QSC AG

Quarterly Report . 2004 . July August September

Key data

	01/07/-30/09/ 2004	01/07/-30/09/ 2003	01/01/-30/09/ 2004	01/01/-30/09/ 2003
All amounts in million EUR				
Revenues	38.1	29.5	105.8	85.3
Gross profit	7.9	2.9	22.8	5.0
EBITDA	0.4	-5.5	0.7	-22.7
EBIT	-5.6	-13.3	-17.0	-48.9
Net loss	-5.5	-12.3	-16.5	-46.3
Net loss per common share [1] (in EUR)	-0.05	-0.12	-0.16	-0.44
Capital Expenditure	3.4	0.3	6.9	3.6
Equity			75.3 [2]	89.5 [3]
Balance Sheet Total			113.2 [2]	132.7 [3]
Equity ratio (in %)			66.5 [2]	67.4 [3]
Liquidity			39.7 [2]	54.3 [3]
Share price as of 30/09/ (in EUR)			3.90	2.06
Number of shares as of 30/09/			105,394,263	105,021,374
Market capitalization as of 30/09/			411.0	216.3
Employees as of 30/09/			358	380

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

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

QSC at a Glance

Outstanding growth // QSC sustained its strong and profitable growth in the third quarter of 2004: Revenues rose by 29 percent to EUR 38.1 million. This growth pattern is underscored by QSC's second place in the latest Deloitte Technology Fast 50 rankings of the fastest-growing technology companies in Germany.

Sustained profitability // For the third time in a row, QSC posted a positive EBITDA for the past quarter: The Company's operating profit before depreciation and amortization stood at EUR 0.4 million, as opposed to an EBITDA loss of EUR -5.5 million for the same quarter the year before.

Positive free cash flow // In spite of introducing a new line of business as well as significant up-front expenses for new major project business contracts, QSC generated a free cash flow of EUR 0.6 million in the third quarter of 2004. This increased liquid assets to EUR 39.7 million as of September 30, 2004.

Share price advance against the market trend // In spite of a difficult market environment, QSC's share price performance posted a 2-percent gain during the third quarter, while the TecDAX lost 14 percent during the same period. In fact, QSC shares have risen a strong 29 percent since the beginning of the year, as opposed to an 8-percent decline in the TecDAX. In recent months, QSC's management has responded to strong interest on the part of investors by participating in numerous investor relations events in Frankfurt, London, New York and other cities.

Dear Shareholders,

In spite of the weak economy, our Company has recorded enormous growth in recent years. With cumulative revenue growth of over 7000 percent between 1999 and 2003, QSC is Germany's fastest-growing telecommunication company. Overall, QSC posted the second-highest growth among technology companies in Germany – these are the results of the latest Technology Fast 50 rankings from Deloitte & Touche. We view this outstanding ranking as a confirmation of our strategy and as an incentive to sustain our strong and profitable growth in the future, as well.

In the third quarter of 2004, alone, QSC grew its revenues by 29 percent year-on-year to EUR 38.1 million. This growth is driven first and foremost by the dynamics of the IP-VPN market. We are meeting strong demand for flexible, DSL-based network solutions on the part of both our Large Enterprise accounts as well as among small and medium-size enterprises. In this connection, a growing number of customers are handling both data transport as well as their voice communication over IP-VPNs. Given the introduction of Voice over IP solutions, we see continued strong growth potential in the years to come.

Increasing integration of data transport and voice communication into IP-VPNs

We also have high expectations for network-related value added services (managed services) that build upon IP-VPNs. The Tchibo contract that we won in October 2004 shows what opportunities are opening up for QSC here. In addition to its VPN, we are also operating this retail group's entire existing local area network (LAN) infrastructure, which includes 4,000 end-user devices and 3,000 LAN ports. One key aspect in this growth market is managed network security. Here, QSC is already implementing its first projects. It is our conviction that the ability to offer and assure high standards of security in VPNs will be one of the dominant issues for telecommunication providers.

In addition, QSC is systematically moving into further lines of business that promise strong growth. Since October 2004, for example, AOL has been utilizing our infrastructure to connect its own customers in Germany to its network – marking the start of a new line of business, carrier-to-carrier services. Over the course of the coming quarters, we anticipate further contracts in this sector from carriers and Internet providers who do not possess their own broadband infrastructure.

Dr. Bernd Schlobohm

Chief Executive Officer

Markus Metyas

Chief Financial Officer, also in charge of Purchasing, Human Resources and Legal Affairs

Bernd Puschendorf

Chief Sales and Marketing Officer, also responsible for Order Management

New potential is also opening up with the expanded product portfolio that QSC introduced to the market in early November 2004. With our two product lines, Q-DSLpro and Q-DSLmax, we can now provide virtually nationwide availability for business customers, over and above nationwide coverage for our project business.

The paramount principle in all of our existing and new offerings remains our focus on profitable growth. All additional revenues, at both the product and project level, have to contribute to QSC's profitability. In the past, this principle has led to noticeable improvements in our profitability. For the third time in a row, QSC generated a positive EBITDA during the past quarter, with gross profit rising by 172 percent year-on-year to EUR 7.9 million.

Nevertheless, these strong dynamics, especially in the project business, necessitate considerable up-front expenses. Corresponding adaptations and installations of hard- and software have to be made both in our own network and at the customer's site before QSC can connect a major account or a "major project customer." While these expenses are amortized within a few months, the contracts typically run for several years. We view both these up-front expenditures as well as the start-up expenses involved in introducing new lines of business as investments in QSC's future.

The capital market is rewarding this strategy. "QSC on the Road to Gold," was the headline in Handelsblatt only a few weeks ago. Two further facts document the positive assessment in the capital market: On the one hand, the number of financial institutions that are publishing research on QSC has risen to nine. On the other, QSC's share price rose moderately during the third quarter of 2004, while the TecDAX lost more than ten percent.

Since October 2004, a three-person Management Board has been responsible for QSC's further growth. Following the successful conclusion of the Ventelo integration, Mark Goossens has resigned from the Management Board. He had been responsible for Customer Service and Operations and had also served as the General Manager of Ventelo GmbH. Mark Goossens played a key role in driving this integration. Without his constructive involvement, QSC would not have been able to transform itself so quickly from a DSL provider to an integrated telecommunication provider. At this point, we would like to reiterate our sincere thanks to him.

As an integrated, nationwide telecommunication provider, tremendous growth opportunities will continue to open up to QSC in the coming quarters. We intend to - and will - use these opportunities for the benefit of our shareholders.

Cologne, November 2004

Dr. Bernd Schlobohm
Chief Executive Officer

Markus Metyas

Bernd Puschendorf

QSC sustains its strong, profitable growth

According to the latest Deloitte Technology Fast 50 rankings, QSC enjoys the second-highest growth rate of any technology company in Germany. During the third quarter of 2004, the Company underscored its dynamic development with a revenue growth of 29 percent year-on-year to EUR 38.1 million. At the same time, QSC again generated a positive EBITDA as well as a free cash flow.

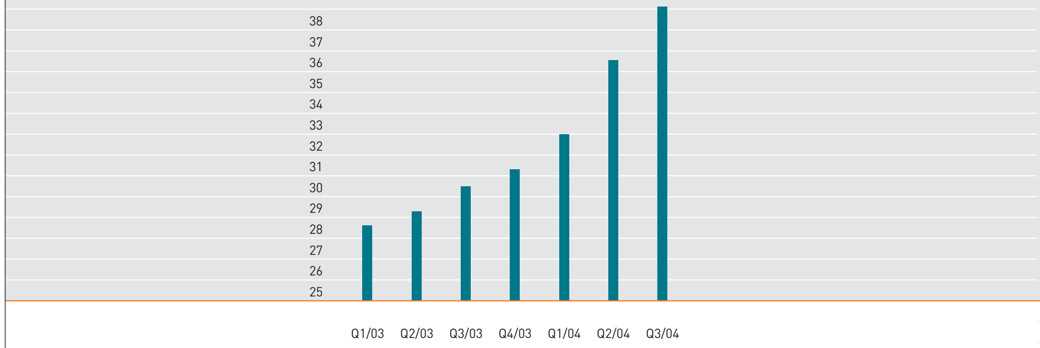
Strong growth at QSC – subdued overall market growth // A sustained recovery of the German economy failed again to materialize in the third quarter of 2004. The ITC industry, on the other hand, views the phase of economic weakness as a feature of the past and anticipates moderate revenue growth of 2.5 percent for 2004 and a further increase of 3.4 percent in 2005.

Strong growth in the VPN-market

In contrast, the IP-VPN market in Germany is posting significantly higher growth. Market researcher IDC is predicting annual growth rates of more than 30 percent in this segment through 2007. Three factors are essentially driving this growth: Firstly, fixed leased lines are being replaced with flexible, DSL-based IP-VPNs that enable home offices to be cost-effectively and securely integrated into enterprise networks. Secondly, there is a simultaneous trend toward outsourcing telecommunication services to external service providers. Thirdly, conventional circuit switched voice telecommunication is migrating to IP-based transmission technologies, which drives the growing use of Voice over IP.

As a nationwide telecommunication provider with its own DSL network, QSC views itself as being outstandingly well positioned in this market. Early on, the Company had complemented its portfolio of offerings to include managed services, which enable network-based telecommunication services to be outsourced. Since last summer, QSC has started the integration of Voice over IP solutions into business customer networks.

Revenues (in million EUR)



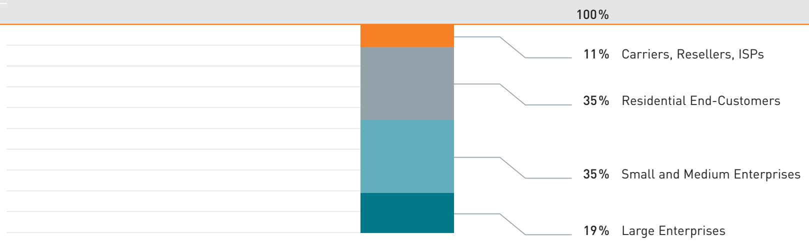
QSC is growing its end-customer business // QSC's good positioning in the telecommunication market is underscored by the fact that revenues with all end customer segments advanced during the third quarter of 2004. Overall, revenues for the past quarter rose by 29 percent to EUR 38.1 million, as opposed to EUR 29.5 million for the same quarter the year before. During the first nine months of the current fiscal year, growth totaled 24 percent, with revenues rising to EUR 105.8 million, as opposed to EUR 85.3 million the year before.

Revenues rise by 29 percent on quarterly comparison

Accounting for 54 percent of total revenues in the third quarter of 2004, business customers continued to be in the focus of QSC's business activities, in particular project business with Large Enterprise accounts. The latter, alone, accounted for 19 percent of total revenues during the past quarter. The Company's managed services offerings are meeting growing demand from this customer group, as was recently demonstrated by the contract with Tchibo GmbH. In addition to a nationwide VPN in Germany, the Hamburg-based retail group mandated QSC to also operate its existing telecommunication and LAN infrastructure, including 4,000 end-user devices as well as 3,000 LAN ports.

QSC experiences a growing demand from Large Enterprise accounts for integrated voice and data solutions. IP-VPNs have long since ceased to be just an efficient way of transporting data. They are increasingly being utilized for voice telephony, as well. This enables Large Enterprise accounts with

Revenue Mix (in percent)

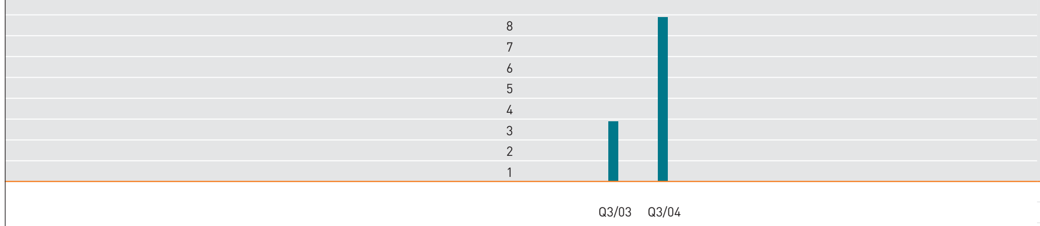


branch organizations, in particular, to achieve drastic cost advantages, as a high percentage of their external telephone costs result from calls within the company and its branches. Within the enterprise's own VPN however, only very minor costs are incurred for these calls. Voice telephony, too, continues to be a growth factor, over and above business with major accounts; the number of businesses with a direct connection to the QSC network continues to rise.
In the autumn of 2004, QSC responded to the market's keen interest in integrating voice and data by expanding its product portfolio. This will make it even simpler to combine voice and data products and solutions, especially for small and medium-size enterprises.
QSC also offers voice and data products to residential customers. This enables the Company to optimize network utilization, especially during the evening and nighttime hours, while simultaneously generating additional revenues and profits. During the third quarter of 2004, residential customers accounted for 35 percent of the Company's total revenues. Carriers, resellers and ISPs accounted for 11 percent of revenues. QSC is broadening its activities in this segment with the launch of its new carrier-to-carrier line of business. Carriers and ISPs who do not possess their own broadband infrastructure can now connect their customers over the QSC broadband network.

Project business with major accounts involves high up-front expenditures // Network expenses, which are recorded under cost of revenues, totaled EUR 30.1 million in the third quarter of 2004, as opposed to EUR 26.6 million for the same quarter the year before. During the first nine months of the current fiscal year, network expenses rose by merely 3 percent to EUR 83.0 million, as opposed to EUR 80.3 million during the comparable period the year before. A comparison with revenue growth of 24 percent for the same period documents the scalability of QSC's business model – rising

High scalability of QSC's business model

Gross Profit (in million EUR)



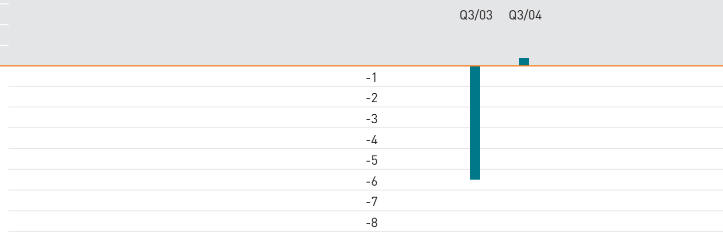
revenues do not go hand in hand with correspondingly higher expenses, thus leading to disproportionate improvements in profitability.
There were essentially two reasons for the growth in network expenses during the third quarter of 2004: On the one hand, the growing size of major contracts in connection with project business necessitates considerable up-front expenditures, such as the need to rent additional leased line capacities outside the QSC locations. On the other hand, QSC has been building a new line of business in recent months, carrier-to-carrier business, which also necessitated targeted network expansions.

Gross profit more than quadrupled

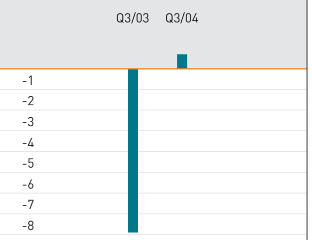
Nevertheless, the Company's gross profit for the third quarter of 2004 rose by 172 percent to EUR 7.9 million, as opposed to EUR 2.9 million for the same quarter the year before. In fact, QSC succeeded in more than quadrupling its gross profit to EUR 22.8 million during the first nine months of the current fiscal year, as opposed to EUR 5.0 million for the comparable period the year before.
On a 9-month comparison basis, sales and marketing expenses remained relatively unchanged at EUR 15.5 million, as opposed to EUR 15.8 million the year before. On a quarterly comparison basis, these expenses rose by EUR 0.7 million to EUR 5.4 million, as opposed to EUR 4.7 million the year before. During the same period, administrative expenses declined by 40 percent to EUR 2.1 million, as opposed to EUR 3.5 million for the same period the year before. On a 9-month comparison basis, QSC succeeded in reducing its administrative expenses by 42 percent to EUR 6.4 million – impressively demonstrating the synergies that were achieved following the Ventelo integration.

Positive EBITDA for the third time in a row // During the third quarter of 2004, QSC recorded a positive EBITDA in the amount of EUR 0.4 million, as opposed to an EBITDA loss of EUR -5.5 million for the same quarter the year before. On a 9-month comparison basis, the Company improved its EBITDA by EUR 23.4 million to EUR 0.7 million today, as opposed to EUR -22.7 million the year before. 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.

EBITDA (in million EUR)



Free Cash Flow (in million EUR)



Depreciation and amortization expense declined by 24 percent to EUR 5.9 million in the third quarter of 2004, as opposed to EUR 7.8 million for the comparable period the year before. This reflects, among other things, declining prices for DSL- and other network equipment items in recent years. On a 9-month comparison basis, as well, depreciation and amortization expense has continued to decline nearly five years after QSC began building its network. Consequently, depreciation and amortization expense for the first nine months of the year 2004 totaled EUR 17.7 million, as opposed to EUR 26.2 million the year before.

The steep improvement in the Company's operating profit, as well as declining depreciation and amortization expense, led to a more than 50-percent decline in the Company's net loss. The latter totaled EUR -5.5 million in the third quarter of 2004, as opposed to EUR -12.3 million the year before. Earnings per share rose to EUR -0.05, as opposed to EUR -0.12 during the comparable period the year before.

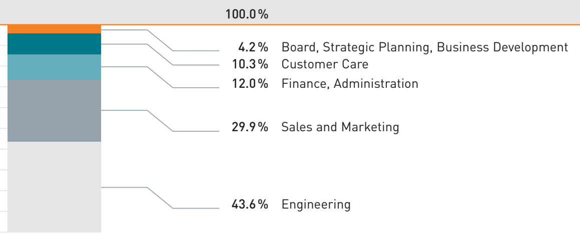
Positive free cash flow also in the third quarter 2004

Liquid assets continue to rise // Even though QSC built a new line of business and incurred significant up-front expenses for new major project business contracts during the third quarter of 2004, the Company generated a free cash flow of EUR 0.6 million. As a result, liquid assets increased to EUR 39.7 million as of September 30, 2004.

QSC's high equity ratio of 67 percent underscores its sound financing basis. Due to conversion of QSC convertible bonds to QSC shares under employee equity incentive programs, the Company's share capital increased moderately by EUR 85,600 to EUR 105.4 million during the past quarter.

Expanding core competencies // In the third quarter of 2004, QSC's workforce rose moderately to 358 people. Well over 80 percent of the Company's employees now work directly in its two core competencies: Technology (44 percent) and sales and marketing, including customer care (40 percent). Given the growth opportunities, the Company intends to expand its sales and marketing team, in particular, over the course of the coming quarters.

Workforce Structure (in percent)



Following the conclusion of the successful integration of Ventelo into QSC AG, QSC Management Board member and Ventelo General Manager Mark Goossens did not renew his contract and left the Company by mutual agreement effective September 30, 2004. QSC would like to thank Mark Goossens for the swift and successful integration of Ventelo and its people. The three remaining members of the Management Board have assumed his Management Board responsibilities of Customer Service and Operations.

QSC competes on the basis of quality, not price // Given the persistent weakness of the German economy, business customers are increasingly looking for opportunities to reduce their telecommunication costs, as well. On the one hand, QSC is benefiting from this development, as it is able to offer IP-VPN solutions as a cost-effective alternative to leased line-based enterprise networks. On the other hand, though, the Company is facing competitive pricing pressure particularly in the product business less so in the project and solutions business. Thanks to its position as a quality provider, QSC is able to avoid this competition to a large extent. What plays a major role in this connection is the fact that QSC possesses its own network in 60 German cities, with the resulting control over providing a high quality of service.

Nevertheless, as a result of declining prices as well as other risks or incorrect assumptions, actual future results could vary materially from the Company's expectations. All statements contained in these consolidated financial statements that are not historical facts are forward-looking statements. They are based upon current expectations and projections of future events, and could therefore change over the course of time.

QSC remains on a profitable growth path // In view of the highly positive development of its underlying business in the third quarter of 2004, QSC is reiterating the forecasts it announced in early 2004. The Company anticipates revenue growth of at least 20 percent for the current fiscal year to more than EUR 138 million, as well as a positive EBITDA.

QSC's new carrier-to-carrier line of business will make its first contribution to revenues during the fourth quarter of 2004. Since October of this year, AOL has been utilizing QSC's nationwide telecommunication infrastructure in Germany as planned.

New product portfolio available nationwide

The expansion of the Company's product portfolio in early November 2004 is expected to further strengthen QSC's position as a nationwide telecommunication provider. With Q-DSLpro, QSC now offers data services virtually throughout the entire country for small and medium-size enterprises, as well. This nationwide offering, which is based upon a resale agreement with Deutsche Telekom, will additionally enable the Company to expand its network in response to specific growth. As soon as enough customers in a given location are using QSC products or solutions on the basis of resold DSL lines, the Company can specifically build or expand its own network there in the knowledge that it will achieve a return on investment. The QSC network is truly customer-driven.

Statements of Operations

Consolidated Statements of Operations (unaudited)

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

	Quarterly Report		9-months Report	
	01/07/-30/09/ 2004	01/07/-30/09/ 2003	01/01/-30/09/ 2004	01/01/-30/09/ 2003
Net revenues	**38,053**	**29,460**	**105,834**	**85,288**
Cost of revenues	30,138	26,552	83,012	80,322
Gross profit	**7,915**	**2,908**	**22,822**	**4,966**
Selling and marketing expenses	5,408	4,699	15,541	15,831
General and administrative expenses	2,061	3,454	6,370	11,029
Research and development expenses	84	277	219	824
Depreciation and amortization	5,914	7,792	17,734	26,210
(including TEUR 30 in non-cash compensation in the nine months ended Sept. 30, 2004; nine months ended Sept. 30, 2003: TEUR 4,818)				
Operating loss	**(5,552)**	**(13,314)**	**(17,042)**	**(48,928)**
Other income (expenses)				
Interest income	186	321	873	1,760
Interest expenses	(108)	(91)	(383)	(96)
Other non-operating income	16	760	63	953
Net loss before income taxes	**(5,458)**	**(12,324)**	**(16,489)**	**(46,311)**
Income taxes	-	-	-	-
Net loss	**(5,458)**	**(12,324)**	**(16,489)**	**(46,311)**
Net loss per common share (basic and diluted)	(0.05)	(0.12)	(0.16)	(0.44)
Weighted average shares outstanding (basic and diluted)	105,394,263	105,021,374	105,394,263	105,021,374

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

Balance Sheets

Consolidated Balance Sheets (unaudited)

(EUR amounts in thousands (TEUR))

ASSETS	30/09/2004	31/12/2003
Current assets		
Cash and cash equivalents	16,797	34,964
Marketable securities	22,896	19,322
Trade accounts receivable, net	23,992	18,559
Unbilled receivables	1,395	42
Other receivables	785	3,263
Prepayments and other current assets	5,569	4,140
Total current assets	**71,434**	**80,290**
Non-current assets		
Other non-current assets	**612**	**479**
Plant and equipment, net		
Land and buildings	37	-
Networking equipment and plant	27,645	40,261
Operational and office equipment	8,191	6,655
Total plant and equipment, net	**35,873**	**46,916**
Intangible assets, net		
Licenses	733	850
Software	2,194	1,761
Others	2	3
Total intangible assets, net	**2,929**	**2,614**
Goodwill	**2,393**	**2,393**
Total non-current assets	**41,807**	**52,402**
Total assets	**113,241**	**132,692**

LIABILITIES AND SHAREHOLDERS' EQUITY	30/09/2004	31/12/2003
Current liabilities		
Trade accounts payable	18,411	18,631
Trade accounts payable due to related parties	-	547
Accrued liabilities	7,337	15,123
Deferred revenues	1,640	1,778
Other current liabilities	6,346	6,571
Total current liabilities	**33,734**	**42,650**
Non-current liabilities		
Convertible bonds	61	63
Accrued pensions	380	510
Obligations under capital leases	3,719	-
Total non-current liabilities	**4,160**	**573**
Shareholders' Equity		
Common stock	105,394	105,037
Treasury stock	-	(266)
Additional paid-in capital	473,447	473,302
Deferred compensation	-	(75)
Other comprehensive income (loss)	217	(46)
Accumulated deficit	(503,711)	(488,483)
Total Shareholders' Equity	**75,347**	**89,469**
Total liabilities and Shareholders' Equity	**113,241**	**132,692**

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

Statements of Cash Flows

Consolidated Statements of Cash Flows (unaudited)

(EUR amounts in thousands (TEUR))

	01/01/-30/09/ 2004	01/01/-30/09/ 2003
Cash flow from operating activities		
Net loss	**(16,489)**	**(46,311)**
Adjustments to reconcile net loss to cash used in operating activities		
Non-cash compensation charge	30	4,818
Depreciation and amortization	17,704	21,392
Loss/(Gain) on sale of equipment	(45)	415
Bad debt expense	1,299	-
Change in operating activities		
Increase in trade accounts receivable, net	(6,732)	(2,205)
Decrease in trade accounts receivable due to related parties	-	7
Increase in unbilled receivables	(1,353)	(788)
Decrease in other receivables	2,478	7,165
Increase in prepayments and other current assets	(1,429)	(981)
Decrease/(Increase) in other non-current assets	(133)	35
Decrease in trade accounts payable	(767)	(8,166)
Increase in obligations under capital leases	3,719	-
Decrease in accrued liabilities	(7,786)	(3,981)
Decrease in deferred revenues	(138)	(698)
Increase/(Decrease) in other current liabilities	(225)	4,898
Increase/(Decrease) in accrued pensions	(2)	20
Net cash used in operating activities	**(9,869)**	**(24,380)**

	01/01/-30/09/ 2004	01/01/-30/09/ 2003
Cash flow from investing activities		
Change in marketable securities	(3,574)	10,047
Available-for-sale securities (unrealized gain)	135	100
Acquisition of business, net of cash acquired	-	362
Property acquired under capital leases	(4,060)	-
Purchases of intangible assets	(1,081)	(267)
Purchases of plant and equipment	(2,152)	(5,233)
Proceeds from sale of equipment	362	1,948
Net cash used in investing activities	**(10,370)**	**6,957**
Cash flow from financing activities		
Borrowings of short-term debt and current portion of long-term debt	-	49
Issuance/(Redemption) of convertible bonds	(2)	12
Disposal of treasury stock	1,527	-
Proceeds from issuance of common stock	547	12
Net cash (used in) provided by financing activities	**2,072**	**73**
Net decrease in cash and cash equivalents	**(18,167)**	**(17,350)**
Cash and cash equivalents at beginning of the year	34,964	43,095
Cash and cash equivalents at end of the period	**16,797**	**25,745**
Supplemental disclosures of cash flow information		
Cash paid during the period for		
Interest expenses	383	96

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

Statements of Equity

Consolidated Statements of Shareholders' Equity from January 1, 2003 to September 30, 2004 (unaudited)

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

	Ordinary Shares		Treasury Shares		Additional Paid-In Capital	Deferred Compensation Account	Comprehensive Income	Accumulated Other Comprehensive Income	Receivables Due from Shareholders	Accumulated Deficit	Total Shareholders' Equity
	Shares	TEUR	Shares	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
Balance at January 1, 2003	105,008,714	105,009	358,747	(266)	473,442	(5,058)		-	(1)	(427,872)	145,254
Net loss							(60,611)			(60,611)	(60,611)
Other comprehensive loss							(46)	(46)			(46)
Comprehensive income							(60,657)				
Convertible bonds forfeited due to termination of employment (January 1, 2003)					(69)	69					-
Convertible bonds forfeited due to termination of employment (April 1, 2003)					(11)	11					-
Convertible bonds forfeited due to termination of employment (October 1, 2003)					(68)	68					-
Issuance of common stock in connection with the conversion of convertible bonds (June 30, 2003)	3,300	3									3
Issuance of common stock in connection with the conversion of convertible bonds (September 30, 2003)	9,360	9									9
Issuance of common stock in connection with the conversion of convertible bonds (December 31, 2003)	16,022	16			8						24
Redemption									1		1
Amount amortized during the period						4,835					4,835
Balance at December 31, 2003	105,037,396	105,037	358,747	(266)	473,302	(75)		(46)	-	(488,483)	89,469
Net loss							(16,489)			(16,489)	(16,489)
Other comprehensive income							263	263			263
Comprehensive income							(16,226)				
Convertible bonds forfeited due to termination of employment (January 1, 2004)					(45)	45					-
Issuance of common stock in connection with the conversion of convertible bonds (March 31, 2004)	219,298	219			174						393
Issuance of common stock in connection with the conversion of convertible bonds (June 30, 2004)	51,969	52			12						64
Issuance of common stock in connection with the conversion of convertible bonds (September 30, 2004)	85,600	86			4						90
Disposal of treasury stock (March 31, 2004)			(122,865)	91						505	596
Disposal of treasury stock (June 30, 2004)			(235,882)	175						756	931
Amount amortized during the period						30					30
Balance at September 30, 2004	105,394,263	105,394	-	-	473,447	-		217	-	(503,711)	75,347

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

Notes to the Interim Condensed Consolidated Financial Statements

1. Basis of presentation

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

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

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

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

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

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

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

Earnings per share // Earnings per share is computed by dividing loss applicable to common stockholders by the weighted average number of shares of QSC's common stock outstanding. Diluted earnings per share are calculated in the same manner except that the number of shares is increased assuming exercise of dilutive stock options and convertible bonds where these are dilutive. For the nine months ended September 30, 2004 and 2003, the dilutive effect of options was not considered because QSC recorded net losses and the impact of an assumed option exercise would be anti-dilutive.

Other comprehensive income // Other comprehensive income as of September 30, 2004, consist of the following:

	01/01/-30/09/2004 in TEUR
Additional minimum pension liability	128
Unrealized income on available-for-sale securities	135
Other comprehensive income	263

New accounting standards // Effective January 1, 2002, the Company adopted the Standard of Financial Accounting Standards ("SFAS") 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", which addresses financial accounting and reporting for the impairment and disposal of long-life assets. These statements supersede SFAS 121, "Accounting for the Impairment of Long-Lived Assets to be Disposed Of". The Company reviews the carrying value of its long-lived assets, including fixed assets, investments, (this is tested for impairment in accordance with FAS 142 as disclosed above), and intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable. Recoverability of long-life assets, excluding goodwill (see discussion above), is assessed by a comparison of the carrying amount of the asset or the group of assets to the total estimated undiscounted cash flows expected to be generated by the asset or group. If the estimated future net undiscounted cash flows are less than the carrying amount of the asset or group, the asset or group is considered impaired and an expense is recognized equal to the amount required to reduce the carrying amount of the asset to its then fair value. No adjustments were required to the carrying value of long-lived assets in the nine months ended September 30, 2004 or 2003.

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS 143, "Accounting for Asset Retirement Obligations". SFAS 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. SFAS 143 is effective for fiscal years beginning after June 15, 2002. The adoption of SFAS 143 did not have a material impact on the results of operation or the financial position of QSC.

In June 2002, the FASB issued SFAS 146 "Accounting for Costs Associated with Disposal or Exit Activities". This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force ("EITF") Issue No. 94-3 "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)". This Statement requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under Issue 94-3, a liability for an exit cost as defined in Issue 94-3 was recognized at the date of an entity's commitment to an exit plan. However, this standard does not apply to costs associated with exit activities involving entities acquired under business combinations or disposal activities covered under SFAS 144. The adoption of SFAS 146 did not have a material impact on the results of operations or the financial position of QSC.

In December 2003, the FASB issued FIN 46R (a revision of FIN 46 as issued in January 2003) "Consolidation of Variable Interest Entities", which addresses how a business enterprise should evaluate whether it has a controlling financial interest in an entity through means other than voting rights and accordingly should consolidate the entity. FIN 46R is effective for all interests in structures commonly referred to as special-purpose entities for periods ending after December 15, 2003, and for all other types of variable interests for periods ending after March 15, 2004. The Company does not have any variable interests in special-purpose entities, and therefore the adoption of FIN 46R did not have a significant impact on the financial position of the Company. In addition, the Company does not have any interests in any other variable interest entities, and therefore the Company does not anticipate that the adoption of FIN 46R will have a material impact on its results of operations or its financial position.

2. Acquisitions and investments

Acquisitions // On December 13, 2002, QSC acquired 100 percent of Ventelo GmbH, Düsseldorf ("Ventelo"). Ventelo is a nationwide voice telephony carrier providing business customers with voice telephony services. Ventelo's market position in voice communications for business customers complements QSC's broadband data communications service to the same customer segment. Ventelo enhances QSC's ability to offer integrated telecommunication solutions for all business customer segments. Total acquisition cost for Ventelo was TEUR 11,454, including direct acquisition costs of TEUR 90. As of September 30, 2004, a second and final tranche of TEUR 4,450 was payable by QSC. On April 1, 2002, Ventelo was outsourced from its former parent company Ventelo Deutschland GmbH due to §§ 159 et seqq. "Umwandlungsgesetz". Ventelo is responsible for potential liabilities of the former parent company for a period of five years. The estimated fair value of the identifiable net assets exceeds the purchase price, resulting in a negative goodwill of TEUR 193 and reducing the acquired assets, on a pro rata basis, by this amount.

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

3. Share capital

Nominal share capital // The nominal share capital of QSC as of September 30, 2004, consists of ordinary share capital of TEUR 105,394 (December 31, 2003: TEUR 105,037) and is divided into 105,394,263 (December 31, 2003: 105,037,396) ordinary shares having a notional value of one Euro each. Each share gives the registered holder one vote at the general meeting of shareholders and the right to fully share in dividends. There are no restrictions on voting rights. During the first nine months ended September 30, 2004, nominal share capital increased by TEUR 357 due to the conversion of 356,867 convertible bonds. Employees used their right to convert their convertible bonds to registered ordinary shares of QSC.

Treasury shares // As of September 30, 2004, QSC held no treasury shares (December 31, 2003: 358,747). In the nine months ended September 30, 2004, QSC disposed 358,747 treasury shares. The gain of TEUR 1,261 has been recorded against retained earnings not affecting net income.

4. Management Board and Supervisory Board

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

	30/09/2004		30/09/2003	
	Shares	Conversion rights	Shares	Conversion rights
Dr. Bernd Schlobohm	13,818,372	-	13,818,372	-
Mark Goossens	384	400,000	384	100,000
Markus Metyas	2,307	1,559,116	2,307	1,559,116
Bernd Puschendorf	-	1,000,000	-	1,000,000

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

	30/09/2004		30/09/2003	
	Shares	Conversion rights	Shares	Conversion rights
John C. Baker	-	19,130	-	19,130
Herbert Brenke	187,820	19,130	187,820	9,130
Gerd Eickers [1]	13,853,484	9,130	13,841,100	9,130
Ashley Leeds	9,130	10,000	9,130	10,000
Norbert Quinkert	3,846	-	3,846	-
David Ruberg	4,563	19,130	4,563	19,130
Claus Wecker [2]	83,025	-	83,025	-

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

Cologne, November 2004

Dr. Bernd Schlobohm
Chief Executive Officer

Markus Metyas

Bernd Puschendorf

Calendar

Annual Report 2004
March 23, 2005

Annual Shareholders' Meeting
May 19, 2005

Quarterly Reports 2005
May 31, 2005
August 30, 2005
November 29, 2005

Conferences / Events
November 24, 2004
German Equity Forum, Frankfurt

Contacts

QSC AG
Investor Relations
Mathias-Brüggen-Straße 55
D – 50829 Cologne
Phone +49-(0)221-6698-112
Fax +49-(0)221-6698-009
Email invest@qsc.de
Internet www.qsc.de

Investor Relations Partner
Schumacher's AG für Finanzmarketing
Prinzregentenstraße 68
D – 81675 Munich
Phone +49-(0)89-489 272-0
Fax +49-(0)89-489 272-12
Email qsc@schumachers.net

Imprint

Overall responsibility
QSC AG, Cologne

Art Direction
sitzgruppe, Düsseldorf

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Further information under www.qsc.de