QSC

Quarterly Report . 2004 . January February March

Key data

	01/01/-31/03/ 2004	01/01/-31/03/ 2003
All amounts in million EUR		
Revenues	32.2	27.6
Gross profit	6.8	0.5
EBITDA	0.1	-10.0
EBIT	-6.1	-20.0
Net loss	-5.5	-18.8
Net loss per common share[1] (in EUR)	-0.05	-0.19
Equity	85.2 [2]	89.5 [3]
Balance Sheet Total	120.2 [2]	132.7 [3]
Equity ratio (in %)	70.9 [2]	67.4 [3]
Capital Expenditure	1.3	1.5
Liquidity	38.8 [2]	54.3 [3]
Share price as of 31/03/ (in EUR)	4.58	0.61
Number of shares as of 31/03/	105,256,694	105,008,714
Market capitalization as of 31/03/	482.1	64.1
Employees	364 [2]	373 [3]

[1] basic and diluted
[2] as of March 31, 2004
[3] as of December 31, 2003

Communication is changing the world
Broadband reinvents communication
QSC is the broadband solution

QSC at a Glance

Growth accelerating // In the first quarter of 2004, strong demand in services for business and project customers resulted in revenue growth of 16.7 percent over the same quarter the year before, to EUR 32.2 million. This growth dynamic is underscored by a quarter-to-quarter comparison – revenue growth of 6.3 percent over the fourth quarter of 2003 correlates to double the average quarter-to-quarter growth rate in 2003 following the Ventelo acquisition.

Positive EBITDA // As planned, QSC generated an operating profit before depreciation and amortization for the first time in the first quarter of 2004, with a positive EBITDA of EUR 0.1 million. During the same quarter the year before, QSC had recorded an EBITDA loss of EUR -10.0 million.

Positive free cash flow by the second quarter of 2004 // Given the highly positive development of its operative business, QSC raised its forecast in early May and now expects to record a free cash flow surplus in the second quarter of 2004 – one quarter earlier than had previously been planned. In addition, QSC is planning on revenue growth of at least 20 percent to more than EUR 138 million for the current fiscal year, along with a sustained positive EBITDA.

Sustained share price advance // QSC's share price rose by a further 51 percent in the first quarter of 2004. A milestone in the Company's history was set in March 2004 with the inclusion of QSC in Germany's premier index for technology shares, the TecDAX. In this connection, further banks, including Berenberg Bank, DZ Bank and Sal. Oppenheim, have added QSC to their research coverage as BW Bank, Merck Finck, SES Research and WestLB had already done before.

Dear Shareholders,

Three issues characterize the initial months of the current fiscal year at QSC: Our growth rate is accelerating, we are earning a positive EBITDA for the first time, and we anticipate generating a positive free cash flow for the second quarter, earlier than had been planned. Additionally, we are benefiting from the inclusion of QSC in the TecDAX index in March 2004.

Our strong revenue growth is primarily resulting from the fact that we focused on VPN (Virtual Private Network) solutions for business customers early on. QSC has made a name for itself in Germany as a provider of innovative and efficient solutions for networking enterprise locations, and is repeatedly demonstrating its competence in connection with major projects. For example, QSC recently networked 300 Deutsche Bahn (German Rail) locations into a high-speed network, which it put into operation in February 2004.

QSC earns positive EBITDA

Successes in high-margin solutions business have played a major role in dramatically improving the Company's profitability. In the first quarter of 2004, QSC generated a gross margin of 21 percent, along with its first positive EBITDA. We are convinced that our Company has thus permanently reached the operating profitability zone.

Just how positively our business has developed is demonstrated by the fact that QSC has reached the cash flow breakeven point ahead of schedule during the current, second quarter. Even at the beginning of the year, we had not anticipated earning free cash flow surpluses until the middle of the year. We expect these cash surpluses to be sustained in the quarters to come.

Strong demand for VPN solutions is continuing to drive our business. This is being accompanied by a rising sensitivity on the part of our customers toward the issue of security, as network attacks are becoming increasingly intelligent. QSC responded to this development early on by positioning itself with a separate business operation, Managed Security, which is now serving as a solutions provider and administrator to protect our customers' networks. This additional service optimally complements our portfolio of products and services for business customers.

QSC is thus flexibly responding to customer needs by steadily broadening its offerings of voice and data services, as well as the corresponding add-on services. Just recently, for example, we also began offering SDSL links with speeds of up to 4.6 Mbit/s. The new resale contract with Deutsche Telekom now even enables us to integrate enterprise locations or home offices into VPN solutions under the QSC name outside our own network. At the same time, we are also specifically expanding our own broadband network. By the end of June, we will have linked allocations in further 12 cities to our own infrastructure, and will then be present within a total of 60 cities.

Voice over IP for business customers available by spring 2005 at the latest

By the spring of 2005, at the latest, we will be offering an innovative Voice over IP solution for business customers. We are presently hard at work on developing a simple and secure way to integrate Voice over IP into complete VPN solutions. We expect the combination of VPN and Voice over IP to generate a strong growth dynamic in the years to come.

And we intend to utilize this dynamic. In the coming quarters, we will be using a portion of the anticipated cash surpluses to further strengthen our operating business and, in particular, to expand our sales operation. QSC is well on its way toward becoming the number two in the German market for premium telecommunication services for business customers.

Growth is what characterizes our market, and growth is what characterizes our operating business: Against this backdrop, we are convinced that QSC shares will remain a growth stock over the long term. We view QSC's inclusion in the TecDAX in March 2004 as a milestone in our Company's history. There were, however, sharp fluctuations in the daily trading prices of our shares in connection with our inclusion in Germany's premier index for technology shares. Aside from these increased levels of volatility, the QSC stock will continue its growth course in 2004, having already appreciated by approximately 25 percent since the beginning of the year.

Translating growth opportunities into profitable operating business necessitates experience, competence and a great deal of hard work. We on the QSC Board are proud of our people, who face the challenges of the competitive arena anew each day. We know that lots of hard work still lies ahead, but we also know that our market offers enormous opportunities – and we intend to take advantage of them.

Cologne, May 2004

Dr. Bernd Schlobohm	Mark Goossens	Markus Metyas	Bernd Puschendorf
Chief Executive Officer			




Dr. Bernd Schlobohm	Mark Goossens	Markus Metyas	Bernd Puschendorf
Chief Executive Officer	Chief Technology Officer, also in charge of Billing, Carrier and Customer Management	Chief Financial Officer, also in charge of Purchasing, Human Resources and Legal Affairs	Chief Sales & Marketing Officer, also responsible for Order Management

QSC's growth accelerating

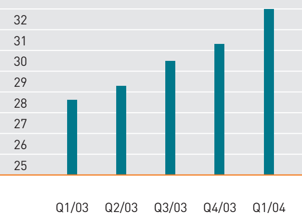
Strong demand in high-margin services for business and project customers resulted in both accelerated revenue growth as well as the Company's first positive EBITDA in the first quarter of 2004. Given the positive development of its business, QSC raised its forecast and now anticipates earning a sustainable positive free cash flow for the current, second quarter of 2004.

Strong dynamics in the VPN market // The predicted economic upswing in Germany failed to materialize during the first quarter of 2004 – gross domestic product grew by only 0.4 percent. However, the information and telecommunication industry is posting a stronger recovery. Overall, the industry association BITKOM expects to see growth of 2.5 percent for 2004, with fixed-network data service revenues rising by a strong 10.8 percent. And the VPN market is developing even more dynamically. Market research institute IDC anticipates that annual market volume in this segment should rise by 35.9 percent year-on-year in 2004, to a total of around one billion Euros.

Strong dynamics are also characterizing the market for stationary, wireless broadband services, i.e. WLANs. More and more hotels, restaurants and other highly frequented locations are offering wireless Internet access via WLAN. QSC is benefiting from this trend and is increasingly networking these so-called hotspots with DSL lines.

German VPN market expected to grow by more than 35 percent in 2004

Revenues (in million EUR)



300 German Rail locations successfully networked into a high-speed network

Strong revenue growth with business customers // In the first quarter of 2004, QSC grew its revenues by 6.3 percent quarter-to-quarter, to a total of EUR 32.2 million. The Company thus succeeded in doubling its growth rate, which had stood at an average of 3.2 percent per quarter in 2003 following the Ventelo acquisition. On a year-to-year comparison, QSC grew its revenues by 16.7 percent (Q1 2003: EUR 27.6 million).

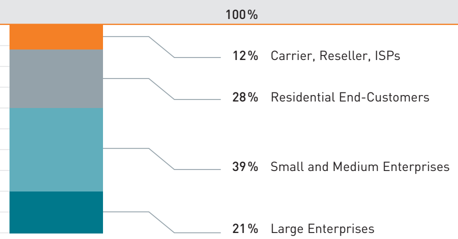
During the first quarter of 2004, QSC benefited from sustained high demand on the part of business customers for VPN solutions and the value added services that build upon them. One example of this were the 300 German Rail locations that QSC networked into a high-speed network, which it put into operation last February.

At the same time, QSC strengthened its activities in the small and medium enterprise sector. Through the efforts of its own sales force and a partnership with Microsoft, the Company is presently increasingly focusing on this clientele, where up until now only a minority have been utilizing the advantages of networked broadband solutions.

Campaigns relating to the launch of the QSC-Direct and QSC-Direct basic voice services have also proven to be successful with small and medium enterprise customers. Numerous business customers took advantage of the introductory rates and linked their voice communication directly to the QSC network.

Overall, the percentage of total revenues accounted for by business customers rose to 60 percent in the first quarter of 2004. In response to sustained high growth rates in this segment, beginning in the first quarter of 2004, QSC has begun reporting the revenue mix accounted for by business customers separately for large enterprise accounts, on the one hand, and for small for and medium enterprises, on the other. In the first quarter of 2004, QSC was already generating 21 percent of its revenues by building and operating integrated telecommunication solutions for large enterprise accounts. 39 percent of total revenues came from small and medium enterprises.

Revenue Mix (in percent)



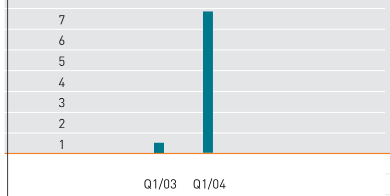
Gross margin of 21 percent // In spite of its accelerated revenue growth, in the first quarter of 2004 QSC succeeded in further reducing network expenses, which are reported under cost of revenues. They declined by 6.3 percent from EUR 27.1 million in the first quarter of 2003 to EUR 25.4 million – in spite of revenue growth of 16.7 percent. The company also achieved a sharp quarter-to-quarter reduction in network expenses (Q4 2003: EUR 26.9 million). The decline was essentially attributable to the successful conclusion of the Ventelo integration, as well as to a sustained policy of strict cost management.

As a result of this development, QSC could leverage its gross profit growth. In the first quarter of 2004, the Company earned a gross profit of EUR 6.8 million, as opposed to EUR 0.5 million for the same quarter the year before. That represents a gross margin of 21.1 percent. This dramatic, 1260-percent rise in gross profit underscores the scalability of QSC's infrastructure-based business model.

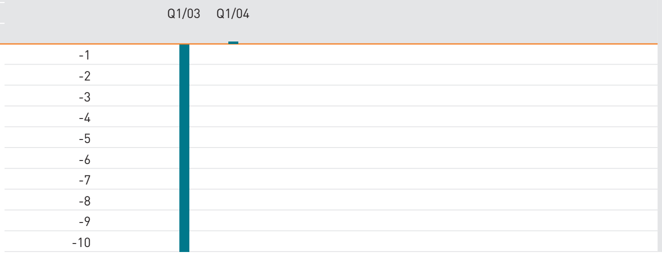
QSC's gross profit grew by 1260 percent to EUR 6.8 million

A comparison of other operating expense items illustrates the successes that are being achieved through strict cost management. Selling and marketing expenses, for example, declined by 25.0 percent to EUR 4.5 million, while general and administrative expenses were down by 50 percent to EUR 2.1 million. In its administrative activities, QSC is already benefiting greatly from the consolidation of the QSC and Ventelo administrations in the Cologne location ahead of schedule during the fourth quarter of 2003.

Gross profit (in million EUR)



EBITDA (in million EUR)



Sustained positive EBITDA // As planned, QSC generated a positive EBITDA of EUR 0.1 million for the first time in the first quarter of 2004. The year before, the operating loss before depreciation and amortization had stood at EUR -10.0 million. QSC defines EBITDA as earnings before interest, taxes, the pro-rated results of equity investments accounted for under the equity method, amortization of deferred non-cash compensation, as well as depreciation on plant and equipment and amortization of goodwill.

This dramatic improvement in profitability primarily stemmed from strong growth in services for business and project customers. In addition, the Company's strict cost management is also showing its effect.

Depreciation and amortization expenses declined by 37.4 percent from EUR 9.9 million in the first quarter of 2003 to EUR 6.2 million. Four years after the beginning of the capital investment phase for the initial build-up of the network, more and more equipment has now been fully depreciated. Moreover, there have also been significant price reductions for equipment.

Net loss dropped by more than 70 percent

In the first quarter of 2004, the Company's negative EBIT declined by 69.5 percent to EUR -6.1 million, as opposed to EUR -20.0 million for the same quarter the year before. The net loss dropped by EUR 13.3 million to EUR -5.5 million. This 70.7-percent reduction demonstrates the enormous progress that QSC has been making toward reaching profitability following the conclusion of the Ventelo integration.

Efficient capital investments in network expansion // As of March 31, 2004, QSC's balance sheets recorded net liquid assets of EUR 38.8 million, and virtually no debt. The cash use for the first quarter of 2004 amounted to EUR -15.5 million, as opposed to EUR -10.9 million for the comparable period the year before. In addition to regular first-quarter prepayments to Deutsche Telekom for the entire year and order driven increases in expenses for customer installations, net liquid assets were chiefly influenced by two non-recurring effects: The introduction of a new billing system as well as project cost in connection with local network expansions in twelve further cities.

The introduction of a new, integrated billing system for voice and data services, as well as projects, led to a temporary rise in the level of accounts receivable, and thus in working capital, in the first quarter of 2004. As of March 31, 2004, the net level of accounts receivable totaled EUR 24.8 million, as opposed to EUR 18.6 million as of December 31, 2003. Once the system has been fully deployed, though, efficiency gains in billing and accounts receivable management will more than offset this temporary rise, and will make a significant contribution to the further growth of QSC's free cash flow in the quarters to come.

QSC expands its own DSL-network infrastructure according to demand

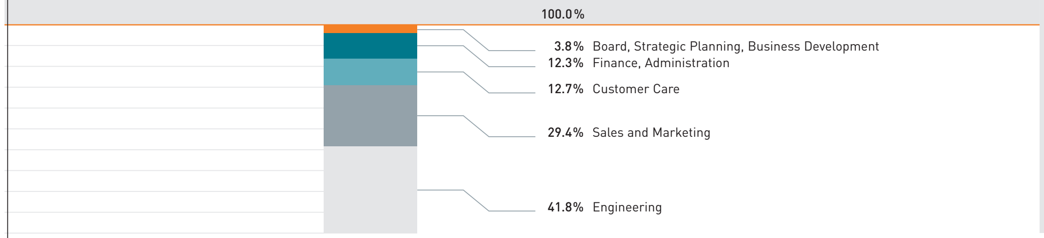
In response to the strong demand, QSC will expand its broadband network in twelve additional cities by the end of June 2004. Both the Company's existing customer potential as well as cost-optimizations in the management of the existing customer base will make building and operating the QSC network in twelve new cities cost-effective right from the very beginning.

The Company's share capital rose moderately by EUR 219,298 to EUR 105.3 million as a result of conversion of QSC convertible bonds to QSC shares under employee stock option programs. QSC's equity capital ratio of 70.9 percent as of March 31, 2004, underscores the Company's sound financial position.

Workforce consolidation // In connection with the Ventelo integration, there was another moderate reduction in the Company's workforce in the first quarter of 2004 to 364 people, as opposed to 373 as of December 31, 2003.

The Company's customer-related departments – from Sales and Marketing to Customer Care – had the highest head counts in the first quarter of 2004, totaling 153 employees. Smooth technical operations at QSC were assured by 42 percent of the workforce, while only 12 percent worked in finance and administration.

Workforce Structure (in percent)



Germany continues to be a DSL country // As an integrated telecommunication provider with its own DSL network, QSC sees itself as being very well positioned to compete in the high-growth broadband market. The Company is attentively observing the re-monopolization of the alternative broadband technology of cable TV under the umbrella of Kabel Deutschland. However, QSC assumes that this nationally operating company will continue to focus on broadcasting TV, instead of incurring the high capital expenditures needed to make its cable network backchannel-capable and thus allow it to be used for broadband applications by residential customers, at least. For business customers, QSC, due to structural network reasons, does not view cable network as an alternative to DSL technology, irrespective of an unlikely decision to upgrade the network for backchannel capability.

Nevertheless, as a result of these and other risks or incorrect assumptions, actual future results could vary materially from the Company's expectations. All statements contained in these consolidated financial statements 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.

Positve free cash flow one quarter earlier than had been planned

Positive free cash flow in the second quarter of 2004 // The highly positive development of its operating business prompted QSC to raise its forecasts in early May of this year: The Company now plans on achieving a sustained positive free cash flow in the second quarter – one quarter earlier than had still been planned in March 2004. At the same time, the Company is reiterating its forecast of at least 20 percent revenue growth to more than EUR 138 million and of generating a sustained positive EBITDA for the current fiscal year.

QSC anticipates above-average growth rates in services for business and project customers, in particular. The Company is benefiting from sustained high demand for VPN solutions and, building upon them, from the growing trend of outsourcing network functions. QSC is specifically broadening its competence in these kinds of value added services, i.e. managed services. The targeted expansion of its DSL network infrastructure will also lead to greater economic value added. Given corresponding demand, QSC will continue to add further cities to its own network coverage.

Statements of Operations

Consolidated Statements of Operations (unaudited)

(EUR amounts in thousands (TEUR), except for per share amounts)

	01/01/-31/03/ 2004	01/01/-31/03/ 2003
Net revenues	**32,180**	**27,566**
Cost of revenues	25,417	27,097
Gross profit	**6,763**	**469**
Selling and marketing expenses	4,533	6,027
General and administrative expenses	2,100	4,192
Research and development expenses	56	295
Depreciation and amortization	6,151	9,931
(including TEUR 30 in non-cash compensation in the three months ended March 31, 2004; three months ended March 31, 2003: TEUR 1,614)		
Operating loss	**(6,077)**	**(19,976)**
Other income (expenses)		
Interest income	598	995
Interest expense	(31)	(2)
Other non-operating income (loss)	(2)	180
Net loss before income taxes	**(5,512)**	**(18,803)**
Income taxes	-	-
Net loss	**(5,512)**	**(18,803)**
Net loss per common share (basic and diluted)	(0.05)	(0.19)
Weighted average shares outstanding (basic and diluted)	105,256,694	101,134,647

The accompanying notes to unaudited consolidated financial statements are an integral part of these statements.

Balance Sheets

Consolidated Balance Sheets (unaudited)

(EUR amounts in thousands (TEUR))

	31/03/2004	31/12/2003
ASSETS		
Current assets		
Cash and cash equivalents	18,778	34,964
Marketable securities	20,029	19,322
Trade accounts receivable, net	24,778	18,559
Trade accounts receivable due from related parties	1	-
Unbilled receivables	651	42
Other receivables	904	3,263
Prepayments and other current assets	6,882	4,140
Total current assets	**72,023**	**80,290**
Non-current assets		
Other non-current assets	**657**	**479**
Plant and equipment, net		
Land and buildings	37	-
Networking equipment and plant	35,795	40,261
Operational and office equipment	6,976	6,655
Total plant and equipment, net	**42,808**	**46,916**
Intangible assets, net		
Licenses	810	850
Software	1,533	1,761
Others	3	3
Total intangible assets, net	**2,346**	**2,614**
Goodwill	**2,393**	**2,393**
Total non-current assets	**48,204**	**52,402**
Total assets	**120,227**	**132,692**

	31/03/2004	31/12/2003
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Trade accounts payable	12,938	18,631
Trade accounts payable due to related parties	537	547
Accrued liabilities	13,434	15,123
Deferred revenues	1,755	1,778
Other current liabilities	5,503	6,571
Total current liabilities	**34,167**	**42,650**
Non-current liabilities		
Convertible bonds	62	63
Accrued pensions	363	510
Obligations under capital leases	463	-
Total non-current liabilities	**888**	**573**
Shareholders' Equity		
Common stock	105,257	105,037
Treasury stock	(175)	(266)
Additional paid-in capital	473,431	473,302
Deferred compensation	-	(75)
Accumulated other comprehensive income	149	(46)
Accumulated deficit	(493,490)	(488,483)
Total Shareholders' Equity	**85,172**	**89,469**
Total liabilities and Shareholders' Equity	**120,227**	**132,692**

The accompanying notes to unaudited consolidated financial statements are an integral part of these statements.

Statements of Cash Flows

Consolidated Statements of Cash Flows (unaudited)

(EUR amounts in thousands (TEUR))

	01/01/-31/03/ 2004	01/01/-31/03/ 2003
Cash flow from operating activities		
Net loss	**(5,512)**	**(18,803)**
Adjustments to reconcile net loss to cash used in operating activities		
Non-cash compensation charge	30	1,614
Depreciation and amortization	6,121	8,317
Loss/(Gain) on sale of equipment	3	(176)
Bad debt expense	158	-
Change in operating activities		
Increase in trade accounts receivable, net	(6,377)	(807)
Decrease/(Increase) in trade accounts receivable due to related parties	(1)	4
Decrease/(Increase) in unbilled receivables	(609)	20
Decrease in other receivables	2,359	2,142
Increase in prepayments and other current assets	(2,742)	(793)
Decrease/(Increase) in other non-current assets	(178)	41
Decrease in trade accounts payable	(5,703)	(5,225)
Increase in obligations under capital leases	463	-
Increase/(Decrease) in accrued liabilities	(1,689)	279
Decrease in deferred revenues	(23)	(581)
Increase/(Decrease) in other current liabilities	(1,068)	4,317
Increase/(Decrease) in accrued pensions	(19)	7
Net cash used in operating activities	**(14,787)**	**(9,644)**

	01/01/-31/03/ 2004	01/01/-31/03/ 2003
Cash flow from investing activities		
Change in marketable securities	(707)	2,656
Available-for-sale securities (unrealized gain)	67	64
Property acquired under capital leases	(496)	-
Purchases of intangible assets	(45)	(40)
Purchases of plant and equipment	(1,220)	(2,095)
Proceeds from sale of equipment	13	646
Net cash used in investing activities	**(2,388)**	**1,231**
Cash flow from financing activities		
Borrowings of short-term debt and current portion of long-term debt	-	147
Redemption of convertible bonds	(1)	-
Disposal of treasury stock	596	-
Proceeds from issuance of common stock	394	-
Net cash (used in) provided by financing activities	**989**	**147**
Net decrease in cash and cash equivalents	**(16,186)**	**(8,266)**
Cash and cash equivalents at beginning of the year	34,964	43,095
Cash and cash equivalents at end of the year	**18,778**	**34,829**
Supplemental disclosures of cash flow information		
Cash paid during the period for		
Interest expenses	31	2

The accompanying notes to unaudited consolidated financial statements are an integral part of these statements.

Statements of Equity

Consolidated Statements of Shareholders' Equity from January 1, 2003 to March 31, 2004 (unaudited)

(EUR amounts in thousands (TEUR), except for per share amounts)

	Ordinary Shares		Treasury Shares		Additional Paid-In Capital	Deferred Compensation Account	Comprehensive Income	Accumulated Other Comprehensive Income	Receivables Due from Shareholders	Accumulated Deficit	Total Shareholders' Equity
	Shares	TEUR	Shares	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
Balance at January 1, 2003	**105,008,714**	**105,009**	**358,747**	**(266)**	**473,442**	**(5,058)**		**-**	**(1)**	**(427,872)**	**145,254**
Net loss							(60,611)			(60,611)	(60,611)
Other Comprehensive Loss							(46)	(46)			(46)
Comprehensive Income							(60,657)				-
Convertible bonds forfeited due to termination of employment (January 1, 2003)					(69)	69					-
Convertible bonds forfeited due to termination of employment (April 1, 2003)					(11)	11					-
Convertible bonds forfeited due to termination of employment (October 1, 2003)					(68)	68					-
Issuance of common stock in connection with the conversion of convertible bonds (June 30, 2003)	3,300	3									3
Issuance of common stock in connection with the conversion of convertible bonds (September 30, 2003)	9,360	9									9
Issuance of common stock in connection with the conversion of convertible bonds (December 31, 2003)	16,022	16			8						24
Redemption									1		1
Amount amortized during the period						4,835					4,835
Balance at December 31, 2003	**105,037,396**	**105,037**	**358,747**	**(266)**	**473,302**	**(75)**		**(46)**	**-**	**(488,483)**	**89,469**
Net loss							(5,512)			(5,512)	(5,512)
Other Comprehensive Income							195	195			195
Comprehensive Income							(5,317)				
Convertible bonds forfeited due to termination of employment (January 1, 2004)					(45)	45					-
Issuance of common stock in connection with the conversion of convertible bonds (March 31, 2004)	219,298	220			174						394
Disposal of treasury stock			(122,865)	91						505	596
Amount amortized during the period						30					30
Balance at March 31, 2004	**105,256,694**	**105,257**	**235,882**	**(175)**	**473,431**	**-**		**149**	**-**	**(493,490)**	**85,172**

The accompanying notes to unaudited consolidated financial statements are an integral part of these statements.

Notes to the Interim Condensed Consolidated Financial Statements

1. Basis of presentation

General // The unaudited interim condensed consolidated financial statements ("interim financial statements") of QSC AG ("QSC" or "the Company") and subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States ("US GAAP"). All amounts, except per share amounts, are in thousands of Euro ("TEUR"). In the opinion of management, the interim financial statements reflect all normal recurring adjustments necessary for a fair presentation of the financial position, results of operations and cash flows of the Company. The interim financial statements should be read in conjunction with the December 31, 2003 audited consolidated financial statements. Operating results for the interim periods presented are not necessarily indicative of the results that may be expected for any future period.

Principles of consolidation // The interim financial statements include the accounts of QSC and its subsidiaries. All significant intercompany transactions have been eliminated in the consolidation. The equity method of accounting is used for companies and other investments in which QSC has sinificant influence. Generally, this represents ownership of at least 20% and not more than 50%.

Use of estimates // The preparation of the financial statements in conformity with US GAAP requires management to make estimates and assumptions related to the reported amounts of assets and liabilities and the disclosures of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses for the period. Although these estimates are based on our knowledge of current events and actions we expect to undertake in the future, actual results may ultimately differ from estimates.

Foreign currencies // QSC's financial statements are presented in Euro, its functional currency. Transactions in currencies other than the Euro are originally recorded at the exchange rate at the day the transaction is made between the Euro and the respective foreign currency. The difference between the exchange rate at the day the transaction was made and the exchange rate at the balance sheet date or at the day the transaction is finally closed, if sooner, are included in other non-operating income or other expense.

Cash and cash equivalents // Cash and cash equivalents consist of highly liquid instruments with original maturities of three months or less from the date of purchase.

Leasing // The accrual of leased equipment is not related to the legal owner, but the economic owner. The economic owner is realizing the risks and opportunities arising from the use of the leased equipment. In a capital lease the lessee is the economic owner, capitalizing the leased equipment and depreciating it over the useful live. A relevant liability is recorded that will be reduced by the lease payments.

Marketable securities // Trading securities, representing securities bought and held principally for the purpose of near term sales, are accounted for at fair value as of the balance sheet date, and unrealised gains and losses are included in earnings.
Held-to-maturity securities are accounted at amortised cost and unrealised gains and losses are included in earnings.
Available-for-sale securities are accounted for at fair value as of the balance sheet date and related unrealised gains and losses are included in other comprehensive income (loss), until realized.
A decline in value of any available-for-sale security below cost is deemed to be other than temporary resulting in a deduction in carrying amount to fair value. The impairment is charged to earnings and a new cost basis is established.

Earnings per share // Earnings per share is computed by dividing loss applicable to common stockholders by the weighted average number of shares of QSC's common stock outstanding. Diluted earnings per share are calculated in the same manner except that the number of shares is increased assuming exercise of dilutive stock options and convertible bonds where these are dilutive. For the three months ended March 31, 2004 and 2003, the dilutive effect of options was not considered because QSC recorded net losses and the impact of an assumed option exercise would be anti-dilutive.

Other comprehensive income // Other comprehensive income as of March 31, 2004, consist of the following:

	01/01/-31/03/2004 in TEUR
Additional minimum pension liability	128
Unrealized gain on available-for-sale securities	67
Other Comprehensive Income	195

New accounting standards // Effective January 1, 2002, the Company adopted SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", which addresses financial accounting and reporting for the impairment and disposal of long-life assets. These statements supersede SFAS 121, "Accounting for the Impairment of Long-Lived Assets to be Disposed Of". The Company reviews the carrying value of its long-lived assets, including fixed assets, investments, (this is tested for impairment in accordance with FAS 142 as disclosed above), and intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable. Recoverability of long-life assets, excluding goodwill (see discussion above), is assessed by a comparison of the carrying amount of the asset or the group of assets to the total estimated undiscounted cash flows expected to be generated by the asset or group. If the estimated future net undiscounted cash flows are less than the carrying amount of the asset or group, the asset or group is considered impaired and an expense is recognized equal to the amount required to reduce the carrying amount of the asset to its then fair value. No adjustments were required to the carrying value of long-lived assets in the three months ended March 31, 2004 or 2003.
In June 2001, the FASB issued SFAS 143, "Accounting for Asset Retirement Obligations". SFAS 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. SFAS 143 is effective for fiscal years beginning after June 15, 2002. The adoption of SFAS 143 did not have a material impact on the results of operation or the financial position of QSC.

In June 2002, the FASB issued SFAS 146 "Accounting for Costs Associated with Disposal or Exit Activities". This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3 "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)". This Statement requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under Issue 94-3, a liability for an exit cost as defined in Issue 94-3 was recognized at the date of an entity's commitment to an exit plan. However, this standard does not apply to costs associated with exit activities involving entities acquired under business combinations or disposal activities covered under SFAS 144. The adoption of SFAS 146 did not have a material impact on the results of operations or the financial position of QSC.
In December 2003, the FASB issued FIN 46R (a revision of FIN 46 as issued in January 2003) "Consolidation of Variable Interest Entities", which addresses how a business enterprise should evaluate whether it has a controlling financial interest in an entity through means other than voting rights and accordingly should consolidate the entity. FIN 46R is effective for all interests in structures commonly referred to as special-purpose entities for periods ending after December 15, 2003, and for all other types of variable interests for periods ending after March 15, 2004. The Company does not have any variable interests in special-purpose entities, and therefore the adoption of FIN 46R did not have a significant impact on the financial position of the Company. In addition, the Company does not have any interests in any other variable interest entities, and therefore the Company does not anticipate that the adoption of FIN 46R will have a material impact on its results of operations or its financial position.

2. Acquisitions and investments

Acquisitions // On December 13, 2002, QSC acquired 100% of Ventelo GmbH, Düsseldorf ("Ventelo"). Ventelo is a nationwide voice telephony carrier providing business customers with voice telephony services. Ventelo's market position in voice communications for business customers complements QSC's broadband data communications service to the same customer segment. Ventelo enhances QSC's ability to offer integrated telecommunication solutions for all business customer segments. Total acquisition cost for Ventelo was TEUR 11,454, including direct acquisition costs of TEUR 90. As of March 31, 2004, a second and final tranche of TEUR 4,450 was payable by QSC.
On April 1, 2002, Ventelo was outsourced from its former parent company Ventelo Deutschland GmbH due to §§ 159 et seqq. "Umwandlungsgesetz". Ventelo is responsible for potential liabilities of the former parent company for a period of five years. The estimated fair value of the identifiable net assets exceeds the purchase price, resulting in a negative goodwill of TEUR 193 and reducing the acquired assets, on a pro rata basis, by this amount.

Investments // Netchemya S.p.A., Italy, one of QSC's investments made in 2000, is currently in liquidation because follow-on funding and the implementation of the business plan were not secured. QSC therefore wrote-off its remaining investment in Netchemya of TEUR 4,136 in 2002. The write-off expense is included in share of post acquisition losses of equity method investee in the statement of operations.

3. Share capital

Nominal share capital // The nominal share capital of QSC as of March 31, 2004, consists of ordinary share capital of TEUR 105,257 (December 31, 2003: TEUR 105,037) and is divided into 105,256,694 (December 31, 2003: 105,037,396) ordinary shares having a notional value of one Euro each. Each share gives the registered holder one vote at the general meeting of shareholders and the right to fully share in dividends. There are no restrictions on voting rights. During the first three months ended March 31, 2004, nominal share capital increased by TEUR 220 due to the conversion of 219,298 convertible bonds. Employees used their right to convert their convertible bonds to registered ordinary shares of QSC.

Treasury shares // As of March 31, 2004, QSC held 235,882 (December 31, 2003: 358,747) treasury shares having a total notional value of TEUR 236 and representing 0.22% of total common stock. In the three months ended March 31, 2004, QSC disposed 122,865 treasury shares. The gain has been recorded against retained earnings not affecting net income.

4. Management Board and Supervisory Board

Management Board // Shares and conversion rights of members of the Management Board:

	31/03/2004		31/03/2003	
	Shares	Conversion rights	Shares	Conversion rights
Dr. Bernd Schlobohm	13,818,372	-	13,818,372	-
Markus Metyas	2,307	1,559,116	2,307	1,059,116
Bernd Puschendorf	-	1,000,000	-	1,000,000
Mark Goossens	384	400,000	-	-

Supervisory Board // Shares and conversion rights of members of the Supervisory Board:

	31/03/2004		31/03/2003	
	Shares	Conversion rights	Shares	Conversion rights
John C. Baker	-	19,130	-	19,130
Herbert Brenke	187,820	19,130	187,820	9,130
Ashley Leeds	9,130	10,000	9,130	-
Norbert Quinkert	3,846	-	3,846	-
David Ruberg	4,563	19,130	4,563	19,130
Claus Wecker	83,025	-	83,025	-

Cologne, May 2004

Dr. Bernd Schlobohm
Chief Executive Officer

Mark Goossens

Markus Metyas

Bernd Puschendorf

Calendar

Quarterly Reports
August 26, 2004
November 25, 2004

Conferences / Events
June 1, 2004
2nd Frankfurt Investment Meeting

June 7-8, 2004
SES Research
Investment Forum, Hamburg

June 30, 2004
Baden-Württembergische Bank
5th Capital Market Conference

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