Quarterly Report . 2004 . April May June

Key data

	01/04/-30/06/ 2004	01/04/-30/06/ 2003	01/01/-30/06/ 2004	01/01/-30/06/ 2003
All amounts in million EUR				
Revenues	35.6	28.3	67.8	55.8
Gross profit	8.1	1.6	14.9	2.1
EBITDA	0.3	-7.2	0.3	-17.2
EBIT	-5.4	-15.6	-11.5	-35.6
Net loss	-5.5	-15.2	-11.0	-34.0
Net loss per common share [1] (in EUR)	-0.05	-0.15	-0.10	-0.34
Capital Expenditure	1.8	1.8	3.6	3.3
Equity			80.4 [2]	89.5 [3]
Balance Sheet Total			118.2 [2]	132.7 [3]
Equity ratio (in %)			68.0 [2]	67.4 [3]
Liquidity			39.1 [2]	54.3 [3]
Share price as of 30/06/ (in EUR)			3.83	1.69
Number of shares as of 30/06/			105,308,663	105,012,014
Market capitalization as of 30/06/			403.3	177.5
Employees as of 30/06/			351	392

[1] basic and diluted
[2] as of June 30, 2004
[3] as of December 31, 2003

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

QSC at a Glance

Strong revenue growth by nearly 26 percent // In the second quarter of 2004, QSC grew its revenues by 25.8 percent over the same quarter the year before, to EUR 35.6 million. The Company was able to further accelerate its growth by comparison with the first quarter of 2004, with revenues rising by more than 10 percent sequentially.

Profitable growth // QSC earned an operating profit of EUR 0.3 million before depreciation and amortization in the second quarter of 2004. During the same quarter the year before, the Company had sustained an EBITDA loss of EUR -7.2 million. QSC plans to earn a sustained positive EBITDA for the full 2004 fiscal year, as well as revenue growth of at least 20 percent to more than EUR 138 million.

Free cash flow // In the second quarter of 2004, one quarter earlier than had still been planned at the beginning of the year, QSC generated its first free cash flow of EUR 0.3 million. As a result, liquid assets increased to EUR 39.1 million as of June 30, 2004. QSC anticipates sustained free cash flows in the coming quarters of the year, as well.

Broader research coverage // During the second quarter of 2004, eight banks and research houses were already publishing regular analyses, recommendations and studies on QSC. The Company anticipates a further increase in coverage during the second half of the year.

Dear Shareholders,

At our Annual Shareholders' Meeting in May 2004, we had already explained to you that QSC would be earning cash by this point. And we are now delivering the proof with this half-year report: In the second quarter of 2004 – i.e. one quarter earlier than had still been planned at the beginning of the year – QSC generated its first free cash flow in the amount of EUR 0.3 million. We anticipate free cash flows, and thus sustained cash surpluses, for the remainder of the year as well.

In crossing the cash flow breakeven point in the second quarter of 2004, QSC has achieved a further milestone in its business plan. We have been earning a quarterly operating profit on an EBITDA basis since the first quarter of 2004. On our way to also generating profits after interest, taxes and depreciation during the coming quarters, we will continue to focus on businesses that will enable us to achieve profitable growth. Because we at QSC pay strict attention to assuring that all additional revenue translates into further profitability. Both this year as well as in the years to come, we intend to grow our revenues by at least 20 percent annually.

Focus on profitable growth

Thanks to our very good positioning in the competitive arena, opportunities for profitable growth are presenting themselves in a number of areas. Our focus is on the business customer market, in particular on building and operating virtual private networks (VPNs) and the value added services that build upon them. Thanks to our own DSL infrastructure, we are able to offer premium solutions at an attractive price/performance ratio. In contrast to many of our competitors, QSC can implement a major portion of the network solutions over its own lines and only rarely has to utilize costly leased lines. In addition to the cost advantage, this also enables us to assure and monitor in-house our high standards of quality and service for our customers.

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 and Marketing Officer, also responsible for Order Management

Own broadband network already in 60 cities

Our own infrastructure provides us with a significant competitive edge in the business customer market. We intend to broaden this competitive edge and, as we have already done in the second quarter of 2004, to expand our network in order to keep pace with demand. In recent months, QSC expanded its network coverage into twelve new cities. Existing customer relationships made this expansion cost-effective right from the very beginning. Thus, QSC currently serves 60 German cities with its own broadband network infrastructure.

However, telephony business is also offering opportunities for profitable growth. A growing number of businesses have direct access to the QSC network and are using products like QSC-Direct and QSC-Direct basic to handle their complete call volume over our infrastructure. On the one hand, this kind of direct customer relationship enables us to additionally offer premium value added services, especially in connection with data services. On the other hand, we are being increasingly successful in cross-selling data products to voice customers and vice versa.

In order to be even faster in winning market share particularly among business customers, we will employ our cash surpluses in the coming quarters to further strengthen the sales and marketing organization and other operative units. We are convinced that this strategy of sustained profitable growth will also open up new opportunities for QSC shares over the medium term. Near term, QSC shares are suffering, like the majority of technology stocks, from skepticism on the part of many investors toward future growth and profitability opportunities. Nevertheless, with a 20 percent rise since the beginning of the year our shares have been significantly outperforming the TecDAX (-12 percent), in which QSC has been included since March 2004. With a market capitalization of EUR 383 million and an average daily trading volume of more than 300,000 shares, QSC has established itself as a strong participant in Germany's premier index for technology issues.

In conclusion, allow us to refer again to this year's Annual Shareholders' Meeting. First, we would like to thank you for your virtually unanimous consent to the decisions on our agenda. We view this as a tremendous demonstration of confidence. Secondly, we would like to offer our sincere thanks to Claus Wecker for his many years of excellent work on our Supervisory Board. Effective June 1, 2004, he was succeeded by QSC co-founder Gerd Eickers.

With the wholehearted commitment of the entire QSC team, we will sustain our profitable growth in the years to come, thus enabling us all to look forward to achieving the next milestones.

Cologne, August 2004

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

QSC generates free cash flow

In the second quarter of 2004, one quarter earlier than had still been planned at the beginning of the year, QSC generated a free cash flow of EUR 0.3 million. The pace of dynamic progress during the past quarter is also underscored by the Company's steep revenue growth of 25.8 percent over the same quarter the year before, to EUR 35.6 million, as well as by the increase in operating profit to EUR 0.3 million. On the basis of these half-year results, the Company is reiterating its guidance for the full year 2004.

Only one in twelve businesses is utilizing broadband communication // In spite of initial signs of an economic recovery, the economic situation in Germany remained challenging during the second quarter of 2004. With an anticipated growth rate of 3.5 percent in 2004, the telecommunication industry numbers among those sectors that are enjoying a more positive development. The growth engine here continues to be strong demand on the part of business customers for broadband solutions, and especially for virtual private networks (VPNs). Nevertheless, according to a current study by Forrester Research, only one out of every twelve German businesses has a high-speed link to the Internet.

Dynamic growth in the VPN market

The ongoing digitization of business processes will continue to offer strong growth potential for QSC in this customer segment.

Market research institute IDC anticipates average market growth of 31 percent for VPN solutions in Germany to EUR 1.7 billion in 2007. According to a worldwide survey conducted by Infonetics Research, the issue of security ranks among the crucial advantages offered by these kinds of network solutions in the eyes of IT decision-makers. With its VPN technology, QSC views itself as being ideally positioned in this growth market.

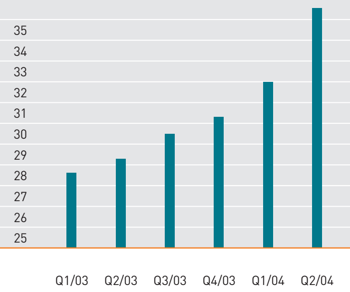
Strong revenue growth by 25.8 percent to EUR 35.6 million

Further acceleration of revenue growth // Revenues in the second quarter of 2004 rose by 10.6 percent from the first quarter of 2004, to EUR 35.6 million (Q1 2004: EUR 32.2 million). QSC thus further accelerated its strong revenue growth, which had already stood at 6.3 percent in the first quarter of 2004. In comparison to the second quarter of 2003, QSC grew its revenues by 25.8 percent to EUR 35.6 million (Q2 2003: EUR 28.3 million), thus significantly surpassing its own expectations. Revenues for the first six months of the current fiscal year totaled EUR 67.8 million, as opposed to EUR 55.8 million for the comparable period the year before.

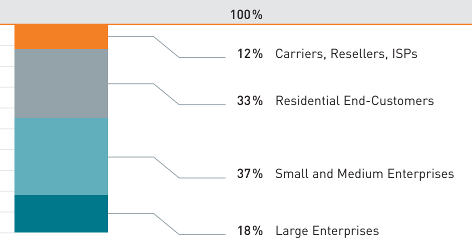
On the one hand, this high pace of growth is attributable to continued strong demand on the part of business customers for VPN solutions and the value added services that build upon them. One of the new major accounts that QSC succeeded in winning in recent months is DEVK Insurances, for whom the Company implemented a VPN within the space of only eight weeks.

Moreover, a growing number of businesses are handling all of their telephone calls over the QSC network. QSC is registering growing interest in one-stop shopping for integrated telecommunication solutions for data and voice services on the part of both large enterprise accounts as well as small and medium enterprises. Overall, business customers accounted for 55 percent of QSC's total revenues in the second quarter of 2004, with 18 percent, alone, coming from high-growth business with major accounts. Total business customer revenues rose by 33 percent from the second quarter of 2003 to EUR 19.6 million, thus growing significantly faster than revenues overall.

Revenues (in million EUR)



Revenue Mix (in percent)



In addition, QSC also posted above-average revenue growth in residential customer business in the second quarter of 2004. Targeted marketing campaigns for data and voice products including Voice over IP, which helped QSC to optimize its network utilization, met with unexpectedly strong demand for a short time. Consequently, the percentage of total revenues accounted for by residential customers rose to 33 percent.

Disproportionate growth in gross margin // In the second quarter of 2004, network expenses, which are recorded under cost of revenues, rose moderately by EUR 0.8 million from the same quarter the year before, to EUR 27.5 million. On the one hand, this rise resulted from the expansion of the QSC network during the second quarter of 2004. QSC expanded its own network coverage in twelve further cities, bringing the total of German cities with QSC network coverage to 60 German cities. On the other hand, the strong growth potential prompted QSC to specifically create additional backbone capacities. Overall, network expenses rose by only 3.0 percent by comparison with the second quarter of 2003, in spite of revenue growth of 25.8 percent. In a half-year comparison, network expenses even declined by 1.7 percent: From EUR 53.8 million for the first half of 2003 to EUR 52.9 million for the first half of 2004. This underscores the scalability of the infrastructure-based QSC business model – rising revenues do not result in correspondingly higher expenses, but lead to leveraged growth in profitability. This scalability is impressively reflected by the steep improvement in gross profit. In the second quarter of 2004, gross profit rose by 406.3 percent to EUR 8.1 million, as opposed to EUR 1.6 million for the same quarter the year before. This represents a gross margin of 22.8 percent, as opposed to 5.6 percent the year before. During the first half of 2004, QSC earned a gross profit of EUR 14.9 million, as opposed to EUR 2.1 million for the first six months of 2003.

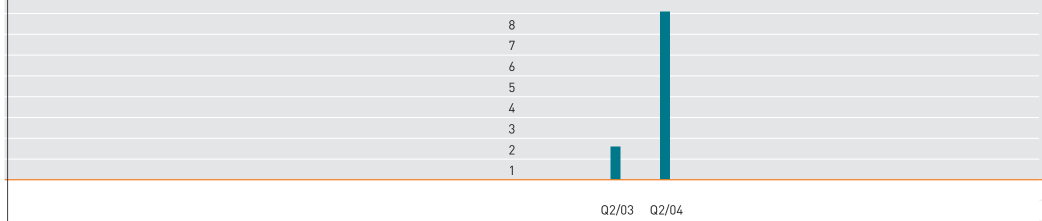
QSC quadruples its gross margin within twelve months

In view of the strong growth potential offered by the broadband and especially the VPN market, QSC increased its sales and marketing expenses moderately in the second quarter of 2004 by 9.8 percent to EUR 5.6 million (Q2 2003: EUR 5.1 million). Administrative expenses, on the other hand, declined by 35.3 percent by comparison with the second quarter of 2003, to EUR 2.2 million; in contrast to the first half of 2003, they declined by 43.4 percent to EUR 4.3 million. In comparison to the first quarter of 2004, administrative expenses remained relatively constant: QSC today enjoys a highly efficient, lean administration, which is expected to be capable of handling the anticipated growth without any corresponding increase in expenses.

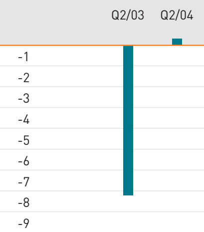
In the second quarter of 2004, QSC earned a sustained positive EBITDA again

Increasingly positive EBITDA // QSC earned an operating profit of EUR 0.3 million before interest, taxes, depreciation and amortization in the second quarter of 2004, after having incurred an EBITDA loss of EUR -7.2 million the year before. The significant advances in the underlying business are also underscored by a half-year comparison: QSC earned a positive EBITDA of EUR 0.3 million in the first six months of 2004, as opposed to an operative loss of EUR -17.2 million in the first six months of 2003. 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.
More than four years after the beginning of the capital investment phase, there has been a further decline in depreciation and amortization expense for building the network. Since more and more of QSC's fixed assets have now been fully depreciated, depreciation and amortization expense in the second quarter of 2004 declined by 32.9 percent to EUR 5.7 million, as opposed to EUR 8.5 million for the comparable period the year before.
The dramatic improvement in the Company's operating result, as well as declining depreciation and amortization expense, led to a significant reduction in the net loss for the second quarter of 2004. The

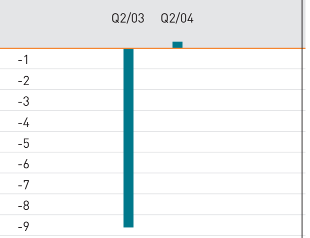
Gross Profit (in million EUR)



EBITDA (in million EUR)



Free Cash Flow (in million EUR)



net loss improved by 63.8 percent to EUR -5.5 million, as opposed to EUR -15.2 million for the same quarter the year before. Earnings per share totaled EUR -0.05, as opposed to EUR -0.15 for the second quarter of 2003.

Liquid assets rise to EUR 39.1 million // In the second quarter of 2004, QSC generated its first free cash flow of EUR 0.3 million. At the beginning of the year, the Company had still been anticipating a positive cash for sometime in the second half of the year. Consequently, liquid assets increased to EUR 39.1 million as of June 30, 2004.

QSC generated its first free cash flow in the amount of EUR 0.3 million

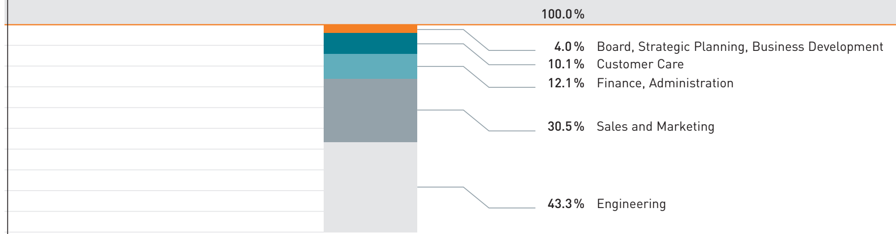
In addition, its sustained free cash flow is enabling QSC to optimize its financing. As of June 30, 2004, the Company recorded EUR 2.1 million in liabilities from financial leasing contracts under long-term liabilities. The ability to utilize this relatively cheap form of financing for capital investments demonstrates how strongly QSC's creditworthiness has improved in recent months.

With an equity ratio of 68.0 percent as of June 30, 2004, QSC continues to be very well financed. During the past three months, the Company's share capital rose by EUR 51,969 to EUR 105.3 million as a result of conversion of QSC convertible bonds to QSC shares under employee equity incentive programs.

Focusing on core competencies // In the second quarter of 2004, there was another moderate quarter-to-quarter reduction in the Company's workforce to 351 people. This decline resulted from the conclusion of the outsourcing of customer care operations to CRM specialist SNT Deutschland AG.

The majority of QSC's 351 employees are devoted to the Company's two core competencies: Technology and selling. 43 percent of the workforce works in technical operations, just under 41 percent in customer-related departments. Over the course of the coming quarters, the Company plans to marginally increase its headcount, in particular in Sales and Marketing, in order to be able to take optimum advantage of market opportunities that present themselves.

Workforce Structure (in percent)



Business customer focus paying off // For some time now, QSC has been observing dramatic pressure on pricing in the mass market for residential customers. Consequently, various providers who focus on residential accounts and resellers in particular have seen themselves exposed to the risk of declining margins in recent months. QSC, itself, is being only marginally affected by this development. Since 2001, the Company has intentionally concentrated on the business customer segment, where it is now successfully competing against a known number of competitors, even in connection with major requests for proposals. Above all, in contrast to many of its competitors QSC possesses its own infrastructure. This often enables the Company to offer its high-quality premium voice and data services nationwide without the need for involving third parties.

Nevertheless, as a result of declining prices as well as 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.

QSC expressly confirms forecast // The accelerated growth in the second quarter of 2004 is strengthening QSC's expectations of recording revenue growth of at least 20 percent in the current fiscal year to more than EUR 138 million, along with a sustained positive EBITDA. In addition, the Company also anticipates generating a free cash flow in the coming quarters of the current fiscal year.

The Company anticipates above-average growth rates in business customer and project business. In the latter, QSC is benefiting from sustained high demand for VPN solutions and the value added services that build upon them. The growth in this segment is expected to be driven by Voice over IP solutions for business customers, which the Company will be bringing to market during the second half of the year. During the second half of the year, the Company also expects to see revenue growth and rising profitability in the conventional telephony business, i.e. direct access to the QSC network for business customers.

QSC starts to offer Voice over IP solutions for business customers

On the other hand, following the highly positive trend of development in the second quarter of 2004 the percentage of revenues accounted for by residential customers is likely to stabilize. However, business in voice and data services for residential households, as well as collaboration with resellers, continue to be an important element of the QSC business model. All customer groups contribute to efficient utilization of the Company's own nationwide telecommunication infrastructure and generate positive earnings contributions.

The efficiency of QSC's network utilization is further to improve during the coming quarters due to the Company's entry into carrier-to-carrier business. Beginning in the fourth quarter of 2004, both Internet Service Providers and carriers will be able to use QSC's nationwide network to link broadband customers to their own infrastructure. QSC has already won AOL in Germany as its first customer in this new line of business and is expecting a significant contribution to its earnings beginning in 2005.

Statements of Operations

Consolidated Statements of Operations (unaudited)

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

	Quarterly Report		Half-Year Report	
	01/04/-30/06/ 2004	01/04/-30/06/ 2003	01/01/-30/06/ 2004	01/01/-30/06/ 2003
Net revenues	**35,601**	**28,262**	**67,781**	**55,828**
Cost of revenues	27,457	26,673	52,874	53,770
Gross profit	**8,144**	**1,589**	**14,907**	**2,058**
Selling and marketing expenses	5,600	5,105	10,133	11,132
General and administrative expenses	2,209	3,383	4,309	7,575
Research and development expenses	79	252	135	547
Depreciation and amortization	5,669	8,487	11,820	18,418
(including TEUR 30 in non-cash compensation in the six months ended June 30, 2004; six months ended June 30, 2003: TEUR 3,211)				
Operating loss	**(5,413)**	**(15,638)**	**(11,490)**	**(35,614)**
Other income (expenses)				
Interest income	89	444	687	1,439
Interest expenses	(244)	(3)	(275)	(5)
Other non-operating income	49	13	47	193
Net loss before income taxes	**(5,519)**	**(15,184)**	**(11,031)**	**(33,987)**
Income taxes	-	-	-	-
Net loss	**(5,519)**	**(15,184)**	**(11,031)**	**(33,987)**
Net loss per common share (basic and diluted)	(0.05)	(0.15)	(0.10)	(0.34)
Weighted average shares outstanding (basic and diluted)	105,308,663	101,137,947	105,308,663	101,137,947

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

Balance Sheets

Consolidated Balance Sheets (unaudited)

(EUR amounts in thousands (TEUR))

	30/06/2004	31/12/2003
ASSETS		
Current assets		
Cash and cash equivalents	19,934	34,964
Marketable securities	19,123	19,322
Trade accounts receivable, net	26,307	18,559
Unbilled receivables	1,406	42
Other receivables	823	3,263
Prepayments and other current assets	6,444	4,140
Total current assets	**74,037**	**80,290**
Non-current assets		
Other non-current assets	**452**	**479**
Plant and equipment, net		
Land and buildings	37	-
Networking equipment and plant	31,934	40,261
Operational and office equipment	6,910	6,655
Total plant and equipment, net	**38,881**	**46,916**
Intangible assets, net		
Licenses	771	850
Software	1,698	1,761
Others	3	3
Total intangible assets, net	**2,472**	**2,614**
Goodwill	**2,393**	**2,393**
Total non-current assets	44,198	52,402
Total assets	**118,235**	**132,692**

	30/06/2004	31/12/2003
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Trade accounts payable	19,255	18,631
Trade accounts payable due to related parties	6	547
Accrued liabilities	8,023	15,123
Deferred revenues	1,638	1,778
Other current liabilities	6,373	6,571
Total current liabilities	**35,295**	**42,650**
Non-current liabilities		
Convertible bonds	62	63
Accrued pensions	371	510
Obligations under capital leases	2,099	-
Total non-current liabilities	**2,532**	**573**
Shareholders' Equity		
Common stock	105,309	105,037
Treasury stock	-	(266)
Additional paid-in capital	473,443	473,302
Deferred compensation	-	(75)
Accumulated other comprehensive loss	(91)	(46)
Accumulated deficit	(498,253)	(488,483)
Total Shareholders' Equity	**80,408**	**89,469**
Total liabilities and Shareholders' Equity	**118,235**	**132,692**

The accompanying notes to unaudited interim 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/-30/06/ 2004	01/01/-30/06/ 2003
Cash flow from operating activities		
Net loss	**(11,031)**	**(33,987)**
Adjustments to reconcile net loss to cash used in operating activities		
Non-cash compensation charge	30	3,211
Depreciation and amortization	11,790	15,207
Loss/(Gain) on sale of equipment	(45)	1,074
Bad debt expense	890	-
Change in operating activities		
Increase in trade accounts receivable, net	(8,638)	(2,283)
Increase in trade accounts receivable due to related parties	-	(2)
Decrease/(Increase) in unbilled receivables	(1,364)	102
Decrease in other receivables	2,440	5,979
Increase in prepayments and other current assets	(2,304)	(48)
Decrease in other non-current assets	27	38
Increase/(Decrease) in trade accounts payable	83	(3,784)
Increase in obligations under capital leases	2,099	-
Decrease in accrued liabilities	(7,100)	(5,892)
Decrease in deferred revenues	(140)	(602)
Increase/(Decrease) in other current liabilities	(198)	4,505
Increase/(Decrease) in accrued pensions	(11)	13
Net cash used in operating activities	**(13,472)**	**(16,469)**
Cash flow from investing activities		
Change in marketable securities	199	14,909
Available-for-sale securities (unrealized gain)	(173)	103
Property acquired under capital leases	(2,252)	-
Purchases of intangible assets	(498)	(168)
Purchases of plant and equipment	(1,180)	(3,898)
Proceeds from sale of equipment	362	797
Net cash used in investing activities	**(3,542)**	**11,743**
Cash flow from financing activities		
Borrowings of short-term debt and current portion of long-term debt	-	98
Issuance/(Redemption) of convertible bonds	(1)	10
Disposal of treasury stock	1,527	-
Proceeds from issuance of common stock	458	3
Net cash (used in) provided by financing activities	**1,984**	**111**
Net decrease in cash and cash equivalents	**(15,030)**	**(4,615)**
Cash and cash equivalents at beginning of the year	34,964	43,095
Cash and cash equivalents at end of the period	**19,934**	**38,480**
Supplemental disclosures of cash flow information		
Cash paid during the period for		
Interest expense	72	5

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

Statements of Equity

Consolidated Statements of Shareholders' Equity from January 1, 2003 to June 30, 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 Compre-hensive Loss	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							(11,031)			(11,031)	(11,031)
Other comprehensive loss							(45)	(45)			(45)
Comprehensive income							(11,076)				
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
Issuance of common stock in connection with the conversion of convertible bonds (June 30, 2004)	51,969	52			12						64
Disposal of treasury stock (March 31, 2004)			(122,865)	91						505	596
Disposal of treasury stock (June 30, 2004)			(235,882)	175						756	931
Amount amortized during the period						30					30
Balance at June 30, 2004	105,308,663	105,309	-	-	473,443	-		(91)	-	(498,253)	80,408

The accompanying notes to unaudited interim 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 significant influence. Generally, this represents ownership of at least 20 percent and not more than 50 percent.

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 life. 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 six months ended June 30, 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 loss // Other comprehensive loss as of June 30, 2004, consist of the following:

	01/01/-30/06/2004 in TEUR
Additional minimum pension liability	128
Unrealized loss on available-for-sale securities	-173
Other comprehensive loss	**-45**

New accounting standards // Effective January 1, 2002, the Company adopted the Standard of Financial Accounting Standards ("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 six months ended June 30, 2004 or 2003.
In June 2001, the Financial Accounting Standards Board ("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 percent 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 June 30, 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 Statements of Operations.

3. Share capital

Nominal share capital // The nominal share capital of QSC as of June 30, 2004, consists of ordinary share capital of TEUR 105,309 (December 31, 2003: TEUR 105,037) and is divided into 105,308,663 (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 six months ended June 30, 2004, nominal share capital increased by TEUR 271 due to the conversion of 271,267 convertible bonds. Employees used their right to convert their convertible bonds to registered ordinary shares of QSC.

Treasury shares // As of June 30, 2004, QSC held no treasury shares (December 31, 2003: 358,747). In the six months ended June 30, 2004, QSC disposed 358,747 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:

	30/06/2004		30/06/2003	
	Shares	Conversion rights	Shares	Conversion rights
Dr. Bernd Schlobohm	13,818,372	-	13,818,372	-
Mark Goossens	384	400,000	384	100,000
Markus Metyas	2,307	1,559,116	2,307	1,559,116
Bernd Puschendorf	-	1,000,000	-	1,000,000

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

	30/06/2004		30/06/2003	
	Shares	Conversion rights	Shares	Conversion rights
John C. Baker	-	19,130	-	19,130
Herbert Brenke	187,820	19,130	187,820	9,130
Gerd Eickers [1]	13,853,484	9,130	13,841,100	9,130
Ashley Leeds	9,130	10,000	9,130	10,000
Norbert Quinkert	3,846	-	3,846	-
David Ruberg	4,563	19,130	4,563	19,130
Claus Wecker [2]	83,025	-	83,025	-

[1] since June 1, 2004
[2] until May 31, 2004

Cologne, August 2004

Dr. Bernd Schlobohm
Chief Executive Officer

Mark Goossens

Markus Metyas

Bernd Puschendorf

Calendar

Quarterly Report III/2004
November 23, 2004

Conferences / Events
September 2, 2004
3rd Investment Meeting, Frankfurt

September 7, 2004
Deutsche Börse, Frankfurt
Sector Symposium High-Tech Engineering

September 9, 2004
Goldman Sachs, Frankfurt
Telecom Conference

October 19, 2004
Deutsche Börse/
Dresdner Kleinwort Wasserstein, New York
German Mid Cap Investment Conference

November 24, 2004
German Equity Forum, Frankfurt

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