Quarterly Report . 2005 . April May June

Key data

	01/04/-30/06/ 2005	01/04/-30/06/ 2004	01/01/-30/06/ 2005	01/01/-30/06/ 2004
All amounts in € million				
Revenues	48.7	35.6	90.2	67.8
Gross profit	12.4	8.1	22.9	14.9
EBITDA	+0.7	+0.3	+1.2	+0.3
EBIT	-4.5	-5.4	-9.9	-11.5
Net loss	-4.6	-5.5	-9.7	-11.0
Net loss per common share[1] (in €)	-0.04	-0.05	-0.09	-0.10
Capital expenditure	2.6	2.2	6.4	3.9
Equity			74.1 [2]	70.5 [3]
Balance sheet total			122.6 [2]	114.8 [3]
Equity ratio (in percent)			60.4 [2]	61.4 [3]
Liquidity			33.8 [2]	40.3 [3]
Share price as of 30/06/ (in €)			3.61	3.83
Number of shares as of 30/06/			109,297,787	105,308,663
Market capitalization as of 30/06/			394.6	403.3
Employees as of 30/06/			446	351

[1] basic and diluted
[2] as of June 30, 2005
[3] as of December 31, 2004

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

QSC at a glance

QSC accelerates revenue growth // QSC grew its revenues by 37 percent to € 48.7 million in the second quarter of 2005, as opposed to € 35.6 million for the same quarter the year before; in the first quarter of 2005, quarterly revenue growth had stood at 29 percent. In the first half of 2005, revenues advanced by 33 percent to € 90.2 million, as opposed to € 67.8 million for the same period in 2004.

Greater profitability // With revenue growth of 37 percent, QSC's gross profit rose by 53 percent to € 12.4 million in the second quarter of 2005, as opposed to € 8.1 million for the same quarter the year before. EBITDA advanced to € 0.7 million, as opposed to € 0.3 million in the second quarter of 2004. In the first half of 2005, QSC increased its EBITDA to € 1.2 million, as opposed to € 0.3 million for the corresponding period the year before.

QSC generates cash surplus // QSC generated an operating cash flow of € 3.7 million in the second quarter of 2005. At the same time, QSC posted a positive free cash flow of € 2.5 million. For the whole of 2005, QSC anticipates an operating cash flow of at least € 10 million, an EBITDA of € 4 to 8 million, as well as revenue growth of at least 25 percent to more than € 183 million.

Network upgrade and expansion largely completed // During the second quarter of 2005, QSC largely completed the upgrade of its network to a Voice over IP-capable Next Generation Network, along with the expansion of its voice network. Following the acquisition of Bonn-based DSL provider celox, QSC is present in more than 100 cities with its own broadband infrastructure. QSC had begun migrating the celox network to the QSC network immediately after this acquisition.

Inclusion in a further index strengthens QSC shares // QSC shares have been also included in the F.A.Z. Index since August 8, 2005. Germany's oldest equity index, which dates back to 1961, is made up of 100 German corporations with a level of large share capital as well as a sufficient volume of free float. Inclusion in this index establishes QSC further as one of Germany's most followed and traded stocks.

Dear Shareholders,

With revenues rising to € 48.7 million or 37 percent compared to the second quarter of 2004, we were able to continue the acceleration of our quarterly growth once more. Revenues advanced by € 7.2 million from the first quarter of 2005, thus posting stronger growth than in any other quarter since the first time that Ventelo was fully consolidated in the first quarter of 2003.

This exceptionally strong growth momentum stems both from the sustained positive development of our operating business as well as from the consolidation of celox for the first time. This Bonn-based DSL provider, which QSC acquired on May 12, 2005, accounted for € 1.4 million of the Company's € 7.2 million revenue growth. The team under the leadership of its two founders, Stefan Sattler and Thomas Zundl, is resolutely expanding its business and utilizing the opportunities offered by its integration into QSC. The migration of the celox network to the QSC network will be concluded by year end, which, starting 2006, will enable us to achieve annual network cost synergies of approximately one million euros.

The positive development of our operating business is manifesting itself through strong revenue growth in all segments. Revenues in the large accounts segment, alone, were up by some 50 percent. The Company's most recent sales and marketing successes, like the contract to network 280 Commerzbank branches with QSC VPN technology, underscore QSC's performance and competitive position in this high-growth and high-quality market segment.

Revenues with large accounts grew by some 50 percent

Among both large corporate accounts as well as small and medium enterprises, QSC is benefiting from its position as a voice and data service provider. More and more enterprises are looking for one-stop shopping for communication solutions. This trend is taking on particular importance in view of the rising popularity of Voice over IP technology. To assure a gentle migration from conventional telephony to IP telephony over data lines on the basis of an existing infrastructure, a provider needs to possess its own infrastructure as well as extensive know-how in both voice and data transmission – and that's exactly what QSC has. This is underscored by the fact that the upgrade of our network to a Voice over IP-capable Next Generation Network was largely concluded during the first half of 2005.

In spite of all the advantages offered by this innovation, though, we are well aware of the fact that demand for conventional wireline telephony will continue to co-exist in the coming years. Many enterprise customers are still shying away from the switch to the new technology, are continuing to depend upon the proven fixed-line telephony and are increasingly utilizing a direct connection from QSC for this purpose. Especially during the evening and nighttime hours, residential customers are making their phone calls over the QSC network, thus helping to provide better utilization of our network during precisely those hours in which enterprise customers hardly need it at all. In order to optimize the utilization factor of our network, we have linked all points of interconnection with the Deutsche Telekom network in recent months. This minimizes the fees that we have to pay for utilizing third-party networks, increases call traffic volume and thus leads to additional revenues and contribution margins.

Both voice and data services contributed to our strong growth dynamic during the past quarter. Our rising profitability documents the strict attention to earning a significant contribution margin in connection with each and every product and solution. We achieve our highest contribution margins in business with enterprise customers. Yet residential customers and value added resellers, too, are also contributing to our rising gross profit and EBITDA.

Our strong growth and rising profitability are also supporting a re-rating of our stock market valuation. Given our accelerated growth last quarter, the first analysts are already revising their forecasts upwards. In addition, the number of financial institutions that publish research on QSC is likely to increase in the months ahead. In mid August, Landesbank Baden-Württemberg was the first to do so in the current quarter, with a "buy" recommendation.

QSC intends to grow by at least 25 percent a year

All of the analysts are anticipating sustained growth for QSC's revenues and strong profitability, and we are convinced that we will be able to live up to these expectations. Even beyond 2005, we intend to grow our revenues by at least 25 percent a year. And if, as in the case of Ventelo and celox, the opportunity presents itself to acquire additional attractive companies that are fairly valued and have business models that provide a good fit with QSC, we will not hesitate to take a serious look at them. However, our business plan and forecasts are based solely upon growth from within, and this organic growth deserves our undivided attention.

Cologne, August 2005

Markus Metyas

Dr. Bernd Schlobohm
Chief Executive Officer

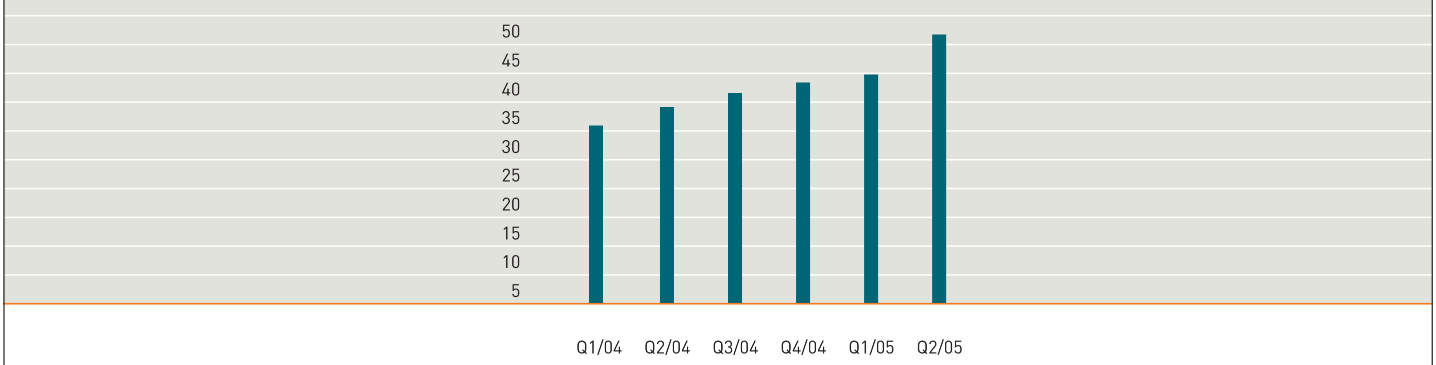
Bernd Puschendorf

QSC accelerates growth

QSC accelerated its revenue growth and continued to increase its gross profit and EBITDA in the second quarter of 2005. At the same time, the Company also largely completed the upgrade of its nationwide network to a Next Generation Network; following the acquisition of DSL provider celox, QSC now reaches more than 100 cities with its broadband network. Since the closing date of the acquisition on May 12, 2005, the financials of celox have now been included in the consolidated financial statements.

Sustained growth in managed services // According to new IDC studies and internal surveys, the market for network-related services in Germany will reach a volume of two billion euros by 2008, and will thus more than double from its 2004 level. The growth drivers, in addition to building IP-based virtual private networks (IP-VPNs), are proving to be the operation and maintenance of these enterprise networks, as well as further network-related services such as security solutions. The growing demand from business users for Voice over IP solutions as an element of their IP-VPNs adds to the growth momentum in this market segment. By focusing on managed services and integrated voice services early on, QSC has built a very good platform in this high-growth market.

Revenues (in € million)



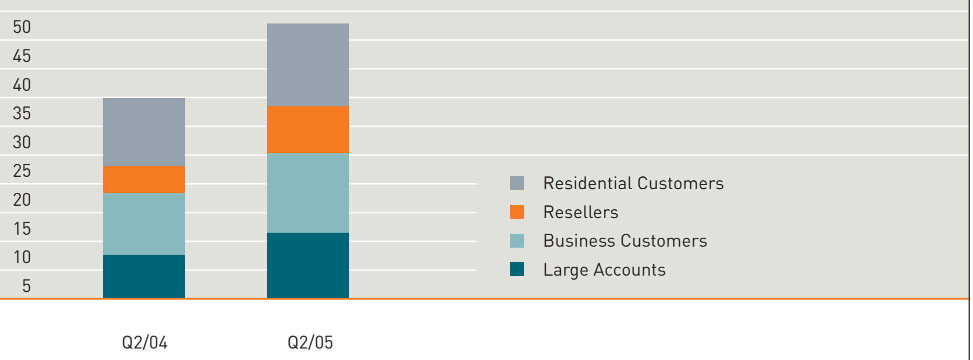
Revenue growth in all segments // In the second quarter of 2005, QSC grew its revenues by 37 percent to € 48.7 million, as opposed to € 35.6 million for the same quarter the year before; year-on-year revenue growth in the first quarter of 2005 amounted to 29 percent. Revenues for the first half of 2005 rose by 33 percent to € 90.2 million, as opposed to € 67.8 million for the same period the year before.

QSC grew faster than in any of the preceding five quarters

Excluding any acquisition impact, QSC posted revenue growth of 33 percent to € 47.3 million in the second quarter of 2005, and thus grew faster than in any of the preceding five quarters. The pro rata temporis consolidation of celox' revenues since its acquisition on May 12, 2005, further accelerated the quarterly revenue growth to 37 percent; in the second quarter of 2005, this Bonn-based DSL provider accounted for revenues of € 1.4 million.

In the large accounts segment, alone, revenues rose by 52 percent to € 11.7 million, as opposed to € 7.7 million in the second quarter of 2004. However, the dynamics in this segment did slacken somewhat relative to the first quarter of 2005. This resulted from the fact that QSC had generated and was able to invoice extraordinary high revenues for services in connection with the start of new solution projects in the first quarter of 2005; these services were in connection with the design of two large IP-VPNs. Yet a year-on-year comparison of the first six months documents the sustained growth of the dynamics in this segment: Revenues with large accounts rose by 63 percent to € 24.3 million.

Revenue Mix (in € million)



QSC generated revenues of € 14.0 million in the second quarter of 2005 with the sale of standardized voice and data products to business customers, as opposed to € 11.0 million for the same period the year before. Both the successful launch of the Voice over IP products that the Company debuted in March 2005 as well as continued strong demand for QSC-Direct, the direct link to the QSC network for voice customers, along with the Q-DSLmax data product, all contributed to this increase.
In the second quarter of 2005, QSC generated revenues of € 14.7 million in the residential customer segment, with revenues rising by 21 percent from the same quarter the year before. Residential customers, too, are increasingly utilizing the option of making phone calls over their data lines, resulting in a sharp rise in revenues with IPfonie privat. At the same time, revenues in conventional wireline business were also up, following the upgrade of the Company's voice network to a Next Generation Network. Telephony subscribers can now dial into the QSC network directly from anywhere in Germany. QSC is utilizing this call-by-call business in order to increase the utilization factor of its network, especially during the evening and nighttime hours, and to simultaneously generate additional contribution margins.

Rising demand for Voice over IP among business and residential customers

In the value added resellers segment, collaboration with strong international carriers that are collaborating with QSC in Germany as an infrastructure partner for their data services is also paying off; the former are benefiting from access to Germany's second-largest alternative network. In addition, following the network upgrade and expansion, revenues from the wholesale of voice services to value added resellers rose sharply. Overall, QSC grew its revenues in this segment to € 8.4 million, as opposed to € 4.8 million for the same quarter the year before.

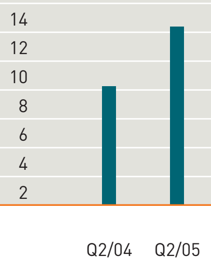
Gross profit continues to rise steeply // In the second quarter of 2005, the Company's rapidly growing operating business, the upgrade of the QSC network to a Next Generation Network, the expansion of its voice network, as well as the upfront-cost related to the consolidation of celox' and QSC's DSL network, resulted in a 32-percent increase in network expenses, which are recorded under cost of revenues, to € 36.4 million, as opposed to € 27.5 million for the corresponding quarter the year before. Nevertheless, QSC was again able to improve its gross profit steeply in the second quarter of 2005. At € 12.4 million, gross profit was 53 percent higher than its € 8.1 million level in the second quarter of 2004. Year on year, QSC grew its gross profit by 54 percent to € 22.9 million for the first six months, as opposed to € 14.9 million the year before – during the same period, revenues advanced by 33 percent.
As planned, QSC further expanded its sales and marketing activities in the second quarter of 2005; during the initial months of the current fiscal year, the Company had hired some 40 new employees, predominantly in sales-related areas. Consequently, sales and marketing expenses rose by € 1.6 million to € 7.2 million, as opposed to € 5.6 million for the same quarter the year before.

Administrative expenses increased to € 4.4 million in the second quarter of 2005, as opposed to € 2.2 million for the same quarter the year before. This rise was attributable, on the one hand, to non-recurring expenses in conjunction with the celox acquisition in May 2005. On the other hand, the Company's fast growing business volume and growing workforce had necessitated the termination of subleases at QSC's headquarters in Cologne at the end of 2004, which led to an increase in net administrative expenses compared to the second quarter 2004. The fact that administration expenses account for only eight percent of total expenses documents the high level of efficiency in this function.

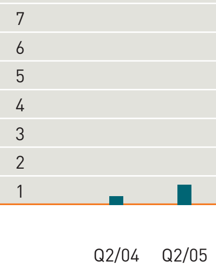
EBITDA doubles on a quarter-to-quarter comparison

Further improvement in EBITDA // In the second quarter of 2005, QSC earned a positive EBITDA of € 0.7 million, as opposed to € 0.3 million for the same quarter the year before. Even without celox' € 0.1 million contribution to profitability, the Company was able to double its EBITDA from the same quarter the year before to € 0.6 million. Six months into the current fiscal year, EBITDA totaled € 1.2 million, as opposed to € 0.3 million for the first half of 2004. 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.
Depreciation and amortization expense declined moderately to € 5.2 million in the second quarter of 2005, as opposed to € 5.7 million for the same quarter the year before. The decline in depreciation aided by a rising EBITDA resulted in a further improvement in the Company's EBIT and its net result for the period. In the second quarter of 2005, EBIT amounted to € -4.5 million, as opposed to € -5.4 million for the corresponding quarter the year before; net income for the period also amounted to € -4.6 million, as opposed to € -5.5 million for the second quarter of 2004. Earnings per share during the second quarter of 2005 stood at € -0.04.

Gross Profit (in € million)



EBITDA (in € million)

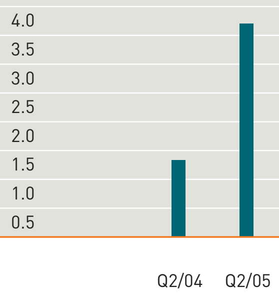


QSC generates positive operating cash flow // The positive development of QSC's operating business led to an operating cash flow of € 3.7 million in the second quarter of 2005, representing a quarter-to-quarter improvement of € 8.6 million. As of June 30, 2005, QSC's net liquid assets, including fixed-interest securities, totaled € 33.8 million, as opposed to € 31.3 million as of March 31, 2005. This increase in net liquid assets stemmed both from the Company's free cash flow as well as from the consolidation of € 1.8 million in liquid assets from celox.

At mid-year, QSC had largely completed both the upgrade of its network to a Voice over IP-capable Next Generation Network as well as the expansion of its voice network; QSC is now interconnected with Deutsche Telekom at all 474 points of interconnection. QSC's capital expenditures in the first half of 2005 totaled € 6.4 million, as opposed to € 3.9 million for the first six months the year before. Capital spending in the second quarter of 2005 totaled € 2.6 million. QSC will complete the migration of the celox network to the QSC network during the second half of the year.

QSC largely completes upgrade of its network

Operating Cash Flow (in € million)



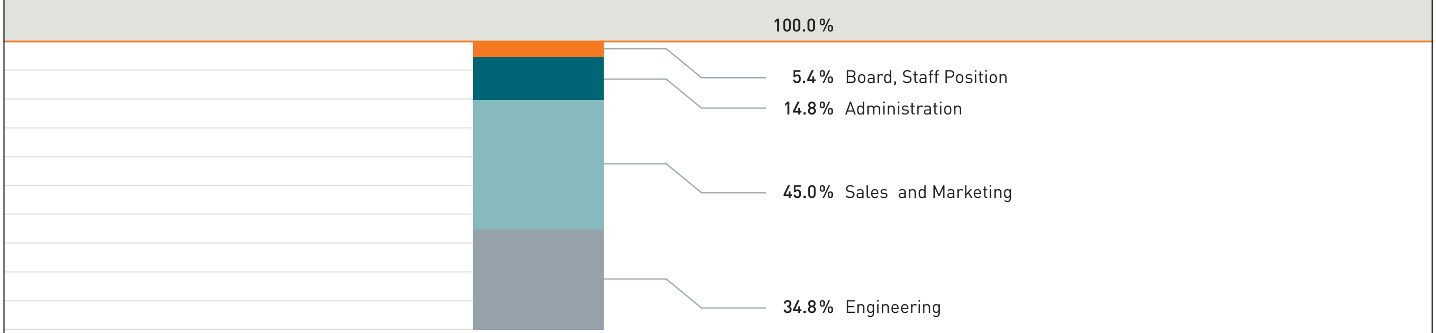
On the asset side of the balance sheet, the acquisition of the Bonn-based DSL network operator increased goodwill – according to preliminary calculations – in QSC's consolidated balance sheet to € 12.2 million, as opposed to € 2.4 million as of December 31, 2004. The celox acquisition was financed exclusively through the issuance of a total of 3,583,776 new QSC shares. As a result of this increase of capital against contributions in kind as well as the conversion of convertible bonds into 72,888 shares of QSC stock under the Company's employee stock ownership plans, QSC's share capital rose by a total of € 3,656,664 to € 109.3 million as of June 30, 2005, at which time its equity ratio amounted to 60.4 percent. Aside from liabilities under financial leasing agreements, QSC continued to remain debt-free in the second quarter of 2005.

Successful collaboration with celox // Following the acquisition, celox will continue to remain an autonomously operating company with headquarters in Bonn. As of June 30 of this year, celox employed a workforce of 55 people. More than half of them are working in sales and marketing, one third in engineering, and only six employees are responsible for assuring smooth management and administration of this DSL provider. The people of celox are already co-operating closely and successfully with their colleagues from QSC, both in consolidating the two networks as well as in achieving further synergies.

Virtually half of QSC's employees work in sales and marketing activities

Overall, the celox acquisition increased the Company's workforce to 446 people in the second quarter of 2005. 45 percent of QSC's people work in sales and marketing operations, 35 percent in engineering. Only 15 percent of QSC's 446-person workforce is allocated to business administration activities.

Workforce Structure (in percent)



Regulator lowers one-time fees // In early August 2005, the Federal Network Agency, formerly the Regulatory Authority for Telecommunications and Posts (RegTP), significantly reduced the one-time fees for transfer, new connection and termination of fully unbundled subscriber connection lines retroactively to July 1, 2005. In the past, these one-time fees have been a particular hindrance to the ability of competitors to win new subscribers in both the business- and residential-customer segments; this reduction will therefore make competition easier. What remains an impediment to competition, though, are the relatively high one-time fees for line sharing. For infrastructure providers such as QSC, however, this reduction also opens up the opportunity to expand an attractive line of business on the basis of fully unbundled subscriber connection lines. In the future, resellers of DSL lines for residential customers, in particular, are expected to increasingly collaborate with alternative network providers.

In the future, rate changes on the part of the regulator, as well as other risks or incorrect assumptions, could mean that actual future results might 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.

Higher revenue forecast reiterated // Given the positive development of its operating business, QSC is reiterating the upwardly revised forecast it announced in May 2005. The Company anticipates that revenues for the full 2005 fiscal year will rise by at least 25 percent to more than € 183 million, an EBITDA of € 4 to 8 million, as well as an operating cash flow of at least € 10 million.

QSC continues to expect above-average growth in the large accounts segment. Orders like the contract to network 280 Commerzbank branches with QSC VPN technology that was announced in early August 2005 underscore QSC's positioning as a powerful player in this high-growth and high-quality segment.

Sustained above-average growth with large accounts

In the coming quarters, QSC will be upgrading its network with ADSL2+ technology to keep pace with demand; the required capital investments will follow the sales successes of the marketing partners; debitel has been the first partner since May 2005. This demand-driven upgrade policy will assure swift amortization of these capital expenditures while simultaneously enabling QSC to access into interesting revenue potential in the value added resellers segment.

In the second half of 2005, QSC will pay the final € 4.5 million tranche of the purchase price for voice telephony carrier Ventelo, which was acquired at the end of 2002. The strategy of being able to offer enterprise customers one-stop shopping for voice and data services in the future as a result of this acquisition has proven its worth over the past two and a half years and has made a major contribution to QSC's strong revenue growth.

Statements of Operations

Consolidated Statements of Operations (unaudited)

(Euro amounts in thousands (T €), except for per share amounts)

	01/04/-30/06/ 2005	01/04/-30/06/ 2004	01/01/-30/06/ 2005	01/01/-30/06/ 2004
Net revenues	**48,733**	**35,601**	**90,235**	**67,781**
Cost of revenues	36,359	27,457	67,372	52,874
Gross profit	**12,374**	**8,144**	**22,863**	**14,907**
Selling and marketing expenses	7,190	5,600	13,276	10,133
General and administrative expenses	4,400	2,209	8,238	4,309
Research and development expenses	78	79	159	135
Depreciation and amortization	5,220	5,669	11,089	11,820
Operating loss	**(4,514)**	**(5,413)**	**(9,899)**	**(11,490)**
Other income (expenses)				
Interest income	89	89	490	687
Interest expenses	(152)	(244)	(257)	(275)
Other non-operating income (loss)	(15)	49	(33)	47
Net loss before income taxes	**(4,592)**	**(5,519)**	**(9,699)**	**(11,031)**
Income taxes	-	-	-	-
Net loss	**(4,592)**	**(5,519)**	**(9,699)**	**(11,031)**
Net loss per common share (basic and diluted)	(0.04)	(0.05)	(0.09)	(0.10)
Weighted average shares outstanding (basic and diluted)	107,469,455	105,308,663	106,813,880	105,308,663

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

Balance Sheets

Consolidated Balance Sheets (unaudited)

(Euro amounts in thousands (T €))

	30/06/2005	31/12/2004
ASSETS		
Current assets		
Cash and cash equivalents	17,775	22,536
Marketable securities	16,026	17,785
Trade accounts receivable, net	30,887	25,616
Other receivables	1,332	3,207
Prepayments and other current assets	8,385	4,801
Total current assets	**74,405**	**73,945**
Non-current assets		
Other non-current assets	**188**	**374**
Plant and equipment, net		
Networking equipment and plant	21,945	25,669
Operational and office equipment	10,401	9,431
Total plant and equipment, net	**32,346**	**35,100**
Intangible assets, net		
Licenses	622	694
Software	2,793	2,318
Others	2	2
Total intangible assets, net	**3,417**	**3,014**
Goodwill	**12,208**	**2,393**
Total non-current assets	**48,159**	**40,881**
Total assets	**122,564**	**114,826**

	30/06/2005	31/12/2004
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Current liabilities		
Trade accounts payable	24,602	20,276
Trade accounts payable due to related parties	506	472
Accrued liabilities	6,754	6,871
Deferred revenues	1,505	1,370
Current portion of obligations under capital leases	4,186	2,647
Other current liabilities	5,645	8,239
Total current liabilities	**43,198**	**39,875**
Non-current liabilities		
Convertible bonds	61	60
Accrued pensions	312	316
Non-current portion of obligations under capital leases	4,939	4,105
Total non-current liabilities	**5,312**	**4,481**
Total liabilities	**48,510**	**44,356**
Shareholders' Equity		
Common stock	109,298	105,503
Additional paid-in capital	484,995	474,750
Other comprehensive income (loss)	(498)	259
Accumulated deficit	(519,741)	(510,042)
Total Shareholders' Equity	**74,054**	**70,470**
Total liabilities and Shareholders' Equity	**122,564**	**114,826**

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

Statements of Cash Flows

Consolidated Statements of Cash Flows (unaudited)

(Euro amounts in thousands (T €))

	01/01/-30/06/ 2005	01/01/-30/06/ 2004
Cash flow from operating activities		
Net loss	**(9,699)**	**(11,031)**
Adjustments to reconcile net loss to cash used in operating activities		
Non-cash compensation charge	-	30
Depreciation and amortization	11,089	11,790
Loss/(Gain) on sale of equipment	6	(45)
Bad debt expense	294	890
Change in operating activities		
Increase in trade accounts receivable	(5,565)	(8,638)
Increase in unbilled receivables	-	(1,364)
Decrease in other current receivables	1,875	2,440
Increase in prepayments and other current assets	(3,584)	(2,304)
Decrease in other non-current assets	186	27
Increase in trade accounts payable	4,360	83
Increase in obligations under capital leases	2,373	2,099
Decrease in accrued liabilities	(117)	(7,100)
Increase/(Decrease) in deferred revenues	135	(140)
Decrease in other current liabilities	(2,594)	(198)
Decrease in accrued pensions	(4)	(11)
Net cash used in operating activities	**(1,245)**	**(13,472)**

	01/01/-30/06/ 2005	01/01/-30/06/ 2004
Cash flow from investing activities		
Change in marketable securities	1,759	199
Available-for-sale securities (unrealized gain)	(757)	(173)
Acquisition of business, net of cash acquired	(12,187)	-
Property acquired under capital leases	(4,314)	(2,252)
Purchases of intangible assets	(921)	(498)
Purchases of plant and equipment	(1,137)	(1,180)
Proceeds from sale of equipment	-	362
Net cash used in investing activities	**(17,557)**	**(3,542)**
Cash flow from financing activities		
Issuance/(Redemption) of convertible bonds	1	(1)
Disposal of treasury stock	-	1,527
Proceeds from issuance of common stock	14,040	458
Net cash provided by financing activities	**14,041**	**1,984**
Net decrease in cash and cash equivalents	**(4,761)**	**(15,030)**
Cash and cash equivalents at beginning of the year	22,536	34,964
Cash and cash equivalents at end of period	**17,775**	**19,934**
Supplemental disclosures of cash flow information		
Cash paid during the period for		
Interest expenses	246	72

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

Statements of Equity

Consolidated Statements of Shareholders' Equity from January 1, 2004 to June 30, 2005 (unaudited)

(Euro amounts in thousands (T €))

	Ordinary Shares		Treasury Shares	
	Shares	T €	Shares	T €
Balance as of January 1, 2004	**105,037,396**	**105,037**	**358,747**	**(266)**
Net loss				
Other comprehensive income				
Comprehensive income				
Convertible bonds forfeited due to termination of employment (January 1, 2004)				
Issuance of common stock in connection with the conversion of convertible bonds (March 31, 2004)	219,298	219		
Issuance of common stock in connection with the conversion of convertible bonds (June 30, 2004)	51,969	52		
Issuance of common stock in connection with the conversion of convertible bonds (September 30, 2004)	85,600	86		
Issuance of common stock in connection with the conversion of convertible bonds (December 31, 2004)	108,466	109		
Disposal of treasury stock (March 31, 2004)			(122,865)	91
Disposal of treasury stock (June 30, 2004)			(235,882)	175
Amount amortized during the period				
Balance as of December 31, 2004	**105,502,729**	**105,503**	**-**	**-**
Net loss				
Other comprehensive loss				
Comprehensive income				
Increase of capital	3,583,776	3,584		
Issuance of common stock in connection with the conversion of convertible bonds (March 31, 2005)	138,394	138		
Issuance of common stock in connection with the conversion of convertible bonds (June 30, 2005)	72,888	73		
Balance as of June 30, 2005	**109,297,787**	**109,298**	**-**	**-**

	Additional Paid-In Capital T €	Deferred Compensation Account T €	Comprehensive Income T €	Accumulated Other Comprehensive Income T €	Accumulated Deficit T €	Total Shareholders' Equity T €
	473,302	**(75)**		**(46)**	**(488,483)**	**89,469**
			(21,559)		(21,559)	(21,559)
			305	305		305
			(21,254)			
	(45)	45				-
	174					393
	12					64
	4					90
	41					150
	505					596
	757					932
		30				30
	474,750	**-**		**259**	**(510,042)**	**70,470**
			(9,699)		(9,699)	(9,699)
			(757)	(757)		(757)
			(10,456)			
	10,177					13,761
	57					195
	11					84
	484,995	**-**		**(498)**	**(519,741)**	**74,054**

The accompanying notes to unaudited interim condensed 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 ("T €").
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, 2004, 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 unrealized gains and losses are included in earnings.
Held-to-maturity securities are accounted at amortized cost and unrealized 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 unrealized 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, 2005 and 2004, 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.

Segment information // QSC applies the "management approach" in accordance with SFAS 131, "Disclosures about Segments of an Enterprise and Related Information", for identifying reportable segments. The management approach designates the internal organization used by management for making operating decisions and assessing performance as the source of QSC's reportable segments. QSC is primarily operating in the customer segments large accounts, business customers, 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 customer 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 resellers segment includes the business with Internet service providers and telecommunication providers without proprietary infrastructure. They are marketing DSL lines as well as value-added services under their own name and for their own account.

In the residential customer segment the Company embraces the voice and data services for premium residential customers.
The positions that cannot directly be allocated to the segments are summarized in the reconciliation column. These costs are primarily personnel expenses, rental fees for leased lines, and expenses for repairs, maintenance and operation of our network and the rental fees for the colocation rooms.

01/01/-30/06/2005 in T €	Segment Large accounts	Segment Business customers	Segment Resellers	Segment Residential customers	Recon-ciliation	Consoli-dated
Revenues	**24,310**	**26,202**	**13,485**	**26,238**	-	**90,235**
Directly allocated expenses	8,629	15,390	8,115	19,072	-	51,206
Contribution margin	**15,681**	**10,812**	**5,370**	**7,166**	-	**39,029**
Not allocated expenses	-	-	-	-	37,839	37,839
EBITDA	**15,681**	**10,812**	**5,370**	**7,166**	**(37,839)**	**1,190**
Depreciation and deferred non-cash compensation expenses	755	471	512	1,124	8,227	11,089
Non-operating income	-	-	-	-	200	200
Net profit/(loss)	**14,926**	**10,341**	**4,858**	**6,042**	**(45,866)**	**(9,699)**
Assets as of June 30, 2005	2,286	1,426	1,552	3,407		

01/01/-30/06/2004 in T €	Segment Large accounts	Segment Business customers	Segment Resellers	Segment Residential customers	Recon-ciliation	Consoli-dated
Revenues	**14,869**	**22,381**	**9,263**	**21,268**	-	**67,781**
Directly allocated expenses	6,937	13,196	3,485	14,345	-	37,963
Contribution margin	**7,932**	**9,185**	**5,778**	**6,923**	-	**29,818**
Not allocated expenses	-	-	-	-	29,488	29,488
EBITDA	**7,932**	**9,185**	**5,778**	**6,923**	**(29,488)**	**330**
Depreciation and deferred non-cash compensation expenses	216	456	687	1,539	8,922	11,820
Non-operating income	-	-	-	-	459	459
Net profit/(loss)	**7,716**	**8,729**	**5,091**	**5,384**	**(37,951)**	**(11,031)**
Assets as of June 30, 2004	599	1,262	1,902	4,264		

Other comprehensive loss // Other comprehensive loss as of June 30, 2005, consists of the following:

	01/01/-30/06/2005 in T €
Unrealized loss on available-for-sale securities	(757)
Other comprehensive loss	**(757)**

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-lived 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 SFAS 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-lived 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, 2005 or 2004.

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.

In December 2004, the FASB issued SFAS 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"). SFAS 123R establishes accounting guidance for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. Equity-classified awards are measured at grant date fair value and are not subsequently remeasured. Liability-classified awards are remeasured to fair value at each balance sheet date until the award is settled. SFAS 123R applies to all awards granted after July 1, 2005, and to awards modified, repurchased or cancelled after that date using a modified version of prospective application. QSC does not anticipate that the adoption of SFAS 123R 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 T € 11,454, including direct acquisition costs of T € 90. As of June 30, 2005, a second and final tranche of T € 4,450 was outstanding that will presumably be paid in the second half of financial year 2005.

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 T € 193 and reducing the acquired assets, on a pro rata basis, by this amount.

On May 12, 2005, QSC acquired 100 percent of the share capital of Bonn-based celox Telekommunikationsdienste GmbH ("celox"). celox is a nationwide provider of professional data communication solutions for small and medium as well as large enterprises. celox operates its own state-of-the-art DSL network with over 170 colocation rooms in more than 30 medium-size German cities. This acquisition enables QSC to both especially swiftly and cost-effectively expand its network geographically and at the same time significantly broaden its customer base. The purchase price for celox amounts to T € 13,918, including costs of acquisition in the amount of T € 156. T € 13,762 of the purchase price was paid in the form of 3,583,776 new shares of stock, which were created from approved capital against the contribution in kind of both all celox shares as well as a loan repayment entitlement against celox enjoyed by the legacy celox shareholders. The acquisition of this equity investment results in temporary capitalized goodwill in the amount of T € 9,815. Purchase price allocation, which serves to determine the fair value of assets and liabilities acquired, will follow at the end of the fiscal year. QSC's interim consolidated financial statements include the financial statements for celox since May 12, 2005.

In conformity with SFAS 141, it was assumed in connection with the following unaudited pro forma calculation that celox had initially been consolidated as of January 1, 2005 and 2004, respectively. The provision of pro forma numbers does not constitute any assurance that these results would actually have been achieved if the consolidation had in fact been effected as of January 1, 2005 and 2004, respectively. Nor is it possible to employ them as the basis for any predictions of the future.

	01/01/-30/06/2005 in T € *	01/01/-30/06/2004 in T € *
Net revenues	93,296	71,217
Operating loss	(10,517)	(12,475)
Net loss	(10,313)	(12,008)
Net loss per common share	(0.10)	(0.11)

* Per share amounts in €; unaudited

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 T € 4,136 in 2002.

3. Share capital

Nominal share capital // The nominal share capital of QSC as of June 30, 2005, consists of ordinary share capital of T € 109,298 (December 31, 2004: T € 105,503) and is divided into 109,297,787 (December 31, 2004: 105,502,729) 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. The T € 3,795 increase of capital stems, on the one hand, from the conversion of 211,282 convertible bonds by employees into ordinary shares through exercise of their conversion rights under stock option plans during the first six months of the 2005 fiscal year and, on the other hand, through the increase of capital in the amount of 3,583,776 ordinary shares, which were created from approved capital against the contribution in kind of both all celox shares as well as a loan repayment entitlement against celox enjoyed by the legacy celox shareholders.

4. Management Board and Supervisory Board

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

	June 30, 2005		June 30, 2004	
	Shares	Conversion rights	Shares	Conversion rights
Dr. Bernd Schlobohm	13,818,372	50,000	13,818,372	-
Markus Metyas	2,307	1,584,116	2,307	1,559,116
Bernd Puschendorf	3,000	1,025,000	-	1,000,000

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

	June 30, 2005		June 30, 2004	
	Shares	Conversion rights	Shares	Conversion rights
John C. Baker	-	19,130	-	19,130
Herbert Brenke	187,820	19,130	187,820	19,130
Gerd Eickers	13,853,484	9,130	13,853,484	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

Cologne, August 2005

Dr. Bernd Schlobohm
Chief Executive Officer

Markus Metyas

Bernd Puschendorf

Calendar

Quarterly Report III/2005
November 29, 2005

Conferences/ Events
November 21-23, 2005
German Equity Forum
Autumn 2005, Frankfurt

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