QSC AG

Quarterly Report . 2006 . April May June

Key data

	01/04/-30/06/ 2006	01/04/-30/06/ 2005	01/01/-30/06/ 2006	01/01/-30/06/ 2005
All amounts in € million				
Revenues	56.6	48.7	111.0	90.2
Gross profit	+19.5	+12.4	+35.9	+23.2
EBITDA	+4.1	+1.6	+6.5	+2.9
EBIT	-2.7	-4.5	-5.8	-9.9
Net loss	-3.1	-4.6	-6.1	-9.7
Net loss per common share [1] (in €)	-0.03	-0.04	-0.05	-0.09
Capital expenditures	11.7	3.4	19.0	8.1
Equity			142.4 [2]	85.0 [3]
Balance sheet total			219.3 [2]	151.3 [3]
Equity ratio (in %)			64.9 [2]	56.2 [3]
Liquidity			59.4 [2]	52.1 [3]
Share price as of 30/06/ (in €)			4.34	3.61
Number of shares as of 30/06/			127,053,337	109,297,787
Market capitalization as of 30/06/			551.4	394.6
Employees as of 30/06/			662	446

[1] basic and diluted
[2] as of June 30, 2006
[3] as of December 31, 2005

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

QSC at a glance

Strong growth in all strategic segments // In the second quarter of 2006, QSC significantly grew its revenues with large accounts, business customers and resellers, thus further improving its revenue mix – QSC now generates 77 percent of its revenues in all strategic segments. With growth of 31 percent year-on-year to € 15.3 million in the Large Account segment, QSC posted its strongest revenue growth during the past quarter in this high-margin business.

EBITDA surges // The improved revenue mix, in particular, led to a significant rise in the Company's operating results. Gross profit advanced by 57 percent in the second quarter of 2006 to € 19.5 million, while EBITDA surged by 156 percent to € 4.1 million.

Broadnet acquisition strengthens core business // In early June 2006, QSC acquired the majority in listed broadband provider Broadnet AG, thus further strengthening its high-margin core business with enterprise customers. QSC has been including its new subsidiary in its consolidated accounting since June 6, 2006.

Plusnet formation affords swift network expansion // Together with telecom operator TELE2, QSC formed network operating company Plusnet GmbH & Co. KG on July 10, 2006. The new company will be expanding QSC's existing DSL network by an additional 900 central offices to a total of nearly 2,000 central offices by year-end 2007, resulting in one of Germany's largest broadband networks.

Stock market rewards growth course // During the first eight months of the current fiscal year, QSC shares significantly outperformed other telecommunications stocks. While the trading price of QSC shares rose by more than 10 percent, the industry index, the Prime Telecommunication Index, fell by 13 percent. Interest on the part of institutional investors continues to remain strong: Over the course of the coming weeks, roadshows are therefore planned in Europe and the United States, as well as participation in six investor conferences held by leading financial institutions.

Dear Shareholders,

Our strategic focus on high-margin business with enterprise customers is paying off: In the second quarter of 2006, we were again able to post sharp revenue growth with both large accounts as well as business customers and resellers, while significantly boosting our operating results: The Company's gross profit advanced by 57 percent to € 19.5 million, while EBITDA surged by 156 percent to € 4.1 million. This encouraging development of our operating business shows the speed at which QSC is developing into a leading alternative provider of integrated telecommunication solutions for enterprise customers.

The establishment of a joint network operating company, Plusnet, together with TELE2 in early July will take us even further in this development. Together with TELE2, one of the leading European telecommunication providers, we will be expanding our DSL network into one of the largest broadband networks with nearly 2,000 central offices throughout Germany by year-end 2007. This expansion will be financed by TELE2's € 50 million cash contribution to the new company; QSC is contributing its existing DSL network with over 1,000 central offices to Plusnet and will not have to provide any further funding to nearly double the number of central offices.

QSC network to number among Germany's largest broadband networks

In the future, our 2,000 central offices will enable us to directly reach 50 percent of all households and even 70 percent of all German locations for which VPN solutions have been advertised in requests for proposals. Access to such a large number of locations will provide us with a very competitive cost base in connection with VPN proposals for large accounts, thus strengthening our margins and our competitiveness in this growth market. However our higher network coverage will also benefit our Business Customer and Reseller segments, as we will be able to directly connect significantly more customers to the QSC network in the future.

QSC will retain a majority interest in the new Plusnet "network factory" on an ongoing basis. This is also true in case an additional shareholder will be accepted into Plusnet. Some 60 employees who have previously been working in QSC's engineering departments will be moving to Plusnet. They will continue to work in the same building, though, because Plusnet is located at our corporate headquarters in Cologne. Here, the new company will continue to focus on supplying high-quality DSL products exclusively to QSC and TELE2, at cost. The focus of the QSC organization's activities will thus shift more strongly toward marketing, selling, consulting and supporting customers in the Company's three strategic segments: Large Accounts, Business Customers and Resellers.

The acquisition of a majority interest in listed Broadnet AG in early June will also serve to strengthen these strategic segments, as Broadnet, like us, is focused on business with enterprise customers, pushing its IP-VPN and Voice over IP business, in particular. With revenues of € 36.8 million in the year 2005, though, Broadnet remained considerably smaller than QSC. By joining forces with QSC, this company will now be able to tap into new growth and profitability opportunities, as it will be able to benefit from QSC's name recognition, customer relationships and nationwide infrastructure. In return, the co-operation with nearly 200 qualified Broadnet employees will enable us to gain additional know-how, customer relationships and competence in our core business. The entire QSC team is looking forward to working together with our new colleagues.

In the opinion of analysts, the current trading price of QSC shares still does not nearly reflect our stronger growth potential stemming from the formation of Plusnet and the acquisition of a majority interest in Broadnet. Like the shares of many alternative telecommunication providers, QSC shares, too, are currently being affected by the declining revenues and profitability of the former monopolists in this industry and the resulting skepticism toward the telecommunications sector in general. However the majority of the 14 analysts who now follow us view QSC shares as a buy, especially in the wake of the most recent news.

QSC wins freenet as another strong wholesale partner

Winning freenet AG as a new wholesale partner in August underscores this view. Beginning in September, freenet will already be able to offer fully unbundled Internet connections on the basis of QSC's infrastructure. The fact that a strong provider like freenet has opted for QSC in connection with the technology of the future, ADSL2+, shows how well our Company is positioned in the market place. The fact that freenet, which already has 830,000 DSL customers under contract, will be marketing products in the future that are based upon the QSC infrastructure illustrates the potential that is offered by our Company. And it is precisely this potential that strengthens us in our conviction that QSC's strong and profitable growth will be sustained in the coming quarters.

Cologne, August 2006

Markus Metyas

Dr. Bernd Schlobohm
Chief Executive Officer

Bernd Puschendorf

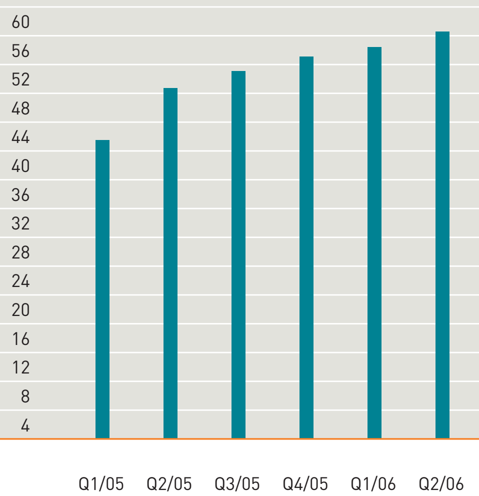
EBITDA more than doubles

In the second quarter of 2006, QSC grew its gross profit by 57 percent to € 19.5 million, with EBITDA surging by 156 percent to € 4.1 million. This remarkable growth in profitability stemmed, in particular, from a significant improvement in the Company's revenue mix: During the past quarter, QSC was generating 77 percent of its revenues in the strategic segments of Large Accounts, Business Customers and Resellers. Moreover, QSC has been consolidating its new subsidiary Broadnet, in which it currently holds a 66-percent stake, since June 6, 2006.

German economy seeing stronger growth // With gross domestic product rising by 0.9 percent, the German economy grew faster in the second quarter of 2006 than at any other time during the past five years. The recovery is increasingly being fueled by domestic investment. The telecommunications industry, and in particular infrastructure-based providers like QSC who specialize in enterprise customers, are benefiting from this growing willingness on the part of businesses to invest. In the Residential Customer segment, on the other hand, the telecommunications industry is engaged in a sustained price war. None of the other sectors surveyed by the German Federal Office of Statistics in conjunction with measuring annual inflation have seen a comparable decline in prices during recent years. However QSC is being only marginally impacted by this development, as the Company began early on to focus on business with enterprise customers, which offers significantly higher margins, longer contracts and greater price stability.

QSC benefiting from growing willingness to invest

Revenues (in € million)

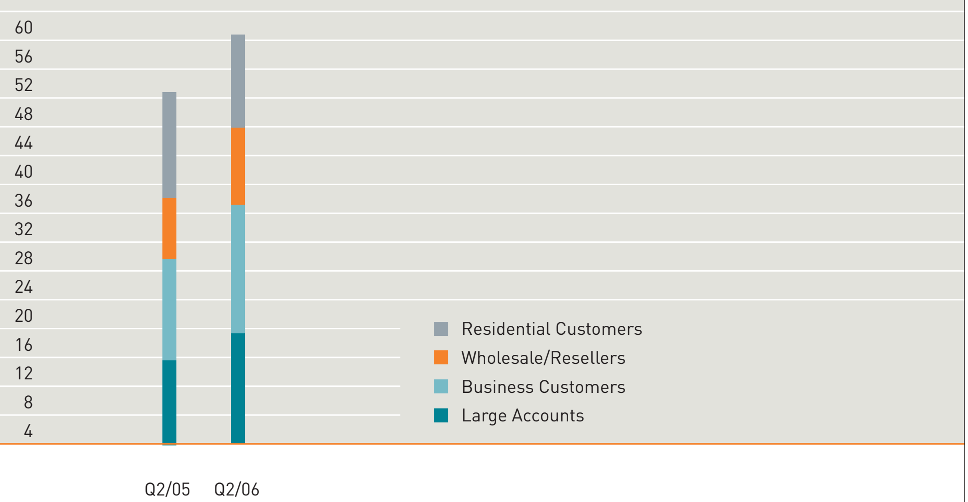


Strong growth in all strategic segments // QSC grew its revenues by 16 percent to € 56.6 million in the second quarter of 2006, as opposed to € 48.7 million for the same quarter the year before. There was a considerable improvement in the revenue mix in this connection. Starting with 70 percent in the second quarter of 2005, QSC is now already generating 77 percent of its revenues in the strategic segments of Large Accounts, Business Customers and Resellers. In contrast, the share of total revenues accounted for by the Residential Customer segment declined to 23 percent, as opposed to 30 percent in the second quarter of 2005.

Strongest growth dynamic in business with large accounts

In the second quarter of 2006, QSC recorded its strongest growth in connection with high-margin business with large accounts, where revenues advanced by 31 percent to € 15.3 million, as opposed to € 11.7 million for the same quarter the year before. In this segment, QSC succeeded in both expanding its share of the telecommunication budgets of existing customers as well as in winning new IP-VPN customers. For instance, one of the world's largest toy retailers, TOYS"R"US, contracted with the Company to build a VPN to network 72 corporate locations in Germany, Austria and Switzerland. In addition, QSC will also be operating this VPN and securing it with an intelligent backup solution. The complexity of the requirements in connection with this contract illustrates the growing importance of managed services within the IP-VPN business.

Revenue Mix by Segment (in € million)



Revenues in the Business Customer segment increased by 27 percent to € 17.8 million in the second quarter of 2006, as opposed to € 14.0 million for the comparable quarter the year before. This rise was essentially attributable to successes in the Company's product business with its Q-DSLmax data product, with QSC-Direct, the direct link to the QSC voice network, as well as with its IPfonie products. The latter afford high-quality voice telephony over data lines by using of Voice over IP technology. QSC was also able to increasingly sell integrated voice and data services and also connect pre-select customers directly to its network. In both its direct access and its pre-select business, the Company felt the impact of growing price competition and the temporary effect of the World Cup – in June 2006, there was a significant decline in the number of call minutes in the Business Customer segment.

Increasing demand for integrated voice and data services

In the Reseller segment, QSC was able to grow its revenues by 26 percent in the second quarter of 2006 to € 10.6 million, as opposed to € 8.4 million the year before. Wholesale partner HanseNet generated its first revenues with ADSL2+ products under the "Alice" brand name that build upon QSC's own infrastructure. In addition, there was also a rise in the revenues generated by business with international carriers who do not possess a corresponding nationwide DSL network of their own in Germany.

Revenues in the non-strategic Residential Customer segment declined in the second quarter of 2006: Due to the ongoing fierce price competition, the Company's revenues of € 12.9 million here were 12 percent lower than in the previous year's quarter with € 14.7 million.

QSC continues to be focused on a sufficient contribution margin in all of its offerings in this highly competitive market, and is convinced that there is a certain demand on the part of residential customers for high-quality, correspondingly priced offerings. This applies, in particular, with respect to the Q-DSL home DSL product and the increasingly popular option of combining this product with IPfonie privat, a Voice over IP feature. In a recently conducted survey of Q-DSL home users, for example, only seven percent indicated that they would be keeping their conventional fixed line telephony connection over the long term; most of them intend to switch to Internet-based telephony over data lines – Voice over IP.

Strong rise in gross profit underscores scalability // Network expenses, which are recorded under cost of revenues, increased by only € 0.7 million to € 37.1 million in the second quarter of 2006 – during the same period, revenues were up € 7.9 million to € 56.6 million. The fact that QSC was able to generate rising revenues with stable network expenses illustrates the scalability of its business model.

Consequently, there was an accelerated rise in gross profit, which advanced by 57 percent to € 19.5 million in the second quarter of 2006, as opposed to € 12.4 million for the same quarter the year before. This means that QSC is already earning a gross margin of 34 percent; during the comparable quarter the year before, gross margin had stood at 25 percent.

Gross margin rising to 34 percent

Selling and marketing expenses increased to € 10.5 million in the second quarter of 2006, as opposed to € 6.8 million for the same quarter the year before. Successes with business customers, which QSC predominantly wins through marketing partners, led to an increase in commission payments. Moreover, QSC also launched a specific marketing campaign in the early summer of 2006; even during the pilot phase in the Bremen region, there was an encouragingly positive response on the part of small and medium-sized businesses in this region.

General and administrative expenses totaled € 5.0 million in the second quarter of 2006, as opposed to € 3.9 million for the same quarter the year before; these expenses remained virtually unchanged from the first quarter of 2006.

Gross Profit (in € million)

EBITDA surges // In the second quarter of 2006, progress in the underlying business produced a surge in EBITDA: At € 4.1 million, it was up 156 percent from € 1.6 million in the second quarter of 2005. QSC defines EBITDA as earnings before interest, taxes, amortization of deferred non-cash share-based payments, as well as depreciation on property, plant and equipment and amortization of goodwill.

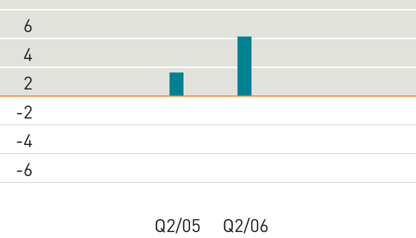
EBITDA up 156 percent in the second quarter of 2006

Depreciation rose by 13 percent during the second quarter of 2006 to € 6.9 million, as opposed to € 6.1 million for the second quarter of 2005. While more and more assets have been fully depreciated six years after the beginning of the investment phase, demand-driven expansion of the Company's DSL network, as well as the accelerated pace of upgrading it with ADSL2+ technology, are necessitating new investments, which result in corresponding depreciation expense. Moreover, in the second quarter of 2006 QSC merged with celox Telekommunikationsdienste GmbH, which was acquired by QSC in May 2005. In this connection, it was necessary to write off the capitalized value of the celox brand, totaling € 0.6 million.

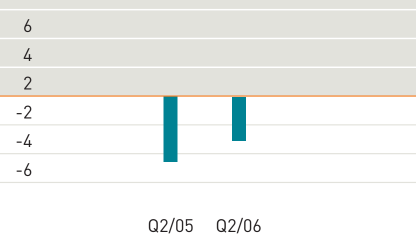
Nevertheless, in spite of the higher level of depreciation, QSC was able to significantly improve its net results in the second quarter of 2006 to a net loss of € -3.1 million, as opposed to € -4.6 million for the second quarter of 2005. Earnings per share improved to € -0.03, as opposed to € -0.04 for the same quarter the year before.

High margins in all strategic segments // The Company's success in its high-margin business with large accounts, business customers and resellers is especially transparent in the segment EBITDAs, which are calculated as net revenues for the segment less all costs directly attributable to this segment.

EBITDA (in € million)



Net Loss (in € million)



In its business with large accounts, QSC earned a segment EBITDA of € 8.3 million in the second quarter of 2006, as opposed to € 7.2 million for the comparable period the year before. At 55 percent in the second quarter of 2006, the margin here was higher than in any other segment. QSC began focusing on high-margin business with IP-VPN enterprise solutions early on, and is today benefiting from both its experience as well as from its ever-higher network coverage. The more locations in an enterprise network that QSC is able to cover with its own network and thus the lower the percentage of lines that have to be obtained from other network operators, the higher the margin for QSC.

EBITDA margin in the Reseller segment advancing to 53 percent

In its business with resellers, QSC earned a segment EBITDA of € 5.6 million in the second quarter of 2006, as opposed to € 3.2 million for the second quarter of 2005; the margin in this segment advanced to 53 percent, as opposed to 38 percent for the same quarter the year before.

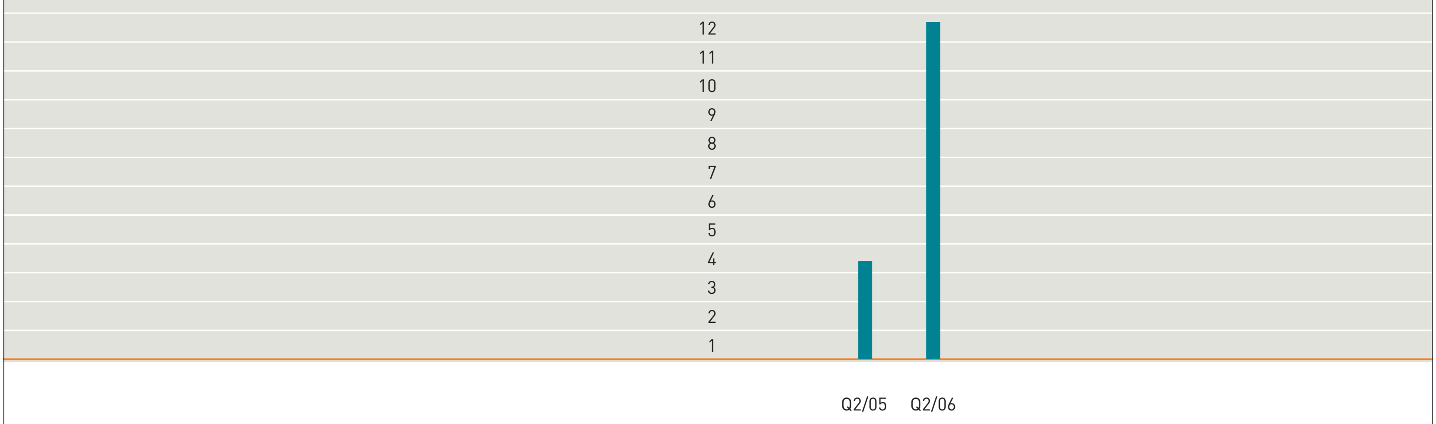
The segment EBITDA for business customers rose to € 9.0 million in the second quarter of 2006, as opposed to € 6.1 million for the comparable quarter the year before. In this segment, expansion of the network is enabling a growing number of relatively high-margin direct connections to the QSC network. Consequently, the margin in this segment increased from 43 percent to 50 percent year-on-year.

Segment EBITDA Margin (in percent)

In the Company's non-strategic business with residential customers, the margin remained virtually unchanged at 31 percent, in spite of the price war in this segment, as opposed to 33 percent the year before; at € 4.0 million, the segment EBITDA was down € 0.8 million from the year before. This stable margin shows that in this segment, too, QSC is paying strict attention to generating a positive contribution margin in connection with each and every offer.

QSC acquires majority stake in Broadnet // In June 2006, QSC acquired 10,654,555 shares of publicly traded Broadnet AG from its former major shareholders and management, and thus now holds 66 percent of the shares of this broadband provider. With this acquisition, QSC is primarily strengthening its high-margin business with enterprise customers; last year, Broadnet generated 96 percent of its revenues with enterprise customers and resellers, earning an EBITDA of € 4.6 million. The major shareholders and management of Broadnet AG received 1.0542 QSC shares in exchange for each Broadnet share. In order to conduct this transaction, the Management and Supervisory Boards of QSC AG had previously resolved an € 11,232,176 increase of capital through the issuance of 11,232,176 new shares from authorized capital against contributions in kind, thereby excluding existing shareholders' subscription right. Since July 22, 2006, QSC has been offering all Broadnet shareholders the opportunity of exchanging their shares at the same terms and conditions as the major shareholders in connection with a public tender offer. The term for accepting this tender offer will run until September 11, 2006, with the further acceptance term expected to end on September 29, 2006.

Capital Expenditures (in € million)



Following its acquisition of a majority stake in Broadnet, QSC has been consolidating its new subsidiary in its accounting since June 6, 2006. In the second quarter of 2006, Broadnet's consolidated revenue contribution totaled € 3.6 million, its EBITDA contribution € 0.4 million.

QSC intends to cover 90 percent of its network with ADSL2+ by November 2006

Fast progress in upgrading DSL network with ADSL2+ // In the second quarter of 2006, QSC's capital expenditures totaled € 11.7 million, as opposed to € 3.4 million for the same quarter the year before. Activities in this connection focused on the demand-driven expansion of the Company's DSL network, as well as on upgrading this network with ADSL2+ technology; by November 2006, QSC intends to cover 90 percent of its DSL network with ADSL2+. Given the launch of ADSL2+ products by HanseNet, QSC additionally invested in systems and interfaces to wholesale partners. Further capital investments involved the introduction of a new Enterprise Resource Planning system at the Company, as well as up-front expenses for connecting new large accounts to the QSC network. This higher level of investment, as well as non-recurring transacition costs in connection with the acquisition of a majority stake in Broadnet and expenses caused by the establishment of joint-venture network operating company Plusnet, resulted in a net cash burn. The € 50 million cash contribution of the new minority shareholder of Plusnet, TELE2, is not included in the reported group cash balance yet, as the transaction was not concluded until July 10, 2006. As of June 30, 2006, QSC's net liquid assets totaled € 59.4 million.

The consolidated group accounts of QSC as of June 30, 2006, consolidates the accounts of Broadnet since June 6, 2006. In particular, initial consolidation of this company resulted in a significant rise in long-term assets; at € 109.9 million, they are a total of € 52.2 million higher than on December 31, 2005. QSC recorded particularly high growth in connection with property, plant and equipment; as of June 30, 2006, QSC recorded property, plant and equipment valued at € 58.0 million,€ 24.6 million more than on December 31, 2005.

On the liabilities side, the acquisition of a majority stake in Broadnet was paid through an increase of capital against contributions in kind and resulted in the issuance of 11.2 million new shares and a corresponding rise in subscribed capital. In addition, the conversion of convertible bonds into 0.8 million new QSC shares under employee stock option programs also contributed to a rise in subscribed capital by a total of € 12.0 million. The Company's equity ratio rose to 65 percent from 56 percent on December 31, 2005.

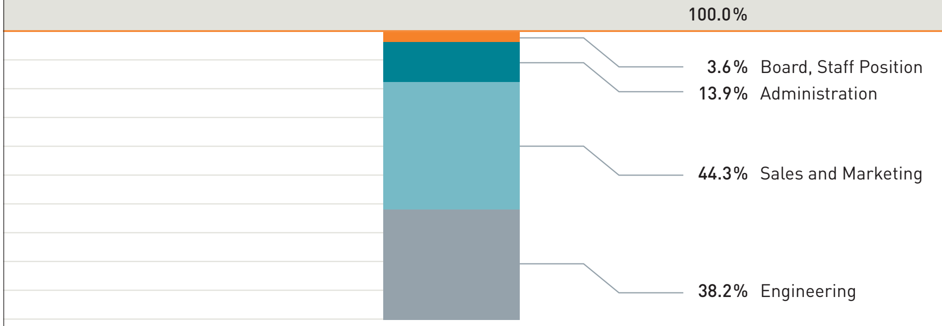
The soundness of QSC's financing is underscored by the fact that, even following the acquisition of a majority stake in Broadnet, the Company continues to remain debt-free, with the exception of liabilities under financial leasing agreements. Long-term liabilities from this comparatively attractive form of financing totaled € 15.3 million as of June 30, 2006, as opposed to € 10.7 million on December 31, 2005; short-term liabilities from finance lease totaled € 12.1 million, as opposed to € 8.4 million at year-end. This rise was a direct result of QSC's significantly higher level of investment.

Broadnet employees strengthen QSC team // As of June 30, 2006, QSC employed a total of 662 people throughout the Group. 197 of them were attributable to the Company's new subsidiary, Broadnet AG. These people, too, work in an entrepreneurial corporate culture that is characterized by fast decision-making and flat hierarchies; their workstyle, dedication to performance and high skill levels make for a very good fit with QSC.
As a stand-alone company, QSC employed a total of 465 people as of June 30, 2006. 44 percent of them work in sales and marketing, 38 percent in engineering and only 14 percent in administration.

Plusnet to accelerate network expansion // Following the close of the reporting period for the second quarter of 2006, QSC, on July 10, 2006, formed a joint network operating company together with the German subsidiary of the TELE2 Group, Communication Services TELE2 GmbH. Following approval by the German Cartel Office, this new company will operate and expand a nationwide DSL network beginning on September 1, 2006. QSC will hold 67.5 percent of the shares of the new network operating company, Plusnet GmbH & Co. KG, TELE2 will hold 32.5 percent; the shareholders agreement contract will run until at least the end of 2013 and does not include any change of control clauses.
QSC is contributing its nationwide DSL network to Plusnet; TELE2 is making a cash contribution of € 50 million to finance further expansion of the network. Plusnet will thus be expanding today's network, with over 1,000 central offices, by an additional 900 by year-end 2007 to a total of nearly 2,000 central offices. This network will then number among the largest broadband networks in Germany, reaching over 50 percent of all German households as well as some 70 percent of all enterprise locations for which VPN solutions have been advertised in requests for proposals.
This will again significantly improve QSC's market position and profitability in its core business of enterprise networking. In addition, splitting Plusnet's network expenses between the shareholders, in particular, will produce EBITDA cost savings of € 10 million per year for QSC from 2007 onwards.

Plusnet will produce EBITDA cost savings of € 10 million per year

Workforce Structure (excluding Broadnet, in percent)



German economy poised for potential downturn // QSC is currently benefiting from the friendly investment climate in Germany. However economic research anticipates that the pace of growth could abate again during the second half of 2006 and, in particular, in 2007. In the years 2002 and 2003, however, QSC had already proven that it is very capable of generating high revenue growth and improving results even in an extremely difficult overall economic environment.
However as a result of a potential recession, as well as other risks or incorrect assumptions, actual future results could vary from QSC's expectations. All statements contained in these consolidated interim financial statements that are not historical facts are therefore forward-looking statements. They are based upon current expectations and projections of future events, and could therefore change over the course of time, whereby QSC does not necessarily intend to communicate such changed expectations and projections.

Growth potential in all strategic segments // Given the good development of its underlying business during the second quarter of 2006, QSC is reiterating its forecast for the full 2006 fiscal year that was updated in conjunction with the acquisition of a majority stake in Broadnet. QSC anticipates revenues of more than € 265 million and an EBITDA of between € 15 and 20 million. The Company plans to also cross the profitability threshold by year-end.
This growth will primarily be driven by the Company's three strategic segments. In the case of large accounts, QSC anticipates further contracts with new customers during the coming quarters, as well as a continued increase in its percentage of its existing customers' telecommunication budgets. In the case of business customers, higher revenues in the coming quarters will primarily stem from direct access business as well as from the integration of voice and data products over one broadband connection through the use of IPfonie products.

Acceleracted growth in the Reseller segment

QSC anticipates especially strong revenue growth in the Reseller segment. Following HanseNet's successful marketing launch in April 2006, the coming quarters should see a sharp rise in sales of ADSL2+ products. This business will additionally be fueled by a wholesale agreement with freenet AG. Beginning in September 2006, freenet will begin to offer fully unbundled ADSL2+ connections with speeds of up to 16 megabits per second on the basis of the QSC network. Unlike the resale/-wholesale DSL products of DTAG, the fully unbundled DSL connections of QSC allow the freenet customer to terminate the existing telephone connection with DTAG. Moreover, the establishment of Plusnet together with TELE2 will serve as the foundation for a long-term collaboration with one of Europe's largest and most successful telecommunication providers – QSC anticipates that this will produce significant revenue contributions in reseller business beginning in 2007.
To broaden its competitive position, especially with resellers and large accounts, during the first half of 2006 QSC has made greater investments in the demand-driven expansion of its network and in upgrading it with ADSL2+ technology. Following the significant rise in capital expenditures that this involved in the first half of this year, QSC expects to see the present level of investments decline during the second half of 2006. However depending upon customer demand, the Company does not exclude the possibility that the actual total amount for investments in 2006 could be up to € 5 million higher than the original forecast of € 20 to 25 million that was projected at the beginning of the year. This total also includes the investments for 2006 that have already been budgeted for the new Plusnet joint venture.

Interim Consolidated Financial Statements

Consolidated Statements of Income (unaudited)

Euro amounts in thousands (T €)

	01/04/-30/06/ 2006	01/04/-30/06/ 2005	01/01/-30/06/ 2006	01/01/-30/06/ 2005
Net revenues	**56,579**	**48,733**	**110,992**	**90,235**
Cost of revenues	(37,057)	(36,368)	(75,090)	(67,051)
Gross profit	**19,522**	**12,365**	**35,902**	**23,184**
Selling and marketing expenses	(10,529)	(6,755)	(19,506)	(12,712)
General and administrative expenses	(5,018)	(3,906)	(10,121)	(7,439)
Research and development expenses	(80)	(78)	(162)	(159)
Depreciation and non-cash share-based payments	(6,866)	(6,103)	(12,240)	(12,807)
Other operating income	233	87	372	236
Other operating expenses	(5)	(137)	(8)	(233)
Operating loss	**(2,743)**	**(4,527)**	**(5,763)**	**(9,930)**
Financial income	264	89	676	490
Financial expenses	(617)	(154)	(1,014)	(259)
Net loss before income taxes	**(3,096)**	**(4,592)**	**(6,101)**	**(9,699)**
Income taxes	-	-	-	-
Net loss	**(3,096)**	**(4,592)**	**(6,101)**	**(9,699)**
Attributable to:				
Shareholders	(3,104)	-	(6,109)	-
Minority interest	8	-	8	-
Net loss per common share (basic and diluted) in €	(0.03)	(0.04)	(0.05)	(0.09)

Consolidated Balance Sheets (unaudited)

Euro amounts in thousands (T €)

ASSETS	30/06/2006	31/12/2005
Long-term assets		
Goodwill	35,964	9,265
Intangible assets	9,711	8,804
Property, plant and equipment	57,954	33,371
Other long-term financial assets	331	293
Deferred taxes	5,969	5,969
Long-term assets	**109,929**	**57,702**
Short-term assets		
Prepayments	5,515	2,096
Trade accounts receivables	40,222	34,177
Other receivables and short-term financial assets	4,258	914
Available-for-sale financial assets	19,121	26,065
Cash and short-term deposits	40,285	30,313
Short-term assets	**109,401**	**93,565**
TOTAL ASSETS	219,330	151,267

SHAREHOLDERS' EQUITY AND LIABILITIES		
Shareholders' equity		
Capital stock	127,053	115,033
Capital surplus	537,922	499,643
Other reserves	(1,459)	(1,357)
Accumulated deficit	(534,382)	(528,281)
Minority interest	13,302	-
Shareholders' equity	**142,436**	**85,038**
Long-term liabilities		
Convertible bonds	60	60
Accrued pensions	791	796
Long-term portion of finance lease obligations	15,325	10,687
Deferred taxes	3,779	3,847
Long-term liabilities	**19,955**	**15,390**
Short-term liabilities		
Short-term portion of finance lease obligations	12,070	8,437
Provisions	2,844	930
Trade accounts payable	35,610	31,596
Deferred revenues	3,595	3,441
Other short-term liabilities	2,820	6,435
Short-term liabilities	**56,939**	**50,839**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	219,330	151,267

Consolidated Statements of Cash Flows (unaudited)

Euro amounts in thousands (T €)

	01/01/-30/06/ 2006	01/01/-30/06/ 2005
Cash flow from operating activities		
Net loss	(6,101)	(9,699)
Depreciation and amortization	12,093	12,807
Non-cash share-based payements	153	-
Gains from disposal of long-term assets	42	6
Changes in provisions	1,909	(121)
Changes in trade accounts receivables	(6,044)	(5,271)
Changes in trade accounts payable	4,014	4,360
Changes in other financial assets and liabilities	(10,330)	(3,982)
Cash flow from operating activities	**(4,264)**	**(1,900)**
Cash flow from investing activities		
Purchases of available-for-sale financial assets	(5,185)	(8,976)
Disposal of available-for-sale financial assets	11,831	9,978
Payments related to acquisitions	17,142	1,575
Purchases of intangible assets	(2,816)	(2,639)
Purchases of property, plant and equipment	(3,057)	(1,137)
Proceeds from disposal of long-term assets	4	-
Cash flow from investing activities	**17,919**	**(1,199)**
Cash flow from financing activities		
Changes in convertible bonds	1	1
Proceeds from issuance of common stock	1,180	278
Repayments of finance lease	(4,864)	(1,941)
Cash flow from financing activities	**(3,683)**	**(1,662)**
Change in cash and short-term deposits	**(9,972)**	**(4,761)**
Cash and short-term deposits at January 1	30,313	22,536
Cash and short-term deposits at June 30	**40,285**	**17,775**
Interest paid	993	246
Interest received	620	475

Consolidated Statements of Shareholders' Equity (unaudited)

Euro amounts in thousands (T €)

	Capital Stock T €	Capital Surplus T €	Other Reserves T €	Accumulated Deficit T €	Minority Interest T €	Total Share-holders' Equity T €
Balance at January 1, 2006	115,033	499,643	(1,357)	(528,281)	-	85,038
Net loss				(6,101)		(6,101)
Changes in fair value of available-for-sale financial assets			(170)			(170)
Deferred taxes on available-for-sale financial assets			68			68
Issuance of common stock by assets in kind	11,232	37,740				48,972
Conversion of convertible bonds	788	392				1,180
Non-cash share-based payments		147				147
Minority interest					13,302	13,302
Balance at June 30, 2006	127,053	537,922	(1,459)	(534,382)	13,302	142,436
Balance at January 1, 2005	105,503	474,750	16	(510,095)	-	70,174
Net loss				(9,699)		(9,699)
Changes in fair value of available-for-sale financial assets			(757)			(757)
Deferred taxes on available-for sale financial assets			295			295
Issuance of common stock by assets in kind	3,584	10,177				13,761
Conversion of convertible bonds	211	68				279
Balance at June 30, 2005	109,298	484,995	(446)	(519,794)	-	74,053

Consolidated Statements of Recognized Income and Expense (unaudited)

Euro amounts in thousands (T €)

	01/01/-30/06/ 2006	01/01/-30/06/ 2005
Directly recognized in equity		
Available-for-sale financial assets		
change in fair value	(177)	(772)
realized losses	6	15
Apportionable to tax effect	68	295
Directly recognized in equity	**(103)**	**(462)**
Net loss	(6,101)	(9,699)
Net loss and recognized income and expense	**(6,204)**	**(10,161)**

Notes to the Interim Condensed Consolidated Financial Statements

1 General principles

The interim condensed consolidated financial statements of QSC AG ("QSC," "the Company" or "the Group") for the period ended June 30, 2006, have been prepared in accordance with the International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) issued by the International Accounting Standards Board (IASB) as well as their interpretation by the International Financial Reporting Interpretations Committee (IFRIC).
As the interim condensed consolidated financial statements are based on the consolidated financial statements, we refer to the detailed description of the basis of preparation in the notes to the consolidated financial statements as of December 31, 2005.
The consolidated financial statements are presented in euros and all amounts, except when otherwise indicated, are rounded to the nearest thousand ("T €").

2 Consolidation

In addition to the subsidiaries and associated companies that had already been included in the consolidated financial statements for the fiscal year ended December 31, 2005, Q-DSL home GmbH ("DSL home") is being fully consolidated since March 31, 2006, 010090 GmbH ("010090") since April 12, 2006, and Broadnet AG ("Broadnet") since June 6, 2006. As of June 30, 2006, QSC held 100 percent of the shares of both DSL home and 010090, as well as 67 percent of the shares of Broadnet.

3 Basis of preparation

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

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

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

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

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

4 Subsidiaries

Broadnet // On June 6, 2006, QSC entered into an agreement with the main shareholders and management to acquire 67 percent of the shares of Broadnet. Broadnet is a nationwide provider of microwave- and DSL-based broadband communication solutions. With the acquisition of a majority interest in Broadnet, QSC is strengthening its high-margin core business with enterprise customers. The purchase price for 67 percent of the shares amounted to T € 52,032, including costs of acquisition in the amount of T € 3,060. To effect the transaction, the Management and Supervisory Boards had resolved an increase of capital of € 11,232,176 through the issuance of 11,232,176 new shares from authorized capital against contributions in kind. A purchase price allocation, which is to be recognized on first consolidation, and which serves to determine the fair value of assets and liabilities acquired, will follow in accordance with IFRS 3. Until then, the preliminary goodwill amounts to T € 26,683.

DSL home // On March 31, 2006, QSC acquired 100 percent of the shares of DSL home. The purchase price for formerly inactive Kristall 40. GmbH amounted to T € 27. Consumer contracts stemming from the Company's residential customer DSL business will be spun off to DSL home pursuant to § 123, Sub-Para. 3, No. 1, German Corporate Transformation Act ("UmwG"). On May 23, 2006, the Annual Shareholders Meeting resolved its consent to the spin-off and retroactive transfer for economic purposes as of January 1, 2006.

010090 // On April 12, 2006, QSC acquired 100 percent of the shares of 010090. The purchase price for formerly inactive Kristall 39. GmbH amounted to T € 27. 010090 markets voice products for residential customers, in particular call-by-call offerings.

5 Segment reporting

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

01/01/-30/06/2006 in T €	Segment Large accounts	Segment Business customers	Segment Wholesale/ Resellers	Segment Residential customers	Recon-ciliation	Consoli-dated
Net revenues	**29,688**	**35,345**	**18,187**	**27,772**	**-**	**110,992**
Directly allocated costs	(13,530)	(16,962)	(8,249)	(20,667)	-	(59,408)
Contribution margin	**16,158**	**18,383**	**9,938**	**7,105**	**-**	**51,584**
Not allocated costs	-	-	-	-	(45,107)	(45,107)
EBITDA	**16,158**	**18,383**	**9,938**	**7,105**	**(45,107)**	**6,477**
Depreciation and amortization	(561)	(645)	(548)	(848)	(9,491)	(12,093)
Non-cash share-based payments	-	-	-	-	(147)	(147)
Financial result	-	-	-	-	(338)	(338)
Net profit/(loss)	**15,597**	**17,738**	**9,390**	**6,257**	**(55,083)**	**(6,101)**
Long-term assets	3,313	3,809	3,236	5,008	203,964	219,330
Liabilities	3,033	3,487	2,962	4,584	62,828	76,894
Capital expenditures	1,303	1,498	1,273	1,970	12,963	19,007

01/01/-30/06/2005 in T €	Segment Large accounts	Segment Business customers	Segment Wholesale/ Resellers	Segment Residential customers	Recon-ciliation	Consoli-dated
Net revenues	**24,310**	**26,202**	**13,485**	**26,238**	**-**	**90,235**
Directly allocated costs	(8,353)	(14,802)	(7,820)	(18,514)	-	(49,489)
Contribution margin	**15,957**	**11,400**	**5,665**	**7,724**	**-**	**40,746**
Not allocated costs	-	-	-	-	(37,869)	(37,869)
EBITDA	**15,957**	**11,400**	**5,665**	**7,724**	**(37,869)**	**2,877**
Depreciation and amortization	(1,031)	(1,059)	(807)	(1,682)	(8,228)	(12,807)
Non-cash share-based payments	-	-	-	-	-	-
Financial result	-	-	-	-	231	231
Net profit/(loss)	**14,926**	**10,341**	**4,858**	**6,042**	**(45,866)**	**(9,699)**
Long-term assets	2,286	1,426	1,552	3,407	115,030	123,701
Liabilities	3,379	3,471	2,645	5,513	33,935	49,943
Capital expenditures	505	519	395	824	5,847	8,090

6 Management Board

	Shares		Convertible bonds	
	30/06/2006	30/06/2005	30/06/2006	30/06/2005
Dr. Bernd Schlobohm	13,818,372	13,818,372	350,000	50,000
Markus Metyas	2,307	2,307	1,575,000	1,584,116
Bernd Puschendorf	3,000	3,000	1,025,000	1,025,000

7 Supervisory Board

	Shares		Convertible bonds	
	30/06/2006	30/06/2005	30/06/2006	30/06/2005
John C. Baker	-	-	10,000	19,130
Herbert Brenke	187,820	187,820	10,000	19,130
Gerd Eickers	13,853,484	13,853,484	-	9,130
Ashley Leeds	9,130	9,130	10,000	10,000
Norbert Quinkert	3,846	3,846	-	-
David Ruberg	4,563	4,563	10,000	19,130

8 Subsequent events

On July 10, 2006, QSC and the German subsidiary of the TELE2 Group, Düsseldorf-based Communication Services TELE2 GmbH ("TELE2"), formed Plusnet GmbH & Co. KG, of Cologne ("Plusnet"). QSC is contributing its DSL network to Plusnet and holds 67.5 percent of its shares; TELE2 is making a cash contribution in the amount of € 50 million to finance further network expansion and holds 32.5 percent of its shares. Plusnet will operate and expand the nationwide DSL network; the contract will run until at least year-end 2013. Following approval by the German Federal Cartel Office on August 21, 2006, Plusnet will be able to commence operations on schedule beginning on September 1, 2006.
The spin-off and transfer agreement relating to the spin-off of the Company's residential customer DSL business to DSL home was signed on August 9, 2006.

Cologne, August 2006

Dr. Bernd Schlobohm
Chief Executive Officer

Markus Metyas

Bernd Puschendorf

Calendar

Quarterly Report III/2006
November 28, 2006

Conferences / Events
August 30, 2006
German Telco Day
WestLB, Frankfurt

September 13, 2006
German Small Cap Conference
M.M. Warburg/SES Research, Paris

September 15, 2006
European Broadband Conference
JP Morgan, London

September 27, 2006
German Investment Conference 2006
HypoVereinsbank, Munich

November 13, 2006
German Small Caps Day
Société Générale, Paris

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

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