QUARTERLY REPORT I/2001

QSC
the power behind

QSC AT A GLANCE

All amounts in million EUR, except per share amounts	01/01/ to 31/03/2000	01/01/ to 31/03/2001
Revenues	0.1	5.3
Net loss	-11.7	-27.5
Cash Flow	-19.1	-44.2
Loss per Share in EUR	-0.38	-0.27
Capital Expenditure	12.7	11.5
Liquidity	294.8*	250.6
Equity	339.1*	313.1
Cities	9	46
Metropolitan Service Centers	9	45
Central Offices	301	894
DSL-Lines	211	10,425
Employees	63	227

*As at December 31, 2000

THE INTERNET IS CHANGING THE WORLD

BROADBAND WILL CHANGE THE INTERNET

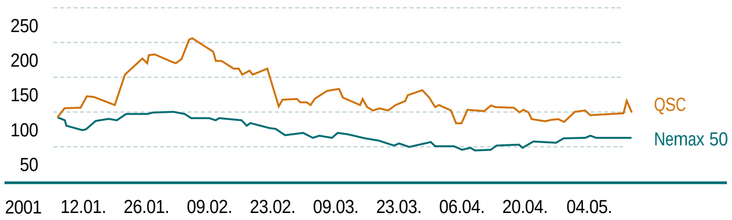
QSC IS THE BROADBAND SOLUTION

CONTENT

Bernd Schlobohm

Co-founder and Chief Executive Officer since 1999. The holder of a doctorate in engineering is responsible for strategy and marketing.

Relative Performance of QSC against Nemax 50



Exponential sales growth

In the first quarter of 2001, QSC AG generated revenues of EUR 5.3 million, which is more than what was generated in the entire financial year 2000. As of March 31, 2001, the company had sold more than 10,000 DSL lines.

This exponential growth in sales volume is strong confirmation of the company's position as Germany's leading alternative DSL provider. By March 31, 2001, the company had extended its market coverage to 46 German cities – among them the 40 largest cities – and installed technology in 894 central offices of Deutsche Telekom. The initial phase of heavy investment into the network has been largely accomplished and is now followed by a period characterized by intensive marketing of the products and services of QSC AG.

In addition to many new distribution partnerships, bringing the total to more than 100, QSC used the first quarter to prepare the launch of its end customer product. At the CeBIT fair in Hanover, the company presented the right product for this new distribution channel, namely QSC-business-DSL, the fast Internet service for small and medium-sized enterprises.

In addition to the reported 10,000 lines as of March 31, 2001, one of the highlights in March was the biggest single order in the company's history; RWE Powerline and mediaWays will buy more than 9,000 lines over the next three years.

Despite the enormous expense in capital investment in building the network and launching the products, QSC had cash and cash equivalents amounting to EUR 250.6 million at the end of the first quarter of 2001. Pre-tax losses of EUR 27.5 million were well below of market expectations.

Spotlight on marketing

Within twelve months, QSC succeeded in building the largest alternative (non-monopolist) DSL network in Germany, which can now serve more than potential 20 million residential customers and more than one million business customers – an ideal launching pad for marketing broadband products for the "last mile".

QSC is focusing its marketing effort on targeted activities in the 46 cities already on the network, where it is possible to reach key target groups with relatively little expense. Sector-specific advertising campaigns in national print media provide additional support to the marketing drive.

QSC'S NETWORK COVERS MORE THAN 20 MILLION POTENTIAL USERS.

Gerd Eickers

Co-founder and Chief Operating Officer since November 2000. The experienced telecommunication specialist manages technology and sales.

Some of these promotion activities involve close collaboration between QSC and the distribution partners. The well-established customer bases served by these partners have made key contributions to the success of today's sales strategy.

Strong sales partners are pushing the market forwards

The closing of the biggest single order in QSC's young company history provides a good example of just how successfully a long-term partnership can be. In a framework agreement, that covers the next 3 years, QSC's distribution partner mediaWays committed itself to purchasing more than 9,000 lines with a capacity of 2.3 megabits per second for the RWE Powerline project. About 1,000 lines will already be generating revenues in the remaining business year.

Other partnerships contributing to success include those with Level 3, Talkline, UUNET and Worldcom. Although these deals date back to last year, a number of months were needed to coordinate the technical arrangements necessary to provide jointly marketed products and services.

New products for residential and business consumers

QSC-business-DSL marks QSC's start into the end consumer market. Unlike the core product to date, speedw@y-DSL, which is sold to resellers only, prices for the new product are determined by QSC itself. QSC is also able to adjust the rate structure and services at any time to market conditions.

QSC-business-DSL, which was presented to the public at the CeBIT fair and has been marketed since April, offers small and medium-sized companies a transparent set of tariffs and a tailor-made service bundle (e.g. e-mail-management, own specific domain). Everyone can choose between a volume-based rate and a flat rate for Internet usage. This new product enables QSC to migrate from a seller of pure broadband access to a broadband full service provider, thus moving one step forward in the value chain.

Like speedw@y-DSL, the product is based on SDSL technology, i.e. data are uploaded and downloaded at the same speed. QSC-business-DSL guarantees fast data transfer over a broadband Internet connection at capacities up to 2.3 megabits per second.

Markus Metyas

Chief Financial Officer since April 2000. The former investment banker is in charge of finance, personnel and legal.

AS AT MARCH 31, 2001, CASH AND CASH EQUIVALENTS AMOUNTED TO EUR 250.6 MILLION.

Since April 2001, QSC has been marketing Q-DSL nationwide (www.q-dsl.de), a product especially developed for residential customers. Initially, the product was launched in Bremen as a test market. This broadband service enables data downloads at a speed of 1,024 and uploads at 128 kilobits per second. The product thus offers higher performance than T-DSL – the Deutsche Telekom product –, offers average, substantially lower installation times and is currently being offered at a competitive and genuine flat-rate price without limitations on connection time or data volume.

QSC – the biggest alternative DSL provider

QSC provides almost 100 percent coverage in 46 German cities with its DSL infrastructure. Other alternative DSL providers cover only a fraction of QSC's locations. Many competitors are also forced to cut down their expansion plans because they lack the necessary financial resources.

Deutsche Telekom remains an important competitor. The advantage that QSC is proving to have over the former monopolist is its ability to deliver its products and services at much shorter notice. New customers are connected to the network within an average of four weeks. Press and consumer reports reveal a shortage of equipment and that delivery periods of Deutsche Telekom amount to up to nine months.

QSC PROVIDES ALMOST 100 PERCENT COVERAGE IN 46 GERMAN CITIES WITH ITS DSL INFRASTRUCTURE.

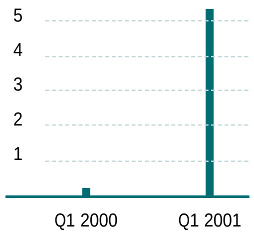
Regulatory authorities decide in favour of line sharing

The series of decisions made by the regulatory authority at the end of March will further strengthen QSC's competitive position. The most important innovation is the introduction of the so called line sharing. This means that a single line may be used by one provider for voice communication and by another for data communication. In the case of QSC, the implication is that residential customers can obtain Q-DSL from the telephone socket already installed, reducing further the delivery times for QSC. According to the regulatory authority, commercial operations on a line-sharing basis are scheduled to start in September 2001.

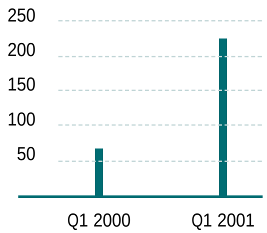
Strict cost management secures market position

QSC has implemented strict cost and debtor management from the very outset, so the company can rely on a robust financial basis. As for expenses, the company is meeting the cost foreseen in the business plan, some actual expenses even resulted in savings relative to business plan.

Revenues (in Mio. EUR)



Employees



This is particularly the case for networking expenses, which totalled EUR 19.8 million in the first quarter of 2001 compared to EUR 4.9 million in the same period of 2000.

QSC links its points of presence to the central offices of Deutsche Telekom and to its Internet service providers via high-performance leased fiber optic lines. Over the last twelve months, prices for leased lines fell up to 70 per cent. As one of the single biggest purchasers of leased lines in Germany, QSC is actively managing its leased line contracts to maximize any savings potential.

Marketing and sales expenses in the first quarter of 2001 amounted to EUR 5.2 million (1st quarter 2000: EUR 3.5 million). The level of costs correlates with the intensified marketing activities engaged in by the company. Pre-tax losses were EUR 27.5 million in Q1/2001 (Q1/2000: EUR -11.7 million).

As at March 31, 2001, the company had cash and cash equivalents totaling EUR 250.6 million. Debt amounted only to EUR 0.2 million. This solid financing supports the expectation of the company to execute the business plan without further capital increases.

Enlarged sales force

Exponential sales growth and intensified marketing activities necessitate additional employees in sales and customer service. In the first quarter of 2001, the number of employees in these areas rose by 22 to 96.

MODERATE INCREASE IN STAFF: IN THE FIRST QUARTER THE NUMBER OF EMPLOYEES ROSE BY 17 PER CENT TO 227.

The customer-related departments now account for more than 40% of the workforce. The second largest area is technical operations which accounts for around one third of all employees. In total, QSC had 227 employees as at March 31, 2001. It is planned to increase this figure moderately over the rest of the year.

QSC share with upside potential

At the beginning of the year, the market performance of QSC stock significantly exceeded that of the Nasdaq and the Neuer Markt. Strong growth in demand for DSL connections in Germany played a role in this respect, as did the consistent execution of the QSC business plan.

However, by the end of the quarter some of the gains were shed. This is attributable to a number of factors, including the bearish sentiment on the capital markets as a whole and particularly in the telecom sector. Bankruptcies by some alternative telecommunications providers influenced the market sentiment also.

In the months ahead, QSC will continue its intensive Investor Relations work in order to convince investors and analysts of the solidity and potential of the company's business concept.

Outlook

Exponential sales growth is the company's main focus in 2001. As per the end of the current business year, QSC expects to sell between 40,000 and 50,000 DSL lines, generating annual revenues in the order of EUR 38 to 46 millions.

The company expects major sales potential from QSC-business-DSL and Q-DSL, its two new products. In the course of spring, the private customer product, Q-DSL, will be launched in other cities besides Bremen and Bremerhaven, the current test markets.

From the second half of the year onwards, the range of services will be extended beyond data communication to include voice services as well. The product tests for Voice-over-DSL have been completed and some customers are already using this service. By offering both voice and data communication, QSC will migrate to a provider of integrated telecommunications and IT services on the proverbial "last mile".

A NEW PRODUCT: BY OFFERING VOICE OVER DSL, QSC WILL MIGRATE TO AN INTEGRATED PROVIDER OF VOICE AND DATA SERVICES ON THE LAST MILE.

Furthermore, QSC improves its market position significantly by building its own backbone. This backbone will connect the local networks of QSC in 46 cities. This will enable QSC's distribution partners to provide their application and products from a single point of presence throughout the whole country.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (uncertified)
(EUR amounts in thousands (TEUR), except for per share amounts)

	01/01/ to 31/03/2001 in TEUR	01/01/ to 31/03/2000 in TEUR
Net revenues	**5,270**	**105**
Operating expenses		
Network expenses	19,752	4,888
Selling and marketing expenses	5,177	3,546
General and administrative expenses	2,289	1,320
Research and development expenses	184	129
Depreciation and amortization	5,999	2,532
(inclusive of TEUR 1.580 in non-cash compensation expenses in 2001; 2000: TEUR 1.870)		
Total operating expenses	**33,401**	**12,415**
Operating loss	**(28,131)**	**(12,310)**
Other income (deductions)		
Non-operating loss	0	(1)
Share of post acquisition losses of equity method investees	(1,664)	0
Interest income	2,289	625
Interest expense	(17)	0
Net loss before taxes on income	**(27,523)**	**(11,686)**
Tax benefit on income	0	24
Net loss after taxes on income	**(27,523)**	**(11,662)**
Loss attributable to common shareholders	(27,523)	(11,662)
Loss per common share	(0.27)	(0.38)
Weighted average number of common shares used in computing loss per share	101,134,647	30,420,000

The accompanying notes to financial statements are an integral part of these statements

CONDENSED CONSOLIDATED BALANCE SHEETS (uncertified)
(EUR amounts in thousands (TEUR))

	31/03/2001 in TEUR	31/12/2000 in TEUR
ASSETS		
Current assets		
Cash and cash equivalents	250,558	294,780
Trade accounts receivable, net	16,649	16,476
Unbilled receivables	13,648	11,747
Other receivables	13,774	11,225
Prepayments and other current assets	16,451	2,648
Total current assets	**311,080**	**336,876**
Non-current assets		
Property, plant and equipment, net		
Networking equipment and plant	73,163	67,212
Operational and office equipment	6,232	6,075
Total property, plant and equipment, net	**79,395**	**73,287**
Intangible assets, net		
Licenses	2,419	2,491
Software	1,489	1,271
Goodwill	745	0
Others	10	11
Total intangible assets, net	**4,663**	**3.773**
Investment in equity method investees	3,763	5,427
Other non-current assets	320	317
Total non-current assets	**88,141**	**82,804**
Total assets	**399,221**	**419,680**

	31/03/2001 in TEUR	31/12/2000 in TEUR
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Current liabilities		
Trade accounts payable	45,547	35,644
Deferred revenues	130	239
Other accounts payable	556	874
Tax accrual	54	0
Other reserves and accrued liabilities	39,410	43,638
Total current liabilities	**85,697**	**80,395**
Non-current liabilities		
Convertible bonds	14	15
Accrued pensions	137	130
Debt	242	0
Total non-current liabilities	**393**	**145**
Total liabilities	**86,090**	**80,540**
Shareholders' equity		
Convertible preferred stock	0	0
Common stock	105,009	105,009
Treasury stock	(4,191)	(4,125)
Additional paid-in capital	476,391	477,304
Deferred compensation	(19,022)	(21,515)
Receivables due from shareholders	(1)	(1)
Accumulated deficit	(245,055)	(217,532)
Total shareholders' equity	**313,131**	**339,140**
Total liabilities and shareholders' equity	**399,221**	**419,680**

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (uncertified) (EUR amounts in thousands (TEUR))

	01/01/ to 31/03/2001 in TEUR	01/01/ to 31/03/2000 in TEUR
Cash flow from operating activities		
Net loss	**(27,523)**	**(11,662)**
Adjustments to reconcile net loss to cash (used by) provided by operating activities		
Non-cash compensation charge	1,580	1,870
Depreciation and amortization	4,419	662
Loss on sale of equipment	0	1
Share of post acquisition losses of equity method investees	1,664	0
Non-cash interest expense	16	0
Increase in trade accounts receivable, net	(102)	(1,159)
(Increase)/Decrease in unbilled receivables	(1,901)	1,630
Increase in other receivables	(2,431)	(3,995)
Increase in prepayments and other current assets	(13,802)	(12,860)
Increase in other non-current assets	(3)	0
Increase in trade accounts payable	9,904	21,192
Increase/(Decrease) in deferred revenues	(109)	63
Decrease in other accounts payable	(326)	(441)
Increase in accrued pensions	7	7
Decrease in deferred income taxes	0	(24)
Decrease in other reserves and accrued liabilities	(4,265)	(1,157)
Net cash (used by) provided by operating activities	**(32,872)**	**(5,873)**

	01/01/ to 31/03/2001 in TEUR	01/01/ to 31/03/2000 in TEUR
Cash flow from investing activities		
Acquisition of business, net of cash acquired	(832)	0
Purchases of intangible assets	(324)	(137)
Purchases of plant and equipment	(10,307)	(12,555)
Proceeds from sale of equipment	0	13
Net cash used in investing activities	**(11,463)**	**(12,679)**
Cash flow from financing activities		
Proceeds from capital subscribed, net of issuance costs	0	(643)
Redemption of convertible bonds	(1)	0
Proceeds from borrowings on long-term debt	180	105
Purchases of treasury stock	(66)	(44)
Net cash provided by (used in) financing activities	**113**	**(582)**
Net decrease in cash and cash equivalents	**(44,222)**	**(19,134)**
Cash and cash equivalents at beginning of period	294,780	137,197
Cash and cash equivalents at end of period	**250,558**	**118,063**
Supplemental disclosures of cash flow information		
Cash paid during the year for		
Interest	1	0
Income taxes	0	0

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

QS COMMUNICATIONS AG, COLOGNE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EUR amounts in thousands (TEUR), except for per share amounts)

1. Organisation and Basis of Presentation

(a) Basis of Presentation

The preparation of consolidated financial statements in conformity with the United States generally accepted accounting principles ("USGAAP") requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. The accompanying consolidated financial statements of QS Communications AG ("QSC") are unaudited, but include all adjustments (consisting of normal recurring adjustments) that QSC considers necessary for a fair presentation of its financial position and operating results. Operating results for the three month periods ended March 31, 2001 and 2000 are not necessarily indicative of the results that may be expected for any future periods. The information included in this report should be read in conjunction with QSC's audited consolidated financial statements and notes thereto included in QSC's Annual Report.

QSC maintains its financial records in accordance with the German Commercial Code, which represents generally accepted accounting principles in Germany ("German GAAP"). Generally accepted accounting principles in Germany vary in certain respects from USGAAP. Accordingly, QSC has recorded certain adjustments in order that the accompanying consolidated financial statements be in accordance with USGAAP for interim financial information.
All amounts except per share amounts are in thousands of EUR (TEUR).

(b) Principles of Consolidation

The consolidated financial statements include the accounts of QSC and its majority-owned subsidiaries. All significant inter-company transactions have been eliminated in 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) 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. Actual results could differ from those estimates.

(b) Loss 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 result per share is calculated in the same manner except that the number of shares is increased assuming exercise of dilutive stock options and conversion of convertible preferred stock where these are dilutive.

For the periods ended March 31, 2000 and March 31, 2001, the dilutive effects of options and preferred stock has not been considered because QSC recorded net losses and the impact of the assumed exercise of options and preferred stock would be anti-dilutive.

For the period ended March 31, 2001, 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 1,495,129 shares of QSC common stock. The loss per share calculation does not include 47,484,647 preferred shares for the period January 1, 2000 to March 31, 2000. The 47,484,647 preferred shares were converted into 47,484,647 ordinary shares of QSC on May 5, 2000, and therefore are included in the loss per share computation for the quarter ended March 31, 2001.

(c) Goodwill

Goodwill consists of the excess purchase price over the fair value of the identifiable net assets acquired in acquisitions. Such amounts are amortized using the straight line method over four years.

3. Investments

On February 23, 2001, QSC signed contracts to acquire a 65% share in COMpoint Network Consulting GmbH, Vellmar/Germany (“COMpoint”). There are a put and a call option at the same price on the remaining 35% of COMpoint exercisable between June 1, 2002 and May 31, 2004. Minority interest has been classified as debt. Interest has been accreted to the estimated strike price of the option. COMpoint, a limited liability company, is an Internet service provider offering telecommunications and network solutions to its customers. The acquisition has been accounted for under the purchase method of accounting. QSC purchased its 65% share in COMpoint for consideration of approximately TEUR 848, which was paid in cash. The results of operations of the acquired business have been included in the consolidated financial statements since the date of acquisition. The pro-forma impact on sales and net loss of this acquisition is not material.

QS Communications (Benelux) B.V. Amersfoort/Netherlands (“QSC Benelux”), one of QSC’s strategic investments made in 2000, issued shares to its management during the reporting period. The issue was funded by a capital increase of TEUR 100 reducing QSC’s share in QSC Benelux from 50% to 49.18%. The investment in QSC Benelux is accounted for under the equity method.

During the quarter ended March 31, 2001, QSC recorded post-acquisition losses of TEUR 1,664 from its investments made during 2000 in ALCHEMIA S.p.A., Milano/Italy (“Alchemia”) and in QSC Benelux. Due to the weak capital markets it is uncertain whether QSC Benelux will be able to secure additional financing required to fund its future business activities. This raises substantial doubt about QSC Benelux' ability to continue as a going concern. QSC has therefore written off its investment in QSC Benelux during the reporting period as a post acquisition loss.

4. DEBT

QSC entered into a vendor guaranteed financing agreement with Deutsche Bank AG on December 29, 1999. Under the agreement QSC has at its disposal a credit facility of TEUR 168,571 to finance network equipment purchases. As at March 31, 2001, QSC had no borrowings under the vendor guaranteed financing agreement.

Long-term borrowings of TEUR 242 are due to minority interest in QSC's majority-owned subsidiary COMpoint and the related accretion of interest (see Note 3) as well as borrowings of COMpoint.

5. Litigation

QSC requires licenses of class 3 to be able to operate transmission lines in Germany. The German regulatory authority awards these licenses. QSC, together with other German license holders, is involved in litigation against the German regulatory authority appealing the authority's license fee directive.

6. Allowance for doubtful accounts

Two of QSC's Internet service provider customers are not current in their payment for QSC's services and QSC determined that the collectability of receivables from those customers is not reasonably assured. QSC therefore recorded an allowance for doubtful accounts of TEUR 62. In March 2001, QSC took out insurance coverage against bad debts to improve its credit management. QSC will purchase credit insurance for all significant accounts.

7. Events subsequent to the balance sheet date

On April 24, 2001, QSC signed a contract to acquire a 41% share in Ginko AG, Aachen/Germany ("Ginko"). Ginko is a stock company with a registered capital of TEUR 153.5 as at March 31, 2001. Ginko has carried out a capital increase raising its share capital to TEUR 184.1. The newly issued shares will be acquired by QSC raising its share in Ginko to 50.8%. Ginko is an Internet service provider operating Germany wide. Ginko's core business is the provision of fast Internet access.

On April 26, 2001, the shareholders of ALCHEMIA S.p.A., Milano/Italy Alchemia resolved to change the company's name to Netchemya S.p.A.

In November 2000, one of QSC's executive directors left the management Board. On May 16, 2001, it was agreed to terminate the service agreement effective December 31, 2000.

The annual general meeting of QSC on May 17, 2001 resolved that QSC change its corporate name from "QS Communications AG" to "QSC AG".

The annual general meeting on May 17, 2001 elected Mr. Claus Wecker, Attorney at Law in Duesseldorf/Germany, as a new member of QSC's Supervisory Board. Mr. Wecker replaces Mr. Gerd Eickers, who resigned from the Supervisory Board effective December 31, 2000. Mr. Wecker was elected for the residual term of Mr. Eickers.

The annual general meeting authorized QSC on May 17, 2001 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 acquisition offer. This authorization will be in effect until October 31, 2002.

On May 17, 2001, the annual general meeting approved a third stock option plan (“SOP2001”) authorizing the QSC Management Board to issue up to five million registered convertible bonds at 3.5% annual interest with a par value of EUR 0.01. The bonds have a term of up to five years. The authorization is limited until May 31, 2004. The holders of the convertible bonds have the right to change each bond to a registered no-par value share of QSC. Convertible bonds may be allotted to employees of QSC and its affiliated companies, to members of the Advisory Board, the Supervisory Board and the Management Board, as well as advisers and consulting companies. The plan will be funded by a conditional capital increase of up to TEUR 5,000. The conversion price is the closing price of QSC shares on the Neuer Markt segment of the Frankfurt Stock Exchange on the day of the issue of the convertible bond. The conversion rights are subject to a lock-up period, during which the bonds may not be converted. The lock-up period ends one year after the issue of the bonds for 33% of the conversion rights, two years after the issue for an additional 33% and three years after the issue for the rest.

The annual general meeting on May 17, 2001 resolved to modify the lock-up period of the conversion rights issued under QSC’s second stock option plan adopted by shareholders’ resolution on April 3, 2000 (“SOP 2000A”). The new resolution allows allottees to freely dispose of all shares acquired by them. If the conversion rights are exercised prior to the expiration of three years after the acquisition of the convertible bonds, the shares so acquired are subject to the following lock-up periods: From the commencement of the second year after allotment and subscription of the convertible bonds, the allottee may freely dispose of 20% of all shares which the allottee is entitled to acquire as a whole through the conversion of the bonds. From the commencement of the third year, the allottee may freely dispose of a further 30% and from the commencement of the fourth year, the allottee may freely dispose of all the remaining shares.

On May 17, 2001, the annual general meeting authorized the QSC Management Board to issue registered and/or bearer convertible bonds up to a total par value of TEUR 125,000 with a term of up to 20 years and to grant the holders the conversion rights to new shares of QSC which together constitute an imputed share in the capital stock of up to TEUR 25,000. The bonds are to be underwritten by a banking syndicate with the obligation to offer the bonds for subscription to the shareholders. The bonds must be issued prior to May 16, 2006. The issue will be funded by a conditional capital increase of up to TEUR 25,000.

By resolution of the annual general meeting on May 17, 2001, the existing authorized capital of QSC was revoked insofar as it had not been utilized and new authorized capital was created of up to TEUR 50,000.

QS COMMUNICATIONS AG, COLOGNE

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (EUR amounts in thousands (TEUR), except for per share amounts)

The following discussion and analysis of QSC's financial condition and results of operations should be read in conjunction with the audited financial statements and the related notes thereto.

Overview

We commenced operations in January 1997 as a consulting company providing services in telecommunications and information technology to German and international clients. We phased out our consulting business at the end of December 1999.

We were the first alternative telecommunications company to publicly announce plans in Germany for a nationwide rollout of symmetric digital subscriber line services, known as DSL, on November 10, 1999. Since then we have built out and deployed close to 900 central offices and the relevant metropolitan service centers in the forty largest German cities. Our network addresses more than twenty million potential users.

We provide high-speed Internet and corporate network access, known as broadband access service, to the German market using DSL technology. Currently, we distribute our DSL services through sales partners, who are mainly Internet service providers. As at March 31, 2001, we had signed contracts with 103 sales partners. We give our customers a high-capacity local connection to the Internet and to private and local and wide area networks over standard copper lines. As at March 31, 2001, we had sold more than 10,000 lines.

Factors Affecting Future Operations

Revenues

We derive the following types of revenues from our DSL business:

- monthly recurring service charges for connections from the end-user customer to our facilities;
- monthly recurring charges for providing sales partners with broadband capacity at our metropolitan service centers and on our backbone;
- non-recurring charges for installation;
- monthly recurring charges for providing equipment housing to our sales partners within our metropolitan service centers;
- monthly recurring charges for the leased-line fiber connection from our sales partners to our metropolitan service centers.

We expect prices for both recurring and non-recurring services to decrease each year due to increased competition and future volume discounts.

We generate revenues under our service agreement with IN-telegence GmbH & Co KG. We expect that these revenues will be a diminishing percentage of our revenues in the future.

Operating expenses

The following factors comprise our operating costs:

- Network expenses: We pay Deutsche Telekom monthly rental costs for lines between end-users and Deutsche Telekom's central offices including non-recurring installation costs for such lines. Network expenses also include monthly rental costs for space within Deutsche Telekom's central offices and for our metropolitan service centers. We pay Deutsche Telekom and other telecommunications companies monthly recurring and non-recurring costs for lines between Deutsche Telekom's central offices and our metropolitan service centers and for lines between our metropolitan service centers and our distribution partners. Other network expenses we incur are for repairs and maintenance of our network, for the operation of our network and for the design and deployment of our network. Network costs may vary in the future due to regulatory intervention regarding the monthly rental for co-location space in Deutsche Telekom's central offices. We expect leased line costs for lines between central offices and metropolitan service centers and for lines between metropolitan service centers and our distribution partners to decrease in the future due to increased competition and future volume discounts.

- Other operating expenses include costs for selling and marketing activities, research and development costs as well as general and administrative expenses.

EBITDA

In addition to other measurements, which are reflected in our statements of operations, we measure our financial performance by EBITDA. EBITDA consists of net loss excluding interest, taxes, share of post acquisition losses of equity method investees, amortization of deferred stock compensation, depreciation and amortization of non-current assets. We believe that EBITDA is a meaningful measure of performance because it is commonly used in the telecommunications industry. However, other companies may calculate it differently from us. We present EBITDA to enhance your understanding of our operating results. You should not construe it as an alternative to operating income as an indicator of our operating performance or as an alternative to cash flows from operating activities as a measure of liquidity. For the three months ended on March 31, 2000, we calculated negative EBITDA of TEUR 9,779. For the equivalent period of 2001, we calculated negative EBITDA of TEUR 22,132, primarily due to increased operating expenses in connection with the development and operation of our DSL business.

Capital expenditures

The development and expansion of our business will require significant expenditures. When we enter a market, we primarily incur the following types of capital expenditures:

- expenditure for procurement, design and construction of space within Deutsche Telekom's central offices;
- purchase and installation of DSL access multiplexing equipment and asynchronous transfer mode switches;
- purchase and installation of equipment for our metropolitan service centers;
- purchase and installation of our network management systems;
- demand-based expenditures for purchasing end-user DSL line cards and customer premises equipment.

Currently, the average cost to deploy our facilities in a central office, excluding end-user line cards, is approximately TEUR 60 and the average cost to deploy our facilities in a metropolitan service center is approximately TEUR 130. Expenditures may vary in future periods due to the quantity and type of equipment we initially deploy in a co-location room or in a metropolitan service center. Following the build-out and initial deployment of our equipment in a central office, the major portion of our capital expenditures is for the purchase of line cards and customer premises equipment to support customer and end-user growth. We expect that the average cost of both line cards and customer premises equipment will decrease in the next few years.

Results of Operations (three months ended March 31, 2001 and three months ended March 31, 2000)

Revenues

In the first three months of 2001, we recorded revenues of TEUR 5,270. Compared with revenues of TEUR 105 in the first three months of 2000, this represents an increase of 4,919 %.

As at March 31, 2001, we had contracts to provide more than 10,000 lines for Internet access to end-user customers. After finishing the deployment of our network in Germany's main metropolitan centers and with increased sales and marketing efforts, we expect revenues from our DSL business to further increase in future periods.

The Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin 101 "Revenue Recognition in Financial Statements" ("SAB 101") in December 1999. SAB 101 requires that, in certain circumstances, revenues received in the first month of a contract be recognized over an extended period of time instead of in the first month of the contract. QSC has adopted the provisions of SAB 101. Accordingly, we do not recognize revenues from non-recurring installation charges in the month they are invoiced, but we recognize them over the estimated average contract life of 12 months. For the period ended on March 31, 2001, we recognized TEUR 5,270 in revenues. TEUR 130 in installation charges are deferred to be recognized in future periods.

Network expenses

Network expenses totaled TEUR 19,752 for the first three months of 2001. During the equivalent period in 2000, we recorded network expenses of TEUR 4,888. This represents an increase in network expenses of 304 %.

Currently, network expenses represent approximately 59 % of our total operating expenses reflecting the rapid progression of our network roll-out and the building of our operating infrastructure. As at March 31, 2001, Deutsche Telekom had provided us with co-location spaces in a total of 1,159 of their central offices. 894 of these co-location spaces had been equipped with the required technical equipment. We expect increasing network expenses in future periods due to intensified sales activity and expected revenue growth.

Selling and marketing expenses

We recorded selling and marketing expenses of TEUR 5,177 for the first quarter of 2001 and TEUR 3,546 for the equivalent period of 2000, representing an increase of 46 %. Selling and marketing expenses increased reflecting our efforts to market and sell our DSL services.

Selling and marketing expenses consist primarily of salaries, costs incurred for promotional and advertising campaigns and the development of corporate identity. We expect selling and marketing expenses to further increase as we continue to promote our services.

General and administrative expenses

General and administrative expenses were TEUR 2,289 in the first quarter of 2001 and TEUR 1,320 during the equivalent period of 2000, representing an increase of 73 %.

The increase in general and administrative expenses is mainly attributable to growth in headcount in all areas of our company. Additionally, we entered into a lease agreement for additional office space in the second quarter of 2000 to move all our employees in Cologne to one building and to accommodate further organizational growth. We expect our general and administrative expenses to further increase in future periods as we continue to expand our business and manage our organizational growth.

Research and development expenses

We recorded research and development costs of TEUR 184 in the first three months of 2001 and TEUR 129 in the first quarter of 2000, representing an increase of 43 %.

Research and development costs primarily consist of development costs for advanced solutions and applications for our DSL business. We expect our research and development expenses to further increase in future periods as we continue to develop value added services.

Depreciation and amortization

For the period ending March 31, 2001, we recorded a total of TEUR 5,999 in depreciation and amortization costs. Depreciation and amortization for the equivalent period of 2000 was TEUR 2,532, representing an increase of 137 %.

In the first quarter of 2001, we recorded TEUR 4,603, or 77 % of total depreciation and amortization expense, for depreciation and amortization of our network and related equipment, information systems, network operations center and corporate facilities, furniture and fixtures and intangible assets. In the equivalent period of 2000, depreciation and amortization for property, plant and equipment and intangible assets was TEUR 662. This significant increase is due to the increase in equipment and facilities placed in service throughout the periods. We expect depreciation and amortization to increase as we increase our capital expenditures to expand our networks.

Through March 31, 2001, we recorded a total of TEUR 1,580 of amortized non-cash, deferred compensation with an unamortized balance of TEUR 19,022 on our March 31, 2001 balance sheet. This non-cash, deferred compensation is a result of us granting conversion rights to our employees, senior management and members of the Supervisory Board and Advisory Board with exercise prices per share below the fair values per share for accounting purposes. In the three months to March 31, 2000, we recorded amortization of non-cash compensation charges of TEUR 1,870.

Other income (deductions)

Other income (deductions) consists primarily of interest income on our cash balance. Interest income for the first quarter of 2001 was TEUR 2,289 in comparison to TEUR 625 in the first three months of 2000. Interest expense in the first quarter of 2001 of TEUR 17 consists primarily of minority interest in the net income of our majority-owned subsidiary COMpoint and the interest accreted to the estimated strike price of the option on the remaining 35 % of COMpoint. There was no interest expense during the equivalent period of 2000. For the first three months of 2001, we recorded total post acquisitions losses of TEUR 1,664. TEUR 878 of this net loss represents our share of the net losses of ALCHEMIA S.p.A. ("Alchemia") and QS Communications Benelux B.V. ("QSC Benelux") for the period ended March 31, 2001. The balance of TEUR 786 in post acquisition losses is due to our write off of our investment in QSC Benelux. Due to the current weak capital markets it is uncertain whether QSC Benelux will be able to secure additional financing required to fund its future business activities. We therefore have substantial doubt about QSC Benelux' ability to continue as a going concern and as a consequence have written off this investment during the reporting period as a post acquisition loss. There was no share of post acquisition losses during the first three months of 2000 as there were no investments in other entities.

Liquidity, Capital Resources and Investments

Our operations have required substantial capital investment for the network roll-out. We financed our operations through equity. From 1999 through to March 31, 2001, we raised total net proceeds of TEUR 428,871 through private placements, our public share offering in April 2000 and our employee equity incentive programs. In addition, we entered into a vendor guaranteed financing agreement with Deutsche Bank AG in December 1999 securing a credit facility of TEUR 168,571. As at March 31, 2001, we had no drawings on that credit facility. Cash and cash equivalents on March 31, 2001 were TEUR 250,558.

The accumulated deficit of TEUR 245,055 contains TEUR 120,873 in dividends from a beneficial conversion feature in connection with our private placement in December 1999 and TEUR 12,582 deferred compensation resulting from the issuance of convertible bonds. The non-cash beneficial conversion feature is the result of our private placement in December 1999, where we sold shares in series B preferred stock at a price per share deemed below the fair value per share for accounting purposes. We recognized the difference between the deemed fair value per share and the actual price per share as a non-cash dividend of TEUR 120,873 in connection with the beneficial conversion feature. The non-cash deferred compensation amount is the result of the issuance of our stock option plans, where we sold convertible bonds at a price per share deemed below the fair value per share for accounting purposes. From October 1999 to March 2001, we incurred TEUR 12,582 in compensation expense.

From January 1 through to March 31, 2001, net cash outflow from operating activities was TEUR 32,872. This was due to net losses of TEUR 27,523 and increases in assets of TEUR 18,239, offset by non-cash expenses of TEUR 7,679 and increases in accounts payable and accrued liabilities of TEUR 5,211. We used TEUR 10,631 net cash for investing activities due to purchases of intangible assets, plant and equipment. During the first quarter of 2000 such investments were TEUR 12,692. The decrease in investment is primarily due to QSC having entered its second network roll-out phase. While the first roll-out phase completed in 2000 was designed to open up Germany's most densely populated metropolitan centers, the second roll-out phase addresses regions of medium population density. We have developed a set of selection criteria which allow us to identify those regions offering the highest potential for our services. By only addressing the markets identified by our stringent selection process, we were able to lower capital expenditures by approximately 16% in the first quarter of 2001 when compared to the equivalent period of 2000. Nevertheless, we expect to experience significant negative cash flows from operating and investing activities in future periods due to our expanding business and the continued build-out of our network. The net cash outflow for the acquisition of our share in COMpoint was TEUR 832. We may make investments in future periods in entities that are complementary in order to further support the growth of our business and to expand our geographic presence through partnerships. We believe that the credit facility and our existing cash will be sufficient to fund those investments. Net cash provided by financing activities during the three months ended on March 31, 2001 amounts to TEUR 113.

Recent Developments and Outlook

The German regulatory authority has ruled on the prices Deutsche Telekom AG is allowed to charge its competitors for access to the local loop. Both monthly rental of the local loop as well as one-off installation charges were lowered by approximately 5%. The new lower charges become effective on April 1, 2001. The new monthly rental charges will stay in effect until March 31, 2003 while the new one-off installation rates will stay effective until March 31, 2002.

A European Union ruling commits incumbents to offer competitors shared access to the local loop in the form of line sharing. Line sharing means the competitor is not provided with the whole of the line, rather the line is split into a higher and a lower frequency portion, allowing the lower frequency portion to be used for voice and the higher frequency portion for data transmission (typically for high-speed Internet access). Competitors are now entitled to request access just to the higher frequency portion. The remaining lower frequency can be used simultaneously by Deutsche Telekom AG for telephone service. The German regulatory authority has fixed the conditions under which Deutsche Telekom AG must offer shared access to the local loop to its competitors. Deutsche Telekom AG must offer line sharing by May 31, 2001 on a non-discriminatory basis. Once QSC accepts this offer, tariffs for the shared access will be scrutinized by the regulatory authority within ten weeks. The German regulator has committed Deutsche Telekom AG to provide line sharing services to her competitors by September 1, 2001.

We expect to further increase our operational costs as we continue to expand our business. At the same time we expect to further increase our expenditures on sales and marketing activities to promote our services to end-user customers jointly with our distribution partners.

Since the beginning of 2001, we have hired additional personnel. As at March 31, 2001, we had 227 employees in total. We expect the number of employees to further increase in future periods.

On January 1, 2001, the appointment of Mr. Gerd Eickers to the Management Board as Chief Operating Officer became effective. On May 17, 2001, the annual general meeting elected Mr. Claus Wecker, Attorney at Law in Duesseldorf/Germany, as a new member of QSC's Supervisory Board.

On May 17, 2001, the annual general meeting resolved to modify the provision on remuneration of Supervisory Board members: Apart from compensation for their outlays, members of the Supervisory Board receive remuneration of TEUR 25 per annum. The chairperson and vice chairperson receive TEUR 30 per annum. Supervisory Board members who have only belonged to the Supervisory Board for part of the financial year receive remuneration on a pro rata temporis basis. Supervisory Board members who do not attend personally or per telephone or video conference at least 75% of the Supervisory Board meetings, receive half of the above remuneration.

Shares and conversion rights held by members of QSC's Management Board and Supervisory Board are as follows:

Shares/Conversion Rights of Members of the Management Board

	Shares	Conversion Rights
Dr. Bernd Schlobohm	13,818,372	0
Gerd Eickers	13,841,100	0
Markus Metyas	2,307	59,116
	27,661,779	59,116

Shares/Conversion Rights of Members of the Supervisory Board

	Shares	Conversion Rights
John Baker	0	9,130
Herbert Brenke	161,120	9,130
Ashley Leeds	9,130	0
Manjit Dale	0	9,130
David Ruberg	0	9,130
	170,250	36,520

Forward Looking Statements

The statements contained in this report that are not historical facts are forward looking statements. We have based these forward-looking statements on our current expectations and projections of future events. Actual results could differ materially from those anticipated in these forward looking statements as a result of the risks facing us or faulty assumptions on our part. Assumptions that could cause actual results to vary materially from future results include, but are not limited to:

- our ability to successfully market our services to current and new customers;
- our ability to generate customer demand for our services in our target markets;
- the development of our target markets and market opportunities;
- market pricing for our services and for competing services;
- the extent of increasing competition;
- the ability of our equipment and service suppliers to meet our needs; and
- trends in regulatory, legislative and judicial developments.

CALENDAR/CONTACTS

CALENDAR

Quarterly Reports
August 28, 2001
November 27, 2001

CONTACTS

QSC AG
Investor Relations
Mathias-Brüggen-Strasse 55
D - 50829 Cologne
Phone: +49-(0)221-6698-280
Fax: +49-(0)221-6698-289
E-Mail: invest@qsc.de
Info: www.qsc.de

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