Quarterly Report . 2005 . July August September

Key data

	01/07/-30/09/ 2005	01/07/-30/09/ 2004	01/01/-30/09/ 2005	01/01/-30/09/ 2004
All amounts in € million				
Revenues	51.1	38.1	141.3	105.8
Gross profit	12.4	7.9	35.2	22.8
EBITDA	+1.1	+0.4	+2.2	+0.7
EBIT	-4.1	-5.6	-14.0	-17.0
Net loss	-4.1	-5.5	-13.8	-16.5
Net loss per common share[1] (in €)	-0.04	-0.05	-0.13	-0.16
Capital expenditure	4.8	3.4	11.2	7.3
Equity			70.0 [2]	70.5 [3]
Balance sheet total			119.9 [2]	114.8 [3]
Equity ratio (in percent)			58.4 [2]	61.4 [3]
Liquidity			31.5 [2]	40.3 [3]
Share price as of 30/09/ (in €)			4.18	3.90
Number of shares as of 30/09/			109,362,134	105,394,263
Market capitalization as of 30/09/			457.1	411.0
Employees as of 30/09/			446	358

[1] basic and diluted
[2] as of September 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

Strong revenue growth // QSC grew its revenues by 34 percent to € 51.1 million in the third quarter of 2005, as opposed to € 38.1 million for the same quarter the year before. Developing on an especially dynamic note was business with Large Accounts – where revenues rose by 57 percent to € 12.7 million – as well as with wholesale partners and resellers.

Revenue forecast again upped // Given its continued strong growth, in early November QSC again significantly upgraded its revenue forecast, which had already been revised once before in May 2005. The Company now anticipates revenues of over € 193 million for the full 2005 fiscal year, representing growth of over 32 percent. Up until now, revenue growth of at least 25 percent to at least € 183 million had been budgeted.

Higher operating profit // With revenue growth of 34 percent, QSC boosted its gross profit disproportionately by 57 percent to € 12.4 million in the third quarter of 2005, as opposed to € 7.9 million for the same quarter the year before. The Company's EBITDA rose by € 0.7 million over the third quarter of 2004, to € 1.1 million.

Targeted, faster infrastructure expansion // Over the course of recent months, QSC has connected ten further cities to its DSL network and now covers 110 German cities. At the same time, the Company began rolling out super-fast ADSL2+ technology together with wholesale partner debitel.

Broader coverage // Since the third quarter of 2005, two further prominent investment banks, Dresdner Kleinwort Wasserstein and UBS, have been publishing research on QSC. Overall, a dozen analysts are now regularly covering QSC.

Dear Shareholders,

QSC continued to grow strongly in the third quarter of 2005, with revenues rising by 34 percent to € 51.1 million. We have already generated almost the same level of revenues in the first nine months of 2005 as in the whole of 2004 – and the fourth quarter is still to come. Given this background, we again revised our revenue forecast for the full year at the beginning of November: Whereas we had previously forecast that revenues would grow by at least 25 percent to at least € 183 million, we now expect them to rise by more than 32 percent to over € 193 million.

Strong growth in the segments Large Accounts and Wholesale/Resellers

All four segments are contributing to this strong growth; the segments Large Accounts and Wholesale/Reseller have been particularly dynamic. Over the past three years, QSC has systematically expanded its activities in the field of managed services for Large Accounts. Today, we design, create, operate and maintain virtual private IP-based networks for customers such as Deutsche Bahn, Tchibo and, more recently, Commerzbank. The fact that we achieved revenue growth of 57 percent in the third quarter clearly demonstrates QSC's strong position in this sector.

Business with wholesale partners and resellers gained momentum, with revenues in the Wholesale/Resellers segment rising by 91 percent to € 8.6 million in the third quarter of 2005. Over the past months, QSC has established its position as a business partner for providers who do not have their own nationwide infrastructure in the rapidly expanding DSL market. A real milestone was reached in May 2005 when the contract to expand the coverage of ADSL2+ technology was concluded with the mobile service provider debitel.

Our own infrastructure is the basis of success for all of the Company's segments. It is only because QSC possesses its own infrastructure that it is able to offer managed services with end-to-end quality and level of service that meets the requirements of Large Accounts. It is only because of the Company's nationwide infrastructure that we are able to create solutions tailored to the needs of Large Accounts as well as wholesale partners and resellers, whilst still being able to offer competitive prices. And it is only the fact that we have our own nationwide infrastructure that makes us largely independent of the arbitrary decisions of the former monopolist Deutsche Telekom. QSC will therefore continue to expand its infrastructure on a targeted basis and according to demand. By analyzing existing customer contracts and new customer inquiries, we regularly check whether the cost of connecting specific cities is being amortized quickly and then expand the DSL network accordingly to meet demand. In the past few months, alone, we have connected ten new cities and are now present in 110 cities.

In connection with the roll-out of ADSL2+ technology, QSC will also apply its proven principle that "the network follows its customers". We are upgrading our network to the new standard wherever we find strong wholesale business partners ready to market these super-fast connections. Starting from the pilot region, Düsseldorf, we will proceed with our wholesale partner debitel to expand coverage in four cities in the Ruhrgebiet over the coming months.

We believe that the number of wholesale business partners for ADSL2+ will increase in the coming quarters: More and more providers are entering the DSL market in order to establish a good early position for triple play, i.e. the provision of telephony, Internet and TV on a one-stop basis. Especially in the area of high definition television (HDTV) via DSL, providers need bandwidths in a double-digit Mbit per second range, and it is precisely this range that ADSL2+ technology can deliver with bandwidth of up to 25 Mbit/s. Working together with brand-name suppliers such as debitel in this growth market underscores our unique position: QSC is an infrastructure provider with a clear focus on enterprise customers. And, what is more, QSC focuses its technology and solution-providing expertise on enterprise customers and leaves mass market selling to other partners with brand recognition and experience in the mass market. This focus on core expertise is the key to our strong growth in 2005 and beyond.

QSC has a clear focus on enterprise customers

This strong growth, however, is currently not being translated into a rising share price yet. QSC shares have been hovering for months at prices between € 3.60 and € 4.20, in line with the sideways movement currently being experienced by many alternative infrastructure providers. However, three factors give us reason to be optimistic in the medium term: First, the number of financial institutions publishing research on QSC, together with recommendations to buy QSC shares, has been rising quarter by quarter. Second, investors across Europe are becoming more interested in telecommunication providers which can boast their own infrastructure capability. And thirdly, we continue to grow strongly and to improve our margins steadily.

The exceptional pace of QSC's growth was recently recognized by the award presented by the audit firm Deloitte & Touche in connection with the Fast 50 Rankings. Only two non-listed companies have increased revenues more quickly than QSC over the past five years in Germany. The expansion of our infrastructure, on a targeted basis and according to demand, will make a significant contribution to QSC's ability in the future to grow revenue and earnings strongly.

Cologne, November 2005

Markus Metyas

Dr. Bernd Schlobohm
Chief Executive Officer

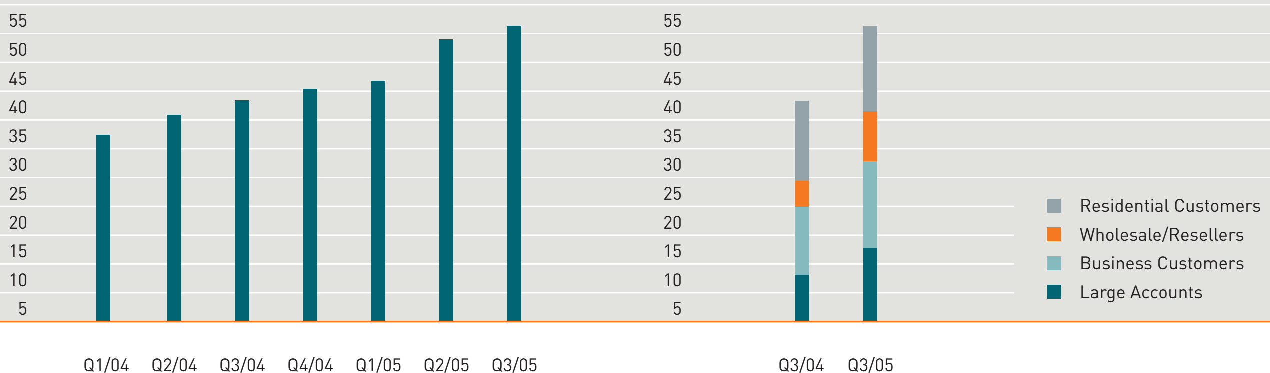
Bernd Puschendorf

QSC raises revenue forecast again

In light of its continuing strong growth, QSC again increased its revenue forecast for the full year 2005 at the beginning of November: The Company now anticipates revenue growth of more than 32 percent to over € 193 million. The accelerated and targeted expansion of QSC's own infrastructure is adding considerably to this growth.

Growing demand for DSL // In spite of the weak economy in Germany, the number of business and residential high-speed DSL users is on the rise. The number of DSL connections is likely to increase in the current year by more than 3 million to some 10 million – the industry association, VATM, reckons on 4.5 million additional DSL connections in 2006. In addition to well-established providers, an increasing number of "outsiders" with mass-marketing skills, but with no infrastructure of their own, are entering the DSL market as part of their strategy of establishing a good early position for triple play, i.e. the provision of telephony, Internet and TV on a one-stop basis. Especially in the area of high definition television (HDTV), these providers are already looking for wider bandwidths which can be delivered particularly efficiently using ADSL2+ technology.
As one of Germany's largest infrastructure providers, QSC is benefiting in two respects from the strong dynamics in the DSL market. On the one hand, value-added resellers have become significantly more interested in working together with QSC. Further contracts are planned to follow the one signed in spring 2005 with the mobile services provider debitel to market ADSL2+ technology. At the same time, demand from end-customers is also rising sharply. Enterprise customers in particular, irrespective of size, are increasingly using IP-based virtual private networks (IP-VPNs) based on DSL connections to handle their voice and data communication.

Revenues (in € million) **Revenue Mix** (in € million)



Strong dynamics with Large Accounts and Wholesale/Resellers // QSC recorded revenue growth in the third quarter 2005 in all four segments. Overall, revenues in the third quarter 2005 increased by 34 percent to € 51.1 million, as opposed to € 38.1 million for the same quarter the year before. QSC was also able to increase revenues for the nine-month period by 34 percent – up from € 105.8 million in 2004 to € 141.3 million in the current fiscal year.

The highest growth rate in the third quarter 2005 was recorded by the Wholesale/Resellers segment, with revenues rising by 91 percent to € 8.6 million, as opposed to € 4.5 million for the same period the year before. Following the upgrade of the QSC network to a nationwide Next Generation Network (NGN), resellers, primarily international carriers without sufficient local access network infrastructure in Germany, are increasingly using the QSC network. Early successes on the part of our wholesale partner debitel also contributed to this high revenue growth. The difference between a reseller and a wholesale product is that the latter allows the wholesale partner to have more autonomy and flexibility in shaping the product service by buying bitstream access services for instance.

Revenues with Large Accounts grow by 57 percent on a quarterly basis

The Large Accounts segment continued to grow particularly strongly again. On a quarterly comparison basis, revenues for the third quarter 2005 rose by 57 percent to € 12.7 million, as opposed to € 8.1 million the year before. New customers in the quarter included Commerzbank: QSC won the order to integrate 280 branches into the bank's network and will equip approximately 30 percent of Commerzbank's network infrastructure in the future with VPN technology.

At the same time, revenues generated by this segment with existing customers also rose significantly. As a consequence of the growing network coverage, QSC is now expanding its share of telecommunication budgets in companies already convinced by the high level of service and quality provided by QSC. Demand is also rising for network-related services involving the operation and maintenance of IP-VPNs for VPN customers.

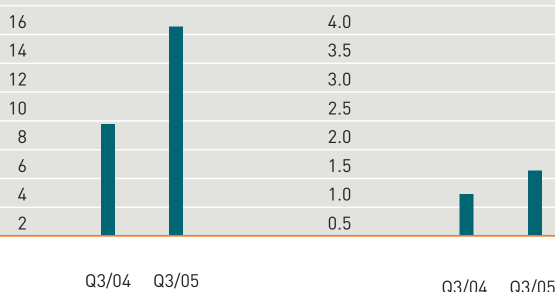
QSC generated quarterly revenues of € 15.0 million with the sale of standardized voice and data products to Business Customers; the comparable figure in the corresponding quarter last year was € 11.7 million. Following the upgrade of QSC's own network to a NGN during the first half of 2005, demand for Voice over IP increased noticeably in this segment as well as for Large Accounts.

Premium Residential Customers are also increasingly using Voice over IP for their telephony needs. Revenues in the Residential Customers segment rose by 7 percent to € 14.7 million, as opposed to € 13.7 million in the same quarter last year, a clear indication of the growing willingness of private individuals to telephone over data lines.

Gross profit up by 57 percent // The increase in revenues as well as the accelerated and targeted expansion of the network led to higher network expenses in the third quarter 2005. Network expenses, which are recorded under cost of revenue, increased by 29 percent to € 38.7 million, as opposed to € 30.1 million for the corresponding quarter the year before. On the one hand, this increase was attributable partly to upfront expenditure for the installation of nationwide VPN solutions for Large Accounts. On the other hand, in addition to the capital expenditure requirements involved, ongoing network expansion also necessitates recurring operational expenses such as the cost of additional network connection capacity.
Nevertheless, QSC was able to increase gross profit in the third quarter of 2005 at a faster rate than the increase in revenues: Gross profit rose by 57 percent to € 12.4 million, compared to € 7.9 million in the same quarter last year. During the first nine months of the current fiscal year, QSC recorded a gross profit of € 35.2 million, as opposed to € 22.8 million for the corresponding period the year before.
Sales and marketing expenses for the third quarter, at € 6.9 million, were 28 percent above the previous year's level; QSC had already expanded its sales team substantially during the first half of the year, in particular for business with Large Accounts. Sales and marketing expenses remained at a similar level to the second quarter 2005. Administrative expenses also remained virtually unchanged at € 4.3 million, compared to the preceding quarter. The € 2.2 million increase compared to the third quarter 2004 was partly attributable to the integration of Bonn-based DSL provider celox, which was acquired by QSC in May 2005; in addition, the fast-growing business volume and growing workforce had necessitated the termination of subleases at QSC's headquarters in Cologne at the beginning of the year.

Sales and marketing and administrative expenses remain at a constant level

Gross Profit (in € million) **EBITDA** (in € million)



EBITDA reaches € 1.1 million // QSC recorded a positive EBITDA in the third quarter 2005 of € 1.1 million, as opposed to € 0.4 million for the same quarter the year before. In the first nine months of 2005, the Company generated an EBITDA of € 2.2 million, as opposed to € 0.7 million for the comparable period the year before. QSC defines EBITDA as earnings before interest, taxes, the pro-rated results of equity-accounted investments, amortization of deferred non-cash compensation, as well as depreciation on plant and equipment and amortization of goodwill.
Depreciation and amortization expense for the third quarter 2005 decreased to € 5.1 million, as opposed to € 5.9 million for the corresponding quarter the year before. The decrease in the depreciation expense and the increase in the operating result led to the improved net result for the period. The latter improved by 25 percent from a net loss of € -5.5 million in the third quarter of 2004 to one of € -4.1 million in the third quarter of 2005. Earnings per share for the third quarter of 2005 amounted to € -0.04.

QSC extends its DSL network to ten more cities

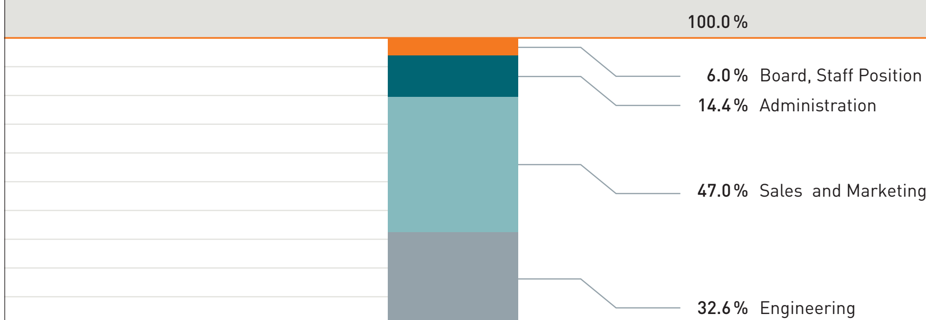
Faster and targeted network expansion // In order to take optimal advantage of future growth opportunities, QSC is expanding its infrastructure coverage across Germany during the current fiscal year as part of a targeted strategy. During the first half of 2005, the QSC network had been upgraded to a Next Generation Network with Voice over IP capabilities. During the third quarter, the Company focused on upgrading the network with ADSL2+ technology and covering additional cities on a demand-driven basis. In response to demand from existing and potential customers as well as wholesale partners, QSC extended its DSL network to ten more cities. ADSL2+ was rolled-out jointly in the pilot region, Düsseldorf, with debitel, QSC's wholesale partner. As a consequence, capital investments in the third quarter increased to € 4.8 million, as opposed to € 3.4 million for the same quarter the year before.
This targeted expansion of the Company's infrastructure and the increased level of upfront expenditure for business with Large Accounts put some pressure on the operating cash flow. It amounted to € 2.5 million in the third quarter of 2005, compared to € 3.7 million in the previous quarter. As of September 30, 2005, liquid assets amounted to € 31.5 million.
With the exception of capital lease liabilities, QSC continued to remain debt-free during the third quarter of 2005. Equity rose slightly by € 64,347 to € 109.4 million as a result of the conversion of convertible bonds into QSC stock in conjunction with the Company's employee stock ownership plans. An equity ratio of 58.4 percent underlines QSC's sound financing.

Focus on sales and engineering // As of September 30, 2005, QSC had employed a workforce of 446 people, of which 47 percent worked in sales and marketing and 33 percent in engineering. Some six months after the acquisition of celox, collaboration with the employees of the new subsidiary is progressing as planned.
At the beginning of the new training year, seven young people started their vocational training with QSC to become system technology computer engineers, application developers and qualified office staff.

Aggressive competition for customers opens up opportunities for QSC // At present, new providers without a nationwide infrastructure of their own are entering the DSL mass market for private customers and, in some cases, attempting to win business by offering flat rates which do not cover costs. QSC is keeping a close watch on the intense price war going on outside its own core business, but considers it to be more of a temporary phenomenon aimed at tying-in customers to particular providers at an early stage ahead of triple play services. At the same time, QSC is benefiting from this new competitive situation, since future triple play providers will require particularly broad bandwidths from infrastructure providers. As one of the largest infrastructure providers and thanks to a network upgraded with ADSL2+ technology, QSC is now very well positioned to take optimum advantage of this wholesale business.
Nevertheless, sustained price wars, 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 expectation plans and projections of future events and could therefore change over the course of time.

QSC is very well positioned for the wholesale business

Workforce Structure (in percent)



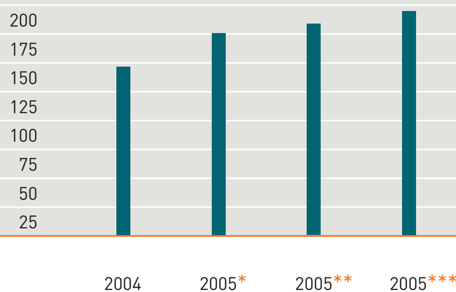
Revenue forecast again revised upwards // In the light of continuing strong growth, at the beginning of November QSC again raised its revenue forecast significantly for the full year; the forecast had already been revised upwards in May 2005. The Company now anticipates revenues of over € 193 million for the full 2005 fiscal year, representing growth of over 32 percent – previous guidance assumed revenue growth of at least 25 percent to at least € 183 million. QSC continues to forecast a positive EBITDA of between € 4 to 8 million for 2005.

At the same time, the Company also adjusted its operating cash flow forecast. It now anticipates a positive operating cash flow of at least € 7 million, compared to one of at least € 10 million that had previously been forecast. This is attributable to the fact that QSC will continue to expand its infrastructure in the fourth quarter of 2005, as it did in the third quarter, according to demand. The Company is responding in this way in particular to the rising demand for upfront infrastructure-related services required by wholesale partners entering the market for the first time and trying to establish a good early position for future triple play business. The upgrading of the network on the basis of ADSL2+ technology takes on a particular significance in this context.

QSC makes ADSL2+ available to four more cities

Together with the Company's wholesale and marketing partner, debitel, QSC is now pushing ahead with the roll-out of ADSL2+ technology beyond the pilot region, Düsseldorf. From February 2006 onwards, super-fast DSL connections will be available in four more cities in the Ruhrgebiet. The targeted and demand-driven expansion of QSC's infrastructure should allow the Wholesale/ Resellers segment, alongside the Large Accounts, to play an important role in the QSC portfolio beyond the year 2005.

Revenue Forecast for 2005 (in € million)



Guidance Feb. 2005 *
Revised guidance May 2005 **
Revised guidance Nov. 2005 ***

Statements of Operations

Consolidated Statements of Operations (unaudited)

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

	01/07/-30/09/ 2005	01/07/-30/09/ 2004	01/01/-30/09/ 2005	01/01/-30/09/ 2004
Net revenues	**51,093**	**38,053**	**141,328**	**105,834**
Cost of revenues	38,726	30,138	106,098	83,012
Gross profit	**12,367**	**7,915**	**35,230**	**22,822**
Selling and marketing expenses	6,899	5,408	20,175	15,541
General and administrative expenses	4,337	2,061	12,575	6,370
Research and development expenses	81	84	240	219
Depreciation and amortization	5,110	5,914	16,199	17,734
Operating loss	**(4,060)**	**(5,552)**	**(13,959)**	**(17,042)**
Other income (expenses)				
Interest income	105	186	595	873
Interest expenses	(191)	(108)	(448)	(383)
Other non-operating income (loss)	24	16	(9)	63
Net loss before income taxes	**(4,122)**	**(5,458)**	**(13,821)**	**(16,489)**
Income taxes	-	-	-	-
Net loss	**(4,122)**	**(5,458)**	**(13,821)**	**(16,489)**
Net loss per common share (basic and diluted)	(0.04)	(0.05)	(0.13)	(0.16)
Weighted average shares outstanding (basic and diluted)	109,329,961	105,394,263	107,450,943	105,394,263

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 €))

	30/09/2005	31/12/2004
ASSETS		
Current assets		
Cash and cash equivalents	19,469	22,536
Marketable securities	11,985	17,785
Trade accounts receivable, net	31,584	25,616
Other receivables	1,679	3,207
Prepayments and other current assets	7,088	4,801
Total current assets	**71,805**	**73,945**
Non-current assets		
Other non-current assets	**248**	**374**
Plant and equipment, net		
Networking equipment and plant	22,033	25,669
Operational and office equipment	10,004	9,431
Total plant and equipment, net	**32,037**	**35,100**
Intangible assets, net		
Licenses	583	694
Software	2,801	2,318
Others	2	2
Total intangible assets, net	**3,386**	**3,014**
Goodwill	**12,382**	**2,393**
Total non-current assets	**48,053**	**40,881**
Total assets	**119,858**	**114,826**

	30/09/2005	31/12/2004
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Current liabilities		
Trade accounts payable	23,700	20,276
Trade accounts payable due to related parties	585	472
Accrued liabilities	6,884	6,871
Deferred revenues	1,663	1,370
Current portion of obligations under capital leases	5,358	2,647
Other current liabilities	5,503	8,239
Total current liabilities	**43,693**	**39,875**
Non-current liabilities		
Convertible bonds	60	60
Accrued pensions	310	316
Non-current portion of obligations under capital leases	5,770	4,105
Total non-current liabilities	**6,140**	**4,481**
Total liabilities	**49,833**	**44,356**
Shareholders' Equity		
Common stock	109,362	105,503
Additional paid-in capital	485,016	474,750
Other comprehensive income (loss)	(490)	259
Accumulated deficit	(523,863)	(510,042)
Total Shareholders' Equity	**70,025**	**70,470**
Total liabilities and Shareholders' Equity	**119,858**	**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/-30/09/ 2005	01/01/-30/09/ 2004
Cash flow from operating activities		
Net loss	**(13,821)**	**(16,489)**
Adjustments to reconcile net loss to cash used in operating activities		
Non-cash compensation charge	-	30
Depreciation and amortization	16,199	17,704
Loss on sale of equipment	(9)	(45)
Bad debt expense	446	1,299
Change in operating activities		
Increase in trade accounts receivable	(6,414)	(6,732)
Increase in unbilled receivables	-	(1,353)
Decrease in other current receivables	1,528	2,478
Increase in prepayments and other current assets	(2,287)	(1,429)
Decrease/(Increase) in other non-current assets	126	(133)
Increase/(Decrease) in trade accounts payable	3,537	(767)
Increase in obligations under capital leases	4,376	3,719
Increase/(Decrease) in accrued liabilities	13	(7,786)
Increase/(Decrease) in deferred revenues	293	(138)
Decrease in other current liabilities	(2,736)	(225)
Decrease in accrued pensions	(6)	(2)
Net cash used in operating activities	**1,245**	**(9,869)**

	01/01/-30/09/ 2005	01/01/-30/09/ 2004
Cash flow from investing activities		
Change in marketable securities	5,800	(3,574)
Available-for-sale securities (unrealized gain)	(749)	135
Acquisition of business, net of cash acquired	(12,361)	-
Property acquired under capital leases	(7,516)	(4,060)
Purchases of intangible assets	(1,200)	(1,081)
Purchases of plant and equipment	(2,452)	(2,152)
Proceeds from sale of equipment	-	362
Proceeds from sale of investment	41	-
Net cash used in investing activities	**(18,437)**	**(10,370)**
Cash flow from financing activities		
Redemption of convertible bonds	-	(2)
Disposal of treasury stock	-	1,527
Proceeds from issuance of common stock	14,125	547
Net cash provided by financing activities	**14,125**	**2,072**
Net decrease in cash and cash equivalents	**(3,067)**	**(18,167)**
Cash and cash equivalents at beginning of the year	22,536	34,964
Cash and cash equivalents at end of period	**19,469**	**16,797**
Supplemental disclosures of cash flow information		
Cash paid during the period for		
Interest expenses	442	383

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 September 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		
Issuance of common stock in connection with the conversion of convertible bonds (September 30, 2005)	64,347	64		
Balance as of September 30, 2005	**109,362,134**	**109,362**	-	-

Additional Paid-In Capital T €	Deferred Compensation Account T €	Comprehensive Income T €	Accumulated Other Compre-hensive 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**
		(13,821)		(13,821)	(13,821)
		(749)	(749)		(749)
		(14,570)			
10,177					13,761
57					195
11					84
21					85
485,016	**-**		**(490)**	**(523,863)**	**70,025**

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 nine months ended September 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, 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 Wholesale/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. The difference between a reseller and a wholesale product is that the latter allows the wholesale partner to have more autonomy and flexibility in shaping the product service by buying bitstream access services for instance.
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/-30/09/2005 in T €	Segment Large accounts	Segment Business customers	Segment Wholesale/ Resellers	Segment Residential customers	Recon- ciliation	Consoli- dated
Revenues	**37,026**	**41,207**	**22,112**	**40,983**	-	**141,328**
Directly allocated expenses	13,748	24,379	13,693	29,029	-	80,849
Contribution margin	**23,278**	**16,828**	**8,419**	**11,954**	-	**60,479**
Not allocated expenses	-	-	-	-	58,239	58,239
EBITDA	**23,278**	**16,828**	**8,419**	**11,954**	**(58,239)**	**2,240**
Depreciation and deferred non-cash						
compensation expenses	1,123	689	717	1,532	12,138	16,199
Non-operating income	-	-	-	-	138	138
Net profit/(loss)	**22,155**	**16,139**	**7,702**	**10,422**	**(70,239)**	**(13,821)**
Assets as of September 30, 2005	2,458	1,509	1,570	3,354		

01/01/-30/09/2004 in T €	Segment Large accounts	Segment Business customers	Segment Wholesale/ Resellers	Segment Residential customers	Recon- ciliation	Consoli- dated
Revenues	**22,948**	**34,091**	**13,789**	**35,006**	-	**105,834**
Directly allocated expenses	10,401	20,470	5,277	23,950	-	60,098
Contribution margin	**12,547**	**13,621**	**8,512**	**11,056**	-	**45,736**
Not allocated expenses	-	-	-	-	45,044	45,044
EBITDA	**12,547**	**13,621**	**8,512**	**11,056**	**(45,044)**	**692**
Depreciation and deferred non-cash						
compensation expenses	389	724	1,046	2,378	13,197	17,734
Non-operating income	-	-	-	-	553	553
Net profit/(loss)	**12,158**	**12,897**	**7,466**	**8,678**	**(57,688)**	**(16,489)**
Assets as of September 30, 2004	675	1,256	1,815	4,127		

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

	01/01/-30/09/2005 in T €
Unrealized loss on available-for-sale securities	(749)
Other comprehensive loss	**(749)**

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 nine months ended September 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. The adoption of SFAS 123R did not have a material impact on the results of operations or the financial position of QSC.

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 September 30, 2005, a second and final tranche of T € 4,450 was outstanding that will presumably be paid in the fourth quarter 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 T € 14,089, including costs of acquisition in the amount of T € 327. 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 € 9,986. 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/-30/09/2005 in T € *	01/01/-30/09/2004 in T € *
Net revenues	147,017	111,354
Operating loss	(14,905)	(18,613)
Net loss	(14,780)	(18,248)
Net loss per common share	(0.14)	(0.17)

* 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 September 30, 2005, consists of ordinary share capital of T € 109,362 (December 31, 2004: T € 105,503) and is divided into 109,362,134 (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 € 3,859 increase of capital stems, on the one hand, from the conversion of 275,629 convertible bonds by employees into ordinary shares through exercise of their conversion rights under stock option plans during the first nine 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:

	September 30, 2005		September 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:

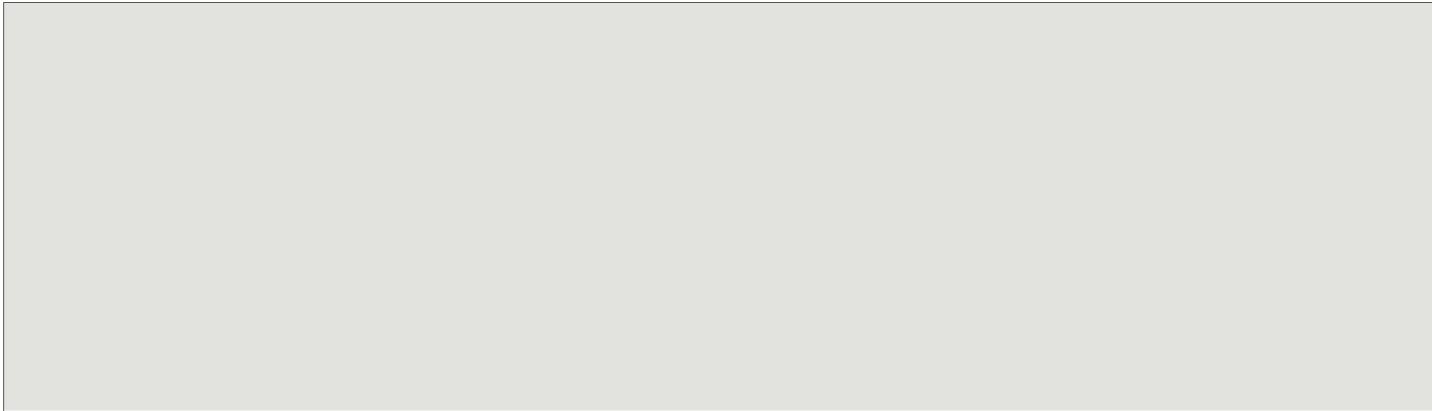
	September 30, 2005		September 30, 2004	
	Shares	Conversion rights	Shares	Conversion rights
John C. Baker	-	10,000	-	19,130
Herbert Brenke	187,820	10,000	187,820	19,130
Gerd Eickers	13,853,484	-	13,853,484	9,130
Ashley Leeds	9,130	10,000	9,130	10,000
Norbert Quinkert	3,846	-	3,846	-
David Ruberg	4,563	10,000	4,563	19,130

Cologne, November 2005

Dr. Bernd Schlobohm
Chief Executive Officer

Markus Metyas

Bernd Puschendorf



Calendar

Annual Report 2005
March 30, 2006

Annual Shareholders' Meeting
May 23, 2006

Quarterly Reports 2006
May 30, 2006
August 29, 2006
November 28, 2006

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Further information under www.qsc.de