QUARTERLY REPORT III / 2003

QSC AT A GLANCE

All amounts in million EUR	01/07/-30/09/ 2003	01/07/-30/09/ 2002	01/01/-30/09/ 2003	01/01/-30/09/ 2002
Revenues	29.5	12.1	85.3	33.6
Gross profit/loss	2.9	-2.3	5.0	-12.1
EBITDA	-5.5	-14.2	-22.7	-45.4
EBIT	-13.3	-23.9	-48.9	-72.3
Net loss	-12.3	-27.3	-46.3	-74.9
Net loss per common share [1] (in EUR)	-0.12	-0.27	-0.44	-0.74
Capital Expenditure	0.3	1.4	3.6	7.1
Equity			103.9 [2]	145.3 [3]
Balance Sheet Total			145.3 [2]	194.6 [3]
Equity ratio (in %)			71.5 [2]	74.7 [3]
Liquidity			60.2 [2]	87.6 [3]
Share price as of 30/09/ (in EUR)			2.06	0.46
Number of shares as of 30/09/			105,021,374	105,008,714
Market capitalization as of 30/09/			216.3	48.3
Employees as of 30/09/			380	322

[1] basic and diluted

[2] as of September 30, 2003

[3] as of December 31, 2002

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

GROWTH IN PROJECT BUSINESS Successes in winning new customers played a major role in QSC's 144-percent year-on-year growth in third-quarter revenues. MakroMarkt and TÜV Rheinland Berlin Brandenburg were just two of the customers for whom QSC built custom VPN solutions.

SIGNIFICANT IMPROVEMENT IN PROFITABILITY In the third quarter of 2003, QSC reduced its EBITDA loss by 61 percent on a year-on-year comparison. Strong growth in high-margin services for business and project customers, as well as sustained cost discipline, improved QSC's EBITDA loss to EUR -5.5 million, as opposed to EUR -14.2 million for the third quarter of 2002.

HEADED FOR THE PROFITABILITY ZONE In spite of the persistently weak economy, QSC is confirming its forecast to reach the EBITDA breakeven point during the fourth quarter of 2003 and the cash flow breakeven point during the course of the first half of 2004.

INCREASED SHARE PRICE During the third quarter of 2003, QSC's share price rose by over 20 percent to EUR 2.06 with high trading volumes. Following the expiration of the last employee lockup periods, 41 percent of QSC's shares are now widely held, with the majority continuing to be held by QSC's founders, Dr. Bernd Schlobohm and Gerd Eickers, as well as by the Baker Capital Group.

Dr. Bernd Schlobohm
Chief Executive Officer

Gerd Eickers
Chief Operating Officer

Markus Metyas
Chief Financial Officer

Bernd Puschendorf
Chief Sales Officer

Dear Shareholders,

QSC AG is one of Germany's fastest-growing technology companies. In October 2003, QSC posted an outstanding eighth place in the Deloitte & Touche Technology Fast 50 rankings with cumulative revenue growth of 1583 percent during the past five years. We view this ranking as the result of a tremendous team effort on the part of the entire QSC workforce, and as an incentive to sustain the company's growth course in the coming years.
Revenue growth of 144 percent to EUR 29.5 million in the third quarter of 2003, as opposed to EUR 12.1 million for the same period the year before, demonstrates the company's unabated growth in an economic environment that continues to be very difficult. As in the preceding quarters, QSC again benefited from its focus on business and project customers.

We are increasingly winning the top 500 companies in Germany as customers. The signing in October 2003 of a project order to network 75 locations of Germany's second-largest bank, HypoVereinsbank, is another case in point. The ability to satisfy a major bank's special performance and security requirements underscores QSC's capabilities and paves the way for interesting opportunities in the financial sector.

Potential customers have long since ceased to view QSC as merely a pure DSL provider. Business customers are increasingly asking for combined voice/data solutions. The rising percentage of revenues accounted for by these customers necessitates that QSC and Ventelo grow together swiftly. Following integration at the network and sales & marketing level, we will also be consolidating the two companies' administrations during the fourth quarter of 2003. By the end of December, the employees of QSC and Ventelo will be working under one roof at our Headquarters in Cologne, with the opportunity to further improve their collaboration on a daily basis.

Ventelo acquisition concluded in the fourth quarter 2003

As a result, the process of integrating Ventelo will be concluded sooner than had originally been planned. While non-recurring integration costs will burden our results during the fourth quarter of 2003, they are already being offset by operative synergistic effects that are estimated at up to three million euros for 2003; and we anticipate positive effects of up to five million euros for 2004.

QSC launches first Voice over IP product

At the present time, we are specifically expanding our solutions competence in the voice sector. In early November, we introduced to the general public our first software-based Voice over IP product, QSC-IPfonie, for residential customers. Beginning on December 1, Q-DSL home customers will be able to additionally make voice calls to other internet users as well as public telephony network users at favorable rates over their data line. This easy-to-handle software solution is an offering for residential customers that is unrivaled in Germany.

The integration of Voice over IP technology into our product portfolio underscores QSC's rapid migration to become a comprehensive telecommunication provider. With our broad range of data and voice solutions, as well as our competence in building and operating virtual private networks (VPN), we see ourselves as being well positioned for the coming fiscal year. As announced when we went public in April 2000, we intend to generate a positive EBITDA for the entire fiscal year 2004. Further on, we intend to reach the cash flow breakeven point earlier than had originally been planned, during the first six months of the coming year. We anticipate reaching the EBITDA breakeven point during the fourth quarter of 2003.

The capital markets are continuing to reward our successes in approaching these ambitious goals: Our share price advanced by over 20 percent during the third quarter, alone, rising by more than 420 percent during the first nine months of the year. Following the summer months, there were significantly increased levels of interest among analysts as well as investors. We are convinced that the advances we have made in our operative business will continue to further underscore the attractiveness of our business model, and thus our shares, during the coming quarters.

Cologne, November 2003

Your QSC AG Management Board

"The positive business development of QSC in the third quarter of 2003 has established the basis for reaching the EBITDA breakeven point as planned during the current quarter."

MANAGEMENT REPORT

Sights clearly set on the breakeven point The positive business development of QSC in the third quarter of 2003 has established the basis for reaching the EBITDA breakeven point as planned during the current quarter. Revenues rose by 144 percent from the third quarter of 2002 to EUR 29.5 million. At the same time, operating expenses increased by only 33 percent. As a net result, the company's EBITDA loss declined by 61 percent to EUR -5.5 million during the past third quarter of 2003 alone.

The company also anticipates strong revenue growth during the coming quarters, especially in the project business. Operating expenses, on the other hand, will only rise at lower rates – clearly documenting the scalability of the QSC business model. As a result, these two factors are expected to lead to sustained improvements in profitability during the coming quarters, as well.

Growth in project business During the third quarter of 2003, QSC's revenues rose to EUR 29.5 million (Q3 2002: EUR 12.1 million). Although the company reduced its sales of low-margin products, in particular its sales from call-by-call telephony, QSC nevertheless succeeded in growing its revenues by 144 percent. Revenues totaled EUR 85.3 million for the first nine months of the current fiscal year, thus surpassing the comparable prior-year nine-month revenues of EUR 33.6 million by 154 percent, in spite of the persistently weak economy.

Rising revenues in spite of persistently weak economy

In addition to the effect stemming from the consolidation of voice carrier Ventelo, this rise was mainly attributable to the company's growing project business. QSC won further prominent names as customers, including TÜV Rheinland Berlin Brandenburg and the MakroMarkt consumer electronics retail chain. However, it can take up to twelve months from the time of initial contact until the complete telecommunication solution goes live and the first invoice can be issued. This means that today's successes in the project business will not transform into revenues until later.

QSC is specifically continuing to broaden its product portfolio. Q-DSL home 2300pro, a DSL product that is tailored to the needs of independent professionals and small companies, has been available since August 2003. It enables small local area networks to be connected to a single Q-DSL line. Overall, the percentage of total revenues accounted for by business customers rose to 58 percent in the third quarter of 2003, as opposed to 32 percent in 2002.

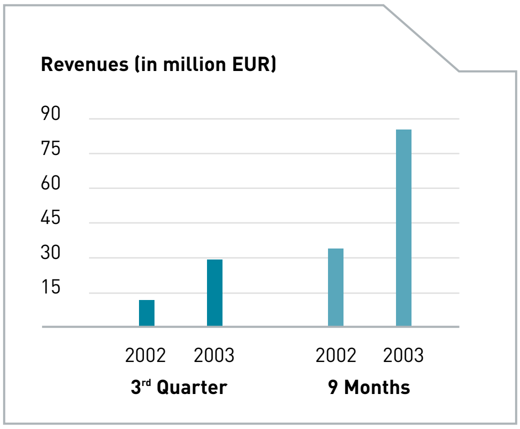
On the other hand, there was a decline in the percentage of business with pure access products for resellers. Given the sustained consolidation in the market, QSC is focusing on selected, strong partners here, thus assuring that reseller business will continue to remain an important element of the QSC business model.

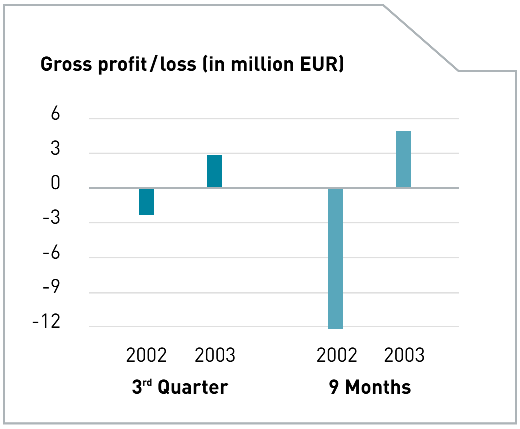
Focus on high-margin market segments paying off ⁄⁄ In spite of rising revenues, the company nevertheless succeeded in reducing the absolute level of network expenses (shown under cost of revenues) during the third quarter of 2003. Cost of revenues totaled EUR 26.6 million for the past quarter, as opposed to EUR 26.7 million for the second quarter of 2003. The increase compared with the EUR 14.4 million cost of revenues for the third quarter of 2002 is attributable to the consolidation of Ventelo.

Disproportionate improvement in gross profit

Declining cost of revenues and rising revenues led to a disproportionate improvement in gross profit, thus underscoring the scalability of the QSC business model. In the third quarter of 2003, QSC earned a gross profit of EUR 2.9 million, as opposed to a gross loss of EUR -2.3 million for the corresponding quarter the year before. QSC earned a gross profit of EUR 5.0 million for the first nine months of the current fiscal year, as opposed to a gross loss of EUR -12.1 million for the first nine months of 2002 – an improvement by 141 percent.

At EUR 4.7 million, selling and marketing expenses were significantly lower year-on-year (Q3 2002: EUR 8.9 million) – representing significantly improved efficiency given revenue growth of 144 percent. Administration expenses for the third quarter of 2003 increased by EUR 0.7 million to EUR 3.5 million as a result of the Ventelo consolidation.





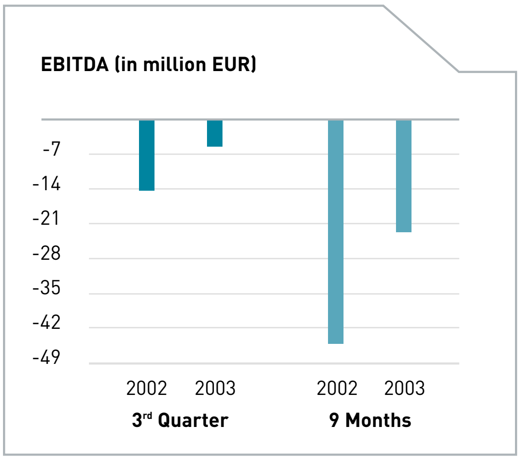
T "THE RISE IN HIGH-MARGIN SERVICES FOR BUSINESS AND PROJECT CUSTOMERS IS PLAYING A MAJOR AND SUSTAINED ROLE IN QSC'S SIGNIFICANTLY IMPROVED PROFITABILITY."

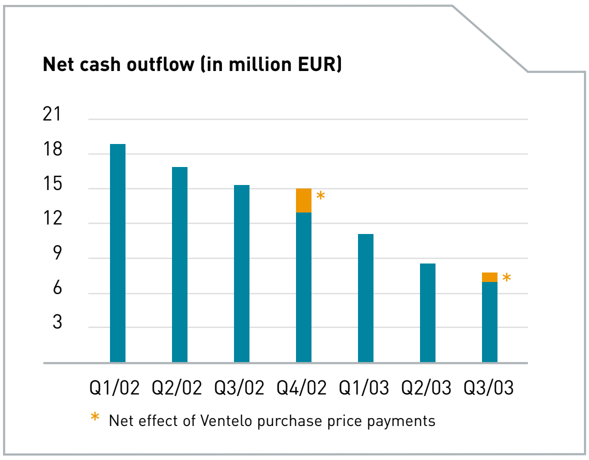
EBITDA-loss declined by 61 percent

Significant improvement in EBITDA The synergies stemming from the Ventelo acquisition, as well as the rise in high-margin services for business and project customers, are playing a major and sustained role in QSC's significantly improved profitability. In the third quarter of 2003, the EBITDA loss declined by 61 percent to EUR -5.5 million, as opposed to EUR -14.2 million for the third quarter of 2002. During the first nine months of the current fiscal year, the EBITDA loss declined by one half, from EUR -45.4 million to EUR -22.7 million. QSC defines EBITDA as earnings before interest, taxes, the pro-rated results of equity investments accounted for under the equity method, amortization of deferred non-cash compensation, as well as depreciation on plant and equipment and amortization of goodwill.

Since the first items of plant and equipment have now been fully depreciated nearly four years after the capital investment phase began, depreciation declined to EUR 7.8 million for the third quarter of 2003, as opposed to EUR 8.5 million for the second quarter of 2003 and EUR 9.6 million for the third quarter of 2002.

In the third quarter of 2003, the net loss declined by 55 percent year-on-year to EUR -12.3 million. The net loss for the first nine months of 2003 was down by nearly 40 percent year-on-year, from EUR -74.9 million to EUR -46.3 million.





Cash burn down for the tenth time in a row // QSC reduced its net cash outflow for the third quarter of 2003 by 16 percent quarter-to-quarter, from EUR -8.6 million for the second quarter of 2003 to EUR -7.2 million for the third quarter of 2003. Including the EUR 0.7 million tranche of the purchase price due for the Ventelo acquisition, this resulted in a total cash burn of EUR -7.9 million for the third quarter of 2003. As of September 30, 2003, the company's cash and cash equivalents totaled EUR 60.2 million.

QSC again remained virtually debt free in the third quarter of 2003, with non-current liabilities amounting to EUR 0.4 million, consisting chiefly of pension accruals. The company's equity ratio of 71.5 percent documents QSC's sound financial position.

Cautious optimism for the entire ITC market // For the first time in three years, there is again optimism in the information technology and telecommunication industry (ITC). After years of stagnation, studies are predicting revenue growth of two to three percent for 2004. According to the experts, the recovery in the telecommunication market is expected to be relatively swifter, driven to no small degree by sustained strong growth in the DSL segment. Building and operating virtual private networks (VPN) for business customers is proving to be a segment that is almost unaffected by the state of the general economy, with demand growing at double-digit rates.

Strong growth in the DSL segment

QSC's competitive situation is characterized by only few strong providers. Especially in the project business, customers value such criteria as speed, solutions competence, security and service quality – criteria upon which QSC has placed the greatest value right from the very beginning. The singular fixation on price that is being observed in the residential customer market is not the crucial criterion here – business customer pricing levels remain firm.

Economic recovery strengthening business model // QSC is likely to benefit both from growth in the ITC market as well as from the predicted recovery of the economy as a whole. However, the company continues to carefully observe the development of the markets, as a deteriorating economy is a main risk factor for the development of the business.

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

"QSC anticipates that project business revenues and revenues with large enterprise customers, in particular, will continue to grow at above-average rates."

Moderate workforce reduction As of September 30, 2003, QSC employed 380 people, twelve fewer than at the end of June 2003. This moderate decline is attributable to the outsourcing of QSC's technical service activities to Pan Dacom Networking AG effective July 1, 2003. With a total of up to 100 service specialists, this organization is now assuring smooth operation of QSC's network infrastructure.

Cash flow breakeven expected to occur during the first half of 2004

EBITDA breakeven point to come during the fourth quarter In spite of the persistently weak economy in Germany and anticipated high non-recurring expenses for the integration of Ventelo during the fourth quarter of 2003, QSC is maintaining the significantly higher forecast it announced in August. The company continues to plan on breaking into positive EBITDA territory during the course of the fourth quarter of this year and reaching the cash flow breakeven point during the course of the first half of 2004. Also in August of this year, QSC raised its full year guidance for revenues and EBITDA significantly from EUR 105 to 115 million planned revenues to more than EUR 115 million, and from EUR -25 to -30 million planned EBITDA loss to less than EUR -25 million. The management continues to believe that these planned targets are both ambitious and realistic at the same time. As a consequence, no overperformance relative to these increased targets should be expected.

The final tranche of the purchase price for Ventelo, an amount of not more than EUR 4.5 million, will impact net cash outflow during the course of the first six months of 2004. The integration process will be largely concluded by December 2003, when the Ventelo employees move from Dusseldorf to QSC's headquarters in Cologne. This will involve additional non-recurring expenses, e.g. for the move itself, refitting of existing premises, the need to network all workplaces, as well as consolidation of the data and network control centers.

In the coming quarters, QSC will continue to focus on high-margin lines of business and will be deliberately cutting back its revenues with less profitable products. The company anticipates that project business revenues and revenues with large enterprise customers, in particular, will continue to grow at above-average rates.

STATEMENTS OF OPERATIONS

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

	for the three months ended September 30,		for the nine months ended September 30,	
	2003	2002	2003	2002
	in TEUR	in TEUR	in TEUR	in TEUR
Net revenues	**29,460**	**12,125**	**85,288**	**33,648**
Cost of revenues	26,552	14,418	80,322	45,726
Gross profit (loss)	**2,908**	**(2,293)**	**4,966**	**(12,078)**
Selling and marketing expenses	4,699	8,864	15,831	23,047
General and administrative expenses	3,454	2,797	11,029	9,422
Research and development expenses	277	290	824	877
Depreciation and amortization (including TEUR 4,818 in non-cash compensation in the nine months ended Sept. 30, 2003; nine months ended Sept. 30, 2002: TEUR 5,256)	7,792	9,632	26,210	26,865
Operating loss	**(13,314)**	**(23,876)**	**(48,928)**	**(72,289)**
Other income (expenses)				
Interest income	321	1,140	1,760	3,084
Interest expenses	(91)	(5)	(96)	(105)
Share of post acquisition losses of equity method investees	-	(4,570)	-	(5,431)
Other non-operating income (loss)	760	(11)	953	(138)
Net loss before income taxes	**(12,324)**	**(27,322)**	**(46,311)**	**(74,879)**
Income taxes	-	-	-	-
Net loss	**(12,324)**	**(27,322)**	**(46,311)**	**(74,879)**
Net loss per common share (basic and diluted)	(0.12)	(0.27)	(0.44)	(0.74)
Weighted average shares outstanding (basic and diluted)	105,021,374	101,134,647	105,021,374	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	
	Sept. 30, 2003	Dec. 31, 2002
	in TEUR	in TEUR
ASSETS		
Current assets		
Cash and cash equivalents	25,745	43,095
Marketable securities	34,479	44,526
Trade accounts receivable, net	19,153	16,948
Trade accounts receivable due from related parties	-	7
Unbilled receivables	1,027	239
Other receivables	2,311	9,476
Prepayments and other current assets	5,391	4,410
Total current assets	**88,106**	**118,701**
Non-current assets		
Investment in equity method investees	**-**	**301**
Other non-current assets	**425**	**460**
Plant and equipment, net		
Networking equipment and plant	44,341	61,463
Operational and office equipment	6,859	6,837
Total plant and equipment, net	**51,200**	**68,300**
Intangible assets, net		
Licenses	1,011	2,004
Software	2,199	2,420
Others	3	5
Total intangible assets, net	**3,213**	**4,429**
Goodwill	**2,393**	**2,393**
Total non-current assets	**57,231**	**75,883**
Total assets	**145,337**	**194,584**

	as of Sept. 30, 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	139	-
Trade accounts payable	17,679	25,917
Trade accounts payable due to related parties	576	504
Accrued liabilities	13,890	17,871
Deferred revenues	1,330	2,028
Other current liabilities	7,447	2,549
Total current liabilities	**41,061**	**48,869**
Non-current liabilities		
Convertible bonds	62	50
Accrued pensions	341	321
Other non-current liabilities	-	90
Total non-current liabilities	**403**	**461**
Shareholders' Equity		
Common stock	105,021	105,009
Treasury stock	(266)	(266)
Additional paid-in capital	473,362	473,442
Deferred compensation	(160)	(5,058)
Accumulated other comprehensive income	100	-
Receivables due from shareholders	(1)	(1)
Accumulated deficit	(474,183)	(427,872)
Total Shareholders' Equity	**103,873**	**145,254**
Total liabilities and Shareholders' Equity	**145,337**	**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 nine months ended September 30, 2003 in TEUR	2002 in TEUR
Cash flow from operating activities		
Net loss	**(46,311)**	**(74,879)**
Adjustments to reconcile net loss to cash used in operating activities		
Non-cash compensation charge	4,818	5,256
Depreciation and amortization	21,392	21,609
Loss/(Gain) on sale of equipment	415	(70)
Share of post acquisition losses of equity method investees	-	5,431
Non-cash interest expense	-	82
Change in operating activities		
Decrease/(Increase) in trade accounts receivable, net	(2,205)	3,405
Decrease in trade accounts receivable due to related parties	7	345
Decrease/(Increase) in unbilled receivables	(788)	7,057
Decrease in other receivables	7,165	8,540
Increase in prepayments and other current assets	(981)	(2,253)
Decrease in other non-current assets	35	25
Decrease in trade accounts payable	(8,166)	(17,052)
Decrease in accrued liabilities	(3,981)	(3,047)
Increase/(Decrease) in deferred revenues	(698)	1,525
Increase in other current liabilities	4,898	283
Increase in accrued pensions	20	24
Net cash used in operating activities	**(24,380)**	**(43,719)**

	for the nine months ended September 30, 2003 in TEUR	2002 in TEUR
Cash flow from investing activities		
Change in marketable securities	10,047	(41,899)
Available-for-sale securities (unrealized gain)	100	-
Acquisition of business, net of cash acquired	362	(1,001)
Purchases of intangible assets	(267)	(357)
Purchases of plant and equipment	(5,233)	(5,969)
Proceeds from sale of equipment	1,948	231
Net cash used in investing activities	**6,957**	**(48,995)**
Cash flow from financing activities		
Raise/(Repayment) of short-term debt	49	(357)
Issuance of convertible bonds	12	12
Proceeds from issuance of common stock	12	-
Net cash (used in) provided by financing activities	**73**	**(345)**
Net decrease in cash and cash equivalents	**(17,350)**	**(93,059)**
Cash and cash equivalents at beginning of the year	43,095	153,776
Cash and cash equivalents at end of the period	**25,745**	**60,717**
Supplemental disclosures of cash flow information		
Cash paid during the period for		
Interest expenses	96	23

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 Januar 1, 2002 to September 30, 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)
Convertible bonds forfeited due to termination of employment (April 1, 2003)
Issuance of common stock in connection with the conversion of convertible bonds (June 30, 2003)
Issuance of common stock in connection with the conversion of convertible bonds (September 30, 2003)
Amount amortized during the period
Balance at September 30, 2003

	Ordinary Shares		Treasury Shares		Additional Paid-In Capital	Deferred Compen-sation Account	Compre-hensive Income	Accumul. Other Compre-hensive Income	Receivab. Due from Share-holders	Accumu-lated Deficit	Total Share-holders' Equity
	Shares	Amount TEUR	Shares	Amount TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	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**
							(46,311)			(46,311)	(46,311)
							100	100			100
							(46,211)				-
					(69)	69					-
					(11)	11					-
	3,300	3									3
	9,360	9									9
						4,818					4,818
	105,021,374	**105,021**	**358,747**	**(266)**	**473,362**	**(160)**		**100**	**(1)**	**(474,183)**	**103,873**

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 that 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 statement as of December 31, 2002. The results for the nine month period ended September 30, 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 percent and not more than 50 percent.

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.
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 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 are less than the carrying amount of the asset or group, the asset or group is considered impaired and an expense is recognized equal to the amount required to reduce the carrying amount of the asset to its then fair value. 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. 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 nine months ended September 30, 2003 and 2002.
In December 2002, the Financial Accounting Standards Board ("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 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 21,826 marketable securities as held-to-maturity and TEUR 7,497 marketable securities as trading and has accounted for these investments at amortized cost. Marketable securities of TEUR 5,156 have been 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. Diluted earnings per share are calculated in the same manner except that the number of shares is increased assuming exercise of dilutive stock options and convertible bonds where these are dilutive. For the nine months ended September 30, 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 percent of Ventelo GmbH, Düsseldorf ("Ventelo"). Ventelo is a nationwide voice telephony carrier providing business customers with voice telephony services. Ventelo's market position in voice communications for business customers complements QSC's broadband data communications service to the same customer segment 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 11,454, including direct acquisition costs of TEUR 90. The amount of TEUR 4,450 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 exceeded the purchase price resulting in a negative goodwill of TEUR 193 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 percent 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 that approximates the market price of the Company's stock when the acquisition was agreed to and announced. On September 11, 2003, QSC sold its 49 percent interest in Grell for TEUR 837. The difference to its estimated fair market value of TEUR 301 resulted in other non-operating income of TEUR 536.

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 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 and QSC's stock closed at EUR 2.06 on September 30, 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 applies to the stock option plans SOP2001 and SOP2002. As of September 30, 2003, QSC had deferred compensation totalling TEUR 160. This amount is yet to be amortized as a charge to operations until the lock-up period will be ended. In the first nine months 2003, QSC amortized TEUR 4,818 and TEUR 5,256 in the equivalent period of 2002.

5. Debt

Other non-current liabilities of TEUR 403 include convertible bonds of our employee equity incentive program and an accrual for existing pension obligations.

6. Shares and convertible bonds Management Board and Supervisory Board

Shares and conversion rights of Members of the Management Board:

	30/09/2003		30/09/2002	
	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	1,559,116	2,307	1,059,116
Bernd Puschendorf	-	1,000,000	-	1,000,000

Shares and conversion rights of Members of the Supervisory Board:

	30/09/2003		30/09/2002	
	Shares	Conversion rights	Shares	Conversion rights
John C. Baker	-	19,130	-	19,130
Herbert Brenke	187,820	9,130	187,820	9,130
Ashley Leeds	9,130	10,000	9,130	-
Norbert Quinkert [1]	3,846	-	3,846	-
David Ruberg	4,563	19,130	4,563	19,130
Claus Wecker	83,025	-	83,025	-

[1] Member of the Supervisory Board since July 29, 2003

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.

ATM Asynchronous Transfer Mode: universal transfer method for broadband applications, with speeds ranging from 2 Mbit/s to 622 Mbit/s.

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

Bandwidth Line transmission capacity: the greater the bandwidth, the more units of information (voice, images and other data) can be transported within a given time interval.

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

CO Central Office or collocation room: the 'collocation room' at Deutsche Telekom; this is where the 'last mile' to an end-user begins. The Central Office houses the DSL infrastructure of alternative network operators such as QSC. Here, the twisted copper wire pair is handed over by Deutsche Telekom to the alternative network operator.

DSL Digital Subscriber Line: a data transmission method that enables digital data to be transferred via the normal copper-wire telephone line at high transmission rates.

Firewall Protects an internal (e.g. corporate) network connected to external networks (e.g. the Internet) against unauthorized access or hackers. A firewall can consist of hardware, software or a network application.

ISP Internet Service Provider: they facilitate customer data communication by providing Internet access and related services, e.g. e-mail management.

LAN Local Area Network: a network confined to a particular geographical area or building (e.g. within a company).

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

Leased line A permanent connection line.

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

MSC Metropolitan Service Center: 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.

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.

TAL Teilnehmeranschlussleitung (subscriber line or local loop): line between a central office and the subscriber ´s physical connection to the respective network.

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

Voice over IP Voice over Internet Protocol: the technique of using the Internet Protocol (IP) to transfer voice communication over packet-switched data networks.

VPN Virtual Private Network: in a VPN, several corporate sites are connected through a public network to form a secure network impervious to outsiders. Only persons or sites with due authorization are able to communicate with each other, access data or exchange data via such a network.

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

CALENDAR

Annual Report 2003
March 30, 2004

Quarterly Reports 2004
May 25, 2004
August 26, 2004
November 25, 2004

Shareholders' Meeting
May 27, 2004

Conferences/Events
November 26, 2003
ECTA Press-Symposium, Dusseldorf

November 26-27, 2003
German Equity Forum, Frankfurt

December 10, 2003
ECTA's 4th Annual Regulatory Conference, Brussels

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