QUARTERLY REPORT I / 2003

QSC AT A GLANCE

All amounts in million EUR	01/01/-31/03/ 2003	01/01/-31/03/ 2002
Revenues	27.6	9.6
Gross profit/loss	0.5	-7.5
EBITDA [1]	-10.0	-16.3
EBIT [2]	-20.0	-24.4
Net loss	-18.8	-23.8
Net loss per common share [3] (in EUR)	-0.19	-0.24
Equity	128.1 [4]	145.3 [5]
Balance Sheet Total	176.4 [4]	194.6 [5]
Equity ratio (in %)	72.6	74.7
Capital Expenditure	1.5	1.5
Liquidity	76.7 [4]	87.6 [5]
Share price as of 31/03/ (in EUR)	0.60	1.02
Number of shares as of 31/03/	105,008,714	105,008,714
Market capitalisation as of 31/03/	63.0	107.1
Employees	415 [4]	287 [6]

[1] Earnings before interest, taxes, depreciation and amortization

[2] Earnings before interest and taxes

[3] basic and diluted

[4] as of March 31, 2003

[5] as of December 31, 2002

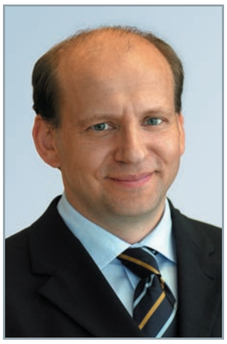
[6] as of March 31, 2002

COMMUNICATION IS CHANGING THE WORLD
BROADBAND REINVENTS COMMUNICATION
QSC IS THE BROADBAND SOLUTION

FIRST-QUARTER REVENUES SOAR The undiminished growth in business-customer and project business along with the full consolidation of Ventelo for the first time, sparked a 188-percent leap in revenues to EUR 27.6 million for the first quarter of 2003. The EBITDA loss improved sharply to EUR -10.0 million (Q1 2002: EUR -16.3 million). Cash burn was down for the eighth time in a row at EUR -10.9 million, after EUR -15.0 million for the fourth quarter of 2002.

Q-DSLmax OFF TO A GOOD START The new price structure for business customers – in short: Maximum Q-DSL bandwidth at a minimum price – convinced businesses in all 46 QSC cities right from the very first day. In its project business, QSC succeeded in winning new customers from both the Top 100 corporations as well as small and mid-size customers during the first quarter of 2003. The QSC Group's integrated voice and data solution continue to penetrate the market.

QSC SHARES POST STRONG GAINS With its share price up 54 percent, QSC shares numbered among the top performers in the Prime Standard during the first quarter of 2003, with this rise being sustained in April and May. Both institutional and private investors rewarded the company's sustained ability to satisfy expectations, as well as its latest sales successes. The upward trend was supported by recommendations from analysts and financial journalists.



Dr. Bernd Schlobohm
Chief Executive Officer

Gerd Eickers
Chief Operating Officer

Markus Metyas
Chief Financial Officer

Bernd Puschendorf
Chief Sales Officer

Dear Shareholders,

With revenues surpassing our network expenses for the first time, QSC recorded a gross profit for the first quarter of 2003. This means that we have passed our first milestone in reaching profitability on schedule, three years after going public. Yet we do not intend to rest on this achievement. Our key goal for 2003 is to reach the EBITDA breakeven point during the course of the fourth quarter.

In the first three months of this year, we have made a good deal of progress in reaching this goal. EBITDA was up nearly 40 percent from the first quarter of 2002. At the same time, our revenues grew by 188 percent to EUR 27.6 million year on year, in spite of the extremely weak economy. One of the major reasons for this growth was the higher percentage of revenues in business-customer and project business. A major German bank, for example, has contracted with us to link some 300 branch offices through a virtual private network (VPN). What is convincing our customers – in addition to the demonstrable quality of our network, a very good price-performance ratio and our customer intimacy – is the second-source argument: because they are keenly aware of the problems involved in connection with every monopoly situation, they want a second supplier for their telecommunication needs. In addition, a major share of our revenue growth stemmed from the full consolidation of Ventelo for the first time.

Success in project business: QSC links 300 branch offices of a major bank

We owe the strongly improved EBITDA to our rigorous focus on the higher-margin business-customer segment. A key control parameter at QSC is the contribution margin that each and every product and each and every project generates. And with our business-customer focus, we are also able to avoid the sometimes disastrous price competition that prevails in the German residential-customer segment.

The successful co-operation with Ventelo is also having a positive impact on our profitability. This has enabled QSC to effect its entry into the 'voice world' much faster than would have been possible on our own with our QSC-Voice product. Moreover, cross-selling effects within the QSC group, i.e. the ability of each company to interest its customer base in the products of the other company, make it easier to win new customers. Cost savings were achievable first and foremost by consolidating our two backbone networks into one integrated voice-data backbone network. In addition, the consolidation of our co-location rooms, as well as the consolidation of our regional branch offices in Berlin, Frankfurt, Hamburg and Munich, also produced significant cost advantages for both Ventelo and QSC.

Overall, we intend to more than double our group revenues in 2003, without any further increase in our head count – a goal that can only be achieved in an extremely efficient and motivated organization. Today, we are managing the QSC Group on the basis of a consistent scoreboard system, linking variable income elements to this system and increasing the level of automation of existing business processes. These steps are being accompanied by intensive customer-focus training for all employees, as well as by optimization of our internal process and communication flows.

QSC shares will belong to Nemax 50 as of June 2003

Our rising effectiveness, our improved profitability, as well as our revenue growth are meeting with increasing favor on the part of the capital market. With a market capitalization of more than EUR 100 million in the spring of 2003, our shares number among the candidates for a place in the TecDax, the German equity index for technology issues. When we went public in the spring of 2000, the relevant index was still the Nemax 50. QSC shares will belong to this index as of June 2003. In the months to come, we will be working hard to assure that, as an integrated telecommunication provider for business customers, QSC will also have a place in the TecDax.

Cologne, May 2003

Your QSC AG Management Board

Q „QSC RECORDED ITS FIRST GROSS PROFIT FOR THE FIRST QUARTER OF 2003.“

MANAGEMENT REPORT

Off to a good start in the current fiscal year In spite of the ongoing recession in Germany, QSC sustained its growth development during the first quarter of 2003. The nearly three-fold rise in revenues stemmed from undiminished growth in business-customer and project business, as well as from the full consolidation of voice carrier Ventelo for the first time, which was acquired at the end of 2002. Its integration into the QSC Group is progressing faster than anticipated.

Ventelo will continue to exist as an autonomously operating company, and this two-track organizational structure will preserve the clear profile of both brands in the marketplace. Internally, however, the sales and marketing teams at both companies are working together very closely; their primary focus is on cross-selling effects, i.e. the ability of each company to interest its customer base in the products of the other company. In addition, the development of demand for combined voice and data solutions has already had a positive impact on total revenues during the first three months of the year. With the acquisition of Ventelo, QSC has positioned itself as a professional provider of integrated telecommunication solutions.

QSC grew its revenues by 188 percent

Revenues soar for the first quarter of 2003 During the first quarter of 2003, QSC grew its revenues by 188 percent to EUR 27.6 million (Q1 2002: EUR 9.6 million), with significant growth being generated in the project business. Both a major German bank as well as a leading retailer have numbered among QSC's customers since the first quarter of the year. In the future, both will be utilizing QSC's network to link their various locations through a virtual private network (VPN).

Sales of the new Q-DSLmax base product have developed positively since its launch in mid January. Business customers value the availability of up to 2.3 Mbit/s of bandwidth at easy-to-predict prices – the base price already includes 1,000 MB of data volume. High download and upload speeds are also characteristic features of the new Q-DSL home 2300 product for residential customers, with which the company has again demonstrated its innovative strength. This new, fast Internet access for residential customers has been available in all 46 QSC cities since May 2003.

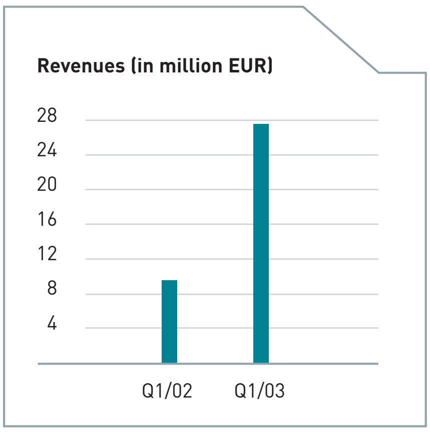
Nationwide, QSC offers voice products and solutions in addition to its data services. The company posted especially strong growth among business customers during the first quarter of 2003. QSC's digital voice product – QSC-Voice - is enjoying positive market reception. By the autumn of 2003, this service will be available in all QSC cities.

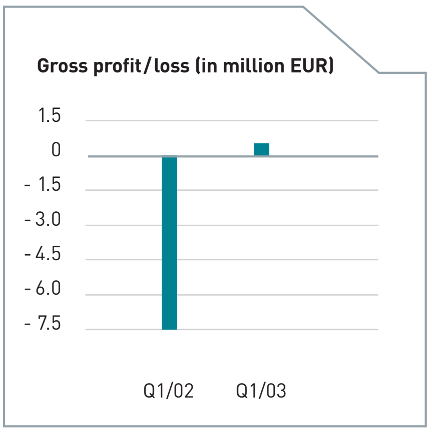
First gross profit ⁄⁄ Network expenses, which are recorded under cost of revenues, continued to remain the largest expense item for the first quarter of 2003. As a result of the consolidation of Ventelo for the first time, these expenditures rose by 59 percent to EUR 27.1 million (Q1 2002: EUR 17.0 million), a relatively moderate increase given the 188-percent leap in revenues. This illustrates the opportunities that exist for QSC's infrastructure-based business model: Rising revenues do not go hand in hand with a corresponding increase in expense, thus resulting in leveraged improvements in profitability. Consequently, QSC recorded its first gross profit, i.e. net revenues less network expense, for the first quarter of 2003. It amounted to EUR 0.5 million, after EUR -7.5 million for the first quarter of 2002.

Huge synergies between QSC and Ventelo

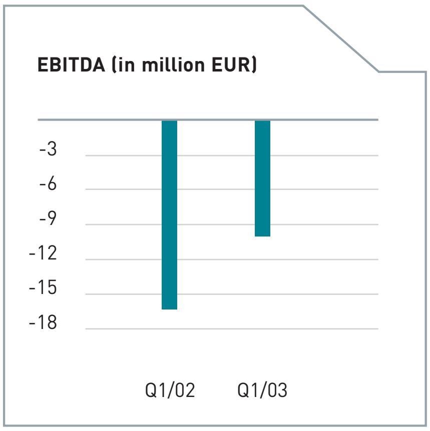
At EUR 6.0 million, sales and marketing expenses remained constant by comparison with the first quarter of 2002, despite the first time consolidation of Ventelo. This stagnation impressively demonstrates the synergies that are possible by having QSC and Ventelo jointly market voice and data solutions. Business customers are the central target group for the company's entire portfolio of products and services, and a joint approach enables these customers to be efficiently addressed.

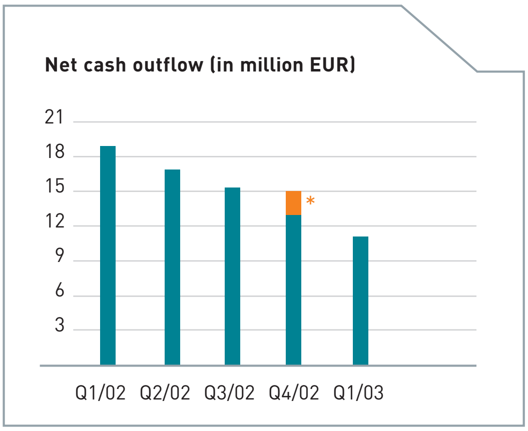
During the first three months of 2003, administrative expenses rose to EUR 4.2 million (Q1 2002: EUR 2.5 million) as a result of the consolidation of Ventelo, which continues to operate as an autonomous entity.





Q “QSC reduces its net cash outflow for the first quarter of 2003 by some 27 percent compared to the previous quarter.“





* Net effect of Ventelo acquisition

EBITDA improves by nearly 40 percent

EBITDA up sharply // The strong improvement in EBITDA underscores the clear progress the company has made in its operating business. For the first quarter of 2003, EBITDA amounted to EUR -10.0 million, as opposed to EUR -16.3 million for the comparable period in 2002 – this represents a reduction of nearly 40 percent. QSC defines EBITDA as earnings before interest, taxes, the pro-rated results of equity method investments, amortization of deferred non-cash compensation, as well as depreciation of non-current assets and amortization of goodwill.

In the first quarter of 2003, depreciation and non-cash compensation, alone, amounted to EUR 9.9 million (Q1 2002: EUR 8.1 million). This increase reflects QSC’s growing volume of business, as the company equips each new customer with an access device and expenses this equipment during the 12-month period subsequent to its acquisition.

Financial income for the first quarter of 2003 totaled EUR 1.0 million after EUR 1.1 million for the comparable period in 2002. The net loss improved by 21 percent to EUR -18.8 million for the first three months of 2003.

Cash burn down for the eighth time in a row // At EUR 10.9 million, net cash outflow for the first quarter of 2003 was down by some 27 percent compared to the fourth quarter of 2002. In comparing the cash burn from operating activities – in the fourth quarter of 2002, the acquisition of Ventelo accounted for an additional net liquidity effect of EUR 2.2 million – the company's position improved by 15 percent or EUR 1.9 million. As at March 31, 2003, QSC's cash and cash equivalents totaled EUR 76.7 million.

During the first quarter of 2003, QSC sharply reduced its trade accounts receivable, which totaled EUR 20.4 million as opposed to EUR 25.9 million as of December 31, 2002. With non-current liabilities of EUR 0.4 million, QSC continued to remain virtually debt free during the first quarter of 2003. The company's equity ratio of 72.6 percent underscores its strong financial position.

Weak economy, strong broadband market // In line with the entire year 2002, the first quarter of 2003 was again characterized by a discrepancy between an extremely weak state of the general economy and unabated strong demand for broadband services. Although the majority of organizations continue to work with stagnating IT budgets, they are nevertheless investing in expanding their broadband infrastructure. Increasingly, networked workplaces and the rising number of end-to-end business transactions being handled over the Internet are leading to cost savings and are prompting organizations of every size to shift from conventional telecommunications to broadband solutions.

Germany is a DSL country

DSL has established a firm place for itself as the dominant broadband technology in Germany. According to a study by IDC, over 90 percent of all broadband revenues in the business-customer segment in 2003 were attributable to DSL. In contrast to broad areas of the telecommunication market, this strong demand from the enterprise segment continues to grow at breathtaking speed and is preventing a price war. Medium term, however, QSC anticipates declining margins, and is thus rigorously broadening its project business. The project business bundles various value-added services such as intelligent end-to-end concepts, fast installation times and professional service that leads into a solution package for which business customers are prepared to pay far higher prices compared to the usage of pure broadband connections.

Q „QSC plans to reach the EBITDA breakeven point during the course of the fourth quarter of 2003."

Every second employee of QSC works in customer-near fields

Sufficient manpower for further growth // As of March 31, 2003, QSC employed 415 people, thus increasing its workforce by 128 employees within the space of twelve months. Around 95 percent of this growth is attributable to the Ventelo acquisition. 203 QSC group employees, or 49 percent of the total workforce, work in customer-near fields. A total of 143 people are assuring the smooth operation of the network as well as the technological implementation of new solutions for business customers. With the team strength that has now been achieved, QSC will be able to sustain its growth course during the coming quarters.

Better risk management // During the first quarter of 2003, QSC's risk management system was more closely integrated with the company's procedural and structural organization. This went hand in hand with linking identifiable risks with strategic success factors, as well as communicating risks better through the introduction of threshold values to function as early warning indications.

QSC possesses more than three years of operational experience in the DSL business and is thus well positioned to assess and manage its risks. There are two issues, however, which could impede further implementation of the business concept: First, a longer-term recession in Germany, and secondly highly aggressive pricing on the part of former monopolist Deutsche Telekom; against this backdrop, effective regulation of the telecommunication sector remains indispensable. As a result of this or other risks, as well as incorrect assumptions, future actual results could vary materially from the company's expectations. All statements contained in these consolidated financial statements that are not historical facts are forward-looking statements. They are based on current expectations and projections of future events, and are subject to regular review within the context of risk management. QSC attaches top priority to monitoring expectations, forecasts and projections, and adjusting them if necessary.

Outlook: Focusing on the EBITDA breakeven point ⁄⁄ QSC plans to reach the EBITDA breakeven point during the course of the fourth quarter of 2003. In order to achieve this goal, the company is pushing its business-customer selling activities, while simultaneously continuing its rigorous cost management. In the coming quarters, the company anticipates that it will generate high growth, especially from project business, and this expectation is supported by numerous pilot projects. It is also anticipated that the company's base product, Q-DSLmax, will generate noticeably higher revenues. New revenue potential is also being offered by QSC's combined voice and data solution offerings. Project teams from QSC and Ventelo had identified potential target customers during the first quarter of 2003.

WLAN boom start off new revenue source

A further revenue source for DSL lines is arising from the extremely fast penetration of wireless broadband networks (WLANs) at so-called hotspots, i.e. locations that are highly frequented by business customers, such as airports, hotels or tradeshow venues. DSL lines are likely to be the standard mode of connecting these wireless local area networks with backbones.

The positive development of QSC's business during the first quarter of 2003 confirms the QSC's forecast for the entire year. The company is planning for revenues of between EUR 105 and 115 million, as well as a negative EBITDA of between EUR -25 and -30 million. The company anticipates net liquid assets of more than EUR 50 million as of December 31, 2003. QSC will be using this foundation to reach the cash flow breakeven point during the course of 2004, without raising any further debt or equity financing.

STATEMENTS OF OPERATIONS

Consolidated Statements of Operations (unaudited)
(EUR amounts in thousands (TEUR), except for per share amounts)

	for the three months ended March 31, 2003 in TEUR	for the three months ended March 31, 2002 in TEUR
Net revenues	**27,566**	**9,555**
Cost of revenues	27,097	17,011
Gross profit (loss)	**469**	**(7,456)**
Selling and marketing expenses	6,027	6,012
General and administrative expenses	4,192	2,515
Research and development expenses	295	342
Depreciation and amortization (including TEUR 1,614 in non-cash compensation in the 3 months ended March 31, 2003; 3 months ended March 31, 2002: TEUR 1,691)	9,931	8,081
Operating loss	**(19,976)**	**(24,406)**
Other income (expenses)		
Interest income	995	1.216
Interest expenses	(2)	(90)
Share of post acquisition losses of equity method investees	-	(376)
Other non-operating income (loss)	180	(127)
Net loss before income taxes	**(18,803)**	**(23,783)**
Income taxes	-	-
Net loss	**(18,803)**	**(23,783)**
Net loss per common share (basic and diluted)	(0.19)	(0.24)
Weighted average shares outstanding (basic and diluted)	101,134,647	101,134,647

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

BALANCE SHEETS

Consolidated Balance Sheets (unaudited)
(EUR amounts in thousands (TEUR))

	as of Mar. 31, 2003 in TEUR	as of Dec. 31, 2002 in TEUR
ASSETS		
Current assets		
Cash and cash equivalents	34,829	43,095
Marketable securities	41,870	44,526
Trade accounts receivable, net	17,755	16,948
Trade accounts receivable due from related parties	3	7
Unbilled receivables	219	239
Other receivables	7,334	9,476
Prepayments and other current assets	5,203	4,410
Total current assets	**107,213**	**118,701**
Non-current assets		
Investment in equity method investees	**301**	**301**
Other non-current assets	**419**	**460**
Plant and equipment, net		
Networking equipment and plant	55,640	61,463
Operational and office equipment	6,299	6,837
Total plant and equipment, net	**61,939**	**68,300**
Intangible assets, net		
Licenses	1,932	2,004
Software	2,202	2,420
Others	4	5
Total intangible assets, net	**4,138**	**4,429**
Goodwill	**2,393**	**2,393**
Total non-current assets	69,190	75,883
Total assets	176,403	194,584

	as of Mar. 31, 2003 in TEUR	as of Dec. 31, 2002 in TEUR
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term debt and current portion of long-term debt	237	-
Trade accounts payable	20,364	25,917
Trade accounts payable due to related parties	832	504
Accrued liabilities	18,150	17,871
Deferred revenues	1,447	2,028
Other current liabilities	6,866	2,549
Total current liabilities	**47,896**	**48,869**
Non-current liabilities		
Convertible bonds	50	50
Accrued pensions	328	321
Other non-current liabilities	-	90
Total non-current liabilities	**378**	**461**
Shareholders' Equity		
Common stock	105,009	105,009
Treasury stock	(266)	(266)
Additional paid-in capital	473,373	473,442
Deferred compensation	(3,375)	(5,058)
Accumulated other comprehensive income	64	-
Receivables due from shareholders	(1)	(1)
Accumulated deficit	(446,675)	(427,872)
Total Shareholders' Equity	**128,129**	**145,254**
Total liabilities and Shareholders' Equity	**176,403**	**194,584**

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

STATEMENTS OF CASH FLOWS

Consolidated Statements of Cash Flows (unaudited)
(EUR amounts in thousands (TEUR))

	for the three months ended March 31, 2003	2002
Cash flow from operating activities		
Net loss	**(18,803)**	**(23,783)**
Adjustments to reconcile net loss to cash used in operating activities		
Non-cash compensation charge	1,614	1,691
Depreciation and amortization	8,317	6,390
Gain on sale of equipment	(176)	(71)
Share of post acquisition losses of equity method investees	-	376
Non-cash interest expense	-	82
Change in operating activities		
Increase in trade accounts receivable, net	(807)	(1,763)
Decrease in trade accounts receivable due to related parties	4	154
Decrease in unbilled receivables	20	1,031
Decrease in other receivables	2,142	5,451
Increase in prepayments and other current assets	(793)	(1,443)
Decrease/(Increase) in other non-current assets	41	(2)
Decrease in trade accounts payable	(5,225)	(6,014)
Increase/(Decrease) in accrued liabilities	279	(831)
Increase/(Decrease) in deferred revenues	(581)	755
Increase in other current liabilities	4,317	481
Increase in accrued pensions	7	8
Net cash used in operating activities	**(9,644)**	**(17,488)**

	for the three months ended March 31, 2003	2002
Cash flow from investing activities		
Change in marketable securities	2,656	(53,500)
Available-for-sale securities (unrealized gain)	64	-
Purchases of intangible assets	(40)	(89)
Purchases of plant and equipment	(2,095)	(1,663)
Proceeds from sale of equipment	646	229
Net cash used in investing activities	**1,231**	**(55,023)**
Cash flow from financing activities		
Borrowings of short-term debt and current portion of long-term debt	147	-
Issuance of convertible bonds	-	10
Net cash (used in) provided by financing activities	**147**	**10**
Net decrease in cash and cash equivalents	**(8,266)**	**(72,501)**
Cash and cash equivalents at beginning of the year	43,095	153,776
Cash and cash equivalents at end of the period	**34,829**	**81,275**
Supplemental disclosures of cash flow information		
Cash paid during the period for		
Interest expenses	2	9

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

STATEMENTS OF EQUITY

Consolidated Statements of Shareholders' Equity from January 1, 2002 to March 31, 2003 (unaudited)
(EUR amounts in thousands (TEUR), except for per share amounts)

Balance at January 1, 2002
Reissue of treasury stock (January 1, 2002)
Convertible bonds forfeited due to termination of employment (January 1, 2002)
Reissue of treasury stock (April 1, 2002)
Convertible bonds forfeited due to termination of employment (April 1, 2002)
Convertible bonds forfeited due to termination of employment (October 1, 2002)
Amount amortized during the period
Net loss
Balance at December 31, 2002
Net loss
Unrealized holding gains on available-for-sale securities
Comprehensive income
Convertible bonds forfeited due to termination of employment (January 1, 2003)
Amount amortized during the period
Balance at March 31, 2003

	Ordinary Shares Shares	Ordinary Shares Amount TEUR	Treasury Shares Shares	Treasury Shares Amount TEUR	Additional Paid-In Capital TEUR	Deferred Compen-sation Account TEUR	Compre-hensive Income TEUR	Accumul. Other Compre-hensive Income TEUR	Receivab. Due from Share-holders' TEUR	Accumu-lated Deficit TEUR	Total Share-holders' Equity TEUR
	105,008,714	**105,009**	**1,125,473**	**(3,312)**	**473,480**	**(12,086)**		**-**	**(1)**	**(323,124)**	**239,966**
			(575,000)	2,869						(2,127)	742
					(45)	45					-
			(191,726)	177	76						253
					(46)	46					-
					(23)	23					-
						6,914					6,914
										(102,621)	(102,621)
	105,008,714	**105,009**	**358,747**	**(266)**	**473,442**	**(5,058)**		**-**	**(1)**	**(427,872)**	**145,254**
							(18,803)			(18,803)	(18,803)
							64	64			64
							(18,739)				
					(69)	69					-
						1,614					1,614
	105,008,714	**105,009**	**358,747**	**(266)**	**473,373**	**(3,375)**		**64**	**(1)**	**(446,675)**	**128,129**

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

QSC AG

Notes to condensed consolidated financial statements (unaudited)
(EUR amounts in thousands (TEUR), except for per share amounts)

1. Organization and basis of presentation

a) **Organization** // QSC offers its business and residential customers DSL-based (Digital Subscriber Line) broadband "always-on" connections to the Internet, with up and downstream data transfer rates of up to 2.3 Mbit/s and voice telephony services. DSL-technology makes efficient use of the last mile on the basis of unbundled network access, thus multiplying data traffic speeds compared with standard subscriber connections. The QSC broadband network covers the 40 largest cities in Germany and reaches more than a quarter of the entire population. QSC serves the end-user market selling its products and services either direct or through retail and distribution partners. QSC also provides some of its services through sales partners acting as resellers.

b) **Basis of Presentation** // The interim consolidated financial statements of QSC are unaudited and have been prepared in accordance with generally accepted accounting principles in the United States ("US GAAP"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with US GAAP have been condensed or omitted. In the opinion of management, the financial statements reflect all adjustments which are necessary to present fairly the financial position, results of operations and cash flows for the interim periods. The financial statements should be read in conjunction with the audited consolidated financial statements as of December 31, 2002 and 2001. The results for the three month period ended March 31, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003.
All amounts except per share amounts are in thousands of EUR (TEUR).

c) **Principles of Consolidation** // The consolidated financial statements include the accounts of QSC and its subsidiaries. All significant inter-company 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% and not more than 50%.

2. Significant accounting policies

a) **Recently issued statements of financial accounting standards //** Effective January 1, 2002, the Company adopted 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, and SFAS 142, with respect to the impairment. These statements supersede SFAS 121, "Accounting for the Impairment of Long Lived Assets to be Disposed Of". The adoption of these standards did not have a material impact on its consolidated financial positions or results of operations.
The Company reviews the carrying value of its long-lived assets, including fixed assets, investments, goodwill, 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, is assessed by a comparison of the carrying amount of the asset (or the group of assets, including the asset in question, that represents the lowest level of separately-identifiable cash flows) to the total estimated undiscounted cash flows expected to be generated by the asset or group. If the estimated future net undiscounted cash flows is 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. Fair value is determined by discounting the cash flows expected to be generated by the asset, when the quoted market prices are not available for the long-lived assets. No adjustments were required to the carrying value of long-lived assets for the period from January 1 until March 31, 2003.
On January 1, 2002, the Company adopted SFAS 142, which prohibits the amortization of goodwill and indefinite life intangible assets. Instead, goodwill and indefinite life intangible assets will be tested for impairment at least annually and on an interim basis when an event occurs or circumstances change between annual tests that would more-likely-than-not result in an impairment. Under SFAS 142, goodwill is assessed for impairment by using the fair value based method. The Company determines fair value by utilizing discounted cash flows. The fair value test required by SFAS 142 for goodwill and indefinite lived intangible assets includes a two-step approach. Under the first step, companies must compare the fair value of a "reporting unit" to its carrying value. A reporting unit is the level at which goodwill impairment is measured and it is defined as an operating segment or one level below it if certain conditions are met. If the fair value of the reporting unit is less than its carrying value, goodwill is impaired and companies must proceed with step two. Under step two, the amount of goodwill impairment

is measured by the amount that the reporting unit's goodwill carrying value exceeds the "implied" fair value of goodwill. The implied fair value of goodwill can only be determined by deducting the fair value of all tangible and intangible net assets (including unrecognised intangible assets) of the reporting unit from the fair value of the reporting unit (as determined in Step 1). In this step, companies must allocate the fair value of the reporting unit to all of the reporting unit's assets and liabilities (a hypothetical purchase price allocation).

SFAS 142 requires companies to perform the impairment test at least annually and also upon adoption. Any impairment loss resulting from the adoption of SFAS 142 is treated as a change in accounting principle. Companies, whose financial year is the calendar year such as ourselves, adopted SFAS 142 as of January 1, 2002, for goodwill and intangible assets arising from business combinations completed prior to July 1, 2001, and we have applied SFAS 142 for goodwill and indefinite-lived intangible assets arising from business combinations completed after June 30, 2001. Upon adoption of SFAS 142, for US GAAP purposes, we stopped amortizing goodwill. The Company did not have any impairment loss as a result of adopting SFAS 142 and as a result of performing the required annual impairment test which the Company has elected to perform on October 31, 2002. As SFAS 142 was adopted by the Company on January 1, 2002, there are no reconciling differences for the three months ended March 31, 2003 and 2002.

In December 2002, the FASB issued SFAS 148 "Accounting for Stock-Based Compensation – Transition and Disclosure". This Statement provides additional disclosure requirements for stock-based compensation plans and alternative methods of transition for companies that elect to change from Accounting Principles Board ("APB") 25 "Accounting for Stocks Issued to Employees" to SFAS 123 "Accounting for Stock-Based Compensation" for stock-based compensation. Under SFAS 148 a company electing to adopt SFAS 123 apply SFAS 123 prospectively for new stock-based compensation awards, while continuing to account for existing stock based compensation awards under APB 25. SFAS 148 is effective for fiscal years ending after December 15, 2002. Beginning January 1, 2003, the Company has adopted a change in accounting principle for stock based compensation. Accordingly, under the provisions of SFAS 148, QSC will report this change in accounting principle using the prospective method, whereby, stock based compensation awards granted until December 31, 2002 are accounted for under the provisions of APB 25 and stock based compensation awards granted after January 1, 2003, are accounted for under SFAS 123.

b) **Use of estimates in the preparation of the financial statements //** The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosure of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on our knowledge of current events and actions we may undertake in the future, actual results may ultimately differ from estimates.

c) **Cash and cash equivalents //** Cash and cash equivalents consist of highly liquid investments in bank balances and cash on hand.

d) **Marketable securities //** In accordance with SFAS 115, "Accounting for Certain Investments in Debt and Equity Securities", and based on the Company's intentions regarding these instruments, the Company has classified TEUR 38,817 marketable debt securities as held-to-maturity and has accounted for these investments at amortized cost. Marketable debt securitites of TEUR 3,053 has classified as available-for-sale and accounted at record date cost.

e) **Loss per share //** Under SFAS 128 "Earnings per share", loss per share is computed by dividing loss applicable to common stockholders by the weighted average number of shares of QSC's common stock outstanding exclusive of shares subject to repurchase if specified conditions are not met. 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. The loss per share calculation does not include 3,874,067 shares issued to employees through the exercise of convertible bonds, which are subject to forfeiture, nor does it include the effect of the possible conversion of convertible bonds into 5,074,651 shares of QSC common stock. For the three months ended March 31, 2003 and 2002, the dilutive effect of options was not considered because QSC recorded net losses and the impact of their assumed exercise would be anti-dilutive.

f) **Goodwill //** Goodwill consists of the excess purchase price over the fair value of the identifiable net assets acquired in acquisitions. With the adoption of SFAS 142 as of January 1, 2002, goodwill is no longer amortized, but tested at least annually for impairment.

g) 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 operating in one segment: fixed-wire integrated telecommunication services in Germany.

h) Comprehensive income // SFAS 130, "Reporting Comprehensive Income" requires companies to separately report components of Comprehensive income. Comprehensive income includes net loss and other comprehensive income. Comprehensive income and other comprehensive income are shown in the statements of equity.

3. Acquisitions and Investments

a) Acquisitions // On December 13, 2002, QSC acquired 100% of Ventelo GmbH, Düsseldorf ("Ventelo"). Ventelo is a nationwide voice telephony carrier providing business customer 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 ideally. Ventelo will further enhance QSC's ability to offer integrated telecommunication solutions for all business customer segments. Total acquisition cost for Ventelo was TEUR 11,515, including direct acquisition costs of TEUR 90, and is subject to certain purchase price adjustments which could result in reductions of purchase price up to TEUR 5,200. The amount of TEUR 5,200 is withheld as restricted cash on an escrow account. On April 1, 2002, Ventelo was outsourced from its former parent company Ventelo Deutschland GmbH due §§ 159 et seqq. "Umwandlungsgesetz". Due to § 133 "Umwandlungsgesetz" Ventelo is responsible for potential liabilities of the former parent company for a period of five years. The estimated fair value of the identifiable net assets exceeds the purchase price resulting in a negative goodwill of TEUR 132 and reducing the acquired assets, on a pro rata basis, by this amount. The results of operations of Ventelo have been included in the consolidated financial statements since December 13, 2002.

b) Investments // On April 26, 2001, the shareholders of ALCHEMIA S.p.A., Milan, Italy, one of QSC's strategic investments made in 2000, resolved to change the company's name to Netchemya S.p.A. ("Netchemya"). TISCALI S.p.A., a shareholder of Netchemya, made a strategic decision in the third quarter of 2002 to discontinue the resale of Netchemya's

network based services and not to commit any further funding to Netchemya. This had a major adverse impact on Netchemya's future business activities and the shareholders took first measures to discontinue operations by way of voluntary liquidation. QSC has therefore written off its remaining investment in Netchemya of TEUR 4,136 in 2002.
On January 28, 2002, the Company acquired a 49% interest in Grell Beratungs GmbH, Cologne ("Grell"). Purchase price consideration consisted of 575,000 ordinary shares of QSC stock valued at EUR 1.29 per share which approximates the market price of the Company's stock when the acquisition was agreed to and announced. QSC uses the equity method for its investment in Grell. As a result of recent developments of this business, during the fourth quarter of 2002, QSC has recorded an impairment charge of TEUR 433 in 2002 relating to Grell to reflect its estimated fair market value of TEUR 301.

4. Employee equity incentive program

QSC accounts for its stock option plans under provisions of APB 25 for options granted to employees under stock option plans. Under APB 25, compensation expense is recognized based on the amount by which the fair value of the underlying common stock exceeds the exercise price of the stock options at the measurement date. In the case of SOP2000, the measurement date is the date of grant. In the case of SOP2000A, the exercise price of 483,169 convertible bonds was reduced in November 2000. The 483,169 convertible bonds are therefore accounted for using variable plan accounting. QSC was not required to record any compensation expense in connection with the 483,169 convertible bonds subject to variable plan accounting as these bonds have a weighted average exercise price of EUR 4.23. QSC's stock closed at EUR 0.60 on March 31, 2003 at Frankfurt Prime Standard stock exchange. All other convertible bonds and shares exercised under SOP2000A have a measurement date equal to the grant date. The same apply to the stock option plans SOP2001 and SOP2002. As at March 31, 2003, QSC had deferred compensation totalling TEUR 3,375. This amount is yet to be amortized as a charge to operations until the lock-up period will be ended. In the first three months 2003, QSC amortized TEUR 1,614 and TEUR 1,691 in the equivalent period of 2002.

5. Debt

Other non-current liabilities of TEUR 378 include convertible bonds of our employee equity incentive program and an accrual for existing pension obligations.

6. Allowance for doubtful accounts

In the first three months of 2003 and 2002, allowance for doubtful accounts was not recorded.

7. Share and convertible bonds Management Board and Supervisory Board

Shares and conversion rights of Members of the Management Board:

	31/03/2003		31/03/2002	
	Shares	Conversion rights	Shares	Conversion rights
Dr. Bernd Schlobohm	13,818,372	-	13,818,372	-
Gerd Eickers	13,841,100	9,130	13,841,100	-
Markus Metyas	2,307	1,059,116	2,307	1,059,116
Bernd Puschendorf	-	1,000,000	-	1,000,000

Shares and conversion rights of Members of the Supervisory Board:

	31/03/2003		31/03/2002	
	Shares	Conversion rights	Shares	Conversion rights
John C. Baker	-	19,130	-	9,130
Herbert Brenke	187,820	9,130	161,120	9,130
Ashley Leeds	9,130	-	9,130	-
David Ruberg	4,563	19,130	4,563	9,130
Claus Wecker	83,025	-	83,025	-

8. Subsequent events

The authorization of the annual general meeting of QSC on May 16, 2002 to acquire its own shares up to an imputed share in the capital stock in the total amount of TEUR 10,000 through the stock exchange or based on a public tender offer was restricted by law until October 31, 2003. Therefore this authorization was revoked at the annual general meeting on May 15, 2003 and replaced by a new identical authorization being in effect until October 31, 2004.

QSC requires a class 3 license to operate transmission lines in Germany as well as a class 4 license for the provision of voice telephony services. These licenses are awarded by the German regulatory authority and are subject to an initial, one-time fee. QSC, together with other German license holders, took legal action appealing the authority's license fee directive. On April 23, 2003, QSC received a revised licence fee directive for its class 3 licence, that will lead to an reassessment of intangible assets when the revised license fee directive is in place. A reassessment of the license fee for class 4 licence is expected but it has yet to take place.

GLOSSARY

ADSL Asymmetrical Digital Subscriber Line; asymmetric data transmission technology with downstream rates between 1.5 Mbit/s and 8 Mbit/s and upstream rates between 16 kbit/s and 640 kbit/s.

ASP Application Service Provider; service providers that host, manage, support, and deliver software applications and database to customers from a remote data center over the Internet or wide area networks.

Backbone High-speed network that interconnects networks with lower speeds/capacities.

Bandwidth The transmission capacity of a line.

Broadband Data transmission capacity in excess of 128 Kilobit per second.

CO Central office or co-location room; local access switching facility of Deutsche Telekom, where the "last mile" begins.

ISDN Integrated Services Digital Network; digital switching technology allowing the transmission of any and all forms of telecommunication through a single line.

ISP Internet service provider. They facilitate customer data communication by provision of Internet access and related services, e.g. e-mail management.

Last Mile The distance from the telephone outlet to the nearest local switching center (central office).

Leased Line Any permanently available connection; no time lost due to dialling in and the setting up of a connection.

Line Sharing Shared use of a local loop for voice and broadband data services. Both services can be provided by different operators due to a separation of the frequency spectrum used.

Mbit/s / kbit/s Megabit per second / Kilobit per second; measuring units of data transmission speed.

MSC Metropolitan Service Centre; QSC's local access network mode where local broadband traffic is bundled and connected with Internet and/or the PoTS (Plain old Telephony System) world. The MSC's also house broadband application servers.

QoS Quality of Service; in order to ensure an agreed transmission service level, the transport protocol, e.g. must support Quality of Service. Quality of Service for instance, ensures that a video transmitted via QSC speedw@y-DSL will reach the user without distortions.

SDSL Symmetric Digital Subscriber Line; symmetric transmission technology, allows for data transfer into both directions at equal speeds of up to 2.3 Megabit per second.

TKG "German Telecommunication Law" of 1998. It constitutes the legal basis for the liberalisation of the Telecoms sector in Germany.

Video-on-Demand The future of home entertainment. Via the Web, movies can be ordered and copied almost 'live' through the telephone line. Due to QSC's DSL technology, the virtual video library as well as countless other multimedia services will grow from a technical concept stage to real consumer availability.

Voice over DSL The possibility to transmit voice and data simultaneously within the framework of DSL technology.

Web-Hosting Service providers offer server capacities mainly to business subscribers for their Internet applications.

CALENDAR

Quarterly Reports
August 26, 2003
November 25, 2003

Conferences/Events
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