitors. It is expected that by year-end 2010, 650,000 households in Germany will have already been connected to a fiber optic network that extends right into the building – three years ago, this number stood at only 110,000. QSC is the first company to build a nationwide Open Access platform in order to make this new infrastructure accessible beyond a single region.

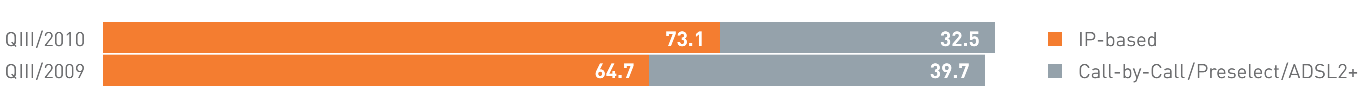
Cloud Computing holds the promise of strong growth dynamics • QSC views Cloud Computing as another promising market for the future. Cloud Computing shifts business processes to the Internet and cannot be implemented without powerful telecommunications services. In early October, German umbrella association BITKOM announced a new forecast on this subject calling for Cloud Computing revenues in Germany to rise from their current level of € 1.1 billion to € 8.2 billion by 2014. The most important market will be Software-as-a-Service solutions, which QSC is already offering with its IPfonie centraflex virtual telephone system.

Cloud Computing revenues are set to rise to € 8.2 billion by 2014

BUSINESS DEVELOPMENT

Revenue growth of 13 percent with IP-based products and services • In the third quarter of 2010, QSC increased its revenues to € 105.6 million, as opposed to € 104.4 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. Revenues from the traditional products offered by a network operator, such as Call-by-Call and ADSL2+, declined by € 7.2 million during the past quarter to € 32.5 million, while revenues with IP-based products and services rose by € 8.4 million to € 73.1 million.

REVENUE MIX (in € millions)



This means that QSC was already generating 69 percent of its total revenues in forward-looking lines of business in the third quarter of 2010; one year earlier, this figure stood at 62 percent. During the first nine months of the current fiscal year, the Company generated total revenues of € 316.4 million, as opposed to € 315.7 million the year before.

QSC winning new SME customers • With its broad portfolio of IP-based products and services, QSC can grow its revenues from its existing customer base step by step, while simultaneously winning new customers, especially small and medium enterprises. One of the Company's current projects, for example, is to implement an IP-VPN for Papier Union GmbH. In the future, this leading paper wholesaler with 17 locations in Germany will be utilizing a custom-made QSC solution for secure and efficient communication between these locations.

QSC is also systematically strengthening its sales and marketing power. The Company was able to win comTeam, the ICT systems houses of ElectronicPartner', as a further professional distributor. Like other distributors, one of comTeam's focuses with its approximately 250 branded systems houses will be on marketing the IPfonie centraflex telephony solution. This solution enables small and mid-size enterprises, in particular, to take advantage of flexible, network-based voice communication and the high savings it offers, without the need to make any hardware investments.

Following intensive preparations, in early October QSC debuted the latest generation of this solution: IPfonie centraflex 3.0. This generation features improved database interfaces, enabling customers to now effortlessly link to numerous business applications as well as call or contact center solutions.

Open Access a new line of business • QSC is also demonstrating its innovative strength with the launch of Germany's fist nationwide Open Access platform. In late August, the Company presented this first network, process and services hub for Next Generation Access (NGA) to the general public. In particular, this platform links regional providers, who are presently working as fast as they can to build local fiber optic networks, with strong marketing partners who also want to provide their customers with broadband connections (NGA) that offer speeds of 100 megabits per second or more. QSC's first partners are 1&1 Internet and Leipzig-based HL komm. Beginning in early 2010, 1&1 will be offering fiber optic Internet connections. With Open Access, QSC is broadening its Wholesale business to include another forward-looking line of business, because it is estimated that far more than 50 municipalities are currently upgrading their local infrastructures with fiber optics.

1&1 Internet is among the first partners of the new Open Access platform

However the increasing significance of these fiber-based broadband connections will hurt ADSL2+ business, especially in metropolitan regions. This is also why the number of connected lines declined to 532,900 in the third quarter of 2010, as opposed to 555,600 lines on June 30, 2010. The share of total revenues that this business accounts for declined to 22 percent, as opposed to 28 percent for the same quarter the year before. However with its double-digit revenue growth in IP-based products and services, QSC was able to compensate for this in the third quarter.

PROFITABILITY

Gross profit advances to € 36.3 million • Totaling € 69.3 million in the third quarter of 2010, network expenses, which are recorded under cost of revenues, were up moderately from the previous year's level of € 69.1 million. This stemmed, in particular, from QSC's growing successes in marketing IP-based voice services. With revenues rising by € 1.2 million, gross profit rose by € 1.0 million to € 36.3 million, while gross margin remained at 34 percent, the same as one year earlier.

GROSS PROFIT (in € millions)

At € 10.4 million, selling and marketing expenses in the third quarter of 2010 were slightly higher than their level of € 9.3 million for the same quarter one year earlier, but lower than the € 10.9 million recorded in the second quarter of 2010. Since this figure also includes commissions paid to distribution partners, in addition to direct parameters, it can vary depending upon their activities. General and administrative expenses, too, also vary from quarter to quarter, depending upon individual projects. In the third quarter of 2010, general and administrative expenses amounted to only € 5.7 million, as opposed to € 6.5 million for the same quarter the year before.

EBITDA rises to € 20.3 million • With revenues increasing by € 1.2 million to € 105.6 million, QSC improved its EBITDA by € 1.1 million to € 20.3 million in the third quarter of 2010. In addition to strict cost discipline, this strong profitability was attributable first and foremost to the Company's focus on higher-margin IP-based revenues. This raised the EBITDA margin to 19 percent, as opposed to 18 percent in the third quarter of 2009. QSC defines EBITDA as earnings before interest, taxes, amortization of fixed assets, intangible assets and goodwill. During the first nine months of the current fiscal year, EBITDA totaled € 59.6 million, in comparison with € 57.7 million for the corresponding period the year before.

EBITDA margin rose to 19 percent in the third quarter of 2010

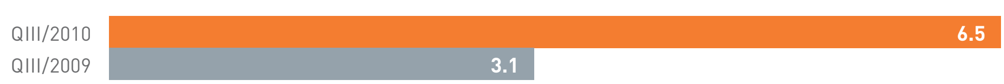
EBITDA (in € millions)

Depreciation expense declined on schedule in the third quarter of 2010: At € 13.8 million, it was down € 2.3 million from its level of € 16.1 million for the same period the year before. Quarter by quarter, customer-related capital expenditures for connecting ADSL2+ customers in 2008, in particular, are no longer being depreciated during the current fiscal year.

DEPRECIATION EXPENSE (in € millions)

EBIT margin doubles to 6 percent • In the third quarter of 2010, rising EBITDA and declining depreciation produced a significant rise in operating profit, with EBIT rising to € 6.5 million, as opposed to € 3.1 million for the same quarter one year earlier. During this period, the EBIT margin doubled to 6 percent. A comparison with the second quarter of 2010 underscores QSC's progress in growing its profitability: Within the space of a single quarter, EBIT improved by € 1.4 million, from € 5.1 million to € 6.5 million on revenue growth of € 0.7 million during this same period.

EBIT (in € millions)



The Company's financial loss amounted to € -0.4 million in the third quarter of 2010, as opposed to € -0.7 million for the corresponding period the year before. QSC's earnings before income taxes thus totaled € 6.1 million, as opposed to € 2.4 million for the third quarter of 2009.

Quarterly earnings per share double to € 0.04

Net income up by 176 percent to € 5.8 million • Taking into consideration income taxes in the amount of € -0.3 million, QSC earned net income of € 5.8 million in the third quarter of 2010, as opposed to € 2.1 million for the corresponding period one year earlier. Earnings per share doubled to € 0.04 from € 0.02 for the same period one year earlier. After the first nine months of the current fiscal year, aggregate net income totals € 13.2 million, as opposed to € 4.6 million for the corresponding period the year before.

NET PROFIT (in € millions)

PROFITABILITY BY SEGMENT

Double-digit EBIT margin in Managed Services • During the third quarter of 2010, Managed Services revenues rose by € 0.2 million from the same quarter the year before to € 19.0 million; and from the second quarter of 2010, the increase amounted to € 0.5 million. In the solutions business with mid-size enterprises, QSC is benefiting from its position as a mid-size company for small and mid-size enterprises.

MANAGED SERVICES REVENUES (in € millions)

The Company's focus on higher-margin revenues with SMEs, along with sustained cost discipline, produced a significant improvement in profitability in the third quarter of 2010: The Managed Services segment was able to nearly double its segment EBITDA from € 2.5 million for the same quarter one year earlier to € 4.7 million; the corresponding margin rose to 25 percent, as opposed to 13 percent in the third quarter of 2009. At the same time, this segment earned an EBIT of € 2.1 million, and thus an EBIT margin of 11 percent; in the third quarter the year before, a negative EBIT of € -0.1 million was incurred.

Managed Services generate an EBITDA margin of 25 percent

MANAGED SERVICES EBIT (in € millions)

Higher-margin IP-based products accounting for a rising share of revenues • In the third quarter of 2010, QSC generated revenues of € 21.4 million in the Products segment, as opposed to € 22.8 million in the third quarter of 2009, with declining revenues for conventional voice telephony being offset by rising revenues from IP-based products. The share of segment revenues accounted for by Call-by-Call and Preselect revenues declined to 41 percent in the third quarter of 2010, as opposed to 43 percent for the same quarter one year earlier.

PRODUCTS REVENUES (in € millions)

QSC's focus on IP-based products produces a sustained rise in profitability

While revenues decreased by € 1.4 million, segment EBITDA improved by € 0.7 million to € 5.4 million, with the EBITDA margin rising to 25 percent, as opposed to 21 percent in the third quarter of 2009. Operating profit, too, improved sharply to € 2.8 million, as opposed to € 1.8 million in the third quarter of 2009; during this same period, the EBIT margin advanced from 8 percent to 13 percent – QSC's focus on IP-based products is producing a sustained rise in profitability.

PRODUCTS EBIT (in € millions)

Strong voice business in the Wholesale/Reseller segment • In the third quarter of 2010, this highest-revenue segment continued to benefit from the Company's decision to build 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 € 65.2 million, as opposed to € 62.8 million in the third quarter of 2009. This positive development of voice reseller operations has enabled QSC to more than compensate for revenue declines in its ADSL2+ business. Within the space of a year, the share of revenues accounted for by this line of business has decreased to 36 percent, as opposed to 47 percent in the third quarter of 2009.

WHOLESALE / RESELLERS REVENUES (in € millions)

Totaling € 10.2 million, as opposed to € 12.1 million for the same quarter the year before, the Wholesale/Reseller segment also earned the highest segment EBITDA in the third quarter of 2010. This decline in EBITDA was essentially attributable to higher selling and marketing expenses, as successes in its Wholesale voice business mean that QSC is paying higher commissions to its partners in this line of business. Since both Wholesale voice as well as Wholesale ADSL2+ business make strong use of QSC's infrastructure, this segment bears the brunt of total depreciation expense, which amounted to € 8.5 million in the third quarter of 2010, as opposed to € 10.6 million for the same quarter one year earlier. EBIT thus amounted to € 1.7 million, as opposed to € 1.4 million in the third quarter of 2009.

WHOLESALE / RESELLERS EBIT (in € millions)

FINANCIAL POSITION AND NET WORTH

Operative cash flow rising from quarter to quarter • In the third quarter of 2010, QSC earned a cash flow of € 16.3 million from operating activities, as opposed to € 13.6 million in the second quarter of the current fiscal year and € 11.7 million in the first quarter. After nine months, aggregate cash flow from operating activities thus totals € 41.6 million, as opposed to € 55.2 million for the corresponding period the year before, when the Company had temporarily recorded considerably higher liabilities and depreciation expense at the beginning of the year. At € -18.3 million after nine months, cash flow from investing activities was also down significantly from the previous year's level of € -34.6 million, as well as cash flow from financing activities, which QSC succeeded in reducing from € -27.3 million for the same period one year earlier to € -16.1 million in the first nine months of the current fiscal year.

Free cash flow rises to € 8.5 million • During the past quarter, QSC was able to more than triple its free cash flow – the difference between the change in liquid assets and interest-bearing liabilities – to € 8.5 million; in the third quarter of 2009, this figure stood at € 2.6 million. The Company has thus earned a free cash flow of € 20.6 million during the first nine months of the current fiscal year, as opposed to € 9.2 million for the corresponding period the year before.
Liquid assets, which in addition to cash and cash equivalents also include available-for-sale assets, rose by € 7.1 million to € 48.4 million as of September 30, 2010, as opposed to € 41.3 million as of December 31, 2009. During the same period, QSC reduced its interest-bearing liabilities by € 13.4 million to € 27.1 million. Net liquidity, the difference between these two metrics, increased to € 21.4 million as of September 30, 2010, as opposed to € 0.7 million at the close of the fiscal year on December 31, 2009.

The Company increased net liquidity to € 21.4 million in the third quarter

in T €	30/09/2010	31/12/2009
Net liquidity		
Finance lease liabilities	(10,938)	(22,775)
Other short-term liabilities	(1,141)	(2,774)
Liabilities due to banks	(15,000)	(15,000)
Fixed rate debts	**(27,079)**	**(40,549)**
plus cash and short-term deposits	48,123	40,952
plus available-for-sale financial assets	331	330
Net liquidity	**21,375**	**733**

Higher free cash flow strengthens financial position • In the balance sheet, the rise in free cash flow, along with growing net income, went hand in hand with an increase in equity capital and a debt reduction. Equity capital rose to € 173.1 million as of September 30, 2010, as opposed to € 159.7 million as of December 31, 2009, with the equity ratio improving to 58 percent, as opposed to 51 percent at year-end 2009.

Equity ratio improved to 58 percent in Q3 2010

EQUITY RATIO

Long-term debt decreased to € 45.0 million as of September 30, 2010, as opposed to € 54.2 million at the end of December 2009. During this same period, long-term liabilities under finance leasing agreements declined to € 3.0 million, as opposed to € 7.3 million one year earlier. Short-term liabilities, as well, declined to € 82.7 million, as opposed to € 97.3 million at year-end 2009. Here, too, QSC reduced its short-term interest-bearing liabilities under finance leasing agreements, in particular; as of September 30, 2010, they amounted to only € 7.9 million, as opposed to € 15.5 million as of December 31, 2009.

Customer-related capital expenditures dominate • In the third quarter of the current fiscal year, QSC's capital expenditures totaled € 8.2 million, as opposed to € 10.3 million for the same quarter one year earlier. Aggregate capital expenditures during the first nine months of the fiscal year amounted to € 21.9 million, as opposed to € 34.7 million for the corresponding period the year before. 70 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 7 percent was for investments in office equipment and furniture.

CAPITAL EXPENDITURES (in € millions)

Due to the low level of capital expenditures and scheduled depreciation, the value of long-term assets recorded in the balance sheet decreased to € 187.0 million as of September 30, 2010, as opposed to € 209.9 million as of December 31, 2009. On the other hand, the value of short-term assets rose to € 113.9 million during this same period, as opposed to € 101.4 million the year before, essentially as a result of the sharp rise in liquid assets.

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 improving QSC's balance sheet ratios from quarter to quarter. As of September 30, 2010, equity capital and long-term liabilities were financing 117 percent of long-term assets; on December 31, 2009, this ratio stood at 102 percent. Short-term liabilities accounted for merely 73 percent of short-term assets on September 30, 2010; as of December 31, 2009, this metric stood at 96 percent.

HUMAN RESOURCES

Productivity rises by 8 percent • As of September 30, 2010, QSC was employing a workforce of 619 people, 14 fewer than on June 30, 2010; the workforce has thus declined by 41 people in comparison with the third quarter of 2009. In particular, the industrialization of processes throughout large portions of the Company that had been initiated in 2008 is playing a key role in the ongoing improvement of the Company's efficiency. And these efficiency gains enable QSC to avoid having to restaff positions as they become vacant, in spite of rising revenues. Per capita revenues rose to € 171,000 in the third quarter of 2010, as opposed to € 158,000 in the same quarter the year before; per capita productivity has thus risen by 8 percent within the space of a year.

The industrialization of processes improves QSC's efficiency

PER CAPITA PRODUCTIVITY (in T €)

RISK REPORT

No material change in risk position • In the third 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 may 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.

SUBSEQUENT EVENTS

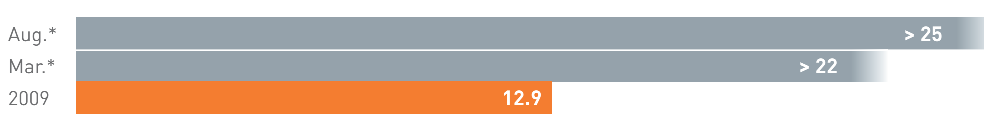
QSC is not aware of any occurrences of particular significance subsequent to the close of the quarter that would require reporting.

OUTLOOK REPORT

QSC is reiterating its forecast for the 2010 fiscal year

QSC planning to triple net income • Given the good development of business in the third quarter of 2010, QSC is reiterating its forecast for the current fiscal year, which it had raised in August: The Company anticipates a free cash flow of more than € 25 million, which would double the previous year's level 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 anticipates a further strengthening of its financial position and profitability in 2011 through its evolution into a service provider. 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

Economic growth expected to weaken • Many economists are convinced that the German economy's growth cycle peaked during recent months. However the basis for the recovery is broadening as both domestic demand and capital expenditures are on the rise, as are exports as well. In particular, QSC has been able to benefit from the growing willingness to invest on the part of small and mid-size enterprises.

The Company continues to see a two-track course of development in the telecommunications market, with declining revenues for standard products – due to sustained price competition – being offset by rising revenues with IP-based products and services. With new lines of business, such as Managed Outsourcing and the Open Access platform, QSC is positioning itself as a pioneering player in promising, forward-looking IP-based markets.

Sharp growth in IP-based products and services • QSC is generating rising IP-based revenues from quarter to quarter, enabling it to compensate for declining conventional revenues. For this reason, the Company is paying particular attention to improving the quality of its revenues in general and giving priority to higher profitability over higher revenues. This applies to all three segments, with stiff price competition impacting the Products segment, in particular – which includes the Call-by-Call and Preselect lines of business – as well as the Wholesale/Reseller segment – which includes the ADSL2+ business.
QSC is additionally strengthening its profitability through strict cost discipline throughout the entire organization. The high cost awareness of all employees along with the rising share of revenues being accounted for by higher-margin IP-based products and services are serving as the two major elements in the Company's plan 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.

Share of revenues from higher-margin IP-based products and services increases

Free cash flow to double in fiscal 2010 • QSC plans to double its free cash flow to more than € 25 million for the full 2010 fiscal year. The Company will be utilizing this free cash flow 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 as well as potential financing of smaller acquisitions. And, as already noted in the Report on Opportunities in the 2009 Annual Report, the Company does not preclude the possibility of acquisitions of smaller providers, in particular in ICT Software as a Service business. The other opportunities cited in this Annual Report, too, continue to apply in unaltered form.

Moderate capital spending • Following the conclusion of the capital investment phase, QSC is now focusing on replacement and modernization investments in its existing infrastructure. The vast majority of these investments are earmarked for projects that connect new customers to the QSC network, making them purely customer-related. As a result of this and ongoing depreciation, the volume of long-term assets is declining from quarter to quarter. This is being offset on the Liabilities side of the consolidated balance sheet by equity capital that is rising from quarter to quarter, because the loss carryforward is decreasing as net income increases. The ongoing reduction of interest-bearing liabilities will additionally lower both short- and long-term liabilities. As a result, QSC's financial strength is rising from quarter to quarter.

Consolidated Interim Financial Statements

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

Euro amounts in thousands (T €)

	01/07/–30/09/ 2010	01/07/–30/09/ 2009	01/01/–30/09/ 2010	01/01/–30/09/ 2009
Net revenues	**105,565**	**104,402**	**316,394**	**315,696**
Cost of revenues	(69,302)	(69,147)	(204,474)	(208,202)
Gross profit	**36,263**	**35,255**	**111,920**	**107,494**
Selling and marketing expenses	(10,428)	(9,336)	(33,011)	(29,623)
General and administrative expenses	(5,679)	(6,480)	(19,846)	(21,697)
Depreciation and non-cash share-based payments	(13,750)	(16,079)	(43,986)	(49,839)
Other operating income	648	110	1,296	2,027
Other operating expenses	(513)	(349)	(757)	(505)
Operating profit	**6,541**	**3,121**	**15,616**	**7,857**
Financial income	46	190	194	636
Financial expenses	(486)	(864)	(1,552)	(2,700)
Net profit before income tax	**6,101**	**2,447**	**14,258**	**5,793**
Income tax	(349)	(370)	(1,010)	(1,233)
Net profit	5,752	2,077	13,248	4,560
Earnings per share (basic) in €	0.04	0.02	0.10	0.03
Earnings per share (diluted) in €	0.04	0.02	0.10	0.03

CONSOLIDATED BALANCE SHEET (unaudited)

Euro amounts in thousands (T €)

	Sept. 30, 2010	Dec. 31, 2009
ASSETS		
Long-term assets		
Property, plant and equipment	112,635	126,187
Goodwill	49,279	49,279
Other intangible assets	24,516	33,658
Other long-term financial assets	520	769
Long-term assets	**186,950**	**209,893**
Short-term assets		
Trade receivables	55,297	53,595
Prepayments	4,087	2,497
Inventories	1,456	2,372
Other short-term financial assets	4,613	1,671
Available-for-sale financial assets	331	330
Cash and short-term deposits	48,123	40,952
Short-term assets	**113,907**	**101,417**
TOTAL ASSETS	300,857	311,310

	Sept. 30, 2010	Dec. 31, 2009
SHAREHOLDERS' EQUITY AND LIABILITIES		
Shareholders' equity		
Capital stock	136,998	136,998
Capital surplus	563,849	563,687
Other reserves	(1,129)	(1,129)
Consolidated balance sheet loss	(526,596)	(539,844)
Shareholders' equity	**173,122**	**159,712**
Liabilities		
Long-term liabilities		
Long-term liabilities to minority shareholders	37,375	42,580
Long-term portion of finance lease obligations	3,022	7,272
Convertible bonds	25	24
Accrued pensions	734	741
Other long-term liabilities	-	576
Deferred tax liabilities	3,857	3,056
Long-term liabilities	**45,013**	**54,249**
Short-term liabilities		
Trade payables	39,514	40,982
Short-term portion of finance lease obligations	7,916	15,503
Liabilities due to banks	15,000	15,000
Provisions	3,940	2,037
Deferred revenues	8,136	13,785
Other short-term liabilities	8,216	10,042
Short-term liabilities	**82,722**	**97,349**
Liabilities	**127,735**	**151,598**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	300,857	311,310

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

Euro amounts in thousands (T €)

	01/01/ – 30/09/ 2010	01/01/ – 30/09/ 2009
Cash flow from operating activities		
Net profit before income taxes	14,258	5,793
Depreciation and amortization	37,219	43,317
Non-cash share-based payments	48	184
Loss from disposal of long-term assets	783	1,847
Changes in provisions	1,896	(470)
Changes in trade receivables	(1,702)	3,636
Changes in trade payables	(1,138)	7,791
Changes in other financial assets and liabilities	(9,786)	(6,862)
Cash flow from operating activities	**41,578**	**55,236**
Cash flow from investing activities		
Purchase of intangible assets	(14,252)	(24,268)
Purchase of property, plant and equipment	(4,089)	(10,358)
Cash flow from investing activities	**(18,341)**	**(34,626)**
Cash flow from financing activities		
Repayment of liabilities to minority interest shareholders	(553)	(3,536)
Repayment of other short- and long-term liabilities	(1,633)	(5,087)
Repayment of finance lease	(13,880)	(18,684)
Cash flow from financing activities	**(16,066)**	**(27,307)**
Change in cash and short-term deposits	**7,171**	**(6,697)**
Change in cash and short-term deposits as of January 1	40,952	48,823
Cash and short-term deposits as of September 30	**48,123**	**42,126**
Interest paid	1,335	2,452
Interest received	170	633
Income tax paid	490	210

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				13,248	13,248
Non-cash share-based payments		162			162
Balance as of September 30, 2010	136,998	563,849	(1,129)	(526,596)	173,122
Balance as of January 1, 2009	136,998	563,197	(1,141)	(544,626)	154,428
Total comprehensive income				4,560	4,560
Non-cash share-based payments		349			349
Balance as of September 30, 2009	136,998	563,546	(1,141)	(540,066)	159,337

CONSOLIDATED STATEMENTS OF DIRECTLY RECOGNIZED INCOME AND EXPENSES (unaudited)

Euro amounts in thousands (T €)

	01/01/–30/09/ 2010	01/01/–30/09/ 2009
Net profit and recognized income and expenses	13,248	4,560

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 September 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/–30/09/ 2010	01/01/–30/09/ 2009
Network equipment and plant	798	1,995
Impact of changes in estimates	**798**	**1,995**

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 September 30, 2010. In comparison with December 31, 2009, the number of subsidiaries included in the Consolidated Financial Statements has increased by two companies. Since January 15, 2010, tengo GmbH and additionally from July 1, 2010 onwards F&Q Netzbetriebs GmbH & Co. KG have been fully included in the Consolidated Financial Statements.

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
01/07/ – 30/09/2010					
Net revenues	**19,001**	**21,370**	**65,194**		**105,565**
Cost of revenues	(9,272)	(11,202)	(48,828)		(69,302)
Gross profit	**9,729**	**10,168**	**16,366**	**-**	**36,263**
Selling and marketing expenses	(3,071)	(2,865)	(4,492)		(10,428)
General and administrative expenses	(2,053)	(1,942)	(1,684)		(5,679)
Depreciation and amortization	(2,547)	(2,639)	(8,522)		(13,708)
Non-cash share-based payments	(16)	(13)	(13)		(42)
Other operating income	45	45	45		135
Operating profit	**2,087**	**2,754**	**1,700**	**-**	**6,541**
Assets	66,848	76,387	157,622	-	300,857
Liabilities	10,439	13,962	99,477	3,857	127,735
Capital expenditures	1,574	1,766	4,830	-	8,170

in T €	Managed Services	Products	Wholesale / Resellers	Reconciliation	Consolidated
01/07/-30/09/2009					
Net revenues	**18,810**	**22,800**	**62,792**		**104,402**
Cost of revenues	(11,446)	(12,216)	(45,485)		(69,147)
Gross profit	**7,364**	**10,584**	**17,307**	**-**	**35,255**
Selling and marketing expenses	(2,727)	(3,562)	(3,047)		(9,336)
General and administrative expenses	(2,094)	(2,258)	(2,128)		(6,480)
Depreciation and amortization	(2,535)	(2,845)	(10,583)		(15,963)
Non-cash share-based payments	(47)	(33)	(36)		(116)
Other operating income	(79)	(80)	(80)		(239)
Operating profit (loss)	**(118)**	**1,806**	**1,433**	**-**	**3,121**
Assets	68,113	93,170	165,747	-	327,030
Liabilities	24,927	30,279	109,735	2,752	167,693
Capital expenditures	3,082	869	6,328	-	10,279

in T €	Managed Services	Products	Wholesale / Resellers	Reconciliation	Consolidated
01/01/ – 30/09/2010					
Net revenues	**55,649**	**64,149**	**196,596**		**316,394**
Cost of revenues	(25,856)	(34,074)	(144,544)		(204,474)
Gross profit	**29,793**	**30,075**	**52,052**	**-**	**111,920**
Selling and marketing expenses	(9,314)	(9,291)	(14,406)		(33,011)
General and administrative expenses	(6,891)	(6,880)	(6,075)		(19,846)
Depreciation and amortization	(7,881)	(8,258)	(27,684)		(43,823)
Non-cash share-based payments	(65)	(48)	(50)		(163)
Other operating income	30	33	476		539
Operating profit	**5,672**	**5,631**	**4,313**	**-**	**15,616**
Assets	66,848	76,387	157,622	-	300,857
Liabilities	10,439	13,962	99,477	3,857	127,735
Capital expenditures	4,589	4,839	12,482	-	21,910

in T €	Managed Services	Products	Wholesale / Resellers	Reconciliation	Consolidated
01/01/-30/09/2009					
Net revenues	**55,885**	**70,374**	**189,437**		**315,696**
Cost of revenues	(33,126)	(38,766)	(136,310)		(208,202)
Gross profit	**22,759**	**31,608**	**53,127**	**-**	**107,494**
Selling and marketing expenses	(8,491)	(11,307)	(9,825)		(29,623)
General and administrative expenses	(7,628)	(7,399)	(6,670)		(21,697)
Depreciation and amortization	(7,712)	(10,179)	(31,599)		(49,490)
Non-cash share-based payments	(82)	(84)	(183)		(349)
Other operating income	437	457	628		1,522
Operating profit (loss)	**(717)**	**3,096**	**5,478**	**-**	**7,857**
Assets	68,113	93,170	165,747	-	327,030
Liabilities	24,927	30,279	109,735	2,752	167,693
Capital expenditures	6,223	5,994	22,466	-	34,683

4 Related party transactions

During the first nine 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/–30/09/2010				
IN-telegence GmbH & Co. KG	527	39	654	48
Teleport Köln GmbH	11	3	13	6
QS Communication Verwaltungs Service GmbH	-	115	-	158
01/01/–30/09/2009				
IN-telegence GmbH & Co. KG	556	128	663	132
Teleport Köln GmbH	9	82	10	97
QS Communication Verwaltungs Service GmbH	-	114	-	145

in T €	Trade receivables	Trade payables
As of September 30, 2010		
IN-telegence GmbH & Co. KG	126	-
Teleport Köln GmbH	2	-
QS Communication Verwaltungs Service GmbH	-	-
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.

6 Management Board

	Shares		Convertible bonds	
	Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2010	Sept. 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	
	Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2010	Sept. 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	4,000	6,000	6,000

*Employee representative

Cologne, November 2010

Dr. Bernd Schlobohm
Chief Executive Officer

Jürgen Hermann

Joachim Trickl

Calendar

Annual Shareholders Meeting
May 19, 2011

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

December 1–2, 2010
Berenberg Bank European Conference, London

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