QUARTERLY REPORT I/2002

QSC AT A GLANCE

	01/01/-31/03/ 2002	01/01/-31/03/ 2001
All amounts in million EUR		
Revenues	9.6	5.3
EBITDA [1]	-16.3	-22.1
EBIT [2]	-24.4	-28.1
Net loss	-23.8	-27.5
Net loss per common share [3] (in EUR)	-0.24	-0.27
Equity	218.6 [4]	240.0 [5]
Balance Sheet Total	271.1 [4]	298.0 [5]
Equity ratio (in %)	80.6	80.5
Capital Expenditure	1.5	11.5
Liquidity	134.8 [4]	153.8 [5]
Share price as of 31/03/ (in EUR)	1.02	4.15
Number of shares as of 31/03/	105,008,714	105,008,714
Market capitalisation as of 31/03/	107.1	435.8
Employees	287 [4]	227 [6]

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

[2] Earnings before interest and taxes

[3] basic and diluted

[4] as of March 31, 2002

[5] as of December 31, 2001

[6] as of March 31, 2001

THE INTERNET IS CHANGING THE WORLD

BROADBAND WILL CHANGE THE INTERNET

QSC IS THE BROADBAND SOLUTION

EXPERIENCED MANAGEMENT.

Dr. Bernd Schlobohm

The engineering post graduate founded QSC and heads engineering and strategy.

Gerd Eickers

The experienced telecommunications specialist is also a co-founder. He is responsible for customer service, order management and regulatory affairs.

Markus Metyas

The former investment banker is in charge of finance, human resources and legal affairs.

Bernd Puschendorf

With many years of first hand sales experience, he has assumed responsibility for the areas sales and marketing in March 2002.

COMPANY REPORT.

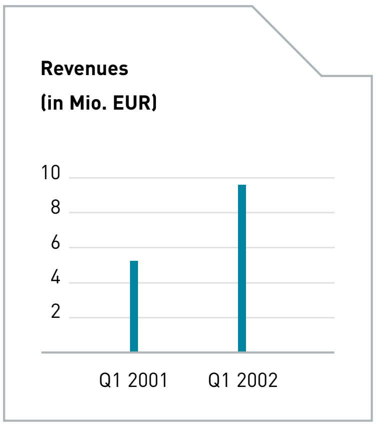
QSC tackles slow economy head-on // QSC AG continues its growth course in the first quarter of 2002 despite a generally slow economy. The company remains focused on the business customer segment with a demand for sophisticated solutions and applications. QSC unveiled three such solutions with significant revenue potential – Q-VPN, Q-Security and Q-Voice – at the CeBIT 2002.

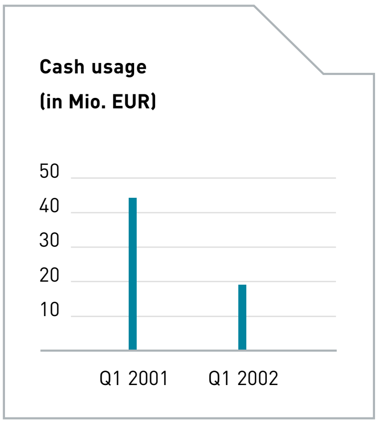
Revenues continue to grow

In the first quarter of 2002, QSC reported revenues of EUR 9.6 million, an increase compared to revenues in the previous quarter. Compared to revenues of EUR 5.3 million in the first quarter of 2001, the company was able to almost double its revenues, despite the slack IT and telecommunications economy.

The EBITDA-result in the first quarter of 2002 was again better than expected. QSC succeeded in further reducing its EBITDA-losses to EUR –16.3 million (first quarter of 2001: EUR -22.1 million). This represents an improvement of more than 20 per cent (fourth quarter of 2001: EUR –20.8 million) over the fourth quarter of 2001: The EBITDA improvement is a direct consequence of the continued focus on strict cost management and on an enhanced product mix accounting for higher revenues. The proportion of revenue derived from high-margin products continues to grow.

At EUR 19.0 million, the cash burn was about 14 per cent lower in the first quarter of 2002 than in the last quarter of 2001 (EUR 22.2 million). As at March 31, 2002, the company had cash and liquid funds of EUR 134.8 million (December 31, 2001: EUR 153.8 million).





With new applications QSC evolves into a solutions provider

CeBIT 2002: Innovative products for business customers With the introduction of its three new solutions Q-VPN, Q-Security and Q-Voice, QSC AG underlined its business customer focus at the CeBIT 2002.

Q-VPN for enterprises of any size

Q-VPN allows companies of any size to implement DSL-based, so-called virtual private networks - proprietary networks across several locations - currently a priority topic in many companies. Q-VPN is able to network locations at scalable symmetric bandwidths of up to 2.3 Mbit/s. The QSC advantage: it's easy to administer. The customer needs neither additional hardware nor a network management system.

By means of a firewall, Q-Security protects networks against break-ins from the Web. As a standard, Q-DSL business and Q-DSL office come equipped with effective protection. Now Q-Security, for the first time, allows customers to select the security profile that matches their needs best and is easy to activate.

Q-Voice will be launched successively in all cities covered by the QSC network. Q-Voice bundles digital voice telephony with broadband data communication. In addition to the conventional ISDN features and security parameters, Q-Voice allows for up to eight parallel voice channels on one single broadband line, allowing high speed surfing of the Net at the same time. Q-Voice is not based Voice-over-IP-technology, but proven digital network standards of the latest generation (for e.g. ATM). The cost saving potential from competitive pricing for voice and data communication makes Q-Voice a particularly attractive proposition. Q-Voice is piloted in Cologne for June 2002. An introduction of the service to other cities is scheduled to take place in the course of the year.

All three products contribute to the continued expansion of QSC's service offerings. The company is evolving into the solution provider for everything to do with DSL-based voice and data transmission.

Q-VPN Q-Security Q-Voice

All-in-one DSL solutions

Successful entry into large enterprise market // In the first quarter of 2002, QSC AG continued its strategy to market a focused products and service offering to business customers. For the first time, QSC addressed the top 500 enterprises in Germany. The successful build up of a key account management for its Q-VPN customers over the first months of the year has proven to be of central importance in this effort. Especially large enterprises expect customised all-in-one DSL solutions from its telecommunication supplier. Large, geographically decentralised organisations in particular are interested in QSC as an alternative supplier in addition to their existing telecommunication provider, which in many cases is Deutsche Telekom AG. QSC is already in close contact with a number of insurance companies as well as trading and manufacturing companies.

In addition, the development in the small and medium sized business customer segment has been positive as well. Valuing the flexibility, security and the cost efficiency of Q-DSL, many of these customers tend towards networking their workstations with Q-DSL business or Q-DSL office products and services. The new fair-price tariff model combines the benefits of a flat rate with those of a volume-based tariff, offering the customer the best price depending on the data volumes actually used.

QSC's marketing is increasingly focused on directly addressing business customers. QSC's presence at the CeBIT fair in March 2002 allowed the company to forge many new business contacts and leads. Further complementary advertising and public relations activities were launched. Last but not least, QSC continues to support its business partners with a comprehensive sales support service.

In the residential customer segment, QSC remains focused on premium customers looking for high-quality broadband DSL solutions. Almost all of QSC's Q-DSL home orders are processed efficiently through its Internet portal. QSC mainly addresses this customer segment through targeted marketing measures in the Web. Through its most recent co-operation with Yahoo! Deutschland QSC has gained access to the large online community of one of the leading German Internet companies. A few mouse clicks allow Internet users to order their DSL Internet connection at http://de.adsl.yahoo.com.

DSL remains the most important data transmission technology in Germany

Comprehensive services increase valuation creation potential

The competition: DSL market holds its ground despite recession Despite the weak economy, DSL remains on the agenda of the decision makers in the German industry. In a survey with decision makers at the beginning of the year, DSL was voted the most important data transmission technology in front of UMTS, cable or wireless transmission technologies. This unanimous result proves: "Germany is a DSL country". The TV cable technology, one possible DSL alternative, received a blow in the first quarter of 2002, when the sale of Deutsche Telekom cable networks to US-provider Liberty Media fell through. As long as the question of ownership remains open, the TV cable will not be upgraded for interactivity – a prerequisite for interactive data exchange.

The market consolidation continues among alternative DSL providers: the number of DSL-companies operating nation-wide is decreasing. While Deutsche Telekom dominates the market with commercially unjustifiable, very aggressive prices, the high-margin business customer segment is attractive for alternative providers as well. It is here that customised solutions and industry specific services gain importance. The value creation potential per custormer is increasing considerably.

Regulator is hesitant in supporting competition The decision of the German regulatory authority on line sharing prices passed in March of this year has destroyed hopes of fair competition in the mass market, as it does not prevent Deutsche Telekom from dominating the market with dumping prices. The Deutsche Telekom one-off charges decreed by the regulator in April seem similarly anti-competitive. The prices alternative competitors must pay Deutsche Telekom for subscriber lines do not allow them to price their own mass market products competitively. Against this backdrop, QSC AG's strategy to concentrate on high-quality products for business customers is vindicated. It was early in its history when QSC placed its focus on business customers – a strategy that has proven right in the face of the current regulatory environment. QSC reaches around one million potential business customers with its high quality DSL network. Although the company is looking into possibilities of opening the mass market through legal means nevertheless, it does not expect short-term results from these activities.

QSC holds hopes that the cartel proceedings against Deutsche Telekom recently instigated by the European Commission will have an impact. If the European Commission is successful in showing that Deutsche Telekom prevents fair competition on the last mile, long term improvements in the competitive environment would be conceivable for the first time.

New board member to reinforce sales competence // In March of 2002, Bernd Puschendorf joined the QSC Board of Directors. He played a leading role in both national and international sales activities of IBM and Fujitsu-Siemens for more than twenty years before joining QSC, where he is responsible for sales and marketing. Gerd Eickers now focuses his board activities on the areas of customer service, order management and regulation.

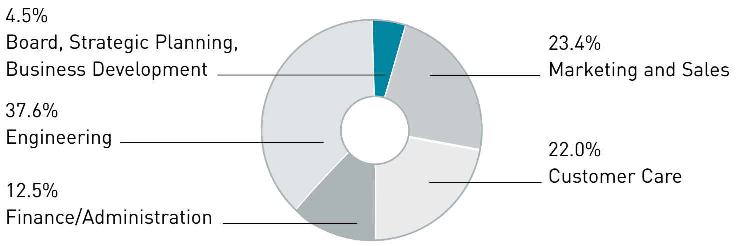
As at March 31, 2002, QSC had 287 employees. This is a 26 per cent increase since March 31, 2001. The company hired 24 new staff during the reporting period.

Marketing and sales take center stage

The personnel structure reflects the increasing importance of marketing and sales: in the first quarter of 2002, the sales and marketing workforce increased by 24 per cent to 67 employees.

The company benefited from softening German labour markets for telecommunication experts. The number of unsolicited job applications increased. QSC intends to only moderately increase its workforce in 2002.

Employee structure



High liquidity secures the financial viability of the business model

Cash outflow visibly reduced QSC AG was able to continue the trend of decreasing its quarterly cash burn. As at March 31, 2002, liquidity was EUR 134.8 million compared with a liquidity of EUR 153.8 as at December 31, 2001. For the first time, the company invested part of its cash in securities with a maturity of between three and twelve months, shown on the balance sheet as held-to-maturity securities. QSC continues to invest in low-risk, highly rated securities, such as fixed term deposits or fixed interest bonds of first class issuers. QSC will visibly reduce its cash outflow in the current year.

Network expenses of EUR 17.0 million, summarised under cost of revenues, in the profit and loss statement, continue to be the largest cost item. The decrease in network expenses is due to the company's ongoing network optimisation measures. As expected, the drive in selling and marketing activities has resulted in increased selling expenses. After EUR 5.2 million in selling and marketing expenses in the first quarter of 2001, the operating statement for the reporting period shows EUR 6.0 million. At EUR –16.3 million, the EBITDA-result for the quarter was EUR 4.5 million better than in the fourth quarter of 2001, a reflection of the progress in operations. The company continues to expect its EBITDA break-even during the course of 2003 and cash flow break-even during 2004.

Capital markets remain depressed The capital markets situation for technology and telecommunications shares did not change during the reporting period: investor scepticism and disillusion dominate the capital markets. Telecommunication shares, including incumbents, suffered from an ongoing discussion about indebtedness and the viability of business models. QSC's share price decreased significantly although the company is virtually debt-free with long-term liabilities of just EUR 0.5 million, expects to have sufficient funds to reach cash flow break-even and operates in the high growth market of DSL services.

After intensive discussions the company decided in February of this year to consolidate the parallel trading of its shares on Frankfurt's Neuer Markt and the US NASDAQ, in order to focus its attention on the German market. The reason for this decision was the extremely low trading volume in the USA, which bore no relation to the additional costs and efforts of maintaining the NASDAQ listing. QSC ceased to trade its shares, so-called ADS (American Depository Shares), on April 2, 2002.

QSC will continue to expand with new applications in the business customer segment

QSC has since focused its investor relations activities on the European capital markets. The company has presented its strategy at its annual press conference as well as in numerous one-on-one meetings, continuing its policy of intensive and open communication with the financial community, even in difficult capital markets.

Outlook: growth through Q-VPN // Partly as a result of the unsatisfactory deregulation of the mass market, QSC will continue to focus on the business customers market in 2002. The launch of Q-VPN has established a further promising product for its business customers. QSC expects this new product to account for a visible proportion of its 2002 revenue.

Project business gains importance

In addition to the project business with large enterprise customers, telecommunications and IT providers, system integrators and resellers remain an important marketing and sales channel. In April QSC entered into a partnership with BT Ignite, the business customer section of the British Telecom corporation.

QSC will continue to expand its product portfolio for its business clientele in the months ahead. The Cologne pilot for the transmission of voice combined with Q-DSL business promises further revenue growth from the second half of 2002 onwards.

Against this backdrop, QSC has reiterated its expectations for the current year: revenues are expected to reach between EUR 46 and 54 million and EBITDA-loss between EUR –60 and –70 million.

As opposed to the low-priced DSL mass market business, the future growth in revenue and profit contribution will be driven even more by the business customer segment. Revenues from project business and package solutions (for example voice telephony, VPN, Hosting) will outweigh the sale of pure access lines. The number of lines sold will therefore lose its significance as a performance indicator and will be substituted by revenue and EBITDA forecast as a measure of performance.

REVIEW REPORT.

To the management board of QSC AG, Cologne

We reviewed the accompanying interim financial statements of QSC AG, Cologne, for the period from January 1, 2002 to March 31, 2002, consisting of the condensed income statement, condensed balance sheet, condensed cash flow statement, statement of shareholders' equity, notes to the interim financial statements and further information. The preparation of the interim financial statements in accordance with U.S. Generally Accepted Accounting Principles is the responsibility of the Company's management. Our responsibility is to issue a report on these interim financial statements based on our review.

We conducted our review of the interim financial statements in accordance the Standard established by the Institut der Wirtschaftsprüfer in Deutschland e.V. (IDW). This standard requires that we plan and perform the review to obtain moderate assurance as to whether the interim financial statements do not contradict US GAAP. A review is limited primarily to inquiries of company personnel and analytical procedures and thus provides less assurance than an audit. We have not performed an audit of financial statements and, accordingly, do not express an audit opinion.

Based on our review nothing has come to our attention that causes us to believe that the accompanying interim financial statements are not presented in all material respects in accordance with U.S. Generally Accepted Accounting Principles.

Arthur Andersen
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft mbH

Fluck
Wirtschaftsprüfer

Berg
Wirtschaftsprüfer

Eschborn/Frankfurt am Main, May 13, 2002

STATEMENTS OF OPERATIONS

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

	I/2002 01/01/2002-31/03/2002 in TEUR	I/2001 01/01/2001-31/03/2001 in TEUR
Net revenues	**9,555**	**5,270**
Cost of revenues	17,011	19,752
Gross loss	**(7,456)**	**(14,482)**
Selling and marketing expenses	6,012	5,177
General and administrative expenses	2,515	2,289
Research and development expenses	342	184
Amortization of goodwill	0	17
Depreciation and amortization	8,081	5,982
(including TEUR 1,691 in non-cash compensation in the 3 months		
ended Mrch. 31, 2002; 3 months ended Mrch. 31, 2001: TEUR 1,580)		
Operating loss	**(24,406)**	**(28,131)**
Other income (expenses)		
Interest income	1,216	2,289
Interest expense	(90)	(17)
Share of post acquisition losses of equity method investees	(376)	(1,664)
Other non-operating income (loss)	(127)	0
Net loss before taxes on income	**(23,783)**	**(27,523)**
Tax benefit on income	0	0
Net loss after taxes on income	**(23,783)**	**(27,523)**
Loss attributable to common shareholders	(23,783)	(27,523)
Net loss per common share (basic and diluted)	(0.24)	(0.27)
Weighted average shares outstanding (basic and diluted)	101,134,647	101,134,647

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

BALANCE SHEETS

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

	31/03/2002 in TEUR (unaudited)	31/12/2001 in TEUR (audited)
ASSETS		
Current assets		
Cash and cash equivalents	81,275	153,776
Held-to-maturity securities	53,500	0
Trade accounts receivable, net	17,344	15,581
Trade accounts receivable due from related parties	527	681
Unbilled receivables	6,225	7,256
Other receivables	11,979	17,430
Prepayments and other current assets	3,759	2,316
Total current assets	**174,609**	**197,040**
Non-current assets		
Property, plant and equipment, net		
Networking equipment and plant	77,859	82,096
Operational and office equipment	7,182	7,576
Total property, plant and equipment, net	**85,041**	**89,672**
Intangible assets, net		
Licenses	2,133	2,205
Software	1,953	2,043
Goodwill	1,407	1,407
Others	7	8
Total intangible assets, net	**5,500**	**5,663**
Investment in equity method investees	**5,360**	**4,996**
Other non-current assets	**605**	**603**
Total non-current assets	**96,506**	**100,934**
Total assets	**271,115**	**297,974**

	31/03/2002 in TEUR (unaudited)	31/12/2001 in TEUR (audited)
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Current liabilities		
Short-term debt and current portion of long-term debt	357	357
Trade accounts payable	20,441	23,591
Trade accounts payable due to related parties	10,335	13,199
Accrued liabilities	17,938	18,769
Deferred revenues	1,638	883
Other current liabilities	1,288	807
Total current liabilities	**51,997**	**57,606**
Non-current liabilities		
Convertible bonds	49	39
Accrued pensions	170	162
Other non-current liabilities	283	201
Total non-current liabilities	**502**	**402**
Total liabilities	**52,499**	**58,008**
Shareholders' Equity		
Share capital	105,009	105,009
Additional paid-in capital	473,435	473,480
Treasury stock	(443)	(3,312)
Deferred compensation	(10,350)	(12,086)
Receivables due from shareholders	(1)	(1)
Accumulated deficit	(349,034)	(323,124)
Total Shareholders' Equity	**218,616**	**239,966**
Total liabilities and Shareholders' Equity	**271,115**	**297,974**

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

STATEMENTS OF CASH FLOW

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

	01/01/2002-31/03/2002 in TEUR	01/01/2001-31/03/2001 in TEUR
Cash flow from operating activities		
Net loss	**(23,783)**	**(27,523)**
Adjustments to reconcile net loss to cash used in operating activities		
Non-cash compensation charge	1,691	1,580
Depreciation and amortization	6,390	4,419
Gain on sale of equipment	(71)	0
Share of post acquisition losses of equity method investees	376	1,664
Non-cash interest expense	82	16
Increase in accounts receivable, net	(1,609)	(102)
Decrease/(Increase) in unbilled receivables	1,031	(1,901)
Decrease/(Increase) in other receivables	5,451	(2,431)
Increase in prepayments and other current assets	(1,443)	(13,802)
Increase in other non-current assets	(2)	(3)
Increase/(Decrease) in trade accounts payable	(6,014)	9,904
Decrease in other reserves and accrued liabilities	(831)	(4,265)
Increase/(Decrease) in deferred revenues	755	(109)
Increase/(Decrease) in other current liabilities	481	(326)
Increase in accrued pensions	8	7
Net cash used in operating activities	**(17,488)**	**(32,872)**

	01/01/2002-31/03/2002 in TEUR	01/01/2001-31/03/2001 in TEUR
Cash flow from investing activities		
Purchases of held-to-maturity securities	(53,500)	0
Acquisition of business, net of cash acquired	0	(832)
Purchases of intangible assets	(89)	(324)
Purchases of plant and equipment	(1,663)	(10,307)
Proceeds from sale of equipment	229	0
Net cash used in investing activities	**(55,023)**	**(11,463)**
Cash flow from financing activities		
Issuance/(Redemption) of convertible bonds	10	(1)
Long-term loan granted	0	180
Purchases of treasury stock	0	(66)
Net cash provided by (used in) financing activities	**10**	**113**
Net decrease in cash and cash equivalents	**(72,501)**	**(44,222)**
Cash and cash equivalents at beginning of period	153,776	294,780
Cash and cash equivalents at end of period	**81,275**	**250,558**
Supplemental disclosures of cash flow information		
Cash paid during the period for		
Interest expense	9	1
Income taxes	0	0

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

STATEMENTS OF EQUITY

Consolidated Statements of Shareholders' Equity from January 1, 2001 to March 31, 2002
(EUR amounts in thousands (TEUR), except for per share amounts)

Balance at January 1, 2001
Purchase of treasury stock (January 1, 2001)
Convertible bonds forfeited due to termination of employment (January 1, 2001)
Purchase of treasury stock (May 1, 2001)
Convertible bonds forfeited due to termination of employment (May 1, 2001)
Initial deferred compensation recorded (July 1, 2001)
Purchase of treasury stock (July 1, 2001)
Reissue of treasury stock (October 1, 2001)
Initial deferred compensation recorded (October 1, 2001)
Amount amortized during the period
Net loss
Balance at December 31, 2001
Reissue of treasury stock (January 1, 2002)
Convertible bonds forfeited due to termination of employment (January 1, 2002)
Amount amortized during the period
Net loss
Balance at March 31, 2002

	Ordinary Shares Shares	Ordinary Shares Amount TEUR	Treasury Shares Shares	Treasury Shares Amount TEUR	Additional Paid-In Capital TEUR	Deferred Compen-sation Account TEUR	Accumu. Deficit TEUR	Receivab. Due from Share-holders' TEUR	Total Share-holders' Equity TEUR
	105,008,714	**105,009**	**934,954**	**(4,125)**	**477,304**	**(21,515)**	**(217,532)**	**(1)**	**339,140**
			88,512	(66)	(890)	890			(66)
					(23)	23			0
			366,052	(286)	(3,674)	3,674			(286)
					(136)	136			0
					441	(441)			0
			9,126	(50)	(68)	68			(50)
			(273,171)	1,215					1,215
					526	(526)			0
						5,605	(691)		4,914
							(104,901)		(104,901)
	105,008,714	**105,009**	**1,125,473**	**(3,312)**	**473,480**	**(12,086)**	**(323,124)**	**(1)**	**239,966**
			(575,000)	2,869			(2,127)		742
					(45)	45			0
						1,691			1,691
							(23,783)		(23,783)
	105,008,714	**105,009**	**550,473**	**(443)**	**473,435**	**(10,350)**	**(349,034)**	**(1)**	**218,616**

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

QSC AG, COLOGNE

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

1. Organization and basis of presentation

a) **Organization** // QSC AG (in the following referred to as "QSC") was incorporated in January 1997 as a limited liability company under the name QS Communication Service GmbH. In the second half of 1999, it was registered as a joint-stock company in Cologne, North Rhine Westphalia, Germany under the name QS Communications AG. The annual general meeting held on May 17, 2001 resolved that the company changes its corporate name from "QS Communications AG" to "QSC AG".
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 going up to 2.3 Mbit/s. DSL-technology makes efficient use of the last mile on the basis of unbundled network access, thus multiplying data traffic speeds by a factor of several times compared with standard subscriber connections. The QSC broadband network covers the 40 largest cities in Germany and reaches more than 20 million potential users. QSC provides its services through sales partners, mainly Internet service providers acting as resellers. QSC also serves the end-user market selling its products and services either direct or through retail and distribution partners.

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") for interim financial reporting. Certain information and footnote disclosures normally included in financial statements prepared in accordance with US GAAP have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the financial statements reflect all adjustments (of a normal and recurring nature) which are necessary to present fairly the financial position, results of operations and cash flows for the interim periods. The financial statements should be read in conjunction with the audited consolidated financial statements as of December 31, 2001 and 2000. The results for the three month period ended March 31, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002.
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 majority-owned subsidiaries. All significant inter-company transactions have been eliminated in the consolidation. The equity method of accounting is used for companies and other investments in which QSC has significant influence. Generally this represents ownership of at least 20% and not more than 50%.

2. Significant accounting policies

a) **Recently issued statements of financial accounting standards //** In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") 141, "Business Combinations" and SFAS 142, "Goodwill and Other Intangible Assets". SFAS 141 requires that all business combinations initiated after June 30, 2001 be accounted for under the purchase method and addresses the initial recognition and measurement of goodwill and other intangible assets acquired in a business combination. SFAS 142 addresses the initial recognition and measurement of intangible assets acquired outside of a business combination and the accounting for goodwill and other intangible assets subsequent to their acquisition. SFAS 142 provides that intangible assets with finite useful lives be amortized and that goodwill and intangible assets with indefinite lives not be amortized, but, rather, tested at least annually for impairment. Under US GAAP, we adopted SFAS 142 as of January 1, 2002, and stopped, at that time, amortizing goodwill that resulted from business combinations completed prior to the adoption of SFAS 141. On adoption, the Company concluded, that no intangible assets other then goodwill have indefinite lives.
SFAS 142 requires that the Company completes a first phase of the impairment review for goodwill and intangible assets with indefinite lives by June 30, 2002. The results for the first quarter ended March 31, 2002 do not reflect the results of this review. The cumulative effect relating to this change in accounting principle will be reflected in the financial statements for the period ending June 30, 2002, and the results for the period ended March 31, 2002 may be restated if applicable.

Though we are yet to measure the fair value of the business and assess whether goodwill has been impaired, we believe that the fair value of the business exceeds its carrying amount and do not anticipate that the impairment test will have a material impact on our consolidated financial statements. In the first three months of 2002 and 2001 QSC recorded no goodwill amortization charge.
In June 2001, the FASB issued SFAS 143, "Accounting for Asset Retirement Obligations". SFAS 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. SFAS 143 is effective for fiscal years beginning after June 15, 2002. Currently, QSC does not anticipate any material impact on its results of operation or its financial position arising from the adoption of SFAS 143.
In August 2001, the FASB issued SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". SFAS 144 establishes a single accounting model for long-lived assets to be disposed of by sale consistent with the fundamental provisions of SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of". SFAS 144 is effective for fiscal years beginning after December 15, 2001 and interim periods within those fiscal years, with early application encouraged. The provisions of the statement are generally to be applied prospectively. QSC currently does not intend to dispose of any operation and accordingly, does not anticipate that adoption of SFAS 144 will have a material impact on its results of operations or its financial position.

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. Actual results could differ from those estimates.

c) **Cash, cash equivalents and held-to-maturity securities** // The cash and cash equivalents consist of bank balances, cash on hand and debt securities with an original term of three months maximum. The securities are held-to-maturity securities and in accordance with SFAS 115 reported at amortized cost.

d) **Loss per share** // Under SFAS 128 "Earnings per share", loss per share is computed by dividing loss applicable to common stockholders by the weighted average number of shares of QSC's common stock outstanding exclusive of shares subject to repurchase if specified conditions are not met. Diluted earnings per share are calculated in the same manner except that the number of shares is increased assuming exercise of dilutive stock options and conversion of convertible preferred stock where these are dilutive.
For the three months ended March 31, 2001 and 2002, the dilutive effect of options and preferred stock was not considered because QSC recorded net losses and the impact of their assumed exercise would be anti-dilutive.
The loss per share calculation does not include 3,874,067 shares issued to employees through the exercise of convertible bonds, which are subject to forfeiture, nor does it include the effect of the possible conversion of convertible bonds into 4,915,852 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 May 4, 2000. The 47,484,647 preferred shares were converted into 47,484,647 ordinary shares of QSC on May 5, 2000, as of which date they were included in the loss per share computation.

e) **Goodwill** // Goodwill consists of the excess purchase price over the fair value of the identifiable net assets acquired in acquisitions. Such amounts were amortized using the straight-line method over 4 years, until December 31, 2001. With the adoption of SFAS 142 as of January 1, 2002, goodwill is no longer amortized, but, rather, tested at least annually for impairment. We refer to a) "Recently issued statements of financial accounting standards".

f) **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. In the first quarter 2002, QSC is operating in one segment: Internet and corporate network access in Germany.

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 June 30, 2004, by the seller and QSC respectively. 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. QSC purchased its 65% share in COMpoint for consideration of TEUR 853, which was paid in cash.
QSC recorded TEUR 715 of goodwill in connection with the purchase of its share in COMpoint. QSC amortized TEUR 148 of this goodwill until December 31, 2001. Minority interests have been classified as other non-current liabilities. The results of operations of the acquired business have been included in the consolidated financial statements since the date of acquisition.
On April 24, 2001, QSC signed a contract to acquire a 41% share in Gesellschaft für Internet-Kommunikation AG, Aachen/Germany ("Ginko"). Ginko is an Internet service provider specializing in the provision of fast Internet access. The acquisition agreement of April 24, 2001 provides for a capital increase from TEUR 153.5 to TEUR 184.1 with the shares thus issued to be acquired in total by QSC. The capital increase was registered in the commercial register on June 6, 2001. The acquisition contract includes a put and a call option at the same price by the seller and QSC respectively on the remaining 49.2% of Ginko. The call option can be exercised by QSC at any point in time. The put option is exercisable by the seller between January 1, 2002 and December 31, 2003. On December 14, 2001, QSC exercised its call option on a further 12.5% of Ginko, increasing its overall share in Ginko to 63.3%. The results of operations of Ginko have been included in the consolidated financial statements since May 1, 2001. The effect on QSC's results of operations of consolidating Ginko for the period from May 1 to June 5, 2001 is not material. A minimum value calculation using an option-pricing model yielded a minimum value of the options of zero. During the reporting period, QSC paid TEUR 896 in cash for its share in Ginko. A remaining variable purchase price component yet to be paid is contingent upon the number of newly contracted end-users during 2001. QSC recorded TEUR 968 of goodwill in connection with the purchase of its share in Ginko. TEUR 128 were amortized until December 31, 2001.
The acquisitions of both COMpoint and Ginko have been accounted for under the purchase method of accounting.

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"). QSC's share in Netchemya is TEUR 5.688 or 25%.
On January 28, 2002, QSC fulfilled its commitment acquiring a 49% interest in Grell Beratungs GmbH, Cologne ("Grell"). QSC's payment for this acquisition consisted of 575,000 ordinary shares of QSC stock at a per share value of EUR 1.29.
QSC uses the equity method of accounting for its investments in Netchemya and Grell. In the first three months of 2002, QSC recorded post-acquisition losses of TEUR 379 from its investment in Netchemya and post-acquisition gains of TEUR 3 from its investment in Grell.

4. Employee equity incentive program

QSC accounts for its stock option plans under provisions of APB Opinion 25, "Accounting for Stock Issued to Employees" for options granted to employees under stock option plans. Under APB Opinion 25, compensation expense is recognized based on the amount by which the fair value of the underlying common stock exceeds the exercise price of the stock options at the measurement date. In the case of SOP2000, the measurement date is the date of grant. In the case of SOP2000A, the exercise price of 483,169 convertible bonds was reduced in November 2000. The 483,169 convertible bonds are therefore accounted for using variable plan accounting. 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 plan SOP2001. As at March 31, 2002, QSC had deferred compensation totaling TEUR 10,350. This amount is yet to be amortized as a charge to operations until the options have been exercised finally. In the first quarter of 2002, QSC amortized TEUR 1,691 (2000: TEUR 1,580). QSC did not record any compensation expense in connection with the 483,169 convertible bonds subject to variable plan accounting. These bonds have a weighted average exercise price of EUR 4.23. QSC's stock closed at EUR 1.02 on the last trading day of the first quarter 2002 at the Frankfurt Neuer Markt stock exchange.

5. Debt

Other non-current liabilities of TEUR 283 are due to minority interest in QSC's majority-owned subsidiary COMpoint and the related accretion of interest (see Note 3).

6. Allowance for doubtful accounts

In the first three months of 2002, no allowance for doubtful accounts was recorded. In the first three months of 2001, the allowance for doubtful accounts was TEUR 62.
In March 2001, QSC took out insurance coverage against bad debts to improve its credit management. QSC purchases credit insurance for significant accounts with sales partners who act as resellers for QSC products and services. The insurer continuously monitors the credit worthiness of each such sales partner and on that basis determines the insurance amount. QSC's insurance coverage against bad debts is equal to the total of these insurance amounts.

7. Events subsequent to the balance sheet date

The authorization of the annual general meeting of 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 tender offer was restricted by law until October 31, 2002. Therefore this authorization was revoked at the annual general meeting on May 16, 2002 and replaced by a new identical authorization being in effect until October 31, 2003.
On May 16, 2002, the annual general meeting approved a fourth stock option plan ("SOP2002") authorizing the QSC Management Board to issue up to 2.45 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, 2005. 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 2,450. 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.
On April 22, 2002, QSC exercised its call option on the remaining 35% on COMpoint and on April 2, 3 and 8, 2002 on the remaining 36.7% on Ginko. QSC exercised its options to increase its shares in both COMpoint and Ginko to 100% in preparation of the planned merger with the two entities.

QSC 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 annual financial statements and the related notes thereto.

1. Overview

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

We were the first company in Germany to publicly announce plans for a nationwide network based on symmetric DSL-technology (digital subscriber line) on November 10, 1999. This Germany wide network rollout has been largely completed covering more than 20 million homes and more than one million businesses.

We offer our business and residential customers broadband "always-on" connections to the Internet on the basis of standard copper subscriber lines. We provide our services through more than 120 sales partners, mainly Internet service providers acting as resellers. Since March 2001, we have been selling our Q-DSL product family to end-user customers. The Q-DSL product family is available either directly from us or from one of our more than 300 retail partners.

2. Factors affecting future operations

a) 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 Centres and on our backbone;
- non-recurring charges for installation and end-user equipment;
- monthly recurring charges for providing equipment housing to our sales partners within our Metropolitan Service Centres;
- monthly recurring charges for the leased-line fibre connection from our sales partners to our Metropolitan Service Centres.

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 as a network carrier. These revenues are insignificant compared to our overall revenues.

b) **Operating expenses** // The following factors comprise our operating costs:

- Network expenses: we pay Deutsche Telekom monthly rental costs for using copper-lines between the 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 Centres. 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 Centres, for lines between our Metropolitan Service Centres and our sales partners and for lines interconnecting our Metropolitan Service Centres. 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 concerning the monthly rental costs for space within Deutsche Telekom's central offices. We expect leased line costs for lines between central offices and Metropolitan Service Centres, for lines between Metropolitan Service Centres and our distribution partners and for lines interconnecting our Metropolitan Service Centres to decrease in the future due to intense 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.

c) **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 investments, amortization of deferred stock compensation, other non-operating income, depreciation and amortization of non-current assets and amortization of goodwill. 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, 2001, we calculated negative EBITDA of TEUR 22,132. For the equivalent period of 2002 we calculated negative EBITDA of TEUR 16,325. The decrease is primarily caused by the increase in revenues and the measures which have been taken to optimize the network utilization.

d) **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 Centres;
- purchase and installation of our network management systems;
- demand-based expenditures for purchasing end-user DSL line cards and customer premises equipment.

We may have to purchase further equipment in future periods depending on the quantity and type of equipment we initially deploy in a central office or in a Metropolitan Service Centre. Following the near completion of the network rollout, 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.

3. Results of operations (three months ended March 31, 2002 and 2001)

a) **Revenues** // In the first three months ended March 2002, we recorded revenues of TEUR 9,555. Compared with revenues of TEUR 5,270 in the first three months ended March 2001, this represents an increase of 81%, which is mainly due to an increase in the number of customers.
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, 2002, we recognized TEUR 9,555 in revenues. TEUR 1,638 in installation charges are deferred and will be recognized in future periods.

b) **Cost of revenues** // Cost of revenues are our network expenses totaling TEUR 17,011 for the first quarter of 2002. During the equivalent period in 2001, we recorded network expenses of TEUR 19,752. This represents a decrease in network expenses of 14%. Although the network has been extended and the number of customers has increased, network expenses were reduced. This primarily reflects the measures which have been taken to optimize network utilization. We expect increasing network expenses in future periods due to intensified sales activity expected to result in a growing subscriber base.

c) **Selling and marketing expenses** // We recorded selling and marketing expenses of TEUR 6,012 in the first three months of 2002 and TEUR 5,177 for the first three months of 2001, representing an increase of 16%. Selling and marketing expenses increased reflecting our efforts to market and sell our end-user products.
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.

d) General and administrative expenses // General and administrative expenses were TEUR 2,515 in the first quarter of 2002 and TEUR 2,289 during the equivalent period of 2001 – an increase of 10%.
The increase in general and administrative expenses is due to the increased number of employees. We expect our general and administrative expenses to moderately increase in future periods as we expand our business and manage our organizational growth.

e) Research and development expenses // We recorded research and development costs of TEUR 342 in the first quarter of 2002 and TEUR 184 in the equivalent period of 2001, representing an increase of 86%.
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 increase in future periods as we continue to develop value added services and new voice telephony products.

f) Other income (expenses) // Other income (expenses) consists primarily of interest income on our cash balance. Interest income for the three months to March 31, 2002 was TEUR 1,216 in comparison to TEUR 2,289 in the equivalent period of 2001, which is due to a lower cash balance in the first quarter of 2002. Interest expense in the first quarter of 2002 was TEUR 90. Interest expense was incurred from short-term loans, minority interests in the net income of our majority-owned subsidiary COMpoint Network Consulting GmbH, Vellmar/Germany ("COMpoint") and the interest accreted to the estimated strike price of the option on the remaining 35% of COMpoint. We recorded TEUR 17 interest expense during the equivalent period of 2001.
For the period from January 1 until March 31, 2002, we recorded our share of post acquisition losses from our equity method investees of TEUR 376. For the equivalent period in 2001, we recorded TEUR 1,664.

4. Liquidity, capital resources and investments

Our operations have required substantial capital investment for the network rollout. We financed our operations through equity. From 1999 through to December 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. Cash, cash equivalents and securities on March 31, 2002 were TEUR 134,775.

The accumulated deficit of TEUR 349,034 includes TEUR 120,873 in dividends from a beneficial conversion feature in connection with our private placement in December 1999 and TEUR 18,298 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. In the first three months of 2002, we incurred TEUR 1,691 in compensation expense.

From January 1 through to March 31, 2002, net cash outflow from operating activities was TEUR 17,488. This was due to net losses of TEUR 23,783 and decreases in accounts payable and accrued liabilities of TEUR 6,845 and increases in assets of TEUR 3,054, offset by non-cash expenses of TEUR 8,486 and decreases in assets of TEUR 6,482 and increases in accounts payable and accrued liabilities of TEUR 1,244. We used TEUR 55,023 net cash for investing activities including TEUR 53,500 for short-term investments in held-to-maturity securities. The balance of TEUR 1,523 was due to purchases of intangible assets, plant and equipment. During the equivalent period of 2001, purchases of intangible assets, plant and equipment were TEUR 11,463. The 87% decrease is primarily due to our network rollout being largely completed and the decrease in investments in other entities. We expect further network related cash outflows, mainly from the purchase of DSL end user equipment and line cards. As such, we anticipate that future capital expenditures will correlate with end user growth.

Net cash provided by financing activities during the first quarter of 2002 amounts to TEUR 10.

Due to the expansion of our business and network coverage, we expect to experience net cash outflows from both operating and investing activities in future periods. We may make investments in future periods in entities that are complementary in order to further support the growth of our business. We believe that our existing cash will be sufficient to fund those investments.

5. Shares and conversion rights held by Members of the Supervisory Board and the Management Board

Shares and conversion rights of Members of the Management Board:

	31/03/2002 Shares	31/03/2002 Conversion rights	31/03/2001 Shares	31/03/2001 Conversion rights
Dr. Bernd Schlobohm	13,818,372	0	13,818,372	0
Gerd Eickers	13,841,100	0	13,841,100	0
Markus Metyas	2,307	1,059,116	2,307	1,059,116
Bernd Puschendorf	0	1,000,000	0	0
	27,661,779	**2,059,116**	**27,661,779**	**1,059,116**

Shares and conversion rights of Members of the Supervisory Board:

	31/03/2002 Shares	31/03/2002 Conversion rights	31/03/2001 Shares	31/03/2001 Conversion rights
John C. Baker	0	9,130	0	9,130
Herbert Brenke	161,120	9,130	161,120	9,130
Manjit Dale	0	9,130	0	9,130
Ashley Leeds	9,130	0	9,130	0
David Ruberg	4,563	9,130	4,563	9,130
Claus Wecker	83,025	0	83,025	0
	257,838	**36,520**	**257,838**	**36,520**

6. Recent developments

In the first quarter of 2002, QSC introduced three new products representing the development of QSC as a solution provider for voice and data transmission based on DSL-technology. Q-VPN allows companies of any size to build company networks by connecting geographically dispersed branch offices. Q-Security protects networks against unauthorized access allowing customers to define their own security requirements. Q-Voice allows customers to make telephone calls and transmit data over one and the same access. End-users can continue to use their existing telecommunications devices with uncompromising quality. QSC will continue to develop its range of products for its business clients.
As at January 1, 2002, we had 263 employees in total. We increased the number of employees until March 31, 2002 to a total of 287. Thirteen (or 50%) of the new employees joined our sales and marketing force. We expect a further moderate increase in the number of employees in future periods primarily due to the planned merger with COMpoint and Ginko.

7. 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, especially by Deutsche Telekom AG;
- trends in regulatory, legislative and judicial developments.

GLOSSARY.

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

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

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

Bandwidth The transmission capacity of a line.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

CALENDAR

Quarterly Reports
August 27, 2002
November 26, 2002

Conferences/Events
June 6, 2002
Deutsche Bank
German Telecoms Conference

June 13, 2002
8. Internationale Handelsblatt-
Jahrestagung "Telekommarkt Europa"

September 18, 2002
Terrapinn B2B media
Carriers World Europe 2002

Oktober 1, 2002
The Economist
2nd Annual Telecoms Conference

November 4, 2002
Euroforum
Broadband will change the Internet

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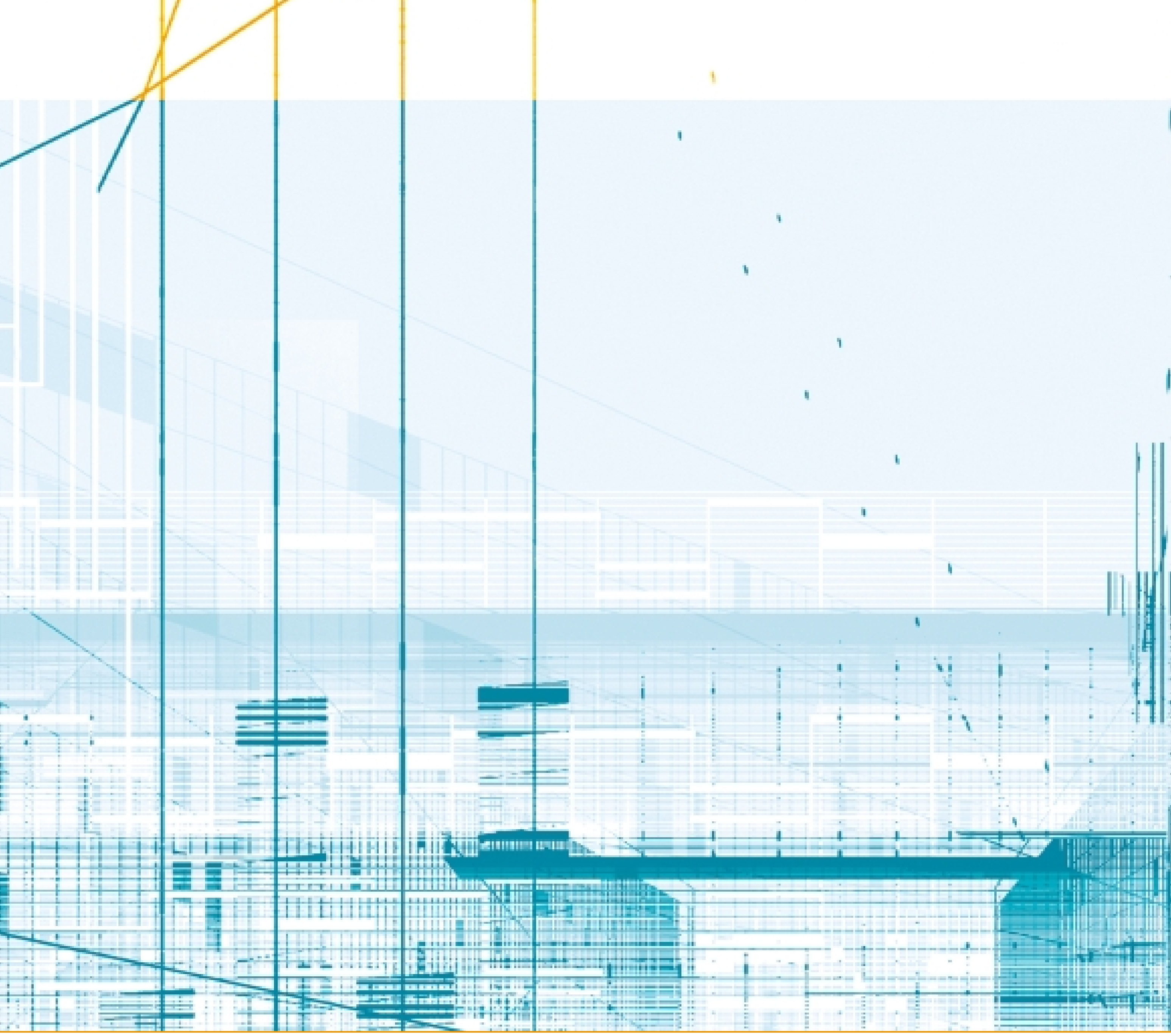

Further information under www.qsc.de