QSC AG

Quarterly Report . 2006 . July August September

Key data

	01/07/-30/09/ 2006	01/07/-30/09/ 2005	01/01/-30/09/ 2006	01/01/-30/09/ 2005
All amounts in € million				
Revenues	68.4	51.1	179.4	141.3
Gross profit	+22.4	+12.3	+58.3	+35.4
EBITDA	+5.2	+2.1	+11.7	+5.0
EBIT	-2.0	-4.0	-7.7	-14.0
Net loss	-2.0	-4.1	-8.1	-13.8
Net loss per common share [1] (in €)	-0.02	-0.04	-0.07	-0.13
Capital expenditures	7.4	5.8	26.4	13.9
Equity			142.7 [2]	85.0 [3]
Balance sheet total			266.5 [2]	151.3 [3]
Equity ratio (in %)			53.5 [2]	56.2 [3]
Liquidity			108.6 [2]	52.1 [3]
Share price as of 30/09/ (in €)			4.66	4.18
Number of shares as of 30/09/			128,475,494	109,362,134
Market capitalization as of 30/09/			598.7	457.1
Employees as of 30/09/			673	446

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

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

QSC at a glance

Significant improvement in revenue quality // The third quarter marked the first time that QSC generated more than 80 percent of its total revenues in the strategic, high-margin business with enterprise customers. And with revenue growth of 113 percent to € 18.3 million, as opposed to € 8.6 million in the third quarter of 2005, the Wholesale/Reseller segment developed on an especially dynamic note.

Approaching the net income profitability threshold // The improvement in the Company's revenue mix led to a disproportionate improvement in its profitability for the third quarter of 2006. EBITDA rose by a strong 148 percent to € 5.2 million, as opposed to € 2.1 million in the third quarter of 2005. QSC's consolidated net loss declined by some 50 percent to € -2.0 million, as opposed to € -4.1 million for the comparable quarter the year before. QSC thus continues to approach the net income profitability threshold.

EBITDA forecast raised // Given the very good development of its profitability, QSC not only plans to cross the net income profitability threshold during the course of the fourth quarter of 2006, but to also record its first consolidated net income for the current quarter. In addition, the Company also anticipates an annual EBITDA of between € 17 and 22 million, instead of its previous forecast of between € 15 and 20 million.

Network operating company Plusnet begins operations // The new Plusnet network operating company began doing business at QSC's Cologne headquarters on September 1, 2006. QSC holds 67.5 percent of this company, TELE2 32.5 percent. Plusnet will expand the existing DSL network from over 1,000 central offices today to nearly 2,000 central offices by year-end 2007.

Analysts and investors focusing on QSC shares // Since the beginning of the year, the trading price of QSC shares has risen by more than 30 percent. In this connection, a growing number of analysts are now following QSC shares, with the majority of them issuing Buy recommendations. Credit Suisse, Goldman Sachs and Merrill Lynch published their first studies on QSC in October.

Dear Shareholders,

QSC's focus on high-margin business with enterprise customers early on again led to significant improvements in profitability for the third quarter of 2006. The Company's EBITDA surged by 148 percent to € 5.2 million. This strong profitability growth prompted us to raise our forecast for the current fiscal year when the preliminary results were announced in mid November: We now anticipate an EBITDA of between € 17 and 22 million, instead of our previous projection of € 15 to 20 million. Moreover, we not only intend to merely cross the consolidated net income profitability threshold during the fourth quarter of 2006, as planned. We also anticipate to record a first consolidated net income for the entire quarter.

There are two main reasons for our rapidly rising profitability: The encouraging development of our operating business in the strategic segments of Large Accounts, Business Customers and Wholesale/Resellers, as well as the swift expansion of our own infrastructure and thus the opportunity to reach more customers directly with our products and services. Within the three strategic segments, our revenues with wholesale partners and resellers grew particularly strongly and more than doubled in comparison with the same period the year before. The enormous growth potential of this segment is underscored by the successful marketing launch of DSL products through our wholesale partner HanseNet under the "Alice" brand name. We expect to see a similarly strong development from the recently started DSL product launch by the new wholesale partner freenet.

Overall quality of revenues and profitability improving quarter by quarter

Since revenues with large accounts and business customers are also posting strong growth, the overall quality of our revenues is improving from quarter to quarter, shifting more and more towards high-margin products and services and thus towards greater profitability: We are now generating more than 80 percent of our revenues in these three strategic, high-margin segments. On the other hand, revenues in the comparatively low-margin, non-strategic segment of Residential Customers are declining. In this segment, we continue to offer only products with sufficient contribution margins, and are avoiding the ongoing fierce price competition. While we are foregoing revenues in this low-margin business, we are sustainably improving QSC's profitability.

In addition, all three strategic segments are benefiting from our swift network expansion. We have already connected over 1,000 central offices and equipped some 90 percent of those central offices with ADSL2+ technology. The high availability of this super-fast DSL technology gives us a competitive edge, especially in the wholesale business. Important wholesale partners with strong brands want to be able to offer their customers Triple Play, one-stop shopping for Internet, telephony and television. To that end, they need transfer speeds of up to 16 megabits and more per second – and this is precisely what we deliver with ADSL2+.

QSC's broader network coverage is strengthening the Company's competitive position in all strategic segments. In the case of resellers, the increased network size enhances QSC's attractiveness as a partner because of the high percentage of households and enterprises that can be connected directly. In the case of business customers, each new location gives us direct access to further small and medium-size enterprises. And in the case of large accounts, our contribution margin per customer location improves as the size of the network grows, thus providing us with greater opportunities for winning orders for nationwide IP-VPN solutions.

The expansion of the DSL network through our new subsidiary Plusnet will play a key role in further improving our profitability. By year-end 2007, today's network of over 1,000 central offices will be expanded to a total of nearly 2,000 central offices. 50 percent of all households nationwide and

70 percent of IP-VPN locations requested from QSC will then be accessible by the QSC network directly. According to a study conducted by university RWTH Aachen in collaboration with QSC, the probability of winning requests for proposals from large accounts will almost double to over 60 percent. With the completion of its network expansion, QSC is strengthening its position as one of the leading telecommunication providers for enterprise customers in Germany. The same objective in mind, QSC acquired a majority interest in Broadnet AG, which is also publicly traded, in the summer of 2006. And in mid November, QSC was able to acquire a further block of shares in this company from institutional investors, and now holds 92 percent of Broadnet's share capital. During the coming months, we therefore intend to intensify the collaboration between the two companies, and to also implement additional corporate resolutions aiming at a stronger integration of Broadnet into the QSC Group. This will enable further synergies to be utilized, especially at the network level, and additional revenue growth to be realized.

QSC and Broadnet intensify collaboration

One key factor is the integration of Broadnet's nearly 200 qualified people. With their know-how and their customer relationships, they will strengthen our competence in serving enterprise customers, especially in northern Germany. That's why we are looking forward to a closer collaboration between the two headquarters' locations in Cologne and Hamburg, as well as between the branch offices throughout the country. Working together, we will again significantly increase QSC's revenues and profitability in the coming quarters.

Cologne, November 2006

Markus Metyas

Dr. Bernd Schlobohm
Chief Executive Officer

Bernd Puschendorf

Strong growth in operating profit

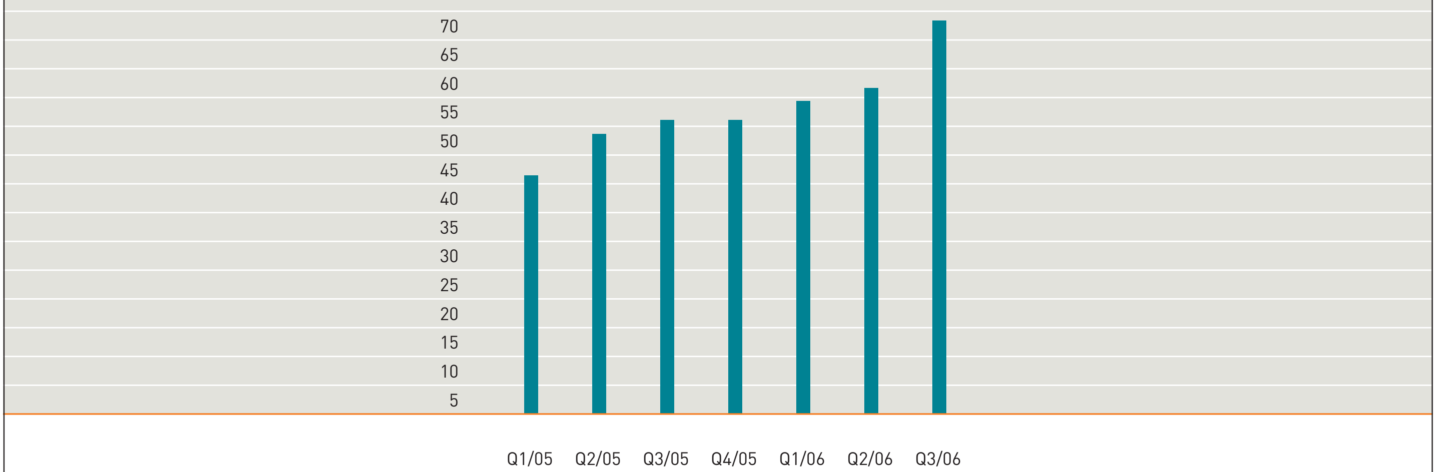
In the third quarter of 2006, QSC grew its revenues significantly in all strategic segments, thus enabling the Company to continue its profitability improvement. Given this very positive development, the Company now plans to generate a consolidated net income in the fourth quarter of 2006, and is additionally raising its EBITDA forecast for the full 2006 fiscal year to between € 17 and 22 million.

Unexpectedly strong economy in Germany // During the third quarter of 2006, the German economy grew by 0.6 percent, significantly faster than was anticipated only a few months before. Consequently, Germany's gross domestic product is expected to grow as fast in 2006 as it last did in the year 2000. This upswing is increasingly being fueled by domestic demand. The telecommunications industry and especially providers like QSC who focus on business with enterprise customers are benefiting from a higher propensity to invest on the part of enterprises.

At the same time, there continues to be a strong demand for DSL connections from both enterprise and residential customers. According to data from industry association BITKOM, as of October 2006, one third of all German residential households had a broadband connection. These statistics show that half of all German households will be going online at DSL speed by year-end 2008. QSC will benefit from this anticipated strong demand, in particular in its business with strong resellers.

Only one third of all German residential households have a broadband connection

Revenues (in € million)

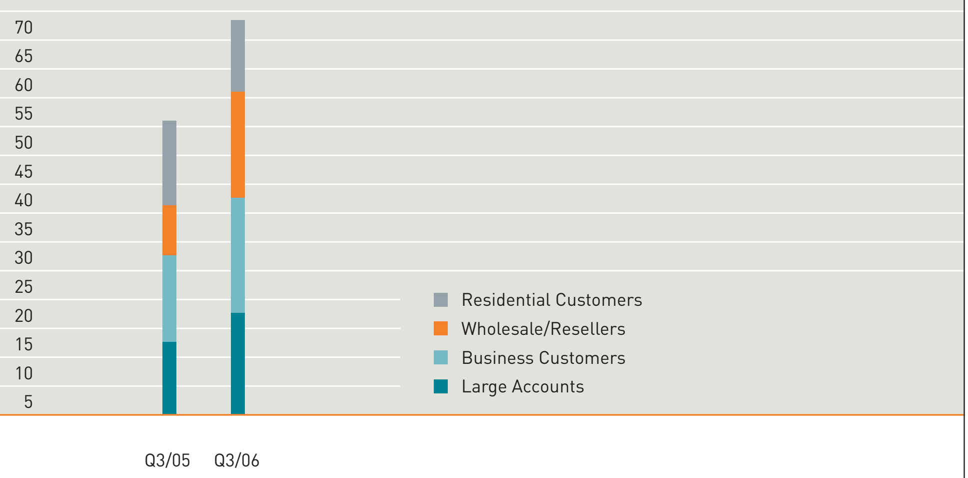


Strong revenue growth with wholesale partners and resellers // In the third quarter of 2006, QSC grew its revenues by 34 percent to € 68.4 million, as opposed to € 51.1 million for the same quarter the year before, and continued to improve its revenue mix. For the first time, the Company generated more than 80 percent of its total revenues in the three strategic segments of Large Accounts, Business Customers and Wholesale/Resellers; in the comparable quarter the year before, these three segments had accounted for only around 70 percent of total revenues.

Successful sales launch by wholesale partners

QSC generated its strongest growth in its business with wholesale partners and resellers in the third quarter of 2006. Revenues in this segment rose by 113 percent to € 18.3 million, as opposed to € 8.6 million in the third quarter of 2005. This doubling in revenues stemmed, on the one hand, from the successful sales launch of DSL lines by the Company's wholesale partners and, on the other, from further rises in demand from international carriers who do not possess a comparable nationwide DSL network in Germany. One noticeable factor in the Company's business with wholesale partners in the third quarter of 2006 was HanseNet's success in the nationwide marketing of its DSL products under the "Alice" brand name. Moreover, in recent months QSC succeeded in winning additional large Internet service providers freenet and Tiscali as wholesale partners. During the fourth quarter of 2006, both players began actively marketing DSL products that are based upon the QSC infrastructure.

Revenue Mix by Segment (in € million)



With revenue growth of 39 percent to € 17.7 million in the third quarter of 2006, as opposed to € 12.7 million for the corresponding quarter the year before, the Large Account segment continued to post above-average revenue growth. Contributing to this rise were both new customers, especially in the small and medium enterprise environment, as well as QSC's success in expanding its relative share of telecommunications budgets with existing customers.

Sales of additional products to existing customers are also gaining importance in the Business Customer segment, and along with a further increase in new business helped to generate revenue growth of 33 percent to € 20.0 million, as opposed to € 15.0 million in the third quarter of 2005. QSC's strong position in this market is underscored by the fact that the Company was named one of the best Internet service providers for business customers by the German Internet Business Federation (eco). In particular, the jury stressed QSC's high innovative strength.

QSC named one of the best ISPs for business customers

As in the previous quarter, revenues in the non-strategic business with residential customers fell during the third quarter of 2006 as a result of the ongoing fierce price war in this market: Revenues declined by 16 percent to € 12.4 million, as opposed to € 14.7 million in the third quarter of 2005. QSC continues to avoid the costly process of building a brand in the highly competitive residential customer market, preferring to focus instead on products that generate sufficient contribution margins. This applies, in particular, with respect to the Company's high-quality DSL product Q-DSL home, as well as to its use in combination with the Voice over IP product IPfonie.

Strong rise in gross profit // In particular, the first full consolidation of QSC's new Broadnet subsidiary resulted in an increase in network expenses, which are recorded under cost of revenues, to € 46.0 million in the third quarter of 2006, as opposed to € 38.8 million for the same quarter the year before. While network expenses thus rose by only € 7.2 million year-on-year, revenues increased by € 17.3 million during the same period.

QSC's gross margin rises to 33 percent in the third quarter

This disproportionately low rise in network expenses underscores the scalability of QSC's business model, enabling a leveraged increase in gross profit, which rose by 82 percent to € 22.4 million in the third quarter of 2006, as opposed to € 12.3 million for the comparable period the year before. QSC thus generated a gross margin of 33 percent in the third quarter of 2006, as opposed to 24 percent for the same period the year before.

Selling and marketing expenses totaled € 10.4 million in the third quarter of 2006, as opposed to € 6.7 million for the comparable quarter the year before, remaining virtually unchanged from the previous quarter. Directly addressing and serving potential large accounts and resellers, as well as winning and keeping business customers, predominately through marketing partners, remained at the heart of the Company's selling and marketing activities. The success of QSC's partners led to an increase in commission payments.

As in the case of network expenses, general and administrative expenses were also impacted by the first full consolidation of publicly traded Broadnet. General and administrative expenses rose to € 6.7 million, as opposed to € 3.5 million in the third quarter of 2005.

Gross Profit (in € million)

EBITDA surges by 148 percent to € 5.2 million // The significant improvement in the Company's revenue mix, and thus the quality of its revenues, produced a 148-percent rise in EBITDA to € 5.2 million in the third quarter of 2006, as opposed to € 2.1 million for the third quarter of 2005. QSC defines EBITDA as earnings before interest, taxes, the pro-rata results of equity investments accounted for in accordance with the equity method, amortization of deferred non-cash share-based payments, as well as depreciation on property, plant and equipment and amortization of goodwill. Depreciation expense increased to € 7.2 million in the third quarter of 2006, as opposed to € 6.1 million for the same quarter the year before. This rise was attributable to the Broadnet consolidation, on the one hand, and reflects the swift expansion and upgrade of the network during past quarters, on the other.

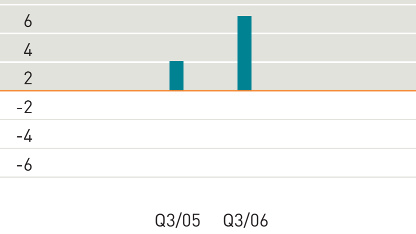
In spite of the higher level of depreciation expense, QSC's improved revenue quality in favor of comparatively high-margin strategic segments reduced the Company's consolidated net loss by one half in the third quarter of 2006: It now totals € -2.0 million, as opposed to € -4.1 million for the same quarter the year before. Earnings per share stood at € -0.02, as opposed to € -0.04 in the third quarter of 2005.

High margins with enterprise customers // The high margins in the Company's strategic segments are underscored by the respective segment EBITDAs, which are calculated on the basis of the respective revenues less those costs that are directly attributable to that segment; the corresponding margin is the ratio between this EBITDA and the corresponding revenues. In the third quarter of 2006, QSC thus earned a margin of at least 50 percent in each of the three strategic segments.

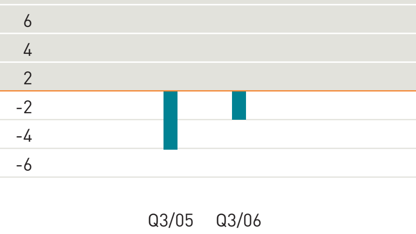
Margin of at least 50 percent in all strategic segments

At € 10.5 million for the third quarter of 2006, QSC earned its highest segment EBITDA in the Large Account segment, as opposed to € 7.8 million for the same quarter the year before. The margin of 59 percent here is higher than in any other segment. Especially in connection with Large Account business, QSC is benefiting from the swift expansion of its network, as the Company can cost-effectively cover a growing number of locations over its own network in connection with enterprise networking, thus having to buy fewer and fewer lines from third-party providers.

EBITDA (in € million)



Net Loss (in € million)



The network expansion is also benefiting the Business Customer segment, where the Company's segment EBITDA rose from € 5.9 million to € 9.9 million year-on-year in the third quarter of 2006. Since QSC is able to connect more and more businesses directly to its network, its margin in this segment rose to 50 percent, as opposed to 39 percent for the comparable quarter the year before.

Wholesale/Reseller business posts highest EBITDA growth

During the third quarter of 2006, QSC recorded its strongest segment EBITDA and revenue growth in its business with resellers: The operating profit in this segment rose by a strong 164 percent to € 9.5 million, as opposed to € 3.6 million in the third quarter of 2005. The segment margin here increased to 52 percent and includes classical reseller business with international carriers who do not have their own DSL infrastructure in Germany. Typically, the reseller business generates higher margins than the wholesale business.

In parallel to revenues, on the other hand, the segment EBITDA in the Company's non-strategic business with residential customers declined to € 3.7 million, as opposed to € 5.1 million in the third quarter of 2005. A margin of 30 percent here shows that QSC is continuing to focus on products that offer sufficient contribution margins in this highly competitive market.

Segment EBITDA Margin (in percent)

Public offer for Broadnet shares completed // After having acquired 10,654,555 shares of publicly traded Broadnet AG from its former major shareholders and management in June 2006 in exchange for QSC shares, QSC then made a public offer in the third quarter of 2006 to acquire additional shares at the same terms and conditions: During the period from July 22 through September 29, 2006, the closing date of the extended acceptance term, these shareholders were able to exchange each of their Broadnet shares for 1.0542 QSC share. As of September 29, 2006, QSC then held 10,872,402 shares of Broadnet AG. Including stock options that have since been exercised, QSC thus held 67.3 percent of the Broadnet shares as of September 30 of the current fiscal year.
On November 13, 2006, following the close of the third quarter, QSC was able to further increase its holding through the acquisition of an additional 24.8 percent of the Broadnet shares from institutional investors against issuance of 4,920,000 QSC shares. Subject to meeting agreed conditions, the purchase price for these shares will amount to a minimum of 1.0542 and a maximum of 1.23 QSC share for each Broadnet share. Following the acquisition of these shares, QSC holds 92.0 percent of the share capital of Broadnet AG, which will enable the Company to swiftly implement additional corporate resolutions aiming at a stronger integration of Broadnet into the QSC Group.

QSC currently holds 92 percent of Broadnet's share capital

Broadnet acquisition leads to higher equity capital // The acquisition of the majority interest in Broadnet through an increase of capital in the form of contributions in kind against issuance of new shares, as well as the subsequent public acquisition offer, led to a 11,232,176-increase in the number of issued shares as per September 30, 2006, as well as a corresponding € 11.2-million rise in subscribed capital.
Moreover, the conversion of convertible bonds into 2,210,240 million new QSC shares under employee stock option programs also contributed to the € 13.5-million total increase in subscribed capital to a registered share capital of € 128.5 million. The higher number of conversions by comparison with preceding quarters stemmed from the expiration of the Share Option Plan 2001 during the current fiscal year. While the Annual Shareholders Meeting in May 2006 did consent to extending this program by a further five years, lawsuits from individual shareholders have thus far prevented this resolution from being effective. Given the resulting uncertainty, the majority of option holders decided to exercise their conversion rights in 2006.

Network operating company Plusnet goes live // Following approval by the German Federal Cartel Office, Plusnet, which was formed in the summer of 2006 as a joint venture between QSC and TELE2, began doing business on September 1, 2006. QSC contributed its nationwide DSL network to its 67.5-percent subsidiary Plusnet, while TELE2 made a € 50-million contribution in cash and now holds a 32.5-percent interest in the company. This contribution in cash will be used to expand the network from around 1,000 central offices today to nearly 2,000 central offices by year-end 2007.

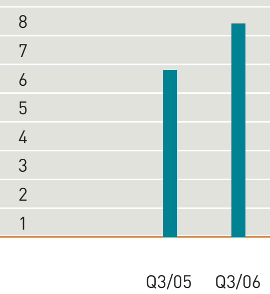
Plusnet is being launched with a workforce of just under 60 people, most of whom had previously been employed in QSC's technology operations. The company is headquartered in the same building in Cologne as QSC, and is headed up by Dr. Ralf Fischer, previously the head of managed services operations at QSC, as well as by Bert Ohliger, who is also the chief financial officer at TELE2 Germany. QSC is fully consolidating the new subsidiary in its financial statements; in the third quarter of 2006, the Company consolidated Plusnet on a time pro-rata basis effective September 1, 2006.

ADSL2+ upgrade largely completed // QSC's capital investments totaled € 7.4 million in the third quarter of 2006, as opposed to € 5.8 million for the comparable quarter the year before. This increase was essentially attributable to two factors: First, QSC continued to upgrade its DSL network with ADSL2+ technology – by the end of November, 90 percent of all QSC locations had been equipped with this new technology, which enables transfer speeds of up to 16 megabits and more per second. And secondly, the connection of new large accounts again involved correspondingly high up-front expenses in the third quarter of 2006.
This higher level of capital spending, along with the consolidation of Broadnet, increased the value of property, plant and equipment to € 56.6 million, as opposed to € 33.4 million as of December 31, 2005. During the same period, the Company's goodwill rose significantly from € 9.3 million to € 30.0 million, as this figure now also includes Broadnet's capitalized goodwill.

QSC's liquid assets grow to € 108.6 million

At € 108.6 million, QSC recorded a significantly higher level of liquid assets as of September 30, 2006. For the first time, this figure also includes the contribution in cash in the amount of € 50 million that TELE2 paid for its 32.5-percent interest in Plusnet.

Capital Expenditures (in € million)



Nine trainees begin their apprenticeships at QSC // As of September 30, 2006, QSC's workforce numbered a total of 673 employees and 24 trainees throughout the corporate group. On August 1, 2006, nine young people began their vocational training as clerical office workers and information technology specialists for systems integration.
193 people were employed at Broadnet as of September 30, 2006, 55 people at network operating company Plusnet. The remainder of the workforce is employed by QSC or by its wholly-owned subsidiaries, predominantly in selling and selling-related operations.

No changes in risk and opportunity reporting // During the third quarter of 2006, there were no material changes in the risks that were portrayed in the 2005 Annual Report or in the two previously published interim reports for the 2006 fiscal year. As a result of the risks portrayed therein, as well as other risks or incorrect assumptions, actual future results could vary from QSC's expectations. All statements contained in these consolidated interim financial statements that are not historical facts are therefore forward-looking statements. They are based upon current expectations and projections of future events, and could therefore change over the course of time.

EBITDA forecast raised // Given the improvement in the quality of its revenues and the resulting very positive development of its profitability, QSC raised its EBITDA forecast in connection with the announcement of preliminary quarterly results on November 15, 2006: The Company now anticipates an EBITDA of between € 17 and 22 million for the full fiscal year, instead of the previously projected € 15 to 20 million. Moreover, QSC now expects to record its first consolidated net income for the entire fourth quarter of 2006; up until now, the Company had only anticipated crossing the net income profitability threshold during the course of the current quarter.

QSC to record first consolidated net income in Q4

At the same time, the improved quality of QSC's revenue mix and the conscious decrease of its revenues in the comparatively low-margin residential customer business that this involves means that the Company now anticipates revenues of nearly € 265 million, instead of its previous forecast of over € 265 million for the full 2006 fiscal year. QSC will continue to utilize offerings for residential customers in order to make better use of its network; however the Company will continue to assure a sufficient contribution margin in connection with each and every individual offering. Given this principle and against the backdrop of the ongoing fierce price war in the residential customer market, revenues in this segment are expected to only remain more or less constant during the coming quarters, and thus significantly underperform relative to the Company's total revenue growth.

Wholesale business expected to continue to develop strongly

On the other hand, QSC expects to see above-average growth rates in the strategic segments. Business with resellers, and especially with strong wholesale partners, will play a major role in this connection. The swift successes of companies like HanseNet/Alice and freenet only shortly after they began marketing DSL lines from QSC indicate that revenues in this line of business will continue to develop strongly during the coming quarters.
Moreover, both the Wholesale/Reseller segment as well as the Large Account and Business Customer segments are expected to benefit in the coming quarters from the swift expansion of the DSL network from over 1,000 central offices to nearly 2,000 central offices. According to a study conducted by university RWTH Aachen in collaboration with QSC, for example, the probability of winning requests from proposals from major corporates for nationwide IP-VPNs will rise to over 60 percent with this larger network. Given this background, QSC anticipates a sustained high growth period, especially in the Large Account segment.

Interim Consolidated Financial Statements

Consolidated Statements of Income (unaudited)

Euro amounts in thousands (T €)

	01/07/-30/09/ 2006	01/07/-30/09/ 2005	01/01/-30/09/ 2006	01/01/-30/09/ 2005
Net revenues	**68,370**	**51,093**	**179,362**	**141,328**
Cost of revenues	(45,964)	(38,829)	(121,054)	(105,880)
Gross profit	**22,406**	**12,264**	**58,308**	**35,448**
Selling and marketing expenses	(10,446)	(6,687)	(29,952)	(19,399)
General and administrative expenses	(6,715)	(3,534)	(16,836)	(10,973)
Research and development expenses	(59)	(81)	(221)	(240)
Depreciation and non-cash share-based payments	(7,172)	(6,114)	(19,412)	(18,921)
Other operating income	61	111	433	347
Other operating expenses	(41)	5	(49)	(228)
Operating loss	**(1,966)**	**(4,036)**	**(7,729)**	**(13,966)**
Financial income	408	109	1,084	599
Financial expenses	(443)	(195)	(1,457)	(454)
Net loss before income taxes	**(2,001)**	**(4,122)**	**(8,102)**	**(13,821)**
Income taxes	-	-	-	-
Net loss	**(2,001)**	**(4,122)**	**(8,102)**	**(13,821)**
Attributable to:				
Shareholders	(1,949)	-	(8,037)	-
Minority interest	(52)	-	(65)	-
Net loss per common share (basic and diluted) in €	**(0.02)**	**(0.04)**	**(0.07)**	**(0.13)**

Consolidated Balance Sheets (unaudited)

Euro amounts in thousands (T €)

ASSETS	30/09/2006	31/12/2005
Long-term assets		
Goodwill	29,972	9,265
Intangible assets	17,894	8,804
Property, plant and equipment	56,553	33,371
Other long-term financial assets	318	293
Deferred taxes	5,641	5,969
Long-term assets	**110,378**	**57,702**
Short-term assets		
Prepayments	3,145	2,096
Trade accounts receivables	43,351	34,177
Other receivables and short-term financial assets	1,019	914
Available-for-sale financial assets	61,080	26,065
Cash and short-term deposits	47,549	30,313
Short-term assets	**156,144**	**93,565**
TOTAL ASSETS	266,522	151,267

SHAREHOLDERS' EQUITY AND LIABILITIES		
Shareholders' equity		
Capital stock	128,475	115,033
Capital surplus	538,790	499,643
Other reserves	(1,475)	(1,357)
Accumulated deficit	(536,383)	(528,281)
Minority interest	13,308	-
Shareholders' equity	**142,715**	**85,038**
Long-term liabilities		
Convertible bonds	46	60
Accrued pensions	789	796
Long-term portion of finance lease obligations	15,223	10,687
Deferred taxes	3,443	3,847
Long-term liabilities	**19,501**	**15,390**
Long-term liabilities received from other shareholders	**50,000**	**-**
Short-term liabilities		
Short-term portion of finance lease obligations	13,059	8,437
Provisions	2,603	930
Trade accounts payable	31,442	31,596
Deferred revenues	4,132	3,441
Other short-term liabilities	3,070	6,435
Short-term liabilities	**54,306**	**50,839**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	266,522	151,267

Consolidated Statements of Cash Flows (unaudited)

Euro amounts in thousands (T €)

	01/01/-30/09/ 2006	01/01/-30/09/ 2005
Cash flow from operating activities		
Net loss	(8,102)	(13,821)
Depreciation and amortization	19,057	18,887
Non-cash share-based payements	345	81
Loss/(gains) from disposal of long-term assets	42	(9)
Gains from disposal of long-term financial assets	-	41
Changes in provisions	1,666	7
Changes in trade accounts receivables	(9,174)	(5,968)
Changes in trade accounts payable	(152)	3,537
Changes in other financial assets and liabilities	(3,853)	(3,076)
Cash flow from operating activities	**(171)**	**(321)**
Cash flow from investing activities		
Purchases of available-for-sale financial assets	(54,676)	(8,976)
Disposal of available-for-sale financial assets	16,828	13,946
Payments related to acquisitions	18,065	1,401
Purchases of intangible assets	(5,273)	(3,888)
Purchases of property, plant and equipment	(4,798)	(2,452)
Proceeds from disposal of long-term assets	4	-
Cash flow from investing activities	**(29,850)**	**31**
Cash flow from financing activities		
Changes in convertible bonds	(13)	-
Assumption of minority interest liabilities	50,000	-
Proceeds from issuance of common stock	4,454	363
Repayments of finance lease	(7,184)	(3,140)
Cash flow from financing activities	**47,257**	**(2,777)**
Change in cash and short-term deposits	**17,236**	**(3,067)**
Cash and short-term deposits at January 1	30,313	22,536
Cash and short-term deposits at September 30	**47,549**	**19,469**
Interest paid	1,429	442
Interest received	719	655

Consolidated Statements of Shareholders' Equity (unaudited)

Euro amounts in thousands (T €)

	Capital Stock T €	Capital Surplus T €	Other Reserves T €	Accumulated Deficit T €	Minority Interest T €	Total Share-holders' Equity T €
Balance at January 1, 2006	**115,033**	**499,643**	**(1,357)**	**(528,281)**	**-**	**85,038**
Net loss				(8,102)		(8,102)
Changes in fair value of available-for-sale financial assets			(196)			(196)
Deferred taxes on available-for-sale financial assets			78			78
Issuance of common stock by assets in kind	11,232	37,740				48,972
Conversion of convertible bonds	2,210	1,062				3,272
Non-cash share-based payments		345				345
Minority interest					13,308	13,308
Balance at September 30, 2006	**128,475**	**538,790**	**(1,475)**	**(536,383)**	**13,308**	**142,715**
Balance at January 1, 2005	**105,503**	**474,750**	**16**	**(510,095)**	**-**	**70,174**
Net loss				(13,821)		(13,821)
Changes in fair value of available-for-sale financial assets			(749)			(749)
Deferred taxes on available-for sale financial assets			300			300
Issuance of common stock by assets in kind	3,584	10,178				13,762
Conversion of convertible bonds	275	89				364
Balance at September 30, 2005	**109,362**	**485,017**	**(433)**	**(523,916)**	**-**	**70,030**

Consolidated Statements of Recognized Income and Expense (unaudited)

Euro amounts in thousands (T €)

	01/01/-30/09/ 2006	01/01/-30/09/ 2005
Directly recognized in equity		
Available-for-sale financial assets		
change in fair value	(220)	(765)
realized losses	24	16
Apportionable to tax effect	78	300
Directly recognized in equity	**(118)**	**(449)**
Net loss	(8,102)	(13,821)
Net loss and recognized income and expense	**(8,220)**	**(14,270)**

Notes to the Interim Condensed Consolidated Financial Statements

1 General principles

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

2 Consolidation

In addition to the subsidiaries and associated companies that had already been included in the consolidated financial statements for the fiscal year ended December 31, 2005, Q-DSL home GmbH ("DSL home") is being fully consolidated since March 31, 2006, 010090 GmbH ("010090") since April 12, 2006, Broadnet AG ("Broadnet") since June 6, 2006, and Plusnet GmbH & Co. KG ("Plusnet") since September 1, 2006. As of September 30, 2006, QSC held 100 percent of the shares of both DSL home and 010090, as well as 68 percent each of the shares of both Broadnet and Plusnet.

3 Basis of preparation

Judgements and estimates // In the process of applying the Group's accounting policies in accordance with IFRS, the management has made judgements and estimates. Actual results may ultimately differ from these judgements and estimates that were mainly relevant concerning the following items:
- Financial assets were mostly classified as available-for-sale financial assets and consequently changes in fair value are directly recognized in equity.
- The evaluation of provisions is based on management experience.
- The amount of allowances for bad debts is funded by the analysis of the individual customer.
- The useful lives of property, plant and equipment and intangible assets are based on management experience.

Voluntary adoption of new accounting standards // Apart from the IFRS, whose application is mandatory, the International Accounting Standards Board (IASB) has also published other IFRS and IFRICs, which have already received European Union (EU) endorsement, but which will only become mandatory at a later date. Below, only those standards and interpretations which could be relevant for QSC are described. Voluntary early application of these standards is explicitly permitted or encouraged.
On December 16, 2004, the IASB published amendments to International Accounting Standards (IAS) 19 "Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures." This amendment introduces the recognition of actuarial gains and losses in equity as an alternative to the existing methods. QSC is accounting for pension obligations applying the newly implemented alternative treatment of recognition of actuarial gains and losses.
On August 18, 2005, the IASB published the standard IFRS 7 "Financial Instruments: Disclosures." This standard supersedes the existing IAS 30 and adopts all provisions regarding disclosures in the notes contained in IAS 32. The disclosures of IFRS 7 shall apply to periods beginning on or after January 1, 2007; earlier application is encouraged. In the opinion of QSC the new provisions will have no impact on the Company.

4 Subsidiaries

Broadnet // On June 6, 2006, QSC entered into an agreement with the main shareholders and management to acquire 67 percent of the shares of Broadnet. Broadnet is a nationwide provider of microwave- and DSL-based broadband communication solutions. With the acquisition of a majority interest in Broadnet, QSC is strengthening its high-margin core business with enterprise customers. In the initial consolidation, a major element of the acquisition method employed pursuant to IFRS 3 is the allocation of the expended purchase price among all acquired assets and liabilities, as well as the development of a remaining goodwill balance, with due consideration being given to deferred taxes. All identifiable assets and liabilities were stated at their market values in connection with this purchase price allocation. The purchase price for 67 percent of the shares amounted to T € 53,688, including costs of acquisition in the amount of T € 4,716. To effect the transaction, the Management and Supervisory Boards had resolved an increase of capital in the amount of € 11,232,176 through the issuance of 11,232,176 new shares from authorized capital against contributions in kind.
Following capitalization of the Broadnet brand in the amount of T € 950 and of existing customer relationships in the amount of T € 6,050, capitalized goodwill in the amount of T € 20,711 remains.

DSL home // On March 31, 2006, QSC acquired 100 percent of the shares of DSL home. The purchase price for formerly inactive Kristall 40. GmbH amounted to T € 27. DSL home is assuming consumer contracts stemming from the Company's residential customer DSL business in the form of a spin-off pursuant to § 123, Sub.-Para. 3, No. 1, German Corporate Transformation Act ("UmwG"). On May 23, 2006, the Annual Shareholders Meeting resolved its consent to the spin-off and retroactive transfer for economic purposes as of January 1, 2006. The spin-off and transfer agreement was signed on August 9, 2006.

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

Plusnet // On July 10, 2006, QSC formed Plusnet together with the German subsidiary of the TELE2 Group, Communication Services TELE2 GmbH, of Düsseldorf ("TELE2"). With the consent of the German Federal Cartel Office on August 21, 2006, Plusnet began doing business on schedule as of September 1, 2006. Plusnet's mission is to operate a nationwide DSL network for QSC and TELE2 and to expand it from more than 1,000 central offices today to nearly 2,000 central offices by year-end 2007. QSC is contributing its nationwide DSL network; TELE2 is making a cash contribution in the amount of € 50 million to finance further expansion of the network. QSC holds 67.5 percent of Plusnet, TELE2 32.5 percent.

5 Segment reporting

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

01/01/-30/09/2006 in T €	Segment Large accounts	Segment Business customers	Segment Wholesale/ Resellers	Segment Residential customers	Recon- ciliation	Consoli- dated
Net revenues	**47,351**	**55,392**	**36,495**	**40,124**	**-**	**179,362**
Directly allocated costs	(20,671)	(27,106)	(17,047)	(29,300)	-	(94,124)
Contribution margin	**26,680**	**28,286**	**19,448**	**10,824**	**-**	**85,238**
Not allocated costs	-	-	-	-	(73,555)	(73,555)
EBITDA	**26,680**	**28,286**	**19,448**	**10,824**	**(73,555)**	**11,683**
Depreciation and amortization	(1,402)	(956)	(1,225)	(2,423)	(13,061)	(19,067)
Non-cash share-based payments	-	-	-	-	(345)	(345)
Financial result	-	-	-	-	(373)	(373)
Net profit/(loss)	**25,278**	**27,330**	**18,223**	**8,401**	**(87,334)**	**(8,102)**
Long-term assets	5,329	12,807	7,552	11,396	229,766	266,850
Liabilities	3,045	3,563	2,347	2,580	112,600	124,135
Capital expenditures	2,599	3,040	2,003	2,202	16,569	26,413

01/01/-30/09/2005 in T €	Segment Large accounts	Segment Business customers	Segment Wholesale/ Resellers	Segment Residential customers	Recon- ciliation	Consoli- dated
Net revenues	**37,026**	**41,207**	**22,112**	**40,983**	**-**	**141,328**
Directly allocated costs	(13,283)	(23,887)	(12,825)	(28,132)	-	(78,127)
Contribution margin	**23,743**	**17,320**	**9,287**	**12,851**	**-**	**63,201**
Not allocated costs	-	-	-	-	(58,246)	(58,246)
EBITDA	**23,743**	**17,320**	**9,287**	**12,851**	**(58,246)**	**4,955**
Depreciation and amortization	(1,588)	(1,181)	(1,585)	(2,429)	(12,138)	(18,921)
Non-cash share-based payments	-	-	-	-	-	-
Financial result	-	-	-	-	145	145
Net profit/(loss)	**22,155**	**16,139**	**7,702**	**10,422**	**(70,239)**	**(13,821)**
Long-term assets	5,535	9,620	6,494	9,935	89,262	120,846
Liabilities	4,036	4,492	2,411	4,468	34,093	49,500
Capital expenditures	1,426	1,586	851	1,578	8,415	13,856

6 Management Board

	Shares		Convertible bonds	
	30/09/2006	30/09/2005	30/09/2006	30/09/2005
Dr. Bernd Schlobohm	13,818,372	13,818,372	350,000	50,000
Markus Metyas	329,807	2,307	675,000	1,584,116
Bernd Puschendorf	3,000	3,000	1,025,000	1,025,000

7 Supervisory Board

	Shares		Convertible bonds	
	30/09/2006	30/09/2005	30/09/2006	30/09/2005
John C. Baker	10,000	-	-	10,000
Herbert Brenke	187,820	187,820	10,000	10,000
Gerd Eickers	13,853,484	13,853,484	-	-
Ashley Leeds	9,130	9,130	10,000	10,000
Norbert Quinkert	3,846	3,846	-	-
David Ruberg	4,563	4,563	10,000	10,000

8 Subsequent events

On November 13, 2006, QSC entered into an agreement with institutional investors to acquire an additional 24.8 percent of the shares of Broadnet against issuance of new QSC shares. This increased QSC's holdings in Broadnet to 92 percent. This agreement enables QSC to swiftly institute further measures under corporate law with a view to stronger integration of Broadnet. Subject to the materialization of agreed conditions, the purchase price will not amount to less than 1.0542 or more than 1.23 QSC share for each Broadnet share. To execute the transaction, the Management and Supervisory Boards of QSC AG resolved an increase in capital in the amount of € 4.920.000 from authorized capital through issuance of 4,920,000 new no-par shares against contributions in kind, with the right of subscription being excluded.

Cologne, November 2006

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