Quarterly Report . 2006 . January February March

Key data

	01/01/-31/03/ 2006	01/01/-31/03/ 2005
All amounts in € million		
Revenues	54.4	41.5
Gross profit	+16.4	+10.8
EBITDA	+2.4	+1.3
EBIT	(3.0)	(5.4)
Net loss	(3.0)	(5.1)
Net loss per common share [1] (in €)	(0.03)	(0.05)
Equity	82.9 [2]	85.0 [3]
Balance sheet total	145.8 [2]	151.3 [3]
Equity ratio (in %)	56.9 [2]	56.2 [3]
Capital expenditures	7.3	4.7
Liquidity	43.1 [2]	52.1 [3]
Share price as of 31/03/ (in €)	5.08	3.92
Number of shares as of 31/03/	115,504,133	105,641,123
Market capitalization as of 31/03/	586.8	414.1
Employees as of 31/03/	465	389

[1] basic and diluted
[2] as of March 31, 2006
[3] as of December 31, 2005

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

QSC at a glance

Strong growth dynamic // During the first quarter of 2006, QSC grew its revenues by 31 percent to € 54.4 million, as opposed to € 41.5 million for the same quarter the year before. All of the Company's four segments contributed to this strong dynamic.

Focus on enterprise customers // In spinning off residential DSL business to Q-DSL home GmbH effective January 1, 2006, QSC is underscoring its clear positioning as a leading provider of broadband communication for enterprise customers.

Rising profitability // QSC generated a gross profit of € 16.4 million in the first quarter of 2006, as opposed to € 10.8 million during the first three months of 2005, with gross margin rising to 30 percent. EBITDA advanced by 85 percent to € 2.4 million, as opposed to € 1.3 million for the first quarter of 2005.

Accelerated network expansion // In the first quarter of 2006, QSC increased its capital expenditures to € 7.3 million, as opposed to € 4.7 million for the same quarter the year before. Prompted by demand on the part of large accounts and wholesale partners, the Company connected 13 further cities to its DSL network, and in close coordination with its wholesale partners continued to rapidly upgrade this network with ADSL2+ technology.

Share prices up sharply // In the first quarter, QSC shares have risen by 32 percent to close at € 5.08 on March 31, 2006. A total of 14 financial institutions are now regularly following the Company, including Commerzbank, which published its first research on QSC in April 2006.

Dear Shareholders,

QSC got off to a good start in 2006: Revenues increased by 31 percent to € 54.4 million, gross profit grew by 52 percent to € 16.4 million and at € 2.4 million, our EBITDA was up by 85 percent over the first quarter of 2005. It is exactly this development that shows how scalable our infrastructure-based business model is. And it is exactly this that makes us so optimistic about being able to cross the net income profitability threshold by year end, and to continue generating a net income in the year 2007 and beyond.

In the pursuit of this objective, we are focusing on three strategic, high-margin lines of business: IP-VPN and managed services business with large accounts, direct connection of business customers to our network, as well as marketing of ADSL2+ connections through wholesale partners with strong consumer brands. During the first quarter of 2006, we achieved further successes in these strategic lines of business: We have won new large accounts and expanded our business with existing customers. Together with marketing partners, we have convinced any number of additional small and medium enterprises of the advantages that are offered by a direct connection to the QSC network, which they can use to handle all of their voice and data communication needs through one broadband connection. And with HanseNet and its well-established "Alice" brand, we have won a further strong wholesale partner, who has been marketing super-fast ADSL2+ connections from QSC since April.

We also owe these successes in all three lines of business to the fact that we have our own infrastructure. Because it is this control over our nationwide network that enables QSC to set itself apart from the competition with our own custom-tailored products and their differentiating performance features. It is also due to the control over our own infrastructure that allows us to offer the kind and the quality of solutions that business customers expect today. That's why we are again accelerating the expansion of our network during the current fiscal year and, in particular, upgrading our DSL network with ADSL2+ technology in close coordination with our wholesale partners. At the same time, we are connecting further cities to this network on a demand-driven basis. We have already added 13 new cities during the first quarter of the current fiscal year, especially in the states of Baden-Württemberg and North Rhine-Westphalia, so that we now have a network presence in more than 120 cities.

QSC connected
13 further cities
in the first quarter

The growth dynamics of our business and the progress we have made in expanding and upgrading our network are factors that are convincing a growing number of investors: During the first three months of the current fiscal year, the price of QSC shares advanced by 32 percent to € 5.08 with high trading volumes. While our shares were forced to relinquish some of their appreciation in connection with the general weakness of the stock market during the second half of May, their price at the end of May is still up sharply from their trading level of € 3.86 at the beginning of the year.

Interest on the part of institutional investors is growing along with the number of financial institutions that publish equity research studies on QSC. In early April, Commerzbank, too, began publishing research with a buy recommendation. In total, QSC is now being followed by 14 financial institutions. Interest on the part of institutional investors is also leading to an intensive dialog; over the course of the weeks to come, we will be presenting QSC's business model and the potential it offers at roadshows in Germany, France, the United Kingdom and the United States.

Sustained high revenue growth in the coming quarters

However the best selling point for our shares is the development of our operating business. After our good start in the first quarter of 2006, we plan to sustain our high revenue growth and disproportionately high profitability growth in the coming quarters, as well. We anticipate significant revenue growth in particular in IP-VPN business. We anticipate a further rise in demand for voice and data products on the part of small and medium enterprises. And we anticipate signing up further wholesale partners. Given this background, we are highly optimistic about the remainder of the 2006 fiscal year.

Cologne, May 2006

Markus Metyas

Dr. Bernd Schlobohm
Chief Executive Officer

Bernd Puschendorf

Strong growth

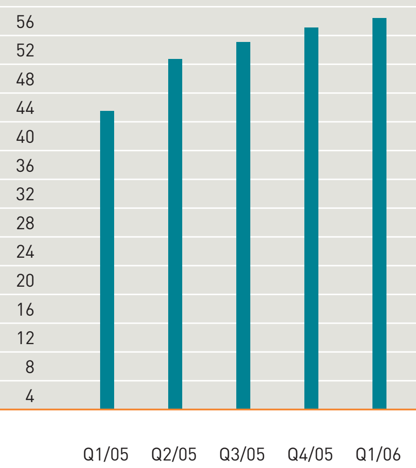
QSC sustained its strong and profitable growth in the first quarter of 2006. Revenues rose by 31 percent to € 54.4 million, gross profit grew by 52 percent to € 16.4 million and EBITDA was up by 85 percent to € 2.4 million. At the same time, QSC accelerated the expansion of its DSL network and continued to drive its upgrade with ADSL2+ technology.

Greater willingness to invest // The major German economic indicators rose sharply in the first quarter of 2006, with the ifo Business Confidence Index reaching its highest level since German reunification. This optimism fueled a greater willingness to invest on the part of German corporates, and the telecommunications industry also benefited from this development. One of the major areas of investment include, in particular, nationwide networking of locations via IP-based virtual private networks (IP-VPNs), as well as integration of Voice over IP solutions into existing telecommunication infrastructures. In both cases, QSC numbers among the leading providers in Germany, and is thus benefiting from the rising demand.

The growth dynamics of the German Voice over IP market are documented by a recent study conducted by market research institute IDC. This study predicts that the number of VoIP connections in Germany will rise at an average annual growth rate of 38 percent to 55 million connections by 2010, with the number of wireline connections declining moderately from 54 million to 50 million during the same period. The corresponding VoIP revenues are predicted to increase from nearly € 1.4 billion for the current year to € 4.8 billion in the year 2010. 60 percent of these revenues will come from enterprise customers, QSC's core target group.

Voice over IP revenues predicted to increase to € 4.8 billion by 2010

Revenues (in € million)

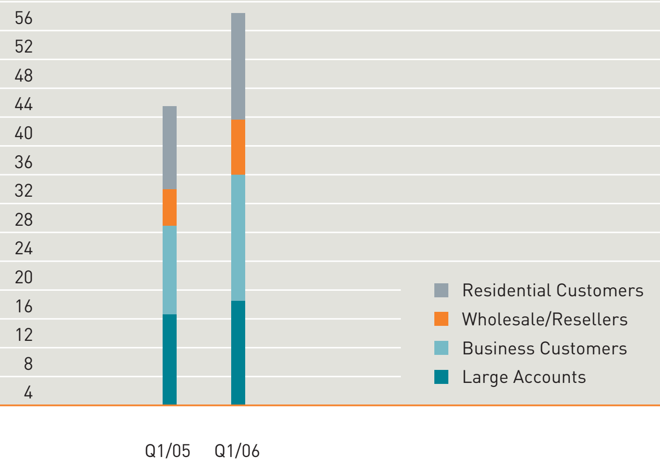


Revenue growth in all segments // During the first quarter of 2006, QSC grew its revenues by 31 percent to € 54.4 million, as opposed to € 41.5 million for the same quarter the year before, with the Company again recording revenue growth in all four segments.
During the first quarter of 2006, revenues with large accounts increased by 14 percent to € 14.4 million, as opposed to € 12.6 million during the comparable period the year before. In this segment, QSC succeeded in both winning new customers in IP-VPN business as well as further broadening its share of the telecommunication budgets of existing customers. This moderate percentage rise was essentially attributable to the baseline effect in the first quarter of 2005, when QSC was able to invoice extraordinarily high, non-recurring service revenues in connection with new projects.

Revenues with business customers up 43 percent

Revenues with business customers advanced by 43 percent to € 17.5 million, as opposed to € 12.2 million in the first quarter of 2005. Small and medium enterprises, too, are increasingly using Voice over IP technology; consequently, there was a significant rise in sales of IPfonie products in the first quarter of 2006. At the same time, QSC saw a further increase in demand for its Q-DSLmax data product as well as for QSC-Direct, the direct connection to the QSC voice network.
In the Wholesale/Resellers segment, QSC posted revenue growth of 49 percent to € 7.6 million during the first three months of the fiscal year, as opposed to € 5.1 million for the same quarter the year before. First and foremost, this growth was attributable to increased usage of QSC's expanded infrastructure by resellers and wholesellers who do not possess their own nationwide networks in Germany.

Revenue Mix by Segment **(in € million)**



In business with residential customers, revenues rose by 29 percent to € 14.8 million in the first quarter of 2006, as opposed to € 11.5 million for the first three months the year before. Both data and voice business contributed to this revenue growth. Residential customers are increasingly combining the Q-DSL home data product with IPfonie privat. Moreover, QSC is making call-by-call offerings to provide better utilization of its nationwide infrastructure, especially during the evening and nighttime hours, when there is virtually no usage of this network by enterprise customers.

Spin-off of residential DSL business // With the approval of the Annual Shareholders Meeting on May 23, 2006, QSC decided to retroactively spin off its residential DSL business effective January 1, 2006, to a wholly-owned subsidiary, Q-DSL home GmbH, with headquarters in Cologne. This planned spin-off and the related transfer agreement relates to contracts with residential customers for the Q-DSL home and Q-DSL home 2300 products. QSC had largely carved out this line of business from its core business with enterprise customers in 2002, and since then has been operating this line of business as an autonomous organizational unit. This autonomy is now being put into a legal framework with the spin-off and transfer agreement. The spin-off will increase QSC's flexibility for further expansion of this line of business, possibly in conjunction with a strong marketing partner or even a new shareholder.

Gross profit advances by 52 percent // With revenue growth of 31 percent to € 54.4 million, network expenses, which are recorded under cost of revenues, rose by only 24 percent to € 38.0 million in the first quarter of 2006, thus producing a leveraged rise in gross profit.

The fact that network expenses increased at only a disproportionately low rate, in spite of current expenditures for network expansion and the growing volume of business, was mainly attributable to the composition of these network expenses: Some 40 percent of them consist of fixed expenses, which do not grow in line with revenues as long as the network capacity is not being fully utilized. At the same time, the variable, customer- and usage related expenses rose at a much slower pace than revenues. In particular, these customer-related expenses include the ongoing fees that QSC has to pay to Deutsche Telekom for utilization of the unbundled local loop or "last mile", as well as the interconnection fees that are incurred when QSC's subscribers utilize third-party networks for voice telephony.

In the first quarter of 2006, this disproportionately low increase in network expenses again enabled gross profit to rise disproportionately faster than revenues, by 52 percent, to € 16.4 million, as opposed to € 10.8 million for the same quarter the year before. Gross margin increased to 30 percent, as opposed to 26 percent in the first quarter of 2005.

Gross margin increases
to 30 percent in
the first quarter of 2006

QSC's marketing partners increasingly successful

At € 9.0 million, first-quarter sales and marketing expenses were € 3.0 million higher than in the first three months of 2005. A major percentage of this increase stemmed from the success of QSC and its marketing partners in the marketplace. Commission payments to partners rose by € 1.7 million to € 3.2 million. In order to tie successful partners closer to QSC, the Company additionally increased its advertising expenses and advertising expense allowances.
General and administrative expenses rose by € 1.6 million to € 5.1 million in the first quarter of 2006. This was essentially attributable to increased personnel expenses in the first quarter of 2006 due to the inclusion of celox, which was acquired in May 2005. Even following this acquisition, celox continues to operate its own administration in Bonn. In connection with the merger of celox into QSC, however, the Company will begin consolidating the two administrations at its headquarters in Cologne during the current fiscal year. The lease for the premises in Bonn that currently house the celox administration has been terminated effective June 30, 2007.

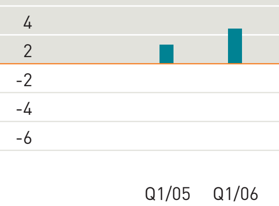
Gross Profit (in € million)

EBITDA up by 85 percent // While gross profit rose by 52 percent in the first quarter of 2006, the Company's EBITDA advanced by a strong 85 percent: During the first three months of the current fiscal year, QSC thus generated an EBITDA of € 2.4 million, as opposed to € 1.3 million for the corresponding period the year before. QSC defines EBITDA as earnings before interest, taxes, amortization of deferred non-cash share-based payments, as well as depreciation on property, plant and equipment and amortization of goodwill.
Some six years after the beginning of the capital investment phase, depreciation expense declined by 19 percent to € 5.4 million in the first quarter of 2006, as more and more fixed assets have now been fully depreciated. However the current targeted network expansion and upgrade, as well as the capital expenditures this entails, will again lead to a moderate rise in depreciation during the coming quarters.
This decline in depreciation expense, coupled with a significantly higher EBITDA, led to a considerable improvement in both the Company's operating and net results over the same quarter the year before. QSC's operating results, its EBIT, improved by € 2.4 million to € -3.0 million in the first quarter of 2006; the Company's net results also improved to € -3.0 million, as opposed to € -5.1 million for the same quarter the year before. Earnings per share amounted to € -0.03, as opposed to € -0.05 in the first quarter of 2005.

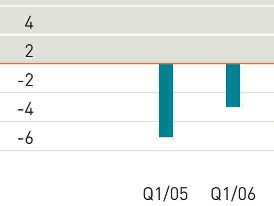
Net results improve by 41 percent to € -3.0 million

Margin of over 50 percent in all strategic segments // The good operating progress in all segments during the first quarter of 2006 also manifested itself in the segment EBITDAs, which are calculated as net revenues for each segment less all costs directly attributable to this segment.
During the first three months of the current fiscal year, QSC posted especially strong growth in the Business Customers segment, where the segment EBITDA advanced by 77 percent to € 9.4 million, as opposed to € 5.3 million for the same quarter the year before, while the corresponding margin increased to 54 percent, as opposed to 43 percent in the first quarter of 2005. In the case of business customers, QSC is benefiting from the targeted expansion and upgrade of its infrastructure and from the growing number of relatively high-margin direct connections to its own network that this is generating on the part of small and medium enterprises.
This targeted network expansion and upgrade is now also strengthening margins in business with large accounts. Non-recurring service revenues in connection with new projects during the first

EBITDA (in € million)



Net Loss (in € million)



quarter of 2005 generated exceptionally high contribution margins and were primarily responsible for a segment EBITDA of € 8.8 million in the first quarter of 2005. In the absence of such non-recurring service revenues in the first quarter of 2006, QSC generated a segment EBITDA of € 7.8 million. However an EBITDA margin of 54 percent underscores the high margins that are being earned in this high-growth line of business.

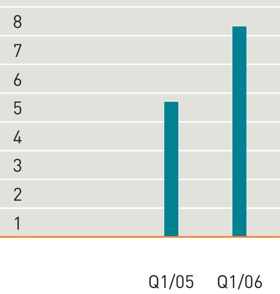
In the Wholesale/Resellers segment, QSC generated an EBITDA margin of 57 percent in the first quarter of 2006, with the corresponding segment EBITDA rising to € 4.3 million, as opposed to € 2.5 million for the same quarter the year before. A major share of this increase, too, was attributable to the rising level of network coverage and the increased collaboration with carriers who do not possess a sufficient infrastructure of their own in Germany. During the first quarter of 2006, QSC additionally reduced its business with resellers of comparatively low-margin voice services.

Since QSC specifically employs voice offerings to residential customers in order to better utilize its infrastructure during the evening and nighttime hours, the margin of 21 percent in the Residential Customers segment was lower than in the Company's core business with enterprise customers. In the first quarter of 2006, the segment EBITDA for residential customers nevertheless rose moderately to € 3.1 million, as opposed to € 2.9 million for the same quarter the year before. This positive contribution to QSC's profitability shows that in this segment, too, the Company pays strict attention to generating a positive contribution to profitability in connection with every offering.

QSC network available in more than 120 cities

Targeted network expansion // Prompted by demand on the part of enterprise customers and wholesale partners, QSC connected a further 13 cities to its DSL network during the first quarter of 2006; this means that QSC now has a presence with its own infrastructure in more than 120 German cities. In close coordination with its wholesale partners, the Company also accelerated the upgrade of its network with ADSL2+ technology. Consequently, capital expenditures rose to € 7.3 million, as opposed to € 4.7 million for the first quarter of 2005.

Capital Expenditures (in € million)



This accelerated network expansion and upgrade also resulted in corresponding changes on the assets side of the balance sheet. As a result of higher capital spending, the value of property, plant and equipment rose to € 35.2 million on March 31, 2006, as opposed to € 33.4 million at year-end 2005. These capital expenditures, as well as the annual prepayments to Deutsche Telekom for the full fiscal year that are due and payable during the first quarter of each year, resulted in a net cash burn. Consequently, QSC's net liquid assets totaled € 43.1 million as of March 31, 2006.

The strength of QSC's balance sheet is underscored by the rise in the Company's equity ratio during the past quarter, which increased to 57 percent at the end of March 2006. In this connection, shareholders' equity increased moderately by € 471,055 to € 115.5 million as a result of the conversion of convertible bonds into QSC shares under existing employee stock option programs.

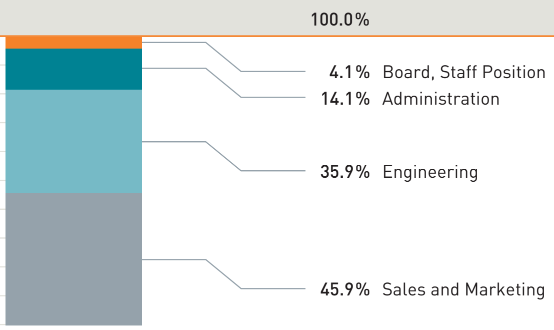
Equity ratio increases to 57 percent

Aside from liabilities from finance lease obligations, QSC again remained debt-free in the first quarter of 2006. Long-term liabilities under this relatively favorable form of financing rose by € 1.8 million to € 12.5 million during the past quarter, short-term liabilities from finance lease obligations by € 1.4 million to € 9.8 million. The € 5.1-million decline in other short-term liabilities to € 1.3 million essentially resulted from payment of the final tranche of the purchase price for Ventelo in the amount of € 4.3 million at the beginning of the year.

More employees in order management // As of March 31, 2006, QSC employed a total of 465 people, 15 more than at year-end 2005. In particular, the Company hired additional staff in order management in anticipation of the expected demand for ADSL2+ lines in wholesale business.

As a consequence these employees increased the headcount in engineering to 167 in the first quarter of 2006, representing 36 percent of the total workforce. 46 percent of the Company's employees work in sales and marketing, while a mere 14 percent are employed in administration.

Workforce Structure (in percent)



New pricing models threaten to competition // Since the beginning of 2006, Deutsche Telekom (DTAG) had been offering Net Rental to resellers who do not possess their own infrastructure; this was a pricing model that only made economic sense for a very few, strong providers, thus endangering competition in the residential DSL market. However on May 22, 2006, the German Federal Network Agency prohibited DTAG from providing DSL connections under this pricing model. The German Federal Cartel Office expressly supported this decision. Given this background, QSC sees its position as a supplier of network capacity to resellers as being strengthened.
As a result of both similar anti-competitive pricing models as well as other risks or incorrect assumptions, actual future results could vary from QSC's expectations. All statements contained in these consolidated interim 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.

Forecast reiterated // Given the very good operational progress of its business during the first quarter of 2006, QSC is reiterating its financial forecast for the full fiscal year: The Company anticipates revenues of over € 240 million and an EBITDA of between € 15 and 20 million. QSC also plans to cross the net income profitability threshold by year-end.
During the coming quarters, QSC will continue its targeted network expansion and upgrade. The Company will continue to connect cities to its own DSL network on a demand-driven basis, while simultaneously accelerating the upgrade of its network with ADSL2+ technology. Overall, QSC is planning on capital expenditures totaling between € 20 and 25 million for 2006.

Targeted network expansion strengthens business in all segments

All four segments will benefit from this targeted network expansion and upgrade. In connection with requests for proposals from large accounts for nationwide IP-VPN solutions, for example, QSC will be able to cover an increasing percentage of voice and data traffic over its own infrastructure and thus be even more competitive in its pricing without sacrificing margins. In the case of business and residential customers, too, the higher level of network coverage will lead to a growing number of potential customers and a better cost structure.
During the coming quarters, QSC anticipates significant revenue growth and corresponding contributions to profitability in wholesale business both with existing partners and as a result of new partnerships. In April 2006, wholesale partner HanseNet began actively marketing ADSL2+ connections from QSC.

Interim Consolidated Financial Statements

Consolidated Statements of Income (unaudited)

Euro amounts in thousands (T €)

	01/01/-31/03/ 2006	01/01/-31/03/ 2005
Net revenues	**54,413**	**41,502**
Cost of revenues	(38,033)	(30,683)
Gross profit	**16,380**	**10,819**
Selling and marketing expenses	(8,977)	(5,957)
General and administrative expenses	(5,103)	(3,533)
Research and development expenses	(82)	(81)
Depreciation and non-cash share-based payments	(5,374)	(6,704)
Other operating income	139	149
Other operating expenses	(3)	(96)
Operating loss	**(3,020)**	**(5,403)**
Financial income	412	401
Financial expenses	(397)	(105)
Net loss before income taxes	**(3,005)**	**(5,107)**
Income taxes	-	-
Net loss	**(3,005)**	**(5,107)**
Net loss per common share (basic and diluted) in €	(0.03)	(0.05)

Consolidated Balance Sheets (unaudited)

Euro amounts in thousands (T €)

ASSETS	31/03/2006	31/12/2005
Long-term assets		
Goodwill	9,290	9,265
Intangible assets	8,906	8,804
Property, plant and equipment	35,197	33,371
Other long-term financial assets	345	293
Deferred taxes	5,969	5,969
Long-term assets	**59,707**	**57,702**
Short-term assets		
Prepayments	5,271	2,096
Trade accounts receivables	36,327	34,177
Other receivables and short-term financial assets	1,361	914
Available-for-sale financial assets	25,952	26,065
Cash and short-term deposits	17,137	30,313
Short-term assets	**86,048**	**93,565**
TOTAL ASSETSS	145,755	151,267

SHAREHOLDERS' EQUITY AND LIABILITIES	31/03/2006	31/12/2005
Shareholders' equity		
Capital stock	115,504	115,033
Capital surplus	499,906	499,643
Other reserves	(1,262)	(1,357)
Accumulated deficit	(531,286)	(528,281)
Shareholders' equity	**82,862**	**85,038**
Long-term liabilities		
Convertible bonds	56	60
Accrued pensions	793	796
Long-term portion of finance lease obligations	12,494	10,687
Deferred taxes	3,911	3,847
Long-term liabilities	**17,254**	**15,390**
Short-term liabilities		
Short-term portion of finance lease obligations	9,758	8,437
Provisions	1,159	930
Trade accounts payable	30,124	31,596
Deferred revenues	3,282	3,441
Other short-term liabilities	1,316	6,435
Short-term liabilities	**45,639**	**50,839**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	145,755	151,267

Consolidated Statements of Cash Flows (unaudited)

Euro amounts in thousands (T €)

	01/01/-31/03/ 2006	01/01/-31/03/ 2005
Cash flow from operating activities		
Net loss	(3,005)	(5,107)
Depreciation and amortization	5,374	6,704
Non-cash share-based payements	(5)	-
Gains from disposal of long-term assets	46	6
Changes in provisions	227	147
Changes in trade accounts receivables	(2,149)	(4,315)
Changes in trade accounts payable	(1,472)	25
Changes in other financial assets and liabilities	(8,952)	(3,336)
Cash flow from operating activities	**(9,936)**	**(5,876)**
Cash flow from investing activities		
Purchase of available-for-sale financial assets	(2,185)	(6,999)
Disposal of available-for-sale financial assets	2,393	6,041
Payments related to acquisitions	(26)	-
Purchases of intangible assets	-	(1,967)
Purchases of property, plant and equipment	(1,812)	-
Cash flow from investing activities	**(1,630)**	**(2,925)**
Cash flow from financing activities		
Changes in convertible bonds	(4)	(1)
Proceeds from issuance of common stock	735	195
Repayments of finance lease	(2,341)	(880)
Cash flow from financing activities	**(1,610)**	**(686)**
Change in cash and short-term deposits	**(13,176)**	**(9,487)**
Cash and short-term deposits at January 1	30,313	22,536
Cash and short-term deposits at March 31	**17,137**	**13,049**
Interest paid	380	95
Interest recieved	409	371

Consolidated Statements of Shareholders' Equity (unaudited)

Euro amounts in thousands (T €)

	Capital Stock T €	Capital Surplus T €	Other Reserves T €	Accumulated Deficit T €	Total Share-holders' Equity T €
Balance at January 1, 2006	**115,033**	**499,643**	**(1,357)**	**(528,281)**	**85,038**
Net loss				(3,005)	(3,005)
Change in fair value of available-for-sale financial assets			159		159
Deferred taxes on available-for-sale financial assets			(64)		(64)
Conversion of convertible bonds	471	243			714
Non-cash share-based payments		20			20
Balance at March 31, 2006	**115,504**	**499,906**	**(1,262)**	**(531,286)**	**82,862**
Balance at January 1, 2005	**105,503**	**474,750**	**16**	**(510,095)**	**70,174**
Net loss				(5,107)	(5,107)
Change in fair value of available-for-sale financial assets			(437)		(437)
Conversion of convertible bonds	138	57			195
Balance at March 31, 2005	**105,641**	**474,807**	**(421)**	**(515,202)**	**64,825**

Consolidated Statements of Recognized Income and Expense (unaudited)

Euro amounts in thousands (T €)

	01/01/-31/03/ 2006	01/01/-31/03/ 2005
Directly recognized in equity		
Available-for-sale financial assets		
change in fair value	164	(437)
realized losses	(5)	-
Apportionable to tax effect	(64)	-
Directly recognized in equity	**95**	**(437)**
Net loss	(3,005)	(5,107)
Net loss and recognized income and expense	**(2,910)**	**(5,544)**

Notes to the Interim Condensed Consolidated Financial Statements

1 General principles

The interim condensed consolidated financial statements of QSC AG ("QSC," "the Company" or "the Group") for the period ended March 31, 2006, have been prepared in accordance with the International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) issued by the International Accounting Standards Board (IASB) as well as their interpretation by the International Financial Reporting Interpretations Committee (IFRIC).
As the interim condensed consolidated financial statements are based on the consolidated financial statements, we refer to the detailed description of the basis of preparation in the notes to the consolidated financial statements as of December 31, 2005.
The consolidated financial statements are presented in euros and all amounts, except when otherwise indicated, are rounded to the nearest thousand ("T €").

2 Consolidation

In addition to the subsidiaries and associated companies that had already been included in the consolidated financial statements for the fiscal year ended December 31, 2005, Cologne-based Q-DSL home GmbH (at the time still doing business as "Kristall 40. GmbH") is being fully consolidated since March 31, 2006. QSC holds 100 percent of the shares of Q-DSL home GmbH, to which the consumer contracts from the "DSL residential customer business" operation will be transferred retroactively for economic purposes as of midnight, January 1, 2006, ("spin-off date") under a still to be entered into spin-off and transfer agreement pursuant to § 123, Sub-Para. 3, No. 1, German Corporate Transformation Act ("UmwG") to which the Annual Shareholders Meeting on May 23, 2006, resolved its consent.

3 Basis of preparation

Judgements and estimates // In the process of applying the Group's accounting policies in accordance with IFRS, the management has made judgements and estimates. Actual results may ultimately differ from these judgements and estimates, that were mainly relevant concerning the following items:

- Financial assets were mostly classified as available-for-sale financial assets and consequently changes in fair value are directly recognized in equity.
- The evaluation of provisions is based on management experience.
- The amount of allowances for bad debts is funded by the analysis of the individual customer.
- The useful lives of property, plant and equipment and intangible assets are based on management experience.

Voluntary adoption of new accounting standards // Apart from the IFRS, whose application is mandatory, the IASB has also published other IFRS and IFRICs, which have already received European Union (EU) endorsement, but which will only become mandatory at a later date. Below, only those standards and interpretations which could be relevant for QSC are described. Voluntary early application of these standards is explicitly permitted or encouraged.

On December 16, 2004, the IASB published amendments to IAS 19 "Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures". This amendment introduces the recognition of actuarial gains and losses in equity as an alternative to the existing methods. QSC is accounting for pensions obligations applying the newly implemented alternative treatment of recognition of actuarial gains and losses.

On August 18, 2005, the IASB published the standard IFRS 7 "Financial Instruments: Disclosures". This standard supersedes the existing IAS 30 and adopts all provisions regarding disclosures in the notes contained in IAS 32. The disclosures of IFRS 7 shall apply to periods beginning on or after January 1, 2007; earlier application is encouraged. In the opinion of QSC the new provisions will have no impact on the Company.

4 Segment reporting

The source of QSC's reportable segments is the internal organization used by management for making operating decisions and assessing performance. QSC is primarily operating in the customer segments Large Accounts, Business Customers, Wholesale/Resellers and Residential Customers.
The customer segment Large Accounts embraces customized solutions of voice and data communication for large and medium enterprises. In addition to the configuration and operation of IP-VPN networks, QSC also provides a broad range of network-related services.
In the Business Customers segment QSC summarizes its product business. QSC covers most of the needs of small and medium enterprises concerning modern voice and data communication by basically determined products and processes.
The Wholesale/Resellers segment includes the business with Internet service providers and telecommunication providers without proprietary infrastructure. They are marketing QSC's DSL lines as well as value-added services under their own name and for their own account.
In the Residential Customers segment the Company embraces the voice and data services for residential customers.
The positions that cannot directly be allocated to the segments are summarized in the reconciliation column. The latter contains primarily personnel expenses, rental fees for leased lines, and expenses for repairs, maintenance and expansion of the Company's network, as well as rental fees for the collocation rooms.
No further subclassification of the primary segments into secondary segments (geographical segments) was made, as QSC's telecommunication services are predominantly offered on a national scale, and no differentiation is made as to the customers' location. From a pricing, earnings and risk perspective, stating the geographical regions in which revenues are generated can thus be considered insignificant.

01/01/-31/03/2006 in T €	Segment Large accounts	Segment Business customers	Segment Wholesale/ Resellers	Segment Residential customers	Recon- ciliation	Consoli- dated
Net revenues	**14,416**	**17,548**	**7,623**	**14,826**	**-**	**54,413**
Directly allocated costs	(6,596)	(8,129)	(3,329)	(11,685)	-	(29,739)
Contribution margin	**7,820**	**9,419**	**4,294**	**3,141**	**-**	**24,674**
Not allocated costs	-	-	-	-	(22,320)	(22,320)
EBITDA	**7,820**	**9,419**	**4,294**	**3,141**	**(22,320)**	**2,354**
Depreciation and amortization	(273)	(301)	(261)	(400)	(4,119)	(5,354)
Non-cash share-based payments	-	-	-	-	(20)	(20)
Financial result	-	-	-	-	15	15
Net profit/(loss)	**7,547**	**9,118**	**4,033**	**2,741**	**(26,444)**	**(3,005)**
Long-term assets	8,388	13,583	9,350	20,083	94,351	145,755
Liabilities	2,711	2,992	2,592	3,968	50,630	62,893
Capital expenditures	634	700	606	928	4,412	7,280

01/01/-31/03/2005 in T €	Segment Large accounts	Segment Business customers	Segment Wholesale/ Resellers	Segment Residential customers	Recon- ciliation	Consoli- dated
Net revenues	**12,642**	**12,218**	**5,134**	**11,508**	**-**	**41,502**
Directly allocated costs	(3,888)	(6,872)	(2,631)	(8,582)	-	(21,973)
Contribution margin	**8,754**	**5,346**	**2,503**	**2,926**	**-**	**19,529**
Not allocated costs	-	-	-	-	(18,228)	(18,228)
EBITDA	**8,754**	**5,346**	**2,503**	**2,926**	**(18,228)**	**1,301**
Depreciation and amortization	(498)	(540)	(418)	(921)	(4,327)	(6,704)
Non-cash share-based payments	-	-	-	-	-	-
Financial result	-	-	-	-	296	296
Net profit/(loss)	**8,256**	**4,806**	**2,085**	**2,005**	**(22,259)**	**(5,107)**
Long-term assets	6,285	11,190	8,772	12,842	70,537	109,626
Liabilities	2,201	2,390	1,849	4,072	34,289	44,801
Capital expenditures	470	510	394	869	2,479	4,722

5 Management Board

	Shares		Convertible bonds	
	31/03/2006	31/03/2005	31/03/2006	31/03/2005
Dr. Bernd Schlobohm	13,818,372	13,818,372	50,000	-
Markus Metyas	2,307	2,307	1,525,000	1,559,116
Bernd Puschendorf	3,000	-	925,000	1,000,000

6 Supervisory Board

	Shares		Convertible bonds	
	31/03/2006	31/03/2005	31/03/2006	31/03/2005
John C. Baker	-	-	10,000	19,130
Herbert Brenke	187,820	187,820	10,000	19,130
Gerd Eickers	13,853,484	13.853,484	-	9,130
Ashley Leeds	9,130	9,130	10,000	10,000
Norbert Quinkert	3,846	3,846	-	-
David Ruberg	4,563	4,563	10,000	19,130

7 Subsequent events

No events or transactions have occurred since March 31, 2006, or are pending that would have a material effect on the interim condensed consolidated financial statements at that date of for the period then ended.

Cologne, May 2006

Dr. Bernd Schlobohm
Chief Executive Officer

Markus Metyas

Bernd Puschendorf

Calendar

Quarterly Reports
August 29, 2006
November 28, 2006

Conferences / Events
June 1, 2006
9th German Corporate Conference
Deutsche Bank AG, Frankfurt

June 6, 2006
German Mid Cap Investor Day
Dresdner Kleinwort Wasserstein, New York

September 27, 2006
German Investment Conference 2006
HypoVereinsbank, Munich

November 27-29, 2006
German Equity Forum Autumn 2006
Deutsche Börse AG, Frankfurt

Contacts

QSC AG
Investor Relations
Mathias-Brüggen-Strasse 55
D – 50829 Cologne
Phone +49-(0)221-6698-724
Fax +49-(0)221-6698-009
E-mail invest@qsc.de
Internet www.qsc.de

Investor Relations Partner
komm.passion
Schumacher's AG
Lucile-Grahn-Strasse 37
D – 81675 Munich
Phone +49-(0)89-489 272-0
Fax +49-(0)89-489 272-12
E-mail qsc@komm-passion.de

Imprint

Overall responsibility
QSC AG, Cologne

Art Direction
sitzgruppe, Düsseldorf

Photography
Andreas Pohlmann, Munich

Further information under www.qsc.de