QUARTERLY REPORT II/2001

QSC

QSC AT A GLANCE

All amounts in million EUR, except per share amounts	01/01/ to 30/06/2000	01/01/ to 30/06/2001
Revenues	0.4	12.4
Net loss	-30.1	-54.7
Cash Flow	237.9	-83.3
Loss per Share in EUR	-0.55	-0.54
Capital Expenditure	38.7	28.0
Liquidity	294.8*	211.4***
Equity	339.1*	286.2***
Cities	30**	46***
Metropolitan Service Centers	30**	45***
Central Offices	501**	945***
DSL-Lines	800**	15,636***
Employees	112**	233***

* as at December 31, 2000
** as at June 30, 2000
*** as at June 30, 2001

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 technology and strategy.

Sales growth continues

In the first six months of 2001, QSC AG recorded revenues of EUR 12.4 million (compared with EUR 0.4 million in the same period in the previous year). The positive trend continued with second quarter revenues of EUR 7.1 million, exceeding first quarter revenues by 34%. The increase is attributable to the sale of 15,636 DSL lines as of June 30, 2001, compared with a figure of 10,425 lines sold by the end of the previous quarter. Over 5,000 new lines were thus sold in the second quarter of 2001.

This consistent upward trend consolidates QSC's position as Germany's leading alternative DSL provider. As of June 30, 2001, the QSC network covered the 40 largest cities in Germany, reaching more than 20 million residential customers and over 1 million business customers. In the second quarter, all of QSC's city networks were linked via QSC's backbone, giving the company a clear advantage in the nationwide marketing and distribution of its value-added services.

During the same period, QSC launched two new products under the Q-DSL brand: Q-DSL home for residential customers and Q-DSL business for business customers.

The slowdown of Germany's economy in the third quarter and the ensuing delay in investment decisions for IT and telecommunications services in the SME markets have started to affect QSC's business products. Accordingly, the company has adjusted its forecasts to the current difficult market environment.

On track to becoming a broadband services provider

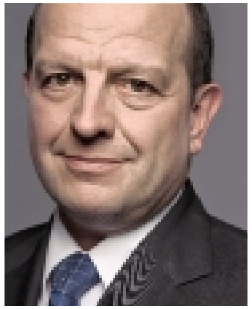
QSC AG began to actively market its own range of products and services in the second quarter of 2001. It is now evolving from a mere DSL Internet access company to a service provider offering a full range of broadband based services and content.

Q-DSL home, which was successfully tested in Bremen, is specifically targeted at premium residential customers. Since May of this year, QSC offers its Q-DSL home customers a flat rate tariff. Download speeds are considerably faster than those of T-DSL, the equivalent residential customer product marketed by Deutsche Telekom, and this, combined with the quick connection time – 95% of QSC's DSL connections are up and running within four weeks – gives QSC a clear competitive advantage. Q-DSL home is aimed at heavy users, such as online gamers, music and video fans and members of online communities.

THE SUCCESSFUL LAUNCH OF ADDITIONAL PRODUCTS UNDER THE Q-DSL BRAND UMBRELLA UNDERLINES QSC'S MIGRATION FROM A MERE DSL INTERNET ACCESS COMPANY TO A BROADBAND SERVICE PROVIDER.

Gerd Eickers

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



QSC has been able to attract over 150 retailers and distributors in the IT and telecommunication sector to market its business product. The product is primarily targeted at businesses with large bandwidth requirements, such as IT companies, printers, graphic and design companies, advertising agencies and companies in the financial services sector.

The introduction of the QURT broadband portal (www.qurt.de) is part of QSC's strategy of providing increasingly sophisticated broadband services. This portal enables Q-DSL users to view large multimedia files with sports coverage and live concerts in an unprecedented quality.

Successful launch of second distribution channel

The introduction of the Q-DSL product group was accompanied by the establishment of a second distribution channel. QSC works together with electronics retailers, mobile telephony service providers as well as IT and telecommunication distributors. Its distribution partners include NTplus, one of Germany's leading communications companies. NTplus' client base is mainly composed of small and medium-sized businesses, which are also QSC's main target market. QSC also cooperates with Demuth & Dietl, a successful German telecommunication distributor. These distributors sell Q-DSL products for and on behalf of QSC AG, allowing QSC to maintain direct customer relationships. However, indirect distribution of the speedw@y-DSL service through resellers continues to be a key business area for QSC. QSC has agreements with over 100 partners in this area including enterprises such as mediaWays, UUNET and WorldCom.

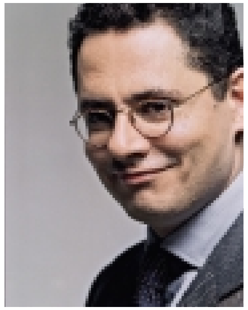
Targeted marketing supports sales

Targeted marketing activities allow QSC to reach potential users in a cost-effective manner. For example, the company increased awareness among online gamers through the exclusive marketing of CPL (Cyber-Athletes Professional League), the unofficial online game world championships, on its QURT broadband portal.

In the second quarter, QSC AG focused on online marketing and advertising. Cooperations with Internet portals and distribution partners offer opportunities for cost-effective and highly targeted advertising. QSC's marketing drive was complemented by local advertising campaigns in those cities which have access to QSC's services. The range of marketing measures is rounded off by a brand new nationwide marketing campaign launched in August, positioning the brands QSC and Q-DSL as high quality, intelligent alternatives to the competition. The sponsorship of the Werder Bremen Football Club ended as planned at the end of the 2000/2001 football season.

Markus Metyas

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



ACCORDING TO THE NEW RULES OF DEUTSCHE BÖRSE AG - QSC'S FREE FLOAT NOW AMOUNTS TO 37.7%.

Share price does not reflect sales progress

The development of the QSC stock over the first six months of 2001 has been somewhat disappointing. While the company clearly freed itself from the downward trend of the Nasdaq and the Neuer Markt in the first quarter, its shares were exposed to heavy sales pressure from May onwards. According to QSC's executive management, the current share price bears no relation to the company's solid financial and market position.

Over the next few months, QSC will continue its intensive investor relations drive. A high priority continues to be placed on open and ongoing communication with the financial community.

In order to react promptly to new Neuer Markt regulations, QSC has decided to revise its free float calculation in accordance with upcoming Deutsche Börse AG rules. Shareholders with holdings of less than 5% and no lock-up obligation are included in resulting in a free float of 37.7%.

DSL market versus capital market

The development of the QSC stock is out of line with the company's market potential. IDC, the renowned market research company, forecasts an average annual sales growth in Internet connections of 121% for the German DSL market up to the year 2005.

DSL continues to experience little competition from alternative technologies in the broadband market. Wireless Local Loop (WLL), which offers wireless Internet connections, is too expensive to gain market acceptance.

THE RENOWNED MARKET RESEARCH COMPANY IDC FORCASTS HIGH GROWTH RATES FOR THE GERMAN DSL MARKET.

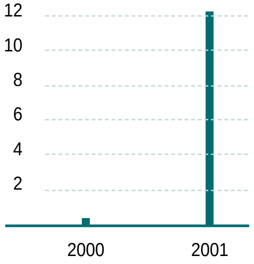
TV cable networks will require high initial investments in order to establish back channel capabilities. QSC does not expect competition from this technology until the end of 2003 at the earliest and even after this date competition is expected in the residential customer market only. Fiber access technology will remain a niche market, limited to large customers. The high investments needed to install lines make this service too expensive and only attractive to specific niche markets.

The concentration on DSL as a broadband technology means that QSC was not exposed to great price competition in the first six months of 2001. The company's prices generally remained stable.

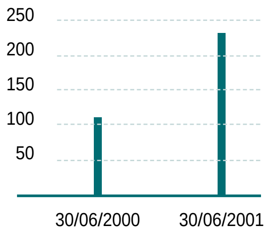
Solid financing ensures further growth

Stable prices for its services helped QSC to achieve high sales increases compared to the previous year. Sales of EUR 12.4 million in the first six months of 2001 (compared with EUR 0.4 million in the same period the previous year) are attributable to the sale of a total of 15,636 lines as of June 30, 2001.

Revenues 01/01/ to 30/06/ (in Mio. EUR)



Employees



Network expenses remain the company's biggest expense item. They increased from EUR 14.3 million in the first six months of 2000 to EUR 42.4 million in the first six months of 2001, a far lower increase than QSC had originally budgeted. Pro-active cost management has resulted in considerable savings, especially in the area of leased fiberoptic lines.

Stringent cost controls are also in place in other business areas such as administration, research and development. As a result the EBITDA loss in the first six months of 2001 could be limited to EUR 45.7 million (compared with EUR 25.1 million for the same period in 2000).

While network and marketing expenses resulted in a net loss, the company had liquid funds of EUR 211.4 million as of June 30, 2001 with negligible financial debt of EUR 0.3 million. The level of total investments in the same period amounted to EUR 28.0 million (EUR 38.7 million in the first six months of 2000). A significant part of total investments were attributable to network components that were necessary to build and operate the backbone.

QSC reduces foreign commitments

QSC Benelux B.V. ceased operations on June 6, 2001, as the company was unable to secure further financing. Our 49.18% investment in the company was already written off completely in the first quarter of this year.

THE LIQUIDITY OF THE COMPANY AMOUNTS TO EUR 211.4 MILLION AS AT JUNE 30, 2001.

Right from beginning, the financing strategy of Netchemya S.p.A, our 30% investment in Italy, was to raise additional growth capital from new equity investors. The management of Netchemya is still in the process of raising further financing for the build up of its DSL network. QSC's highest priority is the development of the German market.

High revenue growth, small increase in staff

QSC kept the number of employees relatively constant in the second quarter of 2001. As of June 30, 2001, the company employed 233 people compared with 227 at the end of the first quarter. Employee numbers have increased by more than 100% compared with the first six months of 2000.

Customer related areas account for over 40% of total employees. The second largest area remains engineering (operation, maintenance and development of the network). Another small increase in staff numbers is planned before the end of the year. Due to the downturn in the employment market for technology experts, personnel costs are not expected to increase significantly.

IN THE SECOND HALF OF THE YEAR, THE NEW PRODUCTS UNDER THE Q-DSL BRAND UMBRELLA SHOULD CONTRIBUTE SIGNIFICANTLY TO REVENUES.

Q-DSL Product family

Products	Download	Upload
Q-DSL business 1	144 kbit/s	144 kbit/s
Q-DSL business 2	256 kbit/s	256 kbit/s
Q-DSL business 5	512 kbit/s	512 kbit/s
Q-DSL business 10	1,024 kbit/s	1,024 kbit/s
Q-DSL business 20	2,300 kbit/s	2,300 kbit/s
Q-DSL office	1.5 Mbit/s	256 kbit/s
Q-DSL home	1 Mbit/s	256 kbit/s

Outlook

The continuing slowdown of the German economy in the third quarter started to affect QSC's growth rates, particularly in the business customer products. A number of companies have delayed investment decision in IT and telecommunications services. Demand from residential customers, on the other hand, remains high. Therefore, while QSC still anticipates sales of 40,000 to 50,000 lines as of December 31, 2001, the company has revised its revenue forecast for the year: it now expects a turnover of EUR 26 to 34 million in comparison to the previous guidance of EUR 38 to 46 million. Earnings for the year, on the other hand, are expected to improve. Measures to increase cost-effectiveness are expected to lead to EBITDA losses in the region of EUR 85 to 100 million instead of the previously estimated EUR 90 to 120 million. The better than expected earnings forcast has reaffirmed management's expectation of becoming EBITDA positive in 2003. Existing net liquidity (net of financial debt) of more than EUR 210 million and the effects of an ongoing cost optimisation programme contribute to management's expectation that the business plan will be executed without the need for further capital. Net cash outflow is expected to decrease in the third quarter of 2001 already.

Q-DSL OFFICE IS A NEW PRODUCT LINE WITHIN THE Q-DSL FAMILY REPRESENTING A TAILORMADE PRODUCT FOR SMALL COMPANIES.

The new Q-DSL product range is expected to be the major generator of new business in the second half of 2001. Since August 13, 2001, Q-DSL office has completed the Q-DSL product range, namely Q-DSL home and Q-DSL business which were launched in the second quarter.

Q-DSL office is QSC's tailor-made ADSL-product for SOHOs and small businesses. Q-DSL office enables data downloads at a speed of 1.5 megabits per second and uploads at 256 kilobits per second. In contrast to Q-DSL home, Q-DSL office provides the user with a network-capable router catering for up to ten workstations.

The expanding array of content underlines QSC's development to become the leading broadband service provider in Germany. Existing free-of-charge broadband content on QSC's broadband portal QURT will in future be complemented by further revenue generating offers.

STATEMENTS OF OPERATIONS

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

	for the period from		for the period from	
	Apr 01, 2001- Jun 30, 2001 in TEUR	Apr 01, 2000 - Jun 30, 2000 in TEUR	Jan 01, 2001- Jun 30, 2001 in TEUR	Jan 01, 2000 - Jun 30, 2000 in TEUR
Net revenues	**7,147**	**307**	**12,417**	**412**
Cost of revenues	22,641	9,452	42,393	14,340
Gross loss	**(15,494)**	**(9,145)**	**(29,976)**	**(13,928)**
Selling and marketing expenses	4,452	3,713	9,629	7,259
General and administrative expenses	3,104	2,162	5,393	3,482
Research and development expenses	524	294	708	423
Amortization of goodwill	67	0	84	0
Depreciation and amortization (including TEUR 2.105 in non-cash compensation in the 6 months ended June 30, 2001; 6 months ended June 30, 2000: TEUR 4.149)	5,574	5,032	11,556	7,564
Operating loss	**(29,215)**	**(20,346)**	**(57,346)**	**(32,656)**
Other income (deductions)				
Interest income	2,263	1,880	4,552	2,505
Interest expense	(114)	(3)	(131)	(3)
Share of post acquisition losses of equity method investees	(147)	0	(1,811)	0
Other non-operating income (loss)	28	0	28	(1)
Net loss before taxes on income	**(27,185)**	**(18,469)**	**(54,708)**	**(30,155)**
Tax benefit on income	0	0	0	24
Net loss after taxes on income	**(27,185)**	**(18,469)**	**(54,708)**	**(30,131)**
Loss attributable to common shareholders	(27,185)	(18,469)	(54,708)	(30,131)
Net loss per common share (basic and diluted)	(0.27)	(0.24)	(0.54)	(0.55)
Weighted average shares outstanding (basic and diluted)	101,134,647	77,876,669	101,134,647	54,317,335

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

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

	as of	
	June 30, 2001 in TEUR (unaudited)	Dec. 31, 2000 in TEUR (audited)
ASSETS		
Current assets		
Cash and cash equivalents	211,447	294,780
Trade accounts receivable, net	13,977	15,239
Accounts receivable due from related parties	261	1,237
Unbilled receivables	7,675	11,747
Other receivables	16,901	11,225
Prepayments and other current assets	6,536	2,648
Total current assets	**256,797**	**336,876**
Non-current assets		
Property, plant and equipment, net		
Networking equipment and plant	81,950	67,212
Operational and office equipment	7,657	6,075
Total property, plant and equipment, net	**89,607**	**73,287**
Intangible assets, net		
Licenses	2,347	2,491
Software	2,164	1,271
Goodwill	1,263	0
Others	10	11
Total intangible assets, net	**5,784**	**3,773**
Investment in equity method investees	4,518	5,427
Other non-current assets	568	317
Total non-current assets	**100,477**	**82,804**
Total assets	**357,274**	**419,680**

LIABILITIES AND SHAREHOLDERS' EQUITY	as of June 30, 2001 in TEUR (unaudited)	as of Dec. 31, 2000 in TEUR (audited)
Liabilities		
Current liabilities		
Short term debt and current portion of long-term debt	550	0
Trade accounts payable	44,263	35,644
Other reserves and accrued liabilities	24,971	43,638
Deferred revenues	348	239
Other current liabilities	639	874
Total current liabilities	**70,771**	**80,395**
Non-current liabilities		
Convertible bonds	14	15
Accrued pensions	145	130
Other non-current liabilities	159	0
Total non-current liabilities	**318**	**145**
Total liabilities	**71,089**	**80,540**
Shareholders´ Equity		
Share capital	105,009	105,009
Additional paid-in capital	473,022	477,304
Treasury stock	(4,477)	(4,125)
Deferred compensation	(15,128)	(21,515)
Receivables due from shareholders	(1)	(1)
Accumulated deficit	(272,240)	(217,532)
Total Shareholders´ Equity	**286,185**	**339,140**
Total liabilities and Shareholders´ Equity	**357,274**	**419,680**

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

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

	for the period ended June 30,	
	2001 in TEUR	2000 in TEUR
Cash flow from operating activities		
Net loss	**(54,708)**	**(30,131)**
Adjustments to reconcile net loss to cash used in operating activities		
Non-cash compensation charge	2,105	4,149
Depreciation and amortization	9,535	3,415
Loss on sale of equipment	0	1
Share of post acquisition losses of equity method investees	1,811	0
Non-cash interest expense and other non-operating income	33	0
Decrease in accounts receivable, net	2,532	456
Decrease in unbilled receivables	4,072	2,173
Increase in other receivables	(5,520)	(5,881)
Increase in prepayments and other current assets	(3,880)	(9,858)
Increase in other non-current assets	(251)	0
Increase in trade accounts payable	8,385	15,377
Increase/(Decrease) in other reserves and accrued liabilities	(18,809)	3,834
Increase in deferred revenues	109	65
Decrease in accrued taxes	(56)	0
Decrease in deferred income taxes	0	(24)
Decrease in other current liabilities	(243)	(285)
Increase in accrued pensions	15	23
Net cash used in operating activities	**(54,870)**	**(16,686)**

for the period ended June 30,

	2001 in TEUR	2000 in TEUR
Cash flow from investing activities		
Acquisition of business, net of cash acquired	(1,760)	0
Purchases of intangible assets	(1,127)	(1,688)
Purchases of plant and equipment	(25,147)	(37,000)
Proceeds from sale of equipment	0	13
Net cash used in investing activities	**(28,034)**	**(38,675)**
Cash flow from financing activities		
Increase in short term debt and current portion of long-term debt	(76)	0
Proceeds from capital subscribed, net of issuance costs	0	293,159
Redemption of convertible bonds	(1)	2
Cash flow from borrowings on long-term debt	0	105
Purchases of treasury stock	(352)	(45)
Net cash provided by (used in) financing activities	**(429)**	**293,221**
Net decrease in cash and cash equivalents	**(83,333)**	**237,860**
Cash and cash equivalents at beginning of period	294,780	137,197
Cash and cash equivalents at end of period	**211,447**	**375,057**
Supplemental disclosures of cash flow information		
Cash paid during the period for		
Interest	64	3
Income taxes	0	0

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

STATEMENTS OF SHAREHOLDERS' EQUITY FROM JANUARY 1, 2000 TO JUNE 30, 2001 (unaudited)
(EUR amounts in thousands (TEUR), except for per share amounts)

	Convertible Preferred Shares		Ordinary Shares		Treasury Shares		Additional Paid-In Capital	Deferred Compen-sation Account	Compre-hensive Income/ (Loss)	Retained Earnings/ (Accumulated Deficit)	Receivables Due from Shareholders	Total Shareholders' Equity
	Shares	Amount TEUR	Shares	Amount TEUR	Shares	Amount TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
Balance at January 1, 2000	**46,684,053**	**78**	**33,300,774**	**56**			**286,465**	**(28,060)**		**(128,382)**	**(63)**	**130,094**
Issuance of common stock in connection with the conversion of convertible bonds (Mar 22, 2000)			15,210	15			(4)					11
Purchase of treasury stock (Mar 13, 2000)					6,084	(4)	(61)	61				(4)
Convertible bonds forfeited due to termination of employment (Mar 14, 2000)							(92)	92				0
Purchase of treasury stock (Mar 28, 2000)					54,756	(40)	(551)	551				(40)
Stock split (Apr 3, 2000)				79,851			(79,851)					0
Issuance of preferred stock B (Apr 3, 2000)	800,594	801					3,635					4,436
Issuance of common stock in connection with the conversion of convertible bonds (Apr 11, 2000)			978,083	978			4,440					5,418
Initial deferred compensation recorded							8,629	(8,629)				0
Issuance of common stock in connection with the initial public offering at the Frankfurt Stock Exchange (Apr 14, 2000)			18,152,000	18,152			217,824					235,976
Issuance of common stock in connection with the initial public offering at the New Yorker Stock Exchange (Apr 14, 2000)			2,048,000	2,048			24,576					26,624
Conversion of preferred stock to common stock (May 5, 2000)	(47,484,647)	(879)	47,484,647	879								0
Issuance of common stock through the exercise of greenshoe (May 15, 2000)			3,030,000	3,030			36,360					39,390

	Convertible Preferred Shares		Ordinary Shares		Treasury Shares		Additional Paid-In Capital	Deferred Compen-sation Account	Compre-hensive Income/ (Loss)	Retained Earnings/ (Accumulated Deficit)	Receivables Due from Shareholders	Total Shareholders' Equity
	Shares	Amount TEUR	Shares	Amount TEUR	Shares	Amount TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
Less issuance costs							(18,728)					(18,728)
Purchase of treasury stock (Aug 11, 2000)					18,252	(13)	(184)	184				(13)
Purchase of treasury stock (Aug 18, 2000)					48,008	(36)	(483)	483				(36)
Conv. bonds forfeited due to termination of employment (Sep 1, 2000)							(23)	23				0
Conv. bonds forfeited due to termination of employment (Oct 1, 2000)							(23)	23				0
Conv. bonds forfeited due to termination of employment (Oct 14, 2000)							(68)	68				0
Purchase of treasury stock (Nov 27, 2000)					807,854	(4,032)	(4,557)	4,557				(4,032)
Amount amortized during the period								9,132				9,132
Receivables due from shareholders											62	62
Accumulated deficit									(89,150)	(89,150)		(89,150)
Comprehensive loss									(89,150)			
Balance at December 31, 2000	**0**	**0**	**105,008,714**	**105,009**	**934,954**	**(4,125)**	**477,304**	**(21,515)**		**(217,532)**	**(1)**	**339,140**
												0
Purchase of treasury stock (Jan 1, 2001)					88,512	(66)	(890)	890				(66)
Conv. bonds forfeited due to termination of employment (Jan 1, 2001)							(23)	23				0
Purchase of treasury stock (May 1, 2001)					366,052	(286)	(3,674)	3,674				(286)
Conv. bonds forfeited due to termination of employment (May 1, 2001)							(136)	136				0
Initial deferred compensation recorded							441	(441)				0
Amount amortized during the period								2,105				2,105
Accumulated deficit									(54,708)	(54,708)		(54,708)
Comprehensive loss									(54,708)			
Balance at June 30, 2001	**0**	**0**	**105,008,714**	**105,009**	**1,389,518**	**(4,477)**	**473,022**	**(15,128)**		**(272,240)**	**(1)**	**286,185**

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

QSC AG, COLOGNE

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

1. Organisation and Basis of Presentation

(a) Organisation

The annual general meeting held on May 17, 2001 resolved that that the company change its corporate name from "QS Communications AG" to "QSC AG" (in the following referred to as "QSC").

(b) 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 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 six month periods ended June 30, 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 prepares its interim financial statements in accordance with USGAAP.

The German stock exchange (Deutsche Börse AG) requires companies listed on the Neuer Markt segment of the Frankfurt stock exchange to present their interim financial statements in a specified format. The German stock exchange recommends to adopt the new format as code of best practice for the reporting period ending June 30, 2001. The new format is compulsory for interim financial statements for the reporting period ending on September 30, 2001. QSC has followed the German stock exchange's recommendation and adopted the new format as code of best practice for the accompanying interim financial statements.

Certain prior year balances have therefore been reclassified to conform to the current year presentation.

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 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 loss 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 June 30, 2000 and June 30, 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 June 30, 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 1,432,770 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, and therefore are included in the loss per share computation as of that time.

(c) Goodwill

Goodwill consists of the excess purchase price over the fair value of the identifiable net assets acquired in acquisitions. Such amounts are amortised 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 June 30, 2004. 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 approximately TEUR 848, which was paid in cash. QSC recorded TEUR 666 of goodwill in connection with the purchase of its share in COMpoint. From March to June 2001, QSC amortised TEUR 56 of this goodwill. 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. Pro-forma operating results for the six months ended June 30, 2000 and 2001, assuming the acquisition had been made on the first day of each period, would not be materially different from the results presented.

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 specialising 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 increasing QSC's share in Ginko to 50.8%. The capital increase was registered in the commercial register on June 6, 2001. Although the capital increase did in effect not take place until June 6, 2001, 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, is not material. The acquisition contract includes a put and a call option at the same price on the remaining 49.2% of Ginko. The call option can be exercised at any point in time. The put option is exercisable between January 1, 2002 and December 31, 2003. 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 608 in cash for its share in Ginko. A remaining variable purchase price component yet to be paid is contingent upon the number of end user contracts concluded by Ginko during 2001. QSC recorded TEUR 681 of goodwill in connection with the purchase of its share in Ginko. TEUR 28 were amortised from May to June 2001. Proforma operating results for the six months ended June 30, 2000 and 2001, assuming the acquisition had been made on the first day of each period, would not be materially different from the results presented.

The acquisitions of both COMpoint and Ginko have been accounted for under the purchase method of accounting.

QS Communications (Benelux) B.V. Amersfoort/ Netherlands ("QSC Benelux"), one of QSC's strategic investments made in 2000 was, due to the weak capital markets, not able to secure additional financing required to fund its future business activities. Suspension of payment (Chapter 11) was requested on May 8, 2001, and declared on the same day. Bankruptcy (Chapter 6) was declared on June 6, 2001. QSC has therefore written off its investment in QSC Benelux during the six months ending on June 30, 2001, as a post acquisition loss.

On April 26, 2001, the shareholders of ALCHEMIA S.p.A., Milano/Italy, one of QSC's strategic investments made in 2000, resolved to change the company's name to Netchemya S.p.A. ("Netchemya"). On the same day, the shareholders of Netchemya resolved to increase Netchemya's share capital by TEUR 10,000. QSC acquired 3,000 of the newly issued shares. QSC paid TEUR 900 in cash for these shares during the reporting period.

From January 1 to June 30, 2001, QSC recorded post-acquisition losses of TEUR 1,811 from its investments in Netchemya and QSC Benelux.

4. Share Capital

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

The annual general meeting authorised 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 authorisation will be in effect until October 31, 2002.

On May 17, 2001, the annual general meeting authorised 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.

5. Employee Equity Incentive Program

On May 17, 2001, the annual general meeting approved a third stock option plan (“SOP2001”) authorising 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 authorisation 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 shares issued under QSC’s second stock option plan adopted by shareholders’ resolution on April 3, 2000 (“SOP2000A“). The shares issued through conversion of convertible bonds under SOP2000A 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.

483,169 convertible bonds issued under SOP2000A are accounted for using variable plan accounting. During the reporting period QSC did not record any compensation expense for convertible bonds subject to variable plan accounting as their weighted average exercise price is higher than QSC's stock price as at June 30, 2001.

6. 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 from Lucent Technologies Network Systems GmbH ("Lucent"). As at June 30, 2001, QSC had no borrowings under the vendor guaranteed financing agreement and no draw downs are intended, except if done in agreement with Deutsche Bank.

Other non-current liabilities of TEUR 159 are due to minority interest in QSC's majority-owned subsidiary COMpoint and the related accretion of interest (see Note 3).

7. 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.

8. 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 purchases credit insurance for significant accounts.

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 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 nation-wide rollout of symmetric digital subscriber line services, known as DSL, on November 10, 1999. Since then we have built out and deployed close to 950 central offices and the relevant metropolitan service centres 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. 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. We distribute our DSL services through sales partners, who are mainly Internet service providers, and also directly to the end-user. For direct end-user sales we co-operate with retailers and distributors with an established sales infrastructure.

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 centre and on our backbone;
- non-recurring charges for installation;
- 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. These revenues are insignificant compared to our overall revenues.

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 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 and for lines between our metropolitan service centres 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. We expect leased line costs for lines between central offices and metropolitan service centres and for lines between metropolitan service centres 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, amortisation of deferred stock compensation, other non-operating income, depreciation and amortisation of non-current assets and amortisation 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 six months ended on June 30, 2000 we calculated negative EBITDA of TEUR 25,092. For the equivalent period of 2001 we calculated negative EBITDA of TEUR 45.706, 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 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 co-location room or in a metropolitan service centre. 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 (six months ended June 30, 2001 and six months ended June 30, 2000)

Revenues

In the first six months of 2001, we recorded revenues of TEUR 12,417. Compared with revenues of TEUR 412 in the first six months of 2000, this represents an increase of 2,914%.

As at June 30, 2001, we had contracts to provide more than 15,000 lines for Internet access to end-user customers. After finishing the deployment of our network in Germany's main metropolitan centres 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 recognised 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 recognise revenues from non-recurring installation charges in the month they are invoiced, but we recognise them over the estimated average contract life of 12 months. For the period ended on June 30, 2001, we recognised TEUR 12,417 in revenues. TEUR 348 in installation charges are deferred to be recognised in future periods.

Cost of revenues

Cost of revenues are our network expenses totalling TEUR 42,393 in the first six months of 2001. During the equivalent period in 2000, we recorded network expenses of TEUR 14,340. This represents an increase in network expenses of 196%.

Currently, network expenses represent approximately 61% of our total operating expenses reflecting the rapid progression of our network roll-out and the building of our operating infrastructure. As at June 30, 2001, Deutsche Telekom had provided us with co-location spaces in a total of 1,279 of their central offices.

945 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 9,629 for the first half year of 2001 and TEUR 7,259 for the equivalent period of 2000, representing an increase of 33%. 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 5,393 in the first half year of 2001 and TEUR 3,482 during the equivalent period of 2000, representing an increase of 55%.

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 resulting in higher general and administrative expenses in the first half of 2001 compared to the equivalent period in 2000. The new premises leased in the second quarter of last year enabled us to move all our employees in Cologne to one building and to accommodate further organisational growth. We expect our general and administrative expenses to further increase in future periods as we continue to expand our business and manage our organisational growth.

Research and development expenses

We recorded research and development costs of TEUR 708 in the first six months of 2001 and TEUR 423 in the first half year of 2000, representing an increase of 67%.

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 amortisation

For the period ending June 30, 2001 we recorded a total of TEUR 11,640 in depreciation and amortisation costs. Depreciation and amortisation for the equivalent period of 2000 was TEUR 7,564, representing an increase of 54%.

In the first half year of 2001 we recorded TEUR 9,451, or 81%, of total depreciation and amortisation expense, for depreciation and amortisation of our network and related equipment, information systems, network operations centre and corporate facilities, furniture and fixtures and intangible assets. In the equivalent period of 2000, depreciation and amortisation for property, plant and equipment and intangible assets was TEUR 3,415. This significant increase is due to the increase in equipment and facilities placed in service throughout the periods. We expect depreciation and amortisation to increase as we increase our capital expenditures to expand our networks.

In the first six months of 2001 we recorded amortisation of goodwill of TEUR 84. There were no goodwill amortisation expenses in the equivalent period in 2000.

Through June 30, 2001 we recorded a total of TEUR 2,105 of amortised non-cash, deferred compensation with an unamortised balance of TEUR 15,128 on our June 30, 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 six months to June 30, 2000, we recorded amortisation of non-cash compensation charges of TEUR 4,149.

Other income (deductions)

Other income (deductions) consists primarily of interest income on our cash balance. Interest income for the first half year of 2001 was TEUR 4,552 in comparison to TEUR 2,505 in the first six months of 2000. Interest expense in the first half year of 2001 was TEUR 131. TEUR 61 thereof are minority interests in the net income of our majority-owned subsidiary COMpoint Network Consulting GmbH, Vellmar/Germany and the interest accreted to the estimated strike price of the option on the remaining 35% of COMpoint. We recorded TEUR 3 interest expense during the equivalent period of 2000. For the first six months of 2001 we recorded total post acquisitions losses of TEUR 1,811. TEUR 1,025 of this net loss represents our share of the net losses of Netchemya S.p.A. (previously “Alchemia”) and QS Communications Benelux B.V. (“QSC Benelux”) for the period ended June 30, 2001. The balance of TEUR 786 in post acquisition losses is due to our write off of our investment in QSC Benelux in the first quarter of 2001. QSC Benelux ceased operations on June 6, 2001, as the company was unable to secure further financing. There was no share of post acquisition losses during the first six 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 June 30, 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 June 30, 2001, we had no borrowings from that credit facility and no draw downs are intended, except if done in agreement with Deutsche Bank. Cash and cash equivalents on June 30, 2001 were TEUR 211,447.

The accumulated deficit of TEUR 272,240 contains TEUR 120,873 in dividends from a beneficial conversion feature in connection with our private placement in December 1999 and TEUR 13,108 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 recognised 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 June 2001 we incurred TEUR 13,108 in compensation expense.

From January 1 through to June 30, 2001, net cash outflow from operating activities was TEUR 54,870. This was due to net losses of TEUR 54,708 and increases in assets of TEUR 3,047, offset by non-cash expenses of TEUR 13,484 and decreases in accounts payable and accrued liabilities of TEUR 10,599. We used TEUR 26,274 net cash for investing activities due to purchases of intangible assets, plant and equipment. During the first half year of 2000 such investments were TEUR 38,688. 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 centres, 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 32% in the first half year 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 and Gesellschaft für Internet-Kommunikation AG, Aachen/Germany was TEUR 1,760. 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 our existing cash will be sufficient to fund those investments. Net cash used in financing activities during the six months ended on June 30, 2001 amounts to TEUR 429.

Recent Developments and Outlook

In the second quarter of 2001 we focussed on launching two new products: Q-DSL business, our new business product, and Q-DSL home, our new residential product. Together with Q-DSL office, which was launched on August 13, 2001, these new products will be marketed under the umbrella brand Q-DSL. Q-DSL office is part of a new product strategy focussing on the needs of small office and home office customers who need both, large bandwidth and top quality. As such Q-DSL office closes the gap between our residential product Q-DSL home and our premium Q-DSL business product.

We have completed the construction of our backbone network, linking all our city networks. This step has improved our market position, as the backbone provides our sales partners with the infrastructure to distribute their applications and products nation-wide.

Since the beginning of 2001 we have hired additional personnel. As at June 30, 2001, we had 233 employees in total. We expect the number of employees to moderately increase in future periods.

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
Ashley Leeds	9,130	0
Herbert Brenke	161,120	9,130
Manjit Dale	0	9,130
David Ruberg	4.563	9,130
	174,813	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.

INDEPENDENT AUDITORS' REVIEW

To the board of management, shareholder and supervisory board of QSC AG, Cologne

We have reviewed the interim financial statements for the period from April 1, 2001 to June 30, 2001, consisting of the condensed consolidated income statement, condensed consolidated balance sheet, condensed consolidated cash flow statement, statement of shareholders` equity and notes to the financial statements of the QSC AG, Cologne. The preparation of the interim financial statements in accordance with Generally Accepted Accounting Principles (US GAAP) is the responsibility of the Company's management. Our responsibility is to issue a report based on our review.

We conducted our review of the interim financial statements in accordance with the generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the review to obtain a certain level of assurance that the interim financial statements are presented fairly, in all material respects, in accordance with the Generally Accepted Accounting Principles. A review is limited primarily to inquiries of company personnel and analytical procedures and thus does not provide the assurance obtainable from an audit of financial statements. In accordance with our engagement, we have not performed an audit and, accordingly, we cannot express an audit opinion.

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

Arthur Andersen
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft mbH

Fluck
Wirtschaftsprüfer

Berg
Wirtschaftsprüfer

Eschborn/Frankfurt am Main, August 14, 2001

CALENDAR

Quarterly Report III / 2001
November 27, 2001

Conferences
September 10, 2001
CSFB's European Altnet Conference

September 20, 2001
Schroder Salomon
Smith Barney
2nd Annual European
Telecommunications,
Media and Internet Conference

Oktober 20, 2001
6th Börsentag Hamburg

Oktober 30, 2001
Broadband DSL Word Forum
2001 Europe

November 13, 2001
Euroforum Annual Meeting
"Telecom Trends 2002"

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